

Adequacy of Reserves and Robustness of Budget

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011 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 2016/17 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. 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. In addition, future reviews should consider the future need and use of reserves, and adjustments made accordingly.

7 Robustness of Estimates

Given that reserves are adequate, your Treasurer believes that the budget is robust for 2016/17 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, there is uncertainty following the change in the government department taking responsibility for Fire. The Authority's medium term planning has been based on the provisional Local Government Finance Settlement, published by the Department of Communities and Local Government in December 2015. However, this will be amended when more information becomes available about the intentions of the Home Office in relation to funding for the Fire sector.

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 15/16 to 19/20		15/16 £000	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	1,755	1,635	1,395	1,035	To meet one off contributions required into the Pensions Account for ill health retirements
	Ill health pension charge 1516						
	Ill health pension charge 1617		-120	-120	-120		
	Ill health pension charge 1718			-120	-120	-120	
	Ill health pension charge 1819				-120	-120	
	Ill health pension charge 1920					-120	
	Mar	1,755	1,635	1,395	1,035	675	
	ICT Reserve						
	Apr	1,183	1,183	983	683	683	Set up to ensure that ICT improvements and resilience issues are managed and funded in a clear and consistent manner. Expenditure here may be irregular and may cover emergency issues or planned projects
Contribution from revenue		200	300				
Mar	1,183	983	683	683	683		
Operational Equipment Reserve							
Apr	105	217	167	117	67	Set up to support revenue budgets in this area; large items of expenditure or new items of equipment could be funded from this reserve	
To revenue for spend		-50	-50	-50	-50		
Transfer from Equipment Replacement Provision	112						
Mar	217	167	117	67	17		
Service Delivery Reserve							
Apr	236	236	236	236	236	Set up to fund initiatives in service delivery and prevention	
Mar	236	236	236	236	236		
Training Reserve							
Apr	255	255	255	255	255	Set up to fund one off training and development costs; will relive pressure on the revenue budget	
Mar	255	255	255	255	255		
Buildings Maintenance Reserve							
Apr	408	408	358	308	258	Set up to support revenue budgets in this area; planned or preventative maintenance could be funded from revenue, with exceptional or unexpected repairs funded from the reserve	
To revenue for spend		-50	-50	-50	-50		
Mar	408	358	308	258	208		
A means of building up funds to meet known or predicted requirements	Earmarked Capital Reserve						
	Apr	4,673	4,450	3,285	3,124	1,874	Used to fund items of capital, thus avoiding increased borrowing costs on the revenue budget. The capital programme over the planning period has been reviewed to ensure that costs are covered in the reserve
	1415 and prior capital spend	-1,128					
	1516 cap ex rev schemes not yet spent	905	-905				
	16/17 schemes not funded from revenue		-260				
	17/18 schemes not funded from revenue			-161			
	18/19 schemes not funded from revenue				-1,250		
	19/20 schemes not funded from revenue					-1,150	
	Mar	4,450	3,285	3,124	1,874	724	
	Unearmarked Capital Reserve						
Apr	1,322	2,352	558	525	525	Reserve has been built up from revenue savings and was used to fund the HQ project, avoiding borrowing into the long term. Will now be used to fund major developments at the Stafford Park site in Telford.	
Added 1415 closedown	488						
Surplus from revenue budget	542	206	67				
Telford Scheme (additional contribution)			500				
Telford Scheme		-2,000	-600				
Mar	2,352	558	525	525	525		
STP Staff Reserve							
Apr	212	512	312	112	12	Set up to cover secondments and appointment of staff to work on projects within the Service Transformation Programme.	
Used for STP staff costs	-200	-200	-200	-100			
Added 1415 closedown	500						
Mar	512	312	112	12	12		
A contingency to cushion the impact of unexpected events or emergencies	Income Volatility Reserve						
	Apr	1,137	1,137	1,137	1,137	1,137	Set up to smooth any volatility or fluctuations in funding received against estimates in the Corporate Plan
	Mar	1,137	1,137	1,137	1,137	1,137	
	Extreme Incidents Reserve						
	Apr	334	334	334	334	334	Set up to deal with incidents resulting from extreme weather conditions or operational scenarios, which cost over and above normal retained budget levels
	Mar	334	334	334	334	334	
	General Reserve						
	Apr	577	577	577	577	577	A reserve to meet risks known to the Authority which may or may not happen. Probability of occurrence is calculated and these pro rated costs provided for.
	Mar	577	577	577	577	577	
Grand Total	13,416	9,837	8,803	6,993	5,383		
Revenue budget	21,441	20,768	20,619	20,524	20,480		
% of revenue budget	63%	47%	43%	34%	26%		
Equipment Replacement Provision							
Apr	112	0	0	0	0		
Transfer to Equipment Replacement Reserve	-112						
Mar	0	0	0	0	0		