North Wales Fire & Rescue Authority Financial Reserves Strategy

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1.0 RESERVES HELD

North Wales Fire and Rescue Authority (the Authority) will maintain reserves in accordance with prevailing legislative and regulatory requirements. Ordinarily, the Authority will seek to avoid using reserves to fund a general deficit in the net revenue budget, as this represents an unsustainable financial position.

The Authority will not maintain funds for contingency purposes other than those reported as reserves.

In addition to a general reserve, the Authority will maintain earmarked reserves for specified purposes, where this is necessary to meet one-off time limited costs associated with specific initiatives or liabilities, or specific grants.

2.0 REPORTING OF RESERVES

The reporting of reserves in the financial statements will meet the prevailing accounting codes of practice applicable to the Authority.

In order to ensure transparency and scrutiny, publicly accessible reports containing further detail will be presented to the Authority when agreeing the Medium Term Resource Strategy, and when reporting the financial outturn for the preceding financial year.

When reporting the financial outturn for the previous year the following information will be provided:

- The purpose of each reserve,
- The basis of assessment of adequacy
- Transfers in and out of reserves

3.0 RESPONSIBILITY AND DELEGATION

The creation, deletion, assessment of adequacy and transfers in/out of reserves will be delegated to the Section 151 Officer (Authority Treasurer), in consultation with the ACFO Finance and Resources and with the Head of Finance.

The adequacy of the Authority's reserves will be assessed at least annually, as part of the accounts closedown process.

The Section 151 Officer will report to the Authority in accordance with this Strategy.

4.0 ROLE OF THE SECTION 151 OFFICER

Welsh Government Ministers have no role or powers to determine or advise on the appropriate level of reserves for individual local authorities (including Fire and Rescue Authorities).

This is a matter for determination at an organisational level, where consideration must be given to the particular risks, circumstances and plans which prevail at any time.

Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer (Authority Treasurer) to advise the Authority regarding the level of reserves that should be held, and to ensure that there are clear protocols for their establishment and use.

5.0 USABLE RESERVES

The Authority generally holds Usable Reserves 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; or

- A means of building up funds referred to as earmarked reserves or specific reserves, to meet known or predicted requirements - these are accounted for separately, but remain legally part of the Authority's General Fund.

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations and Service priorities.	Where expenditure is planned in future accounting periods, it is prudent to set aside resources in advance.
Insurance reserves.	In the absence of any statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves, where these liabilities do not meet the definition of a 'provision' under the requirements of International Accounting Standard 37 *Provisions, Contingent Assets and Liabilities.*
Reserves for unspent revenue grants and donations.	Where revenue grants or donations have no conditions, or where the conditions are met and expenditure has yet to take place, the sums are held as earmarked reserves.

The Authority may also hold the following useable reserves -

Capital Receipts Reserve

This reserve holds the proceeds from the sale of non-current assets, and can only be used for those purposes specified in "The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended". That is:

- To meet capital expenditure;
- To repay the principal of any amount borrowed; or
- To meet any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account.

Capital Grants Unapplied Account

This reserve will hold capital resources (from capital grants) that have been recognised as income and not yet applied to capital expenditure.

The Authority may also make provision for expenditure in accordance with the strict definitions contained in accounting codes of practice. These are where specific liabilities exist at the balance sheet date and a reliable estimate of the liability can be made.

A summary of the usable reserves was contained within the Medium Term Resource Strategy (MTRS) approved by the Fire and Rescue Authority at its meeting of 22 January 2024 [MTFS 2009-12 (gov.wales)]

6.0 UNUSABLE RESERVES

Unusable reserves arise out of technical accounting adjustments due to interaction of legislation and proper accounting practice. These may be established to either record revaluation gains, or as adjustment to reconcile accounting and statutory requirements.

These reserves are not resource-backed, and cannot be used for any other purpose. The common unusable reserves are described below:

Revaluation Reserve	This reserve records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated, or when assets are revalued downwards ,or disposed of. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.
Capital Adjustment Account	This reserve reconciles the different rates at which assets are depreciated under proper accounting practice, and are financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. For example, the credit balance on the Account shows that an Authority has generally financed capital investment in advance of receiving the benefits of that investment. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.
Pensions Reserve	This reserve reconciles the payments made for the year to various statutory pension schemes, in accordance with those schemes' requirements, and the net change in the Authority's recognised liability under International Accounting Standard 19 *Employee Benefits,* for the same period. A transfer is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount of funding required. For example, a debit balance on the Reserve shows that an authority has made commitments to fund pensions that the Government has permitted it to fund from contributions to be made in future years.

Accumulated Absences Account	This account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account.
Financial Instruments Adjustment Account	This account reconciles the different rates at which gains and losses (such as the premiums on the early repayment of debt) are recognised under proper accounting practice, where required by statute to be met from the General Fund. For example, the debit balance on the Account shows that the Authority has incurred expenses on borrowings that the Government has permitted it to spread over future years.

Other such reserves may be created in the future where developments in accounting result in timing differences between the recognition of income and expenditure, under proper accounting practice and under statute or regulation.

7.0 REPORTING OF RESERVES

The International Financial Reporting Standard (IFRS) based *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) determines the reporting requirements around reserves. The Movement in Reserves Statement presents the movement in the year of the reserves of the authority, analysed into usable and unusable reserves.

The Code recommends that earmarked reserves are reported on the face of the Movement in Reserves Statement. The statutory reporting regime and effective financial management underpin the need for clear, transparent reporting arrangements for reserves, and best practice suggests that for each earmarked reserve held the following information should be reported:

- the reason for the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- review mechanisms.

The budget report to the Authority should include:

- any use of or addition to reserves, including any specific use of reserves to meet recurring costs;
- a statement from the Section 151 Officer on the adequacy of the general reserves and provisions.

8.0 ADEQUACY OF RESERVES

In order to assess the adequacy of reserves when setting the budget, the Section 151 Officer (the Authority Treasurer, in consultation with the ACFO Finance and Resources, and with the Head of Finance) will take account of the strategic, operational and financial risks facing the Authority. The assessment of risks will include external risks, such as matters that may affect business continuity, as well as internal risks, for example, the ability to deliver planned savings.

In financial terms, the following risks will be considered:

Treatment of inflation and interest rates	• The overall financial standing of the authority • Rises in the prices of some commodities and whether reserves are adequate to deal with unexpected price variations. • How changes in interest rates will affect borrowing or income, given the agreed Treasury Management Strategy.
Estimates of the level and timing of capital receipts	• The Authority's track record in budget and financial management, including the robustness of the medium-term plans. • How the property market affects delivery of receipts, both in timing and amount.
Treatment of demand led pressures	• The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.
Treatment of planned efficiency savings/ productivity gains	• The strength of the financial information and reporting arrangements.
Financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	• The authority's virement and end of year procedures in relation to budget under/overspends at authority and department level. • Risk management measures in relation to partnerships, including consideration of risk allocation. • Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements.

Availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	• Risk assessments are used when balancing the levels of insurance premiums and reserves.
The general financial climate to which the authority is subject to	• External factors, such as future funding changes, the political landscape, and world economic conditions.