

West Yorkshire Fire and Rescue Service

**Reserves Strategy
2023/24 to 2027/28**

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1 What are Reserves

- 1.1 Reserves are an essential part of good financial management to help the fire authority manage unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors in developing the Medium Term Financial Plan and setting the annual budget. In setting the budget the fire authority decides what it will spend and how much income it needs from council tax to supplement government funding. The fire authority may choose to fund some of its spending from its reserves and balances in the short term until long-term savings initiatives are realised.
- 1.2 Having the right level of reserves is important. If reserves are very low, there may be little resilience to financial shocks and sustained financial challenges.
- 1.3 The requirement for a local authority to maintain financial reserves is acknowledged in legislation and prevents the authority to over committing financially. These are:
 - 1.3.1 The requirement to set a balanced budget as set out within the Local Government Finance Act 1992.
 - 1.3.2 The requirement of the authority to make arrangements for the proper administration of their financial affairs and the appointment of a Chief Finance Officer (section 151 officer) to take responsibility for the administration of those affairs.
 - 1.3.3 In accordance with the Local Government Finance Act 1988 (Section 114), the Chief Finance Officer must report if there is or is likely to be unlawful expenditure or an unbalanced budget.
 - 1.3.4 The Local Government Act 2003, places a duty on the Chief Finance Officer to give positive assurance as part of the budget setting process of the adequacy of balances. The Local Government Finance Act 1992 requires fire authorities as a precept authority to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
 - 1.3.5 The external auditors' responsibility is to review and report on the authority's financial standing as per the annual external audit report.
- 1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) published LAAP Bulletin 99 in July 2014 which provides guidance on the management of reserves which has been adopted by the authority. CIPFA bulletin 13 was issued in March 2023 which gives further guidance on local authority reserves.

2 National Framework

- 2.1 The National Framework published in May 2018 includes a section on reserves, the main components of which are:
- 2.1.1 General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. These should be established as part of the medium term financial planning process.
 - 2.1.2 Each fire and rescue authority should publish their reserves strategy on their website. The 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 provide information for at least two years ahead.
 - 2.1.3 Sufficient information should be provided to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan.
 - 2.1.4 Information should be set out in a way that is clear and understandable for members of the public and should include:
 - 2.1.4.1 How the level of general reserve has been set.
 - 2.1.4.2 Justification for holding a general reserve larger than five percent of budget.
 - 2.1.4.3 Whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is committed.
 - 2.1.4.4 A summary of activities or items to be funded by each earmarked reserve and how these support the fire and rescue authority's strategy to deliver good quality services to the public.

3 Determining the Level of Reserves

- 3.1 Reserves are an essential tool to ensure long-term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term.
- 3.2 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum there, there are sufficient balances to support the budget requirements and provide adequate contingency for budget risks.
- 3.3 In accordance with the authority's financial regulations, the authority holds reserves which fall into two distinct categories:
- 3.3.1 General Reserves – these are necessary to fund any day to day cash flow requirements and also to provide a contingency in the event of any unexpected events or emergencies.

- 3.3.2 Earmarked Reserves – these have been created for specific purposes and involve funds being set aside to meet known or predicted future liabilities. By establishing such reserves, the expenditure profile will be smoothed and avoid liabilities being met from Council Tax in the year that payments are made.
- 3.4 The Authority also has a number of provisions on the Balance Sheet which, provide funding for a liability or loss that is known will occur in the future with some certainty but the timing and amount is less certain.
- 3.5 There is not a recognised formula for determining the level of reserves that each fire authority should maintain. It is up to each authority to consider the local circumstances and the potential issues/risks that may occur across the medium term. In determining the level of reserves for the Authority the risks and issues that should be taken into consideration will include the following:
 - 3.5.1 The risk that specific fire revenue grants are not continued, unlike revenue support grant and business rates top up grant, these grants are paid as Section 31 grants and are not included within baseline funding levels.
 - 3.5.2 To provide cover for extraordinary or unforeseen events occurring: given 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.
 - 3.5.3 The commitments falling on future years as a result of capital plans and proposals to improve the asset base. Having reserves mitigate the impact on the revenue budget of borrowing and/or revenue contributions to capital and would support projects/programmes that will support revenue efficiencies.
 - 3.5.4 The risk on inflation, especially pay awards. In 2022/23 the agreed pay award for grey book employees was 3% above budget provision which had to be met from existing budgets. This cost an additional £1.2m. Although the pay award for operational staff has been agreed for 2023/24, the green book pay award is outstanding. If inflation remains high and the budget provision does not cover the cost, the pay award would need to be met from the pay and prices reserve until efficiencies within existing budgets are identified.
- 3.6 Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax.
- 3.7 Spread the cost of large-scale projects which span a number of years, for example the redevelopment of the Fire Service Head Quarters (FSHQ) site.
- 3.8 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. However, given the high level of influence of third parties such as the Local Government Employers and Government departments on its income and expenditure there is always the risk that the Authority will unexpectedly become liable for unbudgeted expenditure.

