

## Reserves and Funds

### 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 sets out the issues, which the Fire Authority will need to consider as part of its annual review of reserves and funds.

### 2 Recommendations

The Committee is recommended to propose to the Fire Authority that it confirms the current position of its reserves and funds.

### 3 Background

The current position on the Authority's provisions, reserves and funds is as follows:

	£000
<b>Reserves</b>	
General Reserve	577
Extreme Weather / Operational Conditions	334
Pension Liabilities and Other Staff Issues	809
Capital – Earmarked	3,222
– Major Projects	8,760
Information and Communications Technology Reserve	1,048
Income Volatility Reserve	237
Service Transformation Programme Staff Reserve	250
Service Delivery Reserve	236
Operational Equipment Reserve	250
Training Reserve	167
Building Maintenance Reserve	408
<b>Reserves Total</b>	<b>16,298</b>

The Authority's policy is to:

- Make provision for known and quantifiable future expenditure;
- Establish reserves for specific known and potentially significant future expenditure, which cannot be precisely quantified or scheduled;
- Establish a general reserve for known risks, which cannot be easily quantified or scheduled but could be pooled;
- Review the provisions and reserves during the budget process (the purpose of this report) and on closing the accounts;
- Consider the opportunity cost of holding reserves and balances against the opportunity cost of either lower tax demands or alternative service delivery, and consequently also hold no monies in the General Fund, unless agreed to enhance future budgets.

## **4 Establishment of Reserves**

The level of reserves that the Authority holds has been driven by the following principles:

### **To fund major projects, thereby avoiding debt charges into the long term**

The Authority has used reserves successfully in recent years to fund its capital programme, most notably the fire station, workshop and headquarters in Shrewsbury, and in future will be utilised for the major developments work planned at Telford. The Capital reserves and the Information and Communications Technology (ICT) reserve will continue to be used to fund the capital programme into the medium term, with any one-off savings identified used to replace funds.

### **To fund unexpected and undetermined expenditure that cannot be met by a reducing revenue budget**

The General Reserve will cover unexpected occurrences that the Authority would not wish to budget for on a regular basis; in addition, the ICT reserve would be used to cover additional costs that were not anticipated.

### **To support revenue expenditure and smooth out fluctuations in the revenue budget**

A number of reserves have been created to address and support some areas of the revenue budget, and reviews are currently being carried out to identify smarter use of the Authority's resources. Some examples are given below.

- The Pensions reserve will be used to fund transfers into the Pension Account, when operational staff retire on ill-health grounds. This has resulted in a significant reduction to pension revenue budgets.
- The New Equipment, Training, Building Maintenance and Extreme Incidents reserves have all been created to enable reductions to revenue budgets.

The assurance that reserves are available for unexpected and exceptional costs will allow officers to budget at lower activity levels with confidence. The Equipment reserve has been used successfully to cover additional requests that could not be covered with regular budgets.

These reserves will act as enablers to reduce the revenue budget, close any future budget deficit modelled in the planning period, and safeguard the service delivered to the people of Shropshire.

## 5 General Reserve

The General Reserve meets known risks that are difficult to quantify or schedule. The Authority does not wish to take tax revenue, which may never be needed, and, therefore, holds an unearmarked amount of money for unexpected risks and events. The reserve stands at £577,000, which represents around 2.5% of gross expenditure, and may be used for events such as those listed below:

**Financial Risks** – cashflow; changes to national purchasing;

**Operational Risks** – vehicle accidents; uninsurable health & safety risks; fines from uninsurable offences; other uninsurable risks;

**Strategic Risks** – new legislation; fines from corporate manslaughter.

A current example of the potential use of this reserve is unexpected additional expenditure relating to Brexit.

## 6 Earmarked Reserves

### a) Extreme Incidents Reserve

This reserve is in place to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

### b) Pension Liabilities and Other Staff Issues

The purpose of this reserve is to meet one-off contributions, required by the Government, to the Pensions Account for sickness retirements. Until 2015/16, only ill health contributions over and above those budgeted in revenue were funded from the reserve. However, as part of the 2020 consultation outcomes, all ill health contributions are funded from the reserve, and the revenue account has been reduced accordingly.

