MEDIUM TERM FINANCIAL STRATEGY 2020/21-2022/23

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

For Approval

1. PURPOSE OF REPORT

1.1 To enable Members to consider and approve the recommendations referred from the Executive Committee in relation to the medium term financial strategy, including the 2020/21 Council Tax level.

2. RECOMMENDATIONS

2.1 The following recommendations have been referred from the Executive Committee:

(i) Note the report, which replicates the information reported to the Executive Committee on 22nd November 2019;

(ii) Note that 2020/21 Provisional Local Government Finance Settlement will not be issued until after the General Election, which it is anticipated will confirm indicative grant funding and the 2% Council Tax referendum limit set out in the Government's Technical Consultation for 2020/21;

(iii) Approve a 2020/21 Council Tax increases of 1.9% increase, which is below the 2% Government Council Tax referendum limit, and to note this provides recurring addition funding of £237,000, which permanently protects whole time fire fighter posts, and will result in the following Council Tax levels:

2019/20		2020/21		
Weekly Council Tax £	Property Band	Annual Council Tax £	Weekly Council Tax £	Annual increase £
0.99	A	52.55	1.01	0.98
1.16	B	61.31	1.18	1.14
1.32	C	70.07	1.35	1.31
1.49	D	78.83	1.52	1.47
1.82	E	96.35	1.85	1.80
2.15	F	113.87	2.19	2.13
2.48	G	131.38	2.53	2.45
2.98	H	157.66	3.03	2.94

63% of households are in Band A or B

(iv) Note that recurring savings of £221,000 will be achieved through contract negotiations in relation to ICT hardware and software and building security and cleaning to address the residual 2020/21 forecast deficit;

(v) Note that any variation in the final 2020/21 Government Grant allocation, Council Tax base, or final Collection Fund figures will be managed via the Budget Support Fund and details will be reported to the full Authority on 14 February 2020;

(vi) Note the significant financial risks and uncertainties facing the Authority from 2021/22 and that further updates will be provided when more information is available;

(vii) Note the robustness advice detailed in section 8.

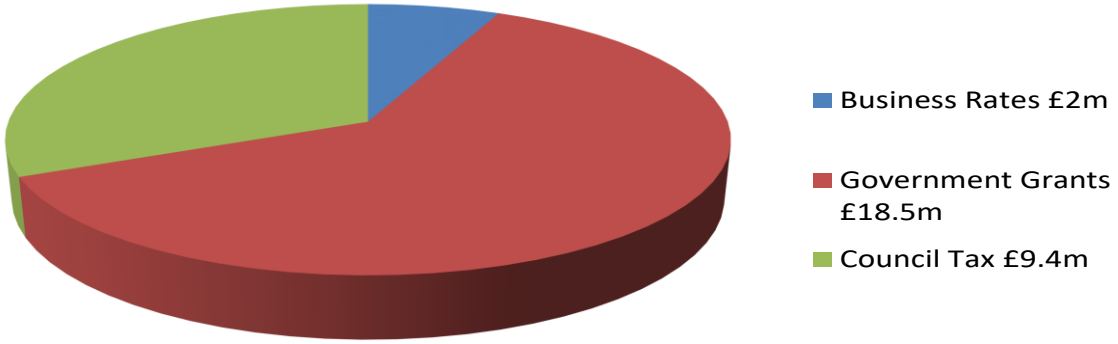
3. BACKGROUND

3.1 The Authority has managed nine years of reductions in Government funding and this has resulted in the following changes:

