

# 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 2019/20 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 2023/24 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 not been unexpectedly reduced from last year, when an assurance was given of their adequacy; in fact there have been increases following year end closedown. These increases are additions to the Major Improvements Reserve, for contributions towards the improvements at Telford. 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 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).

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.

## **7 Robustness of Estimates**

Given that reserves are adequate, your Treasurer believes that the budget is robust for 2019/20 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 2023, 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.

	Reserves Analysis 18/19 to 20/21	18/19 £000	19/20 £000	20/21 £000	Comments	Use
<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
	April	930	870	750	Based on 2 higher tier ill health retirements per year - lower contribution if lower tier retirements	
	Contribution to revenue					
	Ill health pension charge 1718					
	Ill health pension charge 1819		-120			
	Ill health pension charge 1920			-180		
	Spend	-60				
Mar	<b>870</b>	<b>750</b>	<b>570</b>			
<b>ICT Reserve</b>	Apr	1,083	468	468		To be used for capital IT schemes, inc: Replacement MDTs LTE Network
	Spend	-615				
	Mar	<b>468</b>	<b>468</b>	<b>468</b>		
<b>Operational Equipment Reserve</b>	Apr	359	309	259		This reserve has been useful for one off requests for money in this area, taking pressure off the revenue budget.
	To revenue for spend	-50	-50	-50		
	Mar	<b>309</b>	<b>259</b>	<b>209</b>		
<b>Service Delivery Reserve</b>	Apr	236	216	196		Does include New Dimension funding which is used to fund training instructor - if New Dimensions grant removed from revenue account, training post would have to be funded with this until it was depleted.
	To revenue for spend	-20	-20	-20	Contains New Dimension Funding - has been used to fund training instructor	
	Mar	<b>216</b>	<b>196</b>	<b>176</b>		
<b>Training Reserve</b>	Apr	255	210	210		This reserve was created to enable additional training and development to be carried out, and aid the recruitment process, without adding additional pressure to the revenue budget.
		-45			Revenue budget reduced from 15/16	
	Mar	<b>210</b>	<b>210</b>	<b>210</b>		
<b>Buildings Maintenance Reserve</b>	Apr	408	408	408		A valid reserve for unexpected and reactive maintenance work - takes pressure off revenue budget. Reasonable level.
	To revenue for spend	0	0	0		
	Mar	<b>408</b>	<b>408</b>	<b>408</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	4,851	1,487	0		
	Capital spend	-3,364	-1,487			
	Mar	<b>1,487</b>	<b>0</b>	<b>0</b>		
	<b>Major Projects Reserve</b>					Renamed 'Major Projects Capital Reserve' - only unearmarked because the other reserve contained specific schemes and this was originally for Shrewsbury scheme.
	Apr	6,086	7,830	6,588		
	Surplus from revenue budget	1,035	758		Surplus from revenue budget; set aside for TC	
Telford Scheme (additional contribution)	709					
Telford Scheme		-2,000	-6,588			
Other						
Mar	<b>7,830</b>	<b>6,588</b>	<b>0</b>			
<b>STP Staff Reserve</b>	Apr	250	250	200		STP staff reserve extremely effective in introducing staff or skills as and when required to meet a one off business need.
	Used for staff costs		-50	-50	Estimated spend	Service recognises that there are occasions when additional staff or specialist services are required. Not always available in lean organisation. Not specific to any service area.
	Mar	<b>250</b>	<b>200</b>	<b>150</b>		Eg Business intelligence, strategic planning, collaboration, operational projects
<b>A contingency to cushion the impact of unexpected events or emergencies</b>	<b>Income Volatility Reserve</b>					Not required - introduced following changes in funding. Some uncertainty in funding and cash flow recognised in make up of General Reserve.
	Apr	237	130	130		
		-107				
	Mar	<b>130</b>	<b>130</b>	<b>130</b>		
	<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	<b>334</b>	<b>334</b>	<b>334</b>			
<b>General Reserve</b>	Apr	577	577	577		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.
	Mar	<b>577</b>	<b>577</b>	<b>577</b>		
<b>Grand Total</b>		<b>13,089</b>	<b>10,120</b>	<b>3,232</b>		
<b>Revenue budget</b>		<b>21,641</b>	<b>21,559</b>	<b>21,634</b>		
<b>% of revenue budget</b>		<b>60%</b>	<b>47%</b>	<b>15%</b>		