

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 2017/18 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.

7 Robustness of Estimates

Given that reserves are adequate, your Treasurer believes that the budget is robust for 2017/18 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. The Home Office have confirmed the provisional finance settlement issued in February 2016, following approval of the Authority's Efficiency Plan.

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	Based on 2 higher tier ill health retirements per year - lower contribution if lower tier 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	1 ill health per year = £1.215m balance at 19/20
	ICT Reserve						
	Apr	1,183	1,083	1,083	1,083	1,083	The total costs of ICT in the Service is being reviewed and as a result there may be some use of this reserve over the next three years.
Contribution to revenue	-100						
Mar	1,083	1,083	1,083	1,083	1,083		
Operational Equipment Reserve							
Apr	105	158	108	58	8	Proposed contributions	
To revenue for spend	-59	-50	-50	-50			
Transfer from Equipment Replacement Provision	112						
Mar	158	108	58	8	8		
Service Delivery Reserve							
Apr	236	236	236	236	236	Contains New Dimension Funding - has been used to fund training instructor	
Mar	236	236	236	236	236		
Training Reserve							
Apr	255	255	255	255	255	Will be used to cover irregular training spend such as recruitment and management training	
Mar	255	255	255	255	255		
Buildings Maintenance Reserve							
Apr	408	408	358	308	258		
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	4,983	3,349	2,342	1,032	£1.660m netted with £1.499m capital grant
	1516 and prior capital spend	-758	-75				
	1516 cap ex rev schemes not yet spent - moved to reserve	1,068	-1,439				
	16/17 schemes not funded from revenue		-120				
	17/18 schemes not funded from revenue			-1,007			
	18/19 schemes not funded from revenue				-1,310		For illustrative purposes - any negative balances in future years will be provided for through reserves and balances
	19/20 schemes not funded from revenue					-1,150	
	Mar	4,983	3,349	2,342	1,032	-118	
	Unearmarked Capital Reserve						
Apr	1,322	2,817	2,639	968	-14	surplus from revenue budget; set aside for TC	
Added 1415 / 1516 closedown	488	367					
Surplus from revenue budget	542	955	329	282	155		
Telford Scheme (additional contribution)			500			For illustrative purposes - any negative balances in future years will be provided for through reserves and balances	
Telford Scheme		-1500	-2,500	-1,264	-155		
Other	465						
Mar	2,817	2,639	968	-14	-14		
STP Staff Reserve							
Apr	212	237	0	0	0	Estimated spend Proposed contributions	
Used for STP staff costs	-475	-397					
Added 1415 / 1516 closedown	500	160					
Mar	237	0	0	0	0		
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	No use currently proposed - to be updated following settlements
	Mar	1,137	1,137	1,137	1,137	1,137	
	Extreme Incidents Reserve						
	Apr	334	334	334	334	334	
	Mar	334	334	334	334	334	
General Reserve							
Apr	577	577	577	577	577		
Mar	577	577	577	577	577		
Grand Total		13,980	11,711	8,693	5,941	4,381	
Revenue budget		21,441	21,670	20,704	20,395	20,517	
% of revenue budget		65%	54%	42%	29%	21%	
Equipment Replacement Provision							
Apr		112	0	0	0	0	
Transfer to Equipment Replacement Reserve		-112					
Mar		0	0	0	0	0	