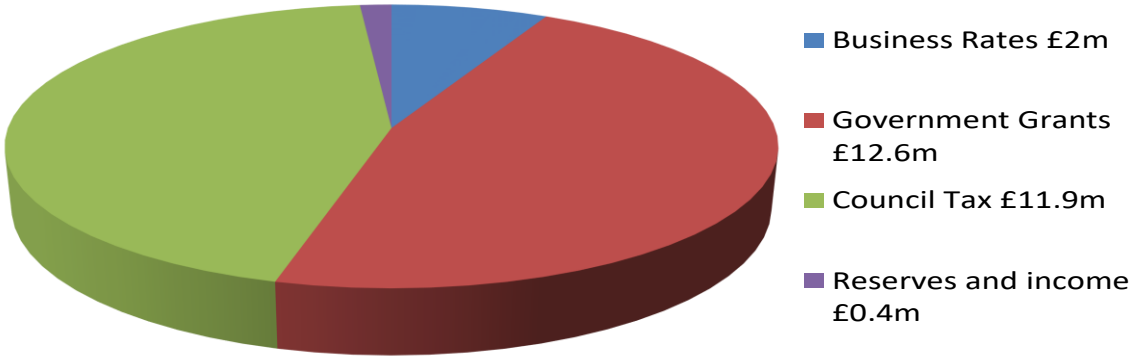
- **36% reduction** in the number of **whole time firefighter posts** from 518 in 2010/11 to 330 in 2019/20.
- **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96 in 2019/20.
- **38% reduction** in the number of **fire control posts** from 26 in 2010/11 to 16 in 2019/20.
- **19% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 105.15 in 2019/20.
- **30%** reduction in number of Elected Members from 23 to 16 – effective from June 2016.

3.2 Since the current funding system was implemented in 2013/14 there have been continued annual reductions in Government funding, which have exceeded increases in Council Tax income. This has resulted in a reduction in the Authority's **cash budget** over the period 2013/14 to 2019/20 of £3m – which is a 10% cash reduction. These changes are summarised in the following charts.

2013/14 Cash Budget – £29.9m



2019/20 Cash Budget £26.9m

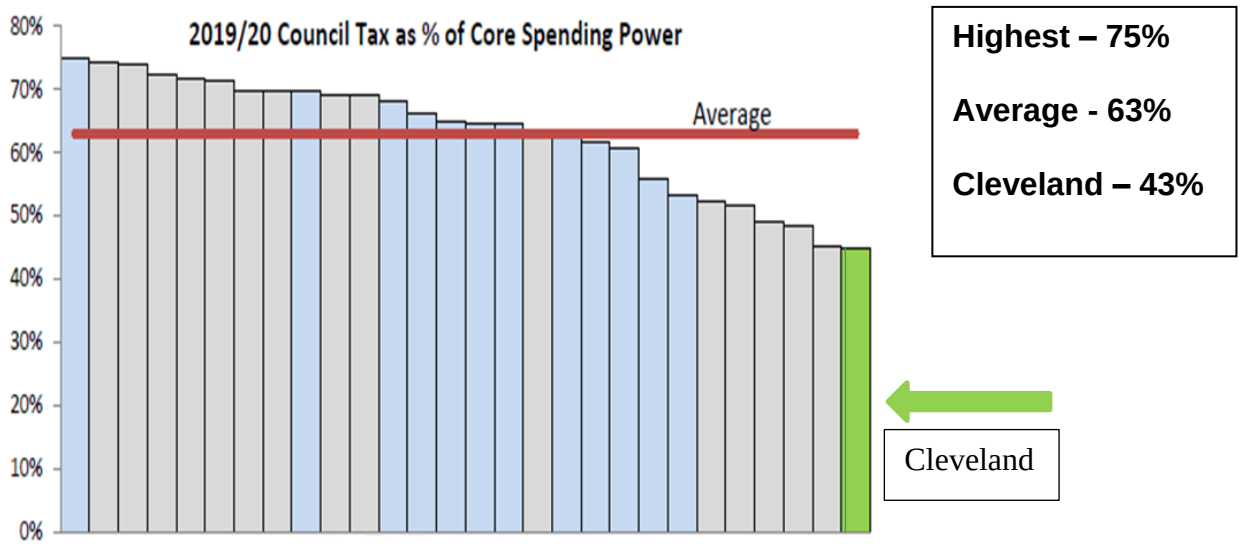


3.3 In addition to the cash reduction in the budget the Authority has also had to manage the impact of pay awards and other inflation pressures from within this reduced cash budget. As a result the reductions in the budget implemented over the last nine years have required very careful management by the Chief Fire Officer. Clearly, given the scale of these reductions the Authority will find it extremely difficult to make further budget reductions.

