

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 2018/19 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 2019/20 in its Service 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 capital reserves, for capital schemes not yet completed, and 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; however a review of the levels of individual reserves will be carried out as the accounts are closed for 2017/18. Given the anticipated spend on the Telford site as well as the future capital programme, it is more prudent to make further funds available for these projects and avoid future borrowing costs in the revenue account. Therefore it will be proposed that any reductions identified in the Authority's reserves should be diverted to the capital reserves.

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 2018/19 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 2020, 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 16/17 to 19/20 | 16/17 £000 | 17/18 £000 | 18/19 £000 | 19/20 £000 | Comments |
|--|--|---------------|---------------|---------------|---------------|--|
| A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing | Pension Liabilities Reserve | | | | | |
| | Apr-15 | 1,755 | 1,630 | 1,510 | 1,270 | 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 |
| | Contribution to revenue | -125 | | | | |
| | Ill health pension charge 1718 | | -120 | -120 | -120 | |
| | Ill health pension charge 1819 | | | -120 | -120 | |
| | Ill health pension charge 1920 | | | | -120 | |
| | Mar | 1,630 | 1,510 | 1,270 | 910 | |
| | ICT Reserve | | | | | |
| | Apr | 1,083 | 1,083 | 1,083 | 1,083 | |
| | Contribution to revenue | | | | | |
| | Mar | 1,083 | 1,083 | 1,083 | 1,083 | |
| | Operational Equipment Reserve | | | | | |
| | Apr | 158 | 59 | 9 | 9 | Proposed contributions |
| | To revenue for spend | -99 | -50 | | | |
| | Transfer from Equipment Replacement Provision | | | | | |
| | Mar | 59 | 9 | 9 | 9 | |
| | Service Delivery Reserve | | | | | |
| | Apr | 236 | 236 | 236 | 236 | Contains New Dimension Funding - has been used to fund training instructor |
| | Mar | 236 | 236 | 236 | 236 | |
| | Training Reserve | | | | | |
| | Apr | 255 | 255 | 255 | 255 | Revenue budget reduced from 15/16 |
| | Mar | 255 | 255 | 255 | 255 | |
| | Buildings Maintenance Reserve | | | | | |
| | Apr | 408 | 408 | 358 | 308 | |
| | To revenue for spend | | -50 | -50 | -50 | |
| | Mar | 408 | 358 | 308 | 258 | |
| A means of building up funds to meet known or predicted requirements | Earmarked Capital Reserve | | | | | |
| | Apr | 4,983 | 4,662 | 1,956 | 1,316 | |
| | 1617 and prior capital spend | -1,326 | | | | |
| | 1516 cap ex rev schemes not yet spent - moved to reserve | | | | | |
| | 1617 cap ex rev schemes not yet spent - moved to reserve | 1,005 | | | | |
| | 16/17 schemes not funded from revenue | | | | | |
| | 17/18 schemes not funded from revenue | | -2,706 | | | |
| | 18/19 schemes not funded from revenue | | | -640 | | |
| | 19/20 schemes not funded from revenue | | | | -1,150 | |
| | Mar | 4,662 | 1,956 | 1,316 | 166 | |
| | Unearmarked Capital Reserve | | | | | |
| | Apr | 2,817 | 4,439 | 5,084 | 0 | surplus from revenue budget; set aside for TC |
| | Added 1415 / 1516 closedown | | | | | |
| | Surplus from revenue budget | 667 | 645 | 426 | | |
| | Telford Scheme (additional contribution) | | | | | |
| | Telford Scheme | 955 | | -5,510 | | |
| | Other | | | | | |
| | Mar | 4,439 | 5,084 | 0 | 0 | |
| | STP Staff Reserve | | | | | |
| | Apr | 237 | 2 | 2 | 2 | Estimated spend Proposed contributions |
| | Used for STP staff costs | -395 | | | | |
| | Added 1415 / 1516 closedown | 160 | | | | |
| | Mar | 2 | 2 | 2 | 2 | |
| A contingency to cushion the impact of unexpected events or emergencies | Income Volatility Reserve | | | | | |
| | Apr | 1,137 | 1,137 | 1,137 | 1,137 | Level of reserve to be reviewed at year end |
| | Mar | 1,137 | 1,137 | 1,137 | 1,137 | |
| | Extreme Incidents Reserve | | | | | |
| | Apr | 334 | 334 | 334 | 334 | Level of reserve to be reviewed at year end |
| | Mar | 334 | 334 | 334 | 334 | |
| | General Reserve | | | | | |
| | Apr | 577 | 577 | 577 | 577 | |
| | Mar | 577 | 577 | 577 | 577 | |
| | Grand Total | 14,822 | 12,541 | 6,527 | 4,967 | |
| | Revenue budget | 21,670 | 21,311 | 21,112 | 21,559 | |
| | % of revenue budget | 68% | 59% | 31% | 23% | |