APPENDIX E

Reserve Strategy

Introduction and Background

Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA Bulletin 13 – Local Authority Reserves and Balances which was issued in March 2023 and replaces the Local Authority Accounting Panel (LAAP) Bulletin 99 - 'Local Authority Reserves and Balances'.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduced a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan or be a stand-alone document.

In reviewing medium-term financial plans and preparing annual budgets, the Authority will consider the establishment and maintenance of reserves for the general fund. There is no statutory minimum or maximum level of reserves. The nature and level of reserves will be determined formally by the Authority, informed by the judgement and advice of the Assistant Director Resources / Treasurer. This will be based on an assessment of what is adequate and necessary in the light of the circumstances facing the Authority.

Strategic Context

There are a number of reasons why a Local Authority might hold reserves, these include to:
(a) Mitigate potential future risks such as increased demand and costs;
(b) Help absorb the costs of future liabilities;
(c) Temporarily plug a funding gap should resources be reduced suddenly;
(d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on council tax;
(e) Spread the cost of large scale projects which span a number of years.

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

Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant uncertainty about its grant funding over the medium term. Planned investment in Capital Projects and the IT Strategy has led to a significant reduction in the level of Earmarked Reserves held by the Authority.

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 are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

There are two different types of reserve, and these are:

Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

In addition to reserves the Authority may also hold provisions which can be defined as follows: a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

Unusable Reserves

The Authority will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be specified in the annual Statement of Accounts.

Governance

The Authority will agree the level of General Reserves and the purpose and level of Earmarked Reserves.

Business cases for the establishment of new Earmarked Reserves will be subject to initial consideration by the Senior Leadership Team.

The Assistant Director Resources / Treasurer shall advise SLT and the Authority on the adequacy of both General and Earmarked Reserves, approve any drawdown from reserves and will monitor and report upon their use through regular financial monitoring reports.

Risk Assessment to Determine the Adequacy of the General Reserve

A well-managed multipurpose authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, the Authority has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

The Authority currently sets its policy for the General Reserve at a minimum of 5% of its net revenue budget. The detailed risk assessment is attached at Annexe A and indicates that the overall assessed risk has not changed since last year. Given that not all assessed risks are likely to crystallise in a single year it is deemed appropriate to maintain the minimum level of 5%. Capital Reserves are used to support the financing of the Capital Asset Strategy and will be exhausted by the end of 2024/25.

At the start of 2025/26, the General Reserve is forecast to represent 5.49% of the Authority's net revenue budget which is a positive variance. Due to varying revenue budgets, maintaining a consistent level of General Reserve will result in the percentage varying over time. Transfers in or out of the General Reserve to conform to the 5% indicator will be considered annually as part of the budget setting process.

The prudential indicator is a useful control measure but is a rudimentary way of assessing the adequacy of the general reserve and a more meaningful approach is to develop a risk assessment. The Authority will consider both measures as part of its annual reserve strategy.

A risk assessment of the adequacy of the Authority's General Reserve is carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the coming financial year, 2025/26, has been prepared as part of the budget setting process and is shown in Annexe A. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £2.488m. The current policy minimum of 5% equates to £2.500m. A drawdown of £0.512m is expected to balance the budget in 2025/26 and planned increases of £0.200m in 2026/27 and 2027/28 will return the reserve to the 5% minimum. Additional drawdown of £0.547m is required under 2.99% version with top ups totalling £1.040m planned to return the balance to the policy minimum by 2029/30.

Annual Review of Earmarked Reserves

The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy. When the Authority endorses the Reserves Strategy for publication it will be made available on its website.

A commentary on the purpose and planned use of each of the existing earmarked reserves is detailed below and a full listing together with phasing of drawdown is set out in Annexe B:

- ***Business Rate Pool***: This reserve holds the balance of income from the East Sussex Business Rate Pool which is to be used to fund Business Safety initiatives, in support of the Pool's aim to promote economic growth. The Pool has been utilised to support investment in the Authority's protection (business safety) services. The Pool will be used, in future, to support the capital programme and reduce future borrowing need and this is included within this report and the MTFP. Income from the Pool is accrued in the year in which it is due but is not received until the following year, once the relevant accounts have been audited.

- ***Financial Stability:*** this reflects the balance of the financial stability portion of the Business Rates Pilot and is used to assist the Authority in managing fluctuations in key income streams. The balance of this reserve will be used to balance the revenue budget in 2025/26.

- ***ESMCP Readiness***: this grant funding from central government is ring-fenced to fund the IT upgrades to mobilising systems that are required as part of the Emergency Services Mobile Communications Project (ESMCP). The timing of drawdown is dependent on national programme timescales (which have been significantly delayed). Further discussion with the Home Office will be required to determine use of the grant as it was originally intended in part to fund improvements jointly for East and West Sussex through our joint control service which ended 4 December 2019. We understand the Home Office will clawback this funding during the first quarter of 2025/26.