3.4 Reports to the Executive Committee on 4th September 2019 and the full Authority on 18th October provided an updated on the Authority's financial position and the impact of Government announcements. The keys issues for the Authority are summarised below:

- **Continued reliance on Government Funding**

  The Authority has a low Council Tax base as 46% of properties are Band A, the lowest Council Tax band, compared to 24% nationally. This means that the Authority raises the lowest proportion of resources from Council Tax than any other Fire and Rescue Authority (FRAs), as summarised below:



As a consequence of the low Council Tax base the Authority remains reliant on Government grant, technically referred to as Settlement Funding Assessment (SFA), which in 2019/20 was **47% (£12.554m)** of the Authority's recurring resources. The future level of this funding is therefore critical to financial sustainability of the fire and rescue services provided by the Authority.

Despite the low Council Tax base the Authority has consistently had a Band D Council Tax close to the FRA average. For 2019/20 the Authority has a Band D Council Tax level of £77.36, compared to FRA average of £77.04.

The low Council Tax base means that for each 1% Council Tax increase the Authority raises significantly less additional income than other FRAs, even though all FRAs face the same pay and inflation pressures. For example:

- Cleveland raises **£118,000** for each 1% Council Tax increase;
- The FRA which funds the highest proportion of their budget from Council Tax, raises **£238,000** for each 1% Council Tax increase. This authority has a 2019/20 Band D Council Tax of £84.34;

- **Spending Review 2020/21**

  On 4th September the Government announced a one year Spending Review for 2020/21 and for FRAs the key feature of this announcement is an inflation increase in SFA funding. This announcement provides the first increase in Government funding for nine years. Assuming the increase is applied to all FRAs the Authority should see an increase in Government funding from the forecast level of £11.927m to £12.742m in 2020/21. Actual SFA funding for individual authorities will be announced later in the year in the provisional 2020/21 Local Government Finance Settlement.

- **2020/21 Council Tax Referendum limits**

  The Government issued technical consultation proposals on 3rd October in relation to the Local Government Finance settlement for 2020/21. These proposals include a proposed 2% Council Tax referendum covering all types of authorities, including Fire and Police. The only proposed exceptions are an additional 2% Adult Social Care precept, and for district councils a limit of either 2% or £5, whichever is greater. The previous budget forecasts were based on a Council Tax referendum limit of 3%.

- **Fire fighter pension funding**

  The Home Office has received an overall settlement of £12.9 billion, a real term increase of 6.1% on 2019/20. It has indicated that decisions regarding the allocation of this funding 'will include consideration of the fire pensions' grant' which is being paid in 2019/20 to meet additional employers' fire fighter pension costs. This is a critical issue for the Authority as if this funding does not continue additional budget cuts of **£1.544m** will need to be identified. For planning purposes it is anticipated this funding will continue in 2020/21 and may then phased out over three years. The phased removal of this funding will still increase the budget deficits facing the Authority. The impact of this funding being removed over three years commencing 2021/22 is detailed in paragraph **3.6.**

- **Financial position 2021/22 and 2022/23**

  The one year Spending Review only provides clarity in relation to 2020/21 and future funding will not be known until the new Government completes a multi-year Spending Review. The Authority also faces risks from the delayed implementation of the Fair Funding Review and increase in Business Rates Retention from 50% to 75%. These issues may also be affected by the outcome of the General Election. Uncertainty regarding these significant issues makes financial planning beyond 2020/21 extremely challenging.

3.5 The 2020/21 settlement may provide a new base line for future years. If this level of funding is sustained in 2021/22 and 2022/23 this would significantly reduce the budget cuts required over the next three years. However, if funding cuts re-commence in 2021/22 the position will be less favourable. The following table updates the existing forecast on the basis of a 2% Council Tax Referendum limit and the fire pension grant being sustainable:

Forecast Budget deficit WITH Fire Pension Grant Sustained

SFA Planning assumptions	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
February MTFS forecast	929	774	594	2.297
2020/21 SFA inflation increase and cash freeze 2021/22 and 2022/23	221	294	152	667
2020/21 SFA inflation increase and 5% cut 2021/22 and 2022/23	221	931	758	1.910

