

# 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:

- a) The reserves as set out in the appendix to the report; and
- b) The Treasurer's assurances covering the robustness of the 2020/21 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 reduced from last year, when an assurance was given of their adequacy;

- (£2.147m) was released for use during the year – capital expenditure, slipped revenue spend, one off revenue expenditure and pensions costs
- £0.357m, plus £0.128m additional income, was held in the General Fund at the end of the year – underspend on revenue budget 2018/19. Of this, £228,000 will be held to fund pay award arrears for Firefighters pay and £74,000 will be rolled forward into 2019/20 revenue budgets.
- £1.035m was added to the Unearmarked Capital Reserve as a budgeted contribution – surplus on revenue budget 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 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.

## **7 Robustness of Estimates**

Given that reserves are adequate, your Treasurer believes that the budget is robust for 2020/21 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 2024, 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 24/25	18/19 £000	19/20 £000	20/21 £001	21/22 £002	22/23 £003	24/25 £003	Comments	Current Narrative	Proposed Narrative
A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing	Pension Liabilities Reserve Apr-15	930	809	729	649	549	469	Based on 2 higher tier ill health retirements per year - lower contribution if lower tier retirements  Level of reserve to be reviewed at year end	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	Around 8 ill health retirements since inception of 2006 pension scheme - contributions into pensions account for ill health retirements have been removed from revenue account. This reserve allows for ten lower tier ill health retirements over period to 22/23.  2017/18: Release £700k into other reserves and leave a balance of £300k for unexpected one off pension costs
	Contribution to revenue									
	Ill health pension charge 1819 (2)	-86	-40	-40						
	Ill health pension charge 1920 (2)		-40	-40	-40					
	Ill health pension charge 2021 (2)				-40	-40	-40			
	Ill health pension charge 2122 (1)				-20	-40	-40			
	Back pay	-35								
	Transfer of balance									
	Mar	809	729	649	549	469	389			
	ICT Reserve Apr	1,083	1,048	433	433	433	433	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.	To be used for capital IT schemes: Replacement MDTs LTE Network	
	FSR Development	-35								
	Replacement MDTs		-115							
	Replacement Emergency Comms - LTE Network		-500							
	Mar	1,048	433	433	433	433	433			
	Operational Equipment Reserve Apr	359	250	200	150	100	50	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.	This reserve has been useful for one off requests for money in this area, taking pressure off the revenue budget. Therefore it is proposed that some funding is added to the reserve to ensure its continued use in future years	
	To revenue for spend	-109	-50	-50	-50	-50	-50			
	Proposed increase 17/18									
	Mar	250	200	150	100	50	0		2017/18: Increase by £300k	
	Service Delivery Reserve Apr	236	236	216	196	176	156	Contains New Dimension Funding - has been used to fund training instructor	This reserve was set up to fund initiatives in service delivery and prevention.	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.
	Contribution to revenue		-20	-20	-20	-20	-20			
	Mar	236	216	196	176	156	136			
	Training Reserve Apr	255	167	167	167	167	167	Revenue budget reduced from 15/16	There have been, and will continue to be, changes in the management structure of the Service, which will inevitably require additional training and development of staff. This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.	Do we have training needs not in the revenue account? We have just funded wholetime recruitment but unlikely to recruit again? Initially created to cover one off management restructure training costs.
	Contribution to revenue for training	-88								
	Mar	167	167	167	167	167	167			
	Buildings Maintenance Reserve Apr	408	408	388	368	348	328	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.	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.	A valid reserve for unexpected and reactive maintenance work - takes pressure off revenue budget. Reasonable level.
	Contribution to revenue		-20	-20	-20	-20	-20			
	Mar	408	388	368	348	328	308			

