



Safest People, Safest Places

Combined Fire Authority

16 February 2024

Budget 2024/25

Report Under Section 25 of Local Government Act 2003

Report of Deputy Chief Executive and Treasurer

Purpose of Report

1. The purpose of this report is to provide members with information on the robustness of the estimates and the adequacy of reserves, so that Members have authoritative advice available when they make their budget decisions.

Background

2. Fire and rescue authorities (FRA's) decide each year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on the Service.
3. The decision on the level of the council tax is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
 - a) making prudent allowance in the estimates for each of the services, and
 - b) ensuring that there are adequate reserves to draw on if the Service estimates turn out to be insufficient.
4. Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to the Authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that members will have authoritative advice available to them when they make their decisions.

Section 25 also requires Members to have regard to the report in making their decisions.

Robustness of Estimates

5. The budget process has involved Members and staff in a thorough examination of the budget now recommended to the Authority.
6. During the budget process risks have also been identified. It is anticipated that these risks can be managed using contingencies and if necessary, reserves.
7. In my view, the robustness of the estimates has been ensured by the budget process, which has enabled all practical steps to be taken to identify and make provision for the Authority's commitments in 2024/25.
8. It should be noted that plans for 2025/26, 2026/27 and 2027/28 are based on a range of assumptions and estimates for these years are therefore less robust at this stage.

Adequacy of Reserves

9. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 55) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's 2003 Statement on the Role of the Finance Director in Local Government. It would be best practice to follow this guidance.
10. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.
11. The Fire and Rescue National Framework for England document makes specific reference to reserves and requires Fire and Rescue Authorities (FRA's) to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's medium-term financial plan (MTFP). In addition, authorities are required to provide justification for holding a general reserve larger than 5% of budget.
12. A general reserve of 5% of budget is considered adequate taking account of the risks associated with the MTFP and the Authority's track record of delivering efficiency savings and sound budget management.
13. The reserves policy is that the Authority will:
 - Set aside sufficient sums in earmarked reserves as it considers prudent to do so. The Treasurer will be authorised to establish such reserves as required and to review them for adequacy and purpose on a regular basis.
 - Aim to maintain a general reserve of 5% of net expenditure, currently £1.6m.

14. In coming to a view on the adequacy of reserves, account needs to be taken of the risks facing the Authority. The Annual Governance Statement, within the Authority's Statement of Accounts, gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.
15. The risk management process has identified several key risks which could impact on the Authority's resources. These risks which are outlined in the Authority's MTFP are likely to impact in the short to medium term.
16. The setting of the level of reserves is an important decision, not only in the budget for 2024/25 but also in the formulation of the MTFP.
17. In my view, if the Authority were to accept the Audit and Finance Committee's recommendations regarding the 2024/25 revenue budget, the level of council tax and capital expenditure, then the level of risks identified in the budget process, alongside the Authority's financial management arrangements, suggest that the level of reserves is adequate.

Recommendation

18. Members are **recommended** to:
 - a) **note** the Treasurer's assessment of the robustness of estimates and adequacy of reserves: and
 - b) **have regard** to this report when approving the budget and the level of council tax for 2024/25.