3.6 If the fire pension grant is not sustained the Authority will need to make further budget reductions of **£1.544m**. On the basis that the pension grant is phased out over three years commencing 2021/22 the final additional cuts would be deferred to 2023/24, when the Authority will need to make further savings of **£514,000.** These savings will be in addition to any savings which may be required if core grant funding does not keep pace with inflation. The impact up to 2022/23 of the pension grant being phased out is as follows:

Forecast Budget Deficit WITHOUT Fire Pension Grant Sustained

SFA Planning assumptions	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
February MTFS forecast	2.473	774	594	3.841
2020/21 SFA inflation increase and cash freeze 2021/22 & 2022/23	221	808	667	1.695
2020/21 SFA inflation increase and 5% cut 2021/22 & 2022/23	221	1,445	1.272	2.938

3.7 The Authority have instructed the Chief Fire Officer to develop a contingency plan to meet the forecast deficits and details will be reported to a future meeting. This plan will be based upon the following component parts:

- Lobbying Government for Fairer Funding
- Use of Reserves
- Review of 'Non-Pay' Budgets
- Enabling Services Review
- Service Delivery Re-Design
- Exploring Other Efficiency Opportunities

4. 2020/21 BUDGET

4.1 The 2020/21 forecast budget is predicated:

- on staff pay awards, including for fire fighters, not exceeding 2%, which is only slightly above the September CPI figure of 1.7%;
- the continuation of the 2019/20 pension funding.

4.2 The forecast 2020/21 net budget deficit also reflects the following increases in resource, which if not achieved will increase the budget deficit:

	£'000
Gross Forecast budget deficit	793
Less - forecast Increase in Government grant	(188)
Less – 1.9% Council Tax increase	(237)
Less - forecast additional Council Tax income from housing growth	(147)
Forecast 2020/21 deficit	**221**

4.3 Details of the actual Government grant will not be known until the provisional Local Government Finance Settlement is issued, which will be after the General election. The additional forecast Council Tax income from housing growth will not be confirmed until the four constituent authorities have determined their 2020/21 Council Tax bases. In the event that there are any changes to these forecasts it is recommended that any shortfall, or increase, in resources is transferred from / to the Budget Support Fund. This proposal provides certainty for preparing the 2020/21 budget, as if these resources reduce the only other alternative would be budget cuts.

4.4 The proposed Council Tax increase of 1.9% is below the Government referendum limit and sustains the Authority's resource base. Protecting the recurring Council Tax income base is increasingly important as the current Government's Council Tax referendum policy is based on authorities increasing Council Tax to fund local services, rather than all increased funding coming from Government grant and national taxation.

4.5 The remaining deficit of **£221,000** will be addressed through contract negotiations in relation to ICT hardware and software and building security and cleaning.

5. 2021/22 and 2022/23 BUDGET

5.1 As detailed in section 3 the financial outlook for these years is extremely uncertain and dependant on decisions to be made by the new Government. The level of uncertainty has increased owing to the General Election, as a new Government may have different priorities. Update reports will be submitted to future meetings when more information becomes available.

5.2 This uncertainty makes financial planning extremely difficult for all authorities, particularly single purposes FRAs. Furthermore, those FRAs, including Cleveland, which are more dependent on Government funding than FRAs in more affluent areas, are more at risk from potential future national changes in the funding arrangements for the sector. Therefore, at this stage the planning assumptions and approach to develop a contingency plan remain appropriate.

5.3 It also remains appropriate to retain the existing level of reserves, including the Budget Support Fund, to manage these risks. This issue is considered in detail in the net section.

6. RESERVES STRATGEY

6.1 Reserves are a key element of the Authority's financial planning arrangements and enable financial risks and spending priorities to be managed over more than one financial year, where these activities support the Authority's strategy to deliver a good quality of service to the public. Provisions within the Local Government Act 1992 require authorities to have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

6.2 This section of the report enables the Authority to review the Reserves Strategy as an integral part of the MTFS which enables the Authority to:

- Consider the requirements outlined in the Fire and Rescue National Framework for England in relation to Reserves, as detailed in **Appendix A;**
- Consider recommendations from the Treasurer, which have been developed in conjunction with the Chief Fire Officer, on the purpose and value of Earmarked Revenue Reserves to be held by the Authority;
- Consider the planned use of reserves over the period of the current MTFS;
- Consider the planned use of reserves beyond the period of the current MTFS;
- Consider the level of Unearmarked General Fund reserve recommended by the Treasurer.