	Reserves Analysis 18/19 to 24/25	18/19 £000	19/20 £000	20/21 £001	21/22 £002	22/23 £003	24/25 £003	Comments	Current Narrative	Proposed Narrative
<b>A means of building up funds to meet known or predicted requirements</b>	<b>Earmarked Capital Reserve</b>									
	Apr	4,851	3,222	49	49	49	49		This reserve is used to fund smaller capital projects, therefore reducing the need to borrow.	<i>No changes proposed</i>
	1617 and prior capital spend									
	1516 cap ex rev schemes not yet spent - moved to reserve									
	1617 cap ex rev schemes not yet spent - moved to reserve									
	16/17 schemes not funded from revenue									
	17/18 schemes not funded from revenue									
	18/19 schemes not funded from revenue	-1,629								
	19/20 schemes not funded from revenue		-3,173							
	20/21 schemes not funded from revenue									
	Contribution									
	Mar	3,222	49	49	49	49	49			
	<b>Major Projects Capital Reserve (formerly Unearmarked Capital Reserve)</b>									
	Apr	6,086	7,484	8,530	4,580	0	0		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.	<i>Rename 'Major Projects Capital Reserve' - only unearmarked because the other reserve contained specific schemes and this was originally for Shrewsbury scheme.</i>
	Added 1415 / 1516 closedown									
	Surplus from revenue budget	1,035	1,093	800				surplus from revenue budget; set aside for TC		<b>2017/18: Divert surplus balances here following review of reserves.</b>
	Telford Scheme (additional contribution)	372	194							
	Telford Scheme	-9	-241	-4,750	-4,580					
	Other									
	Mar	7,484	8,530	4,580	0	0	0			
	<b>Staff Reserve (formerly STP Staff Reserve)</b>									
	Apr	250	250	220	170	40	40		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 programme. This reserve was set up to cover the staff elements of the projects.	<i>Rename 'STP Staff Reserve'</i> <i>STP staff reserve was extremely effective in introducing staff or skills as and when required to meet a one off business need.</i> <i>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.</i> <i>Eg Business intelligence, strategic planning, collaboration, operational projects.</i>
	Used for STP staff costs		-30	-50	-130			Estimated spend		
	Added							Proposed contributions		
	Potential addition for 'Staff Reserve'									
	Mar	250	220	170	40	40	40			<b>2017/18: Contribution of £250k</b>

	Reserves Analysis 18/19 to 24/25	18/19 £000	19/20 £000	20/21 £001	21/22 £002	22/23 £003	24/25 £003	Comments	Current Narrative	Proposed Narrative
<b>A contingency to cushion the impact of unexpected events or emergencies</b>	<b>Income Volatility Reserve</b>							Level of reserve to be reviewed at year end	A number of changes were introduced in 2013/14 which affected the way in which the Fire Authority is funded, and the levels of funding that will be achieved. This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Service Plan.	<i>Not required - introduced following changes in funding. Some uncertainty in funding and cash flow recognised in make up of General Reserve.</i> <b>Balance for transformation</b>  <b>2017/18: Reduction of £900k</b>  <b>2019/20: Available to deal with potential deficits in the revenue budget due to uncertainty about grant income</b>
	Apr <i>Potential reduction?</i>	237	237	237	237	237	237			
	Mar	237	237	237	237	237	237			
	<b>Extreme Incidents Reserve</b>							Level of reserve to be reviewed at year end	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.	Still a valid reserve - no changes proposed
	Apr	334	334	334	334	334	334			
	Mar	334	334	334	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.	Costs and probabilities for items in this reserve reviewed, in conjunction with balances held in other reserves.
	Apr	577	577	577	577	577	577			
	Mar	577	577	577	577	577	577			
<b>Grand Total</b>		<b>15,022</b>	<b>12,080</b>	<b>7,910</b>	<b>3,010</b>	<b>2,840</b>	<b>2,670</b>			
<b>Revenue budget</b>		<b>21,639</b>	<b>21,559</b>	<b>21,634</b>	<b>22,096</b>	<b>22,572</b>	<b>22,572</b>			
<b>% of revenue budget</b>		<b>69%</b>	<b>56%</b>	<b>37%</b>	<b>14%</b>	<b>13%</b>	<b>12%</b>			