

## Adequacy of Reserves and Robustness of Budget

### Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915 or Joanne Coadey, Head of Finance, on 01743 260215.

### 1 Purpose of Report

This report undertakes a full analysis of reserves, provides an assurance on the adequacy of reserves, and gives an assurance on the robustness of the budget.

### 2 Recommendations

The Committee is asked to recommend to the Fire Authority:

- i) The reserves as set out in the appendix to the report; and
- ii) The Treasurer's assurances covering the robustness of the 2021/22 budget and adequacy of its reserves.

### 3 Background

The Chief Finance Officer is required, under section 25 of the Local Government Act 2003, to report on the robustness of estimates and adequacy of reserves.

This is also linked to the requirement of the Prudential Code that authorities should have full regard to affordability, when making recommendations about future capital programmes.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a Guidance Note on Local Authority reserves and balances (LAAP Bulletin 99), which is reflected in this report. The Bulletin states that it is contrary to the freedoms of local authorities for an external body to impose general minimum or maximum levels of reserves, as there is a broad range, within which authorities might reasonably operate.

Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe an optimum or minimum level of reserves for individual authorities, or authorities in general.

## **4 Overview of the Reserves Strategy**

The Fire Authority has set out its financial strategy to 2024/25 in its Medium Term Financial Plan, and its reserves policy is an integral part of this Plan.

CIPFA state that when reviewing their medium term financial plans and preparing their annual budgets, local authorities should consider the establishment and maintenance of reserves. These can be held 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 and emergencies – this also forms part of general reserves
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

## **5 Reserves held by the Authority**

A schedule of the reserves currently held by the Authority is attached as an appendix to this report. This schedule states the purpose of each reserve, and also demonstrates possible uses of the funds over the planning period, reflecting the risks and uncertainties identified by the Authority.

## **6 Adequacy of Reserves**

The reserves have increased from last year, when an assurance was given of their adequacy:

- (£1.594m) was released for use during the year – capital expenditure, slipped revenue spend, one off revenue expenditure and pensions costs

- £1.036m, plus £0.112m additional income, was held in the General Fund at the end of the year – underspend on revenue budget 2019/20 (see revenue budget expenditure graph). Of this, £131,000 will be rolled forward into 20/21 revenue budgets.
- £1.093m was added to the Unearmarked Capital Reserve as a budgeted contribution – surplus on revenue budget 2019/20. A balance of £0.192k was also added from the General Fund at the close of 2018/19.

Officers continue to give due consideration to existing risks to the Authority, when reviewing levels of reserves, and a continued assurance can be given that every effort has been made to ensure that reserves are adequate.

The reasons for holding reserves as outlined in the Appendix to the report are still valid in terms of risk areas for the Authority; a review of the levels of individual reserves was carried out as the accounts were closed for 2017/18, and some movements made between individual reserves. Given the anticipated spend on the Telford site as well as the future capital programme, it was felt more prudent to make further funds available for these projects and avoid future borrowing costs in the revenue account. Therefore, it was agreed that the vast majority of reductions identified in the Authority's reserves were diverted to the Major Project Reserve (some amendments were made in other areas).

Consideration must be given to the likelihood of deficits in the revenue budgets in future years, and the availability of reserves to fund this deficit. The Income Volatility Reserve is best placed to deal with this issue, should it arise. As well as using this reserve to cover future deficits, areas of expenditure such as capital charges can be reviewed.

Officers will ensure that the Authority still has sufficient funds available to deal with planned activities which require reserve contributions, and also unanticipated events in the future. The main use of reserves in the next few years will be capital expenditure, particular the major development at Telford. When the two Capital Reserves have been depleted, following completion of these schemes, the remaining reserve levels will be reviewed against the principles laid out in the Reserves Strategy to ensure that they remain adequate for the Authority's requirements.

**COVID 19 and its effect on future funding streams** - The Coronavirus pandemic began to affect the United Kingdom in March 2020, with England initially going into lockdown on 23 March 2020. The Service incurred minimal expenditure in the financial year 2019/20, and grants totalling £445,000 were received from central government to cover expenditure relating to the pandemic.

Whilst the Authority has been able to cover costs during 2020/21, it is as yet unclear how the pandemic will affect revenue in future years. Potential reductions in business rates and council tax receipts to constituent authorities have indirectly affected the Authority through reduced collection fund balances and council tax bases, but the effects on future years are uncertain.

The costs borne by central government to support businesses and individuals through the pandemic must also be considered when reviewing possible settlements in 2021/22 and into the medium term.

A number of government grants have been provided to address collection fund losses and slowing of council tax base growth; however, as 2019/20 was closed, members increased the balance of the Income Volatility Reserve by £450,000. This will provide one off contributions to the revenue budget while reviewing other areas of the financial strategy such as the capital programme or the precept strategy.

## **7 Robustness of Estimates**

Given that reserves are adequate, your Treasurer believes that the budget is robust for 2021/22 in respect of the process to minimise errors and omissions, the level set aside for future pay and price increases, and other budgetary pressures.

### **Future Years**

Although the assurances required under statute are for the coming year only, officers continue to review levels of reserves to 2025, in line with the Authority's strategic planning.

## **8 Financial Implications**

The financial implications are outlined within this report.