- ***ESMCP Regional Programme***: the Authority acts as regional lead for ESCMP implementation and holds grant funding for regional and local resourcing on behalf partner FRAs. The actual drawdown is dependent on regional business cases made to the Home Office. We understand the Home Office will clawback this funding during the first quarter of 2025.

- ***Improvement & Efficiency***: This reserve is to enable the Authority to develop its collaborative approach to service delivery, support changes to services that will deliver efficiencies and respond to priority areas for service improvement. Planned top ups of the reserve have been removed as part of savings proposals for 2025/26.

- ***Insurance***: The Authority has joined the Fire and Rescue Indemnity Company (FRIC) from 1 April 2019 to both improve its risk management practice and provide insurance cover. This reserve is intended to cover the financial costs of: in-year supplementary payments to the FRIC pool should these be necessary; additional costs from the increase in some deductibles; and, investment in pro-active risk management initiatives resulting from best practice benchmarking through FRIC.

- ***IT Strategy***: The Authority has set aside funds to support the delivery of its IT Strategy. A Revenue contribution is made into this reserve each year, excepting 2025/26. Future contributions will be reviewed alongside the development of the new IT Strategy in 2025/26.

- ***Mobilising Strategy Reserve***: to facilitate to delivery of the Authority's mobilising strategy – this reserve holds funding set aside to support the Authority's share of future investment in the Joint Fire Control Roadmap currently £50,000 pa, rising to £75,000 pa from 2025/26.

- ***People Strategy***: this Reserve is utilised to hold funds for the implementation of the People Strategy 2020-25. Where projects within the Strategy that are funded from the revenue budget slip or underspend, any unutilised balances will be held in this reserve.

- ***BRR – Protection Uplift***: this Reserve holds the balance of grant received from Government for investment in protection services as a result of the Moore Bick and Hackett inquiries.

- ***BRR - Accreditation & RPL:*** this Reserve holds the balance of the grant received to support accreditation and recognition of prior learning related to training for protection.

- ***New Dimensions***: holds the balance of grant funding for national resilience assets, primarily used for training and the unspent balance of grant funding for Marauding Terrorist Attack primarily for training and replacement of equipment.

- ***Pension Administration:*** this is funding set aside from the revenue budget to fund some of the one-off costs of implementing the Remedy to the discrimination case brought against the Firefighter Pension Scheme and the Second Options Exercise for On Call Firefighters, including software costs, administrative costs and other costs not funded by the Pension Fund Account or Government. It is planned to be used during 2025/26 to provide additional capacity within the Payroll & Pensions Team to resource the additional workload associated with implementing the Remedy process.

- ***Carry Forwards***: comprises the balance of the revenue budget underspends from previous financial years which it has been agreed to carry forward to fund specific expenditure. The balance of this reserve will be used in 2025/26.

- ***Cadets***: holds donations made to support the costs of the Authority's Cadet Scheme.

- ***Youth Engagement***: holds the balance of Immediate Justice grant funding received through Sussex Police

- ***Future Foundation***: funding for the Future Foundations review of the Authority's support service structures and ways of working, including any costs of implementation.

- ***Direct Entrant***: holds the balance of funding received via the NFCC from the Home Office to fund the training costs of the pilot Direct Entry scheme.

- ***BSR Training:*** holds the balance of funding received to fund training costs for nationally funded Building Safety roles.

- ***Capital Programme***: To support the provision of the capital infrastructure required to deliver the Authority's strategic priorities. There has been no core capital grant from Government since 2014/15 so the Authority must fund its own investment in capital assets. £2.0m is paid into this reserve from the Authority's revenue budget in 2025/26. The MTFP proposes to increase the payment into the Capital Programme Reserve in stages of £0.5m to £3.0m by 2027/28. This is part of a strategy to achieve greater financial sustainability by revenue funding the replacement and maintenance of existing assets and seeking only to borrow where a new capital asset in proposed.

- ***Capital Receipts***: Capital receipts not yet applied to capital expenditure. Under statute capital receipts may only be used to finance capital expenditure. The disposal of Mayfield Fire Station is expected to realise a capital receipt of £1.050m in 2026/27. With no further property assets identified as surplus, capital receipts are likely to be small amounts for the sale of appliances where the sale proceeds exceed £10,000. The reserve is expected to be fully spent at the end of 2024/25.

Annexe A – Risk Assessment of the Adequacy of General Reserves

Risk type	RISK	Likelihood	Impact	Net Impact
			£m	£m
Abnormal weather conditions	A long hot summer, flooding in autumn and winter and heath land fires in the spring have all occurred in previous years resulting in excessively high operational costs (retained pay, overtime) and other support costs. In worst-case scenarios for civil emergencies, the Bellwin Scheme funding is available to support qualifying expenditure in excess of 2% of Revenue Budget	Medium	0.300	0.150
Pension Costs	With an ageing workforce and the increase in the normal retirement age the risk of ill health retirements is increasing and may exceed the existing budget provision.	Medium	0.100	0.050
External contracts	The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier or a customer. Based on aged debtor analysis the Authority does not currently hold a bad debt provision to fund a loss from a major contract. Additionally, Public Sector procurement processes and contracts are coming under increasing scrutiny and could be open to legal challenge.	Low	0.500	0.125
Capital Programme / Projects	The Authority has a range of both revenue and capital projects planned for the next five years - there is the risk of cost overruns for a variety of reasons e.g. unforeseen ground conditions, planning approvals, technology risk, supply chain disruption.	Medium	1.000	0.500