6.3 The Reserves Strategy continues to be an important element of the Authority's financial strategy and continues to cover a period of significant financial uncertainty arising from external issues which will determine funding levels for 2021/22 and beyond. As implementation of these issues has been delayed the reserves strategy, particularly in relation to the Budget Support Fund, needs to be rephased to enable the Authority to manage these issues and financial risks.

6.4 The Authority holds both Earmarked Reserves and an Unearmarked General Fund Reserve. Earmarked reserves make up 86% of the Authority's Reserves and are held to spread the cost of large scale capital projects over a number of years, to support the revenue budget and to meet other one off commitments.

6.5 In the event that circumstances change and individual Earmarked Reserves are not needed, or the calls on these reserves are less than currently forecast, the position will be reviewed when the MTFS is updated. This will ensure the Reserves Strategy continues to underpin the MTFS and the financial resilience of the Authority.

6.6 **Earmarked Reserves**

6.7 The Authority's Earmarked Reserves fall into three categories as detailed in **Appendix B** and summarised in the following paragraphs:

6.8 **Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS - £7.862m balance 31.03.19**

6.9 These reserves relate to three keys areas:

- **Earmarked Capital Reserves (£2.444m)** - allocated to support the Authority's Asset Management Plan which provides funding to replace or refurbish operational buildings, vehicles and equipment, as detailed in section 8;

- **Budget Support Fund Reserve (£4.122m), plus forecast 2019/20 contribution from manage underspend of £0.450m** - earmarked to manage the financial risks and uncertainties regarding funding in 2021/22 and future years, including the phasing out of the pensions grant. Use of this reserve will provide a longer lead time to implement permanent budget reductions.

  If this reserve is used to defer further forecast budget cuts for 2021/22 and 2022/23 until 2023/24 this would commitment between £2.283m (based on 2021/22 and 2022/23 grant freezes and phased withdrawal of the pensions grant) and £4.162m (5% grant reductions in 2021/22 and 2022/23 phased withdrawal of the pensions).

  These figures highlight the significant financial risks and uncertainties facing the Authority and how quickly this one off resource could be committed to temporarily support services whilst a plan to deliver permanent savings was developed and the implemented.

  Until the financial position for 2021/22 and future years is more certain this resources needs to be maintained to provide financial resilience and protect front line services.

  In the extremely unlikely event that these one off resources are not needed to provide temporary support for the revenue budget the Authority could consider alternative uses for these resources, including funding future capital expenditure, repayment of existing long term borrowing and invest to save initiatives.

- **Earmarked Revenue Reserves (£1.296m)** - allocated to fund specific projects in relation to managing income risks for services funded from specific grant/external funding, one off pension costs in relation to non-uniformed staff, property costs rephased to 2019/20 and Levy Account surplus allocated to support the 2019/20 budget.

6.10 **Category 2 - Funding for specific projects and programmes beyond the current planning period - £0.872m balance 31.03.19**

6.11 The Authority holds two reserves under this category

- **Capital Phasing Reserve** (£0.747m) - this reserve will be used over a number of years to smooth the interest and loan repayment costs which are charged to the annual budget. The reserve recognises that the annual charges, which arise from the use of Prudential Borrowing to fund part of the approved Asset Management Plan, are uneven. The reserve therefore avoids temporary increases/decreases in the annual charge to the revenue budget, which would impact on resources available to fund services. This reserve achieves the same objectives as a PFI (Public Finance Initiative) Smoothing reserve operated by Fire and Rescue Authorities which implemented PFI schemes to address building condition issues.

The reserve will be used on a phased basis commencing in 2021/22 and by 2029/30 the reserve will have been fully used.

- **Breathing Apparatus Telemetry Reserves (£0.125m)** – This reserves is earmarked to replace this equipment in 2024/25.

6.12 **Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management - £0.551m balance 31.03.19.**

6.13 The Authority only holds one reserve within this category – the Insurance Fund. This is earmarked to fund payments that fall within the Authority's insurance policy excesses.