## **9 Legal Comment**

The Treasurer is obliged, under the Local Government Act 2003, to give the assurances set out in this report.

## **10 Initial Impact Assessment**

An Initial Impact Assessment form has been completed.

## **11 Equality Impact Assessment**

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Human Resources 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment is not, therefore, required.

## **12 Appendix**

Analysis of Reserves

## **13 Background Papers**

There are no background papers associated with this report.

	<b>Reserves Analysis 20/21 to 22/23</b>	<b>20/21 £001</b>	<b>21/22 £002</b>	<b>22/23 £003</b>	<b>Narrative</b>
<b>A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing</b>	<b>Pension Liabilities Reserve</b>				Set up as a result of the introduction of the new Firefighters Pension Scheme on 1 April 2006, the original reserve was required to pay for unexpected sickness retirements and other payments, which remain the responsibility of the Authority's revenue account. In 2008/09, the reserve was expanded to cover other staff matters, including the costs following the Retained Firefighters & Part Time Regulations Tribunal
	Apr	725	675	625	
	Ill health pension charge	-50	-50	-50	
	Mar	<b>675</b>	<b>625</b>	<b>575</b>	
	<b>ICT Reserve</b>				This reserve was established using unspent balances from 2010/11 and approved budgets for ICT projects. It is intended that this reserve will be used to manage information technology and communications issues as they arise, and ensure a consistent and managed approach to ICT investment.
	Apr	1,033	461	461	
	Capital Schemes	-572			
	Mar	<b>461</b>	<b>461</b>	<b>461</b>	
	<b>Operational Equipment Reserve</b>				This reserve was established to help provide some stability in this area of the revenue budget. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established.
	Apr	251	201	151	
To revenue for spend	-50	-50	-50		
Mar	<b>201</b>	<b>151</b>	<b>101</b>		
<b>Service Delivery Reserve</b>				This reserve was set up to fund initiatives in service delivery and prevention.	
Apr	236	216	196		
Contribution to revenue	-20	-20	-20		
Mar	<b>216</b>	<b>196</b>	<b>176</b>		
<b>Training Reserve</b>				This reserve is used to fund one off additional training and developments where permanent increases in the revenue budget are not required.	
Apr	100	85	55		
Contribution to revenue for training	-85	-30	-30		
Contribution to reserve	70				
Mar	<b>85</b>	<b>55</b>	<b>25</b>		
<b>Buildings Maintenance Reserve</b>				The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan, and also covers unexpected reactive maintenance. This reserve was created to deal with exceptional, unexpected repairs that do not require a regular revenue budget.	
Apr	408	308	258		
Contribution to revenue	-100	-50	-50		
Mar	<b>308</b>	<b>258</b>	<b>208</b>		
<b>A means of building up funds to meet known or predicted requirements</b>	<b>Earmarked Capital Reserve</b>				This reserve is used to fund smaller capital projects, therefore reducing the need to borrow.
	Apr	2,509	1,255	0	
	Prior year schemes spend	-1,254	-1,255		
	Mar	<b>1,255</b>	<b>0</b>	<b>0</b>	
<b>Major Projects Capital Reserve</b>				This reserve is made up of budgeted contributions and unspent balances from previous years. It was used to part fund the Authority's refurbishment of the headquarters, workshop and fire station at Shrewsbury, with the balance remaining to be used against future major building projects, notably the Stafford Park site in Telford.	
Apr	9,022	8,622	2,622		
Telford scheme spend	-400	-6,000	-2,622		
Mar	<b>8,622</b>	<b>2,622</b>	<b>0</b>		
<b>Staff Reserve (formerly STP Staff Reserve)</b>				The STP is a high level programme of activities, which will be completed to ensure that the Service is best placed to meet the challenges it is likely to face over the coming years. Funding for projects identified as part of the programme have been taken into account in the revenue budget and the capital	
Apr	323	248	148		
Used for STP staff costs	-75	-100	-100		
Added					

	<b>Reserves Analysis 20/21 to 22/23</b>	<b>20/21 £001</b>	<b>21/22 £002</b>	<b>22/23 £003</b>	<b>Narrative</b>
	Mar	248	148	48	programme. This reserve was set up to cover the staff elements of the projects.
<b>A contingency to cushion the impact of unexpected events or emergencies</b>	<b>Income Volatility Reserve</b>				This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Service Plan.
	Apr	687	687	687	
	<i>Potential reduction?</i>				
	Mar	687	687	687	
	<b>Extreme Incidents Reserve</b>				Costs for incidents attended by retained firefighters have now been budgeted for at average levels in the revenue account; this reserve will cover the costs of increased activity incurred as a result of adverse weather conditions.
	Apr	334	334	334	
Mar	334	334	334		
<b>General Reserve</b>				A risk assessment of the pressures likely to face the Authority is undertaken, and the current balance on this reserve represents those identified risks, in proportion to the probability of their occurrence.	
Apr	577	577	577		
Mar	577	577	577		

<b>Grand Total</b>	<b>13,669</b>	<b>6,114</b>	<b>3,192</b>
<b>Revenue budget</b>	<b>23,221</b>	<b>22,746</b>	<b>22,840</b>
<b>% of revenue budget</b>	<b>59%</b>	<b>27%</b>	<b>14%</b>