3.9 The Authority aims to avoid using reserves to meet regular and ongoing financial commitments, as they only provide one off funding other than as part of a sustainable medium-term budget plan.

3.10 The Authority has set its' guideline Prudential indicator for the General Reserve at 5% of annual budget which is a commonly used benchmark across the fire sector. The Authority also uses the Risk Register to determine the level of General Fund Reserve. This Risk Register details fifty four separate risks the Authority faces, which has an estimated financial liability of £5m. The General Fund reserve equates to 4.8% of the annual budget, slightly lower than the guideline of 5%.

4 Reserves Position 1 April 2023

4.1 The level of cash fluctuates during the year due to the timing of Government grants, notably the top up grant which was £35 million in July 2023. We would need to borrow if the Authority wanted to utilise reserves which exceeds our working cash flow balance.

| Type of Reserve | Balance at 1/4/23 |
|--------------------|-------------------|
| General Fund | £5,000,000 |
| Earmarked Reserves | £35,987,763 |

[Table summary of current reserve balance](#)

4.2 The general fund reserve is not specified for a determined use: it is maintained for cash flow purposes.

4.3 Earmarked reserves are funds that are set aside to meet costs for specific purposes in future financial years. These reserves allow the Authority to adopt a more flexible approach to budget management and meet cost pressures in future years. Some reserves are a result of the receipt of a Government grant that has been given for a specific purpose, others are from the transfer of revenue budgets to reserves for future costs.

4.4 Detailed below are the Authority's reserves, an explanation of their purpose and forecast balance as of 31/3/2028.

RESERVES AS A RESULT FROM GRANTS

| Description | Balance 1/4/23 | Estimated Balance 31/3/28 | Purpose and Origin of the Reserve |
|--------------------------|-------------------|---------------------------------|--|
| Council Tax Reform | £27,000 | £27,000 | This was a one off grant received in 2012/13 from Central Government to assist with the costs associated with the reform of business rates. To date, no expenditure has been charged to this reserve. |
| Body Bag Decontamination | £40,000 | £40,000 | This grant was received in 2012/13 and 2013/14 from Central Government. |
| Control Room | £83,936 | £0 | This is the remainder of grant for the New Control Project which West Yorkshire manage on behalf of both West and South Yorkshire. This reserve will be fully used once the final payment to Systel has been paid. |
| Enhanced Logistics | £191,219 | £0 | This was a grant initially received in 2011/12 for the provision of the purchase of the new command unit. This is now complete and a replacement of the vehicle will be charged to this reserve if required in the future. |
| Transparency | £69,211 | £69,211 | This is a central government grant to enable organisations to meet the requirements of data transparency. To date, no expenditure has been charged to this reserve. |
| Business Rate Appeals | £1,301,160 | £1,301,160 | This reserve is used to manage the volatility on the revenue budget from business rate appeals. A grant is received from government each year to ease the potential cost which is based in the NNDR1 returns from the 5 district councils. |
| Tax Income Guarantee | £302,216 | £0 | This reserve holds the grant that government has provided to cover 75% of irrecoverable local tax deficits relating to council tax and business rates. The grant has been paid in full in 2021/22 and will be used against the deficit spread over the next three years. |
| Covid19 | £44,788 | £0 | This reserve holds the grant relating to supporting ther costs associated with Covid 19. |
| Pensions Admin Remedy | £142,141 | £0 | The government has provided a grant to pay for the software and administration costs associated with the implementation of the McCloud Sargeant pension remedy |
| Serious Violence Duty | £4,592 | £0 | The government has provided a grant to pay for the costs associated with the implementation of The Police, Crime, Sentencing and Courts Acts 2022 |

