

# 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 2023/24 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 2026/27 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;

- (£4.594m) was released for use during the year – capital expenditure, slipped revenue spend, one off revenue expenditure and staff costs
- £1.153m was held in the General Fund at the end of the year – underspend on revenue budget 2021/22. Of this, £307,000 was rolled forward into 22/23 revenue budgets.
- £0.466m was added to the Unearmarked Capital Reserve as a budgeted contribution – surplus on revenue budget 2021/22.

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.

The Authority was informed in February 2022 that a suite of seven projects that would begin during 2022/23

This programme of projects will require significant capacity as well as technological resources to enable successful completion and outcomes, and eventual investment. The Authority approved a one off increase of £200,000 in the revenue budget for 2022/23 to enable these projects. It is agreed by the Authority that the balance on the General Fund was also earmarked for transformation by a transfer to the Strategic Transformation Board Staff Reserve.

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 over the last few years has been 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.

The Authority was able to cover costs during 2021/22, with the provision of government grant to cover the costs of Covid19. Reductions in business rates and council tax receipts to constituent authorities indirectly affected the Authority through reduced collection fund balances, however government grant was made available to cover these reductions in income, and the remaining deficit is repayable over three years.

As 2019/20 was closed, members increased the balance of the Income Volatility Reserve by £450,000. This enabled the provision of one off contributions to the revenue budget to mitigate any future income reductions, 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, The Authority's Treasurer believes that the budget is robust for 2023/24 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 2026, 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.