6.14 **Unearmarked General Fund Reserve - £1.552m 31.03.19**

6.15 The Authority also holds an Unearmarked General Fund Reserve. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure, so this reserve is a key component of our strategy for managing financial risks.

6.16 This is the only uncommitted reserve held by the Authority and equates to 5.8% of the 2019/20 approved revenue budget – which equates to only three weeks expenditure.

6.17 This reserve is approximately £200,000 above the 5% level suggested in the Fire and Rescue National Framework for England guidance. The Authority's Unearmarked General Fund Reserve is less than the national average which in 2017/18 was 9%.

6.18 Over the period of the MTFS the Authority's Budget Support Fund (included within Earmarked Reserves) provides one off funding to manage the main financial risks facing the Authority. However, as it is anticipated the Budget Support Fund will be used over the next few years, the level the Unearmarked General Fund Reserve will become a more important part of the Authority's future financial risk management strategy as this will be the main reserve of the Authority. Therefore, this reserve needs to be maintained. Any unplanned use of this reserve over the period of the MTFS would need to be repaid. As the Authority's recurring financial position remains challenging repayment will get more difficult if the reserves needs to be used, but the need to retain this reserve will become more important.

6.19 In view of the above issues the level of this reserve is considered appropriate and has been set at this level to reflect recurring financial risks facing the Authority not covered by other reserves. If these risks materialise this would have an adverse financial impact on the Authority and use of this reserve would avoid an immediate impact on the level of resources available to fund services to the public and therefore avoid the need for in year budget cuts.

6.20 The potential one off events relate to:

- **Business Rates income risks** - the overall business rates base for the authority's area consists of a number of major rate payers where business rates income is volatile as Rateable Values can reduce significantly on a temporary basis. For example in 2016/17 Rateable Value reductions resulted in a collection fund deficit (i.e. reduction in Business Rates income) for the Authority of £0.615m. This situation could potentially be repeated if the Nuclear Power station had an

unplanned shutdown, as the Valuation Office Agency would approve a temporary rateable value reduction.

- **Incident costs** - as the Authority continues to reduce the budget there are less resources and therefore less resilience to deal with major incidents, particularly in relation to COMAH sites. In the event that the Authority had to rely upon mutual aid to support a major incident the Authority would have to fund recharges from other Fire and Rescue Authorities. As there is no budget provision for these costs they would need to be funded from this reserve.

- **Potential Brexit costs** - there may be costs arising from Brexit, although it is not possible to identify or determine what they may be at this stage. Therefore, if such costs arise and cannot be accommodated within the existing budget, they may need to be funded for one year from this reserve. If such costs continue they would need to be prioritised when future years' budget proposals are developed.

- **Forecast Housing Growth risks** - the MTFS forecasts for 2020/21 to 2022/23 are based on housing growth forecasts provided by the four constituent councils, which it is anticipated will provide recurring additional Council Tax income of approximately £170,000 each year, i.e. £510,000 over the period of the MTFS. If actual housing growth is less than forecast this reserve may need to be used until permanent recurring budget savings can be achieved to offset the loss of income;

7. ASSET MANAGEMENT PLAN (AMP)

7.1 The Authority developed a multi-year AMP in 2011 covering asset requirements up until 2026. The AMP covered the replacement or refurbishment of the property estate to either replace buildings which had reached the end of their operational life which it was uneconomical to refurbish, or to refurbish existing buildings where this was more cost effective. The AMP also included the requirements in relation to operational vehicles, mainly fire appliances, and operational IT.

7.2 The AMP is underpinned by a funding strategy which will finance capital costs through a combination of using the earmarked Capital Investment Programme reserve and Prudential Borrowing. The revenue budget includes provision to meet the interest and principle repayment costs of using Prudential Borrowing. The phasing of these costs is supported from the Capital Phasing Reserves.

7.3 A comprehensive review of the remaining AMP requirements was completed last years and a further update will be reported before the start of the 2020/21 financial year. It is not anticipated that there will be any significant changes as the major building projects have either been completed in previous years or are ongoing.

8. ROBUSTNESS ADVICE

8.1 The Local Government Act 2003 introduced a formal requirement on authorities to consider the advice of the Treasurer on the robustness of the budget proposals, including the level of reserves. If Members ignore this advice the Act also requires the Authority to record this position. This latter provision is designed to recognise the statutory responsibilities of Treasurers.

