

Executive Board

25th February 2025

Report of the Assistant Director of Resources (Finance Lead for Policing, Fire and Crime)

Status: For Decision

Reserves Strategy – Fire

1. Executive Summary

1.1 Purpose of the Report

1.2 The level of usable reserves of fire and rescue authorities is of particular interest at a national level and it is recognised that there is a need for transparency around reserves.

1.3 While there is no longer a separate Fire Authority in terms of being a standalone Authority, and all the responsibilities of the Fire Authority sit with the Mayoral Combined Authority, there is still separation of many of the financial processes at this stage.

1.4 There remain separate Banking functions for Fire, as well as separate and distinct Fire Budgets, including the Capital Programme and associated borrowing.

1.5 Within the wider Mayoral Combined Authority structure, it therefore makes sense to continue to set a Reserves Strategy for Fire for the financial year 2025/26 which is set out within this document.

2. Recommendations

2.1 The Deputy Mayor for Policing, Fire and Crime is asked **to approve** the Reserves Strategy that is set out below:

2. North Yorkshire Fire and Rescue Service

Reserves Strategy

Please note: The references within this document to 'Authority' relate to the Fire Service operating within the Mayoral Combined Authority and do not refer to and/or relate to either the Policing budget or the 'wider' Mayoral Budget

The level of usable reserves of fire and rescue authorities is of particular interest at a national level, and it is recognised that there is a need for transparency around reserves.

The National Framework

The National Framework which was published in May 2018 includes a section on reserves, the main components of which are:

- 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.
- 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.
- 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 (MTFP).
- Information should be set out clearly and understandable for members of the public and should include:
 - How the level of general reserve has been set.
 - Justification for holding a general reserve larger than five percent of budget.
 - Whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is committed and,
 - A summary of what activities or items will be funded by each earmarked reserve and how these support the fire and rescue authorities's strategy to deliver good quality services to the public.

The information on each reserve should make clear how much of the funding falls into the following three categories:

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

- Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
- Funding for specific projects and programmes beyond the current planning period.

There is not a recognised formula for determining the level of reserves that a 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 Fire Service the risks and issues that need to be considered will include the following:

- The possibility of savings not being delivered; as levels of funding continue to be constrained, the need for annual reductions in spending is likely. This is likely to mean the identification of savings proposals carry a potentially greater risk of not being delivered.
- 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.
- The commitments falling on future years because of capital plans and proposals to improve the asset base. Having reserves mitigates the impact on the revenue budget of borrowing and/or revenue contributions to capital and would support projects/programmes that will support revenue efficiencies.
- The risk on inflation, especially pay. There remains continued pressure on pay inflation to be more than those provided for in the MTFP.

Reserves Policy

The Mayor/Deputy Mayor considers Reserves annually as part of the Budget Setting Process. The principles that underpin this area are as follows:

Reserves are maintained to:-

- (a) Create a contingency to help cushion the impact of unexpected events or emergencies - the General Reserve.
- (b) Build up funds (often referred to as earmarked reserves) to meet specific future requirements, including the smoothing out of peaks in costs and the effect of loss of external funding.

The level of reserves is considered when calculating the council tax requirement. This ensures a balanced budget position is maintained and enables regard to be given to affordability when considering future revenue requirements and capital programmes.

The reserves must be reported to the Deputy Mayor on a regular basis as part of budget and financial monitoring. Part of this exercise is to ensure continuing relevance and adequacy and to enable the Medium-Term Financial Plan to be updated.

The actual level of reserves, earmarking and utilisation are considered when updating the MTFP and as part of its on-going review.

General Reserve

In setting the level of the General Reserve, consideration is given to the adequacy of financial control, the overall financial position, medium-term plans and strategic, operational and financial risks facing the Service. The level of the General Reserve is reviewed by the Mayor/Deputy Mayor on the advice of the Assistant Director of Resources (Finance Lead for Policing, Fire and Crime) Officer having regard to these matters.

Key Principles are:-

- (a) The General Reserve will not be used to meet on-going revenue items.
- (b) The General Reserve may be used, on an exceptional basis, as a short-term option to balance the budget, particularly where major operations are experienced.
- (c) The Mayor/Deputy Mayor will aim to maintain the level of General Reserves at not less than 3% of the net revenue budget.
- (d) The level of the General Reserve is re-assessed annually as part of the annual budget-setting process.