Risk type	RISK	Likelihood	Impact	Net Impact
			£m	£m
Loss of income	Income targets are set within the budget for a number of functions, for example commercial and service training, and the Authority also receives income from the investment of its cash balances where rates achieved remain low. Amounts invested will reduce significantly over the next few years. Although the amounts involved are small relative to the overall budget they continue to present a risk in year	Low	0.250	0.063
Delivery of savings	The Authority is developing its savings plans for the next 5 years and has already agreed a range of measures for implementation. However, it is possible that implementation may take longer than anticipated or savings may be less than originally estimated, leading to an in-year budget pressure.	Low	0.500	0.125
Legal Issues	As a service provider and an employer, the Authority faces the potential that legal action could be taken against it on a range of grounds, including equal pay, discrimination, unfair dismissal and corporate negligence / manslaughter. Awards and legal costs in such cases can be significant	Low	1.000	0.250
Service delivery failure	Given the nature of the work of the Authority there is a possibility that it could suffer a major health and safety or environmental failure.	Low	1.000	0.250
System/ Infrastructure Issues	In the event that a key system, such as the control mobilising system or system networks, were to fail, it is possible that urgent consultancy or replacement equipment would be required within short time constraints.	Low	0.500	0.125

Risk type	RISK	Likelihood	Impact	Net Impact
			£m	**£m**
Funding Issues	The changes to the funding mechanism for local government, introduced following the Local Government Resource Review, transferred potentially significant levels of financial risk to the Authority.	Medium	0.500	0.250
Inflation	Whilst allowances for inflation have been made within specific budget lines, the uncertainty surrounding the UK and global economy might lead to increased inflation.	Medium	0.200	0.100
Employment Issues	Issues that might arise in respect of pay settlements or other factors which might lead to industrial action would, in the first instance, be managed within the revenue budget. Prolonged Action or issues would require funding from Reserves. This risk also addresses the potential for actual pay awards to be higher than that budgeted.	Medium	1.000	0.500
Estimated Reserve Requirement				**2.488**

The planned movement on each of the earmarked reserves is shown in the following table:

Description	2025/26 Opening Balance 01/04/25 £'000	2025/26 Planned Transfers In £'000	2025/26 Planned Transfers Out £'000	Projected Closing Balance 31/03/26 £'000	Projected Closing Balance 31/03/27 £'000	Projected Closing Balance 31/03/28 £'000	Projected Closing Balance 31/03/29 £'000	Projected Closing Balance 31/03/30 £'000
Earmarked Reserves								
Improvement & Efficiency	91	0	(91)	0	0	0	0	0
Insurance	258	0	0	258	258	258	258	258
ESMCP ESFRS readiness	0	0	0	0	0	0	0	0
ESMCP Regional Programme	0	0	0	0	0	0	0	0
BRR – Accreditation & RPL	21	0	(21)	0	0	0	0	0
BRR - Protection Uplift	23	0	(23)	0	0	0	0	0
Financial Sustainability	16	0	(16)	0	0	0	0	0
New Dimensions	77	0	(77)	0	0	0	0	0
IT Strategy	2,100	0	(2,100)	0	0	0	0	0
People Strategy	183	0	(183)	0	0	0	0	0
Business Rate Pool	569	400	(500)	469	0	0	0	0
Carry Forwards	170	0	(170)	0	0	0	0	0

Pensions Administration	104	0	(104	0	0	0	0	0
Mobilising Strategy	71	75	(141)	5	11	14	0	0
Cadets	30	0	(30)	0	0	0	0	0
Future Foundations	34	0	(34)	0	0	0	0	0
Youth Engagement	20	0	(20)	0	0	0	0	0
Direct Entrant	8	0	(8)	0	0	0	0	0
BSR Training	69	0	(69)	0	0	0	0	0
Capital Programme Reserve	0	2,000	(2,000)	0	0	0	1,418	2,220
Total Earmarked Reserves	**3,844**	**2,475**	**(5,587)**	**732**	**269**	**272**	**1,676**	**2,478**
General Fund	2,792	0	(512)	2,280	2,480	2,680	2,750	2,820
Total Revenue Reserves	**6,636**	**2,475**	**(6,034)**	**3,012**	**2,749**	**2,952**	**4,426**	**5,298**
Capital Receipts Reserve	0	0	0	0	0	0	0	0
Total Capital Reserves	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Usable Reserves	**6,636**	**2,475**	**(6,034)**	**3,012**	**2,749**	**2,952**	**4,426**	**5,298**

Under the 2.99% model a further £547k would be drawdown from the general fund in 2025/26 followed by top ups totalling £1.040m over the four remaining years to 2029/30 resulting in a general fund balance of £2.789m in 2029/30