The scope of this reserve was widened to include the potential liabilities arising from the part-time workers employment tribunal case; compensation payable to retained firefighters for terms and conditions has been met from the reserve.

Another small element of this reserve is to provide for staff issues relating to equality and diversity. Provision has been made for expenditure for reasonable adjustments and mediation, in order that these issues are not budgeted for on an annual basis.

The Authority has enjoyed very low levels of ill health retirements, although provision still has to be made for instances in future years. In addition, the Modified Pension Scheme has now been introduced with no one off costs anticipated. It was considered prudent during the reserves review to reduce this reserve while still maintaining a buffer for future costs.

**c) Capital – Earmarked**

The objective of this reserve is to fund small and recurring items of capital, thereby ensuring their eventual replacement from the reserve. There is no known reason to change this approach, although a review may be required, if savings are needed in future years.

Until 2015/16, contributions were made back over the lives of any assets funded from the reserve; however, as part of the 2020 consultation outcomes, these contributions were removed, and the revenue budget reduced accordingly.

**d) Capital – Major Projects**

The objective of this reserve was to build up funding from revenue savings that could then be used to maximise major capital schemes. The objective is to minimise borrowing and, therefore, committed debt charges in future years. This reserve will be used towards the funding of major improvements at the Telford site.

Following a review into the level of reserves held by the Authority, it was agreed that the net surplus of £1m would be contributed to this reserve.

**e) ICT Reserve**

This reserve is designed to ensure that ICT improvements and resilience issues are managed and funded in a clear and consistent manner. The reserve may also be used to fund ICT capital projects.

**f) Service Transformation Programme Staff Reserve**

The Service Transformation Programme is a high-level programme of activities, which are being completed to ensure that the Service is best placed to meet future challenges. Funding for projects identified as part of the Programme were taken into account in the revenue budget and the capital programme, and this reserve was set up to cover the staff elements of the projects. It continues to fund transformational staffing costs, including those relating to the Strategic Alliance with Hereford & Worcester Fire and Rescue Service.

**g) Income Volatility Reserve**

This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Medium Term Corporate Plan.

The reserve has not been called upon to smooth fluctuations in budget setting since its inception, therefore it was felt prudent to divert funds to the Major Projects Capital Reserve.

**h) Service Delivery Reserve**

This reserve was set up to fund initiatives in service delivery and prevention, to avoid irregular movement in the revenue budget.

**i) Training Reserve**

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 over the next three years and beyond.

This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.

**j) New Operational Equipment**

This reserve has been established to help provide some stability in the revenue budget in this area. 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. In the meantime, officers can continue to analyse and manage revenue expenditure, leading to realistic budget setting in future years. The Equipment reserve has been used successfully to cover additional requests that could not be covered with regular budgets.

**k) Building Maintenance**

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. It is proposed that the revenue budget is used for regular planned maintenance of buildings, and that a reserve is created to deal with exceptional, unexpected repairs, that do not require a regular revenue budget.

## **7 General Fund**

The General Fund is simply the net balance of over and underspendings during the year. The Authority's policy is not to accumulate funds year on year (and obviously to deal with any potential overspend). The balance in the General Fund at 1 April 2019 was £485,000 and the Fire Authority agreed to hold £302,000 back; £62,000 for potential legal costs relating to the challenge of the transfer of governance to the Police and Crime Commissioner, £228,000 for potential firefighter back pay and £12,000 for other slipped expenditure. The balance of the General Fund has been allocated to the Major Projects Capital Reserve, following a request to the Authority at its June meeting.

## **8 Financial Implications**

The financial implications are as outlined in the report.

## **9 Legal Comment**

There are no direct legal implications arising from this report.

## **10 Initial Impact Assessment**

An Initial Impact Assessment has been completed for this report.

## **11 Appendix**

There are no appendices to this report.

## **12 Background Papers**

There are no background papers associated with this report.