Reserves Forecast

The following schedule sets out the forecast movements on reserves over the life of the current medium term financial plan, it is important to recognise that whilst the schedule sets out the expected use of the current reserves, circumstances will change and all reserves will be reviewed at least annually. It is also important to recognise that there will undoubtedly be a need to create new reserves, in future years, to deal with risks that are currently unknown; the likelihood is that they will not reduce in overall financial terms as exactly planned and that while current reserves are spent, new reserves are likely to be needed to manage future risks.

	Balance	Transfers	Balance	Transfers	Balance	Transfers	Balance	Transfers	Balance	Transfers	Balance
	at 31 March	In/Out	at 31 March	In/Out	at 31 March	In/Out	at 31 March	In/Out	at 31 March	In/Out	at 31 March
	2024	2024/25	2025	2025/26	2026	2026/27	2027	2027/28	2028	2028/29	2029
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Pensions, Pay & Price	904	(480)	424	910	1,334		1,334		1,334		1,334
New Development and Change Reserve	489	(318)	171	1,000	1,171	1,000	2,171	1,000	3,171	1,000	4,171
Insurance	80		80		80		80		80		80
Recruitment	175		175		175		175		175		175
Hydrants	100		100		100		100		100		100
Collection Fund	22	(22)	0		0		0		0		0
RRM	206		206	(206)	0		0		0	0	0
HO Grant - ESMCP/LTR	129		129	206	335		335	194	529		529
HO Grant - Protection Uplift	421	(225)	196	(141)	55		55		55		55
Total Earmarked Reserves	2,525	(1,045)	1,480	1,769	3,249	1,000	4,249	1,194	5,443	1,000	6,443
Earmarked Capital Reserve	2,230	(1,072)	1,158	(757)	401	920	1,321	232	1,553	891	2,444
General Reserves	1,075	75	1,150	700	1,850	280	2,130	280	2,410	250	2,660
Total Usable Reserves	5,831	(2,042)	3,789	1,712	5,501	2,200	7,701	1,706	9,407	2,141	11,548
Capital Receipts Reserve	16		16		16		16		16		16

Why have these Reserves been established and what will they be used for?

General Contingency Reserves:

Pay, Price and Pensions Reserve

The reserve is forecast to have just over £0.4m in at the start of 2025/26 with a further £910k added to this reserve as part of the 2025/26 budget setting process, which provides scope to fund, in the short term, pay award in excess of those included within the budget. Each 1% equates to circa £340k. In addition to this the reserves provides some allowance for injury/medical pensions that are over and above the budgeted position and also mitigates the risk during the current period of higher inflation that some prices may be higher than estimated.

New Developments Reserve

This reserve has been predominantly committed to deliver the Fire Transformation Programme to the end of March 2025. As part of the 2025/26 budget setting process £1,000k is planned to be added to this reserve for developments and improvements within the Fire Service subject to appropriate plans, business cases and approval.

Insurance Reserve

The Mayor/Deputy Mayor operates on a self-insurance basis determined by the level of excess on the cover provided by external policies. This reserve is ring-fenced for insurance requirements only and cannot be used for other purposes, the level being calculated based on historic budget impact of past claims.

Recruitment Reserve

This reserve has been established to fund the costs of Trainee Firefighters while in training and therefore unavailable for service delivery. This will help ensure that gaps in service are not required while training takes place.

Hydrant Reserve

While the work to repair, maintain and replace Fire Hydrants is the responsibility of Yorkshire Water the costs are the responsibility of the Fire Service. This leaves little control over the amount of work done, the timing of the work and the visibility and timeliness of charging. This reserve has therefore been established to deal with the variable nature of this area of cost.

Funding for Planned Expenditure over MTFP Reserves:

Collection Fund Reserve

This reserve has been released to support the Road Safety Partnership for the last 3 years.

Home Office Grant Funding – Protection

This specific funding reserves will be spent in line with the Grant terms and conditions from the Home Office. Should funds remain at the end then it is likely they would need to be returned to the Home Office.

Home Office Grant Funding – ESMCP

The Home Office provided the ESMCP funding in part to fund a Local Transition Resource also and therefore these reserves are being used to meet the costs of this specifically funded work.

Capital Reserve

The service has recognised the significant level of investment that it needs to make in terms of Estates, Equipment and Fleet, however constantly borrowing to do so is not sustainable and therefore a Capital Reserve has been established to help support the vital investment that is needed in these areas, and in shorter term Information Technology assets, while helping to manage borrowing and the costs associated with borrowing.