8.2 I would advise Members that in my opinion the budget forecasts and the proposed level of reserves recommended in this report for 2020/21 are robust. This opinion is based on consideration of the following factors:

- The work undertaken by the Chief Fire Officer and Brigade Officers regarding the preparation of detailed budget forecasts;
- Assurance from the Chief Fire Officer that no material issues have been omitted from the budget forecasts;
- The level of Government Grant to be provided in 2020/21;
- A prudent view of the net costs of the Authority's overall cash flow, including a prudent provision for the repayment of Prudential Borrowing;
- The recommended Reserves Strategy detailed in this report; and
- The proposed Council Tax increase, which secures additional recurring income.

8.3 The Chartered Institute of Public Finance (CIPFA) has recently issued a new Financial Management code which come in to effective for 2021/22. The implications of this new requirement will be assessed during 2020/21 to ensure the Authority complies with any new best practise.

8.4 Replacing the proposed Council Tax increase would not be robust unless alternative recurring savings were approved. Using reserves to freeze Council Tax would also not be robust as this would permanently reduce the recurring resource base of the Authority and reduce reserves, therefore adversely impacting on the Authority's ongoing financial resilience.

9. CONCLUSION

9.1 The one year Government Spending Review should provide certainty of funding for 2020/21, but is now subject to the outcome of the General Election. For planning purposes it is assumed that the Authority will receive an inflation increase in Government funding in 2020/21, this will be the first time this funding has not been reduced in nine years. The actual figure will not be known until the provisional Local Government Finance Settlement announcement is made.

9.2 On the basis of a 2020/21 inflation grant increase the Authority faces a considerably lower budget deficit than previously forecast. The 2020/21 deficit has reduced to £221,000 and the report details proposals to address this. This deficit is net of a proposed 1.9% Council Tax increase, which protects the Authority's recurring resource base. This is increasingly important given uncertainty over future Government funding.

9.3 The position for 2021/22 and future years remains extremely uncertain. The Authority's previous decision to instruct the Chief Fire Officer to develop a contingency plan to address future funding reductions will provide the Authority with a longer lead time to manage this situation. This strategy will be supported using the Budget Support Fund. As a package these measures provide the Authority with the best possible financial base to manage further potential funding cuts, or unfunded budget pressures, in 2021/22 and future years, including the phased withdrawal of the Pension grants.

9.4 A recent meeting with senior Home Office Civil Servants has provided the opportunity to open a dialogue on the future funding arrangements and to put forward proposals for a fairer system for all FRAs. The future funding system needs to recognise a range of factors, including risk and ability of individual FRAs to fund local services from Council Tax. The Authority has high risk, but a low ability to fund services from Council Tax owing to the low Council Tax base (i.e. higher than average proportion of properties in Council Tax bands A and B). Therefore, the decisions the Government makes in relation to future funding are more critical for this Authority than they are for FRAs with lower risk and a higher Council Tax base.

9.5 The recommendations in this report are predicated on the new Government confirming the 2020/21 grant funding (including pension funding) and Council Tax referendum limits previously announced over recent months. This position will not be confirmed until after the General Election and a new Government may have different priorities. However, there will be limited time for a new Government to make significant changes for 2020/21 as they have to comply with various statutory requirements and provide funding allocations etc. in sufficient time to enable individual authorities to comply with statutory deadlines for setting their budgets and council tax levels. In the event that the new Government makes any changes which impact on the recommendations in this report a further report will be submitted to enable Members to determine whether any changes are required by the Authority to the recommendations detailed in this report.

IAN HAYTON
CHIEF FIRE OFFICER

CHRIS LITTLE
TREASURER

APPENDIX A

EXTRACT FROM HOME OFFICE – FIRE AND RESCUE NATIONAL FRAMEWORK FOR ENGLAND

Reserves

5.6 Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

5.7 Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.

5.8 Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves 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 cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).

5.9 Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- how the level of the general reserve has been set;
- justification for holding a general reserve larger than five percent of budget; and
- details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

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

a. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
b. Funding for specific projects and programmes beyond the current planning period.
c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).