RESERVES AS A RESULT FROM REVENUE ALLOCATIONS

| Description | Balance 1/4/23 | Estimated Balance 31/3/28 | Purpose and Origin of the Reserve |
|--|-------------------|---------------------------------|---|
| Emergency Services Mobile Communications Programme (ESMCP) | £258,000 | £0 | This reserve has been established to recognise the risk that Government funding for ESMCP will cease once the system goes live, to counter balance this it is expected that annual costs will reduce once implemented. This reserve will fund those contracts for which the Authority will be contractually committed to after this date. |
| Insurance Claims | £393,017 | £393,017 | This reserve will be used for any uninsured losses the authority may face in future years e.g. mesothelioma and to support any additional contributions required by our insurance arrangements with the Fire and Rescue Indemnity Company (FRIC) |
| Service Support Reserve | £549,832 | £0 | This reserve was established in 2013/14 with the purpose to fund any expenditure that is not included in the MTFP but will generate savings or improve ways of working. |
| Pension Equalisation Reserve | £3,821,633 | £2,821,633 | This reserve is used to ease the potential cost of increased ill health retirements which have to be met from revenue. Any underspend on the ill health revenue budget is transferred to this reserve at the end of the financial year. Currently this budget is £1.6 million and annual spend is in the region of £1.5 million. This reserve will also be used to fund in the short term, the increase in employer pension contributions resulting from the McCloud/Sargeant actuarial review in 2024. |

| Description | Balance 1/4/23 | Estimated Balance 31/3/28 | Purpose and Origin of the Reserve |
|----------------------------|-------------------|---------------------------------|--|
| Industrial Action | £610,302 | £610,302 | The industrial action reserve was established in October 2022, when the fire sector was facing a period of industrial action by firefighters. Although the immediate threat of industrial action has subsided, the introduction of the Minimum Services Level Bill and the White Paper of fire service reform may see an increase in the potential for industrial action. |
| Reserve for Pay and Prices | £1,069,075 | £569,075 | This reserve will be used to fund any pay awards that are in excess of that included within the Medium Term Financial Plan or any other inflationary increases not provided for in the annual budget. |
| Capital Finance Reserve | £25,079,641 | £0 | The purpose of this reserve is to ease the cost of financing the capital plan in future years. Property new builds and major refurbishments will be funded from the capital finance reserve. Any underspending on capital financing charges and the revenue budget are initially transferred to this reserve which may then be used to pay additional voluntary capital charges as per the Authority's Minimum Revenue Provision Policy. |
| Medium Term Funding Impact | £2,000,000 | £0 | This reserve has been established to mitigate any funding shortfalls as a consequence of the Fair Funding Review and the Comprehensive Spending Reviews which have not been included within the Medium Term Financial Plan |

5 Review of Reserves

- 5.1 The Authority's reserves will be reviewed as part of the following processes:
- 5.1.1 The reserves will form part of the budget setting process and the level and use of reserves will be considered when setting the annual budget and Medium Term Financial Plan. This will include the approval at Full Authority Committee.
 - 5.1.2 The Reserves Strategy will be reviewed annually by the Finance and Resources Committee in October.
 - 5.1.3 Reserves are reviewed and externally audited during the closure of the Authority's accounts and are included in the Statement of Accounts. There is a statutory requirement to detail the movement between reserves during the year and show the opening and closing position in the Movement in Reserves Statement and the Expenditure and Funding Analysis. The Statement of Accounts is approved at the Authority's audit committee.
 - 5.1.4 The minimum level of General Fund Reserves will be assessed during the year by the financial appraisal of risks on the Authority's risk register. The Risk Management Strategy Group ~~which~~ meets quarterly and its aim is to manage the register and identify and assess risks. This group is chaired by the Deputy Chief Fire Officer and is attended by internal audit, a member champion and those responsible for the key risks within the organisation.