

## Hampshire and Isle of Wight Fire and Rescue Authority Reserves Strategy

### 1. The Reserves Strategy

- 1.1 The reserves strategy is a key component of the Authority's overall financial strategy. The requirement for Fire Authorities to maintain, approve and publish a reserves strategy is set out in statute<sup>1</sup> and guidance<sup>2</sup>.
- 1.2 As well as being a statutory requirement, this strategy is an opportunity to clearly state the Authority's position on reserves. Reserves play an important part in our overall financial strategy. The reserves strategy is linked to the Authority's financial principles, with principles 5 and 7 of particular relevance:
- 1) A corporate approach will be taken to the development of budgets and savings programmes
  - 2) Savings delivery will be planned so that savings are delivered at the optimum time to balance the budget
  - 3) Financial planning assumptions will be realistic and prudent and will take account of pay and price inflation
  - 4) One-off and recurring growth will be limited
  - 5) Revenue contributions to reserves for capital investment, IT and other equipment replacement will be maintained
  - 6) The revenue budget and capital investment will be aligned with strategic priorities and risks
  - 7) Reductions in planned reserve contributions will be used as a last resort to balance the budget.
- 1.3 Principle 5 is crucial to the ongoing financial sustainability of the organisation. Without these reserve contributions the Authority would have no funding secured for the refresh of assets such as the estate, vehicles, and equipment. The ability to plan for the refresh of assets also allows us to deliver value for money in procurement. Without these contributions the Authority would be reliant on one-off underspends to replace assets, meaning that spend could not be planned and there would be a risk that funding would be unavailable when assets reached the end of their useful lives.
- 1.4 Reserve contributions also play a vital role in the financial resilience of the Authority. In the event of a financial risk being realised, for example, an unbudgeted pay award

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<sup>1</sup> Section 43 of the Local Government Finance Act 1992 requires that when setting the budget for the forthcoming year the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies and risks must be considered

<sup>2</sup> New Fire and Rescue Services Framework, May 2018, introduced a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included.

or a reduction in Government grant at short notice, the Authority would rely on risk reserves then temporarily reduce contributions to reserves to balance the budget. As per financial principle 7, this action would be taken as a last resort. However, the reserve contributions are a strong mitigation against the financial risks and would allow the Authority time to develop plans should a financial risk materialise.

1.5 Reserves are by their nature one-off and, as set out in the rest of this appendix, committed to future spend or risk. Therefore, it would not be a reasonable strategy to use reserves to, for example, delay the need to make necessary savings or to limit necessary increases in Council Tax. Although the reserves could be used to cashflow these decisions in the short term, there would be profound consequences in the medium term. The reserves would quickly be depleted, meaning they were not available for the refresh of assets. Once the reserve balances had been exhausted the Authority would be left facing a significant budget gap. It is likely that service reductions would then urgently be needed to balance the budget.

1.6 In line with the constitution, the governance of the use of reserves is as follows:

- a) Amounts less than £200,000 – Executive Group
- b) Amounts greater than £200,000 – Fire Authority
- c) Capital payments reserve (any amount) – Fire Authority

The Fire Authority approves the use of the reserves via regular updates e.g., the regular approval of the capital programme or via specific papers for one-off activities. The exception to this is the use of the ICT and Equipment Reserves set out in paragraph 5.3. This is to remove the need for regular Fire Authority papers to cover the business as usual replacement of assets.

1.7 In determining a Reserves Strategy, the Authority also takes account of the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code.

## 2. Detailed Reserves Position

2.1 The Authority holds reserves for four broad reasons:

- a) **Reserves which are fully committed to existing spend programmes.** The overwhelming majority of these reserves (around 90%) are committed to the replacement or enhancement of existing assets. Contributions are made to ensure that a planned approach to the refresh of assets can be taken that delivers value for money and ensures that assets continue to be available. This includes amounts to support necessary enhancements to the estate to ensure

a healthy and inclusive workplace and to meet carbon reduction commitments. Additionally, a balance is committed to service change and improvement.

- b) **Reserves held to mitigate risk.** These are reserves held to mitigate significant financial risks held on the organisational risk register.
- c) **Specific reserves.** These are small reserves held for very specific purposes.
- d) **General reserve.** Usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g., excessive operational activity resulting in significant pay costs for on-call staff. This is deemed to be a reserve of 'last resort' and the Authority has never been required to use its General Reserve.

## 2.2 A summary of the reserves:

	<b>Balance at 31/03/22 (Actual) £'000</b>	<b>Balance at 31/03/23 (Forecast) £'000</b>
<b>Fully Committed</b>	<b>(37,559)</b>	<b>(26,674)</b>
Capital Payments Reserve	(30,599)	(20,964)
Transformation Reserve	(2,602)	(2,034)
Equipment Reserve	(1,422)	(227)
IT Reserve	(1,020)	(1,527)
Earmarked underspends	(616)	0
Revenue Grants Unapplied Reserve	(1,300)	(1,053)
<b>Risk Reserves</b>	<b>(472)</b>	<b>(2,097)</b>
Budget Equalisation Reserve	(472)	(1,097)
Capital and Investment Risk Reserve	0	(1,000)
<b>Specific Reserves</b>	<b>(889)</b>	<b>(640)</b>
SHQ Maintenance Reserve	(815)	(566)
Princes Trust Reserve	(74)	(74)
<b>General Reserve</b>	<b>(2,500)</b>	<b>(2,500)</b>
<b>Total Reserves</b>	<b>(41,420)</b>	<b>(31,911)</b>

Reserves are forecast to significantly reduce by the end of the financial year due to progress on the capital programme as well as the use of reserves for planned asset purchases.

**Reserves which are fully committed to existing spend programmes****3. Capital Payments Reserve**

- 3.1 The Capital Payments Reserve is the most important source of funding for the capital programme. Funding capital expenditure from this reserve reduces the need for borrowing, which in turn protects the revenue budget from the need to cover capital and interest payments on borrowing. The largest commitment against this reserve is the replacement of the oldest vehicles within the fleet, ensuring that vehicles are fit for purpose and that the Authority is protected from increased maintenance costs on an aging fleet. In addition, some Estates schemes are funded from this reserve. As there is no capital funding from Government and very limited scope for capital receipts, annual contributions to this reserve are made from revenue. Capital expenditure has been particularly affected by inflationary pressures over the last 18 months so there is a proposal in the main budget report to increase revenue contributions to this reserve in line with inflation in future years. The figures in the table below assume this inflationary increase. The capital programme was rescoped in December 2022 and this will provide a mitigation against the need to further reduce the size of the programme. The table below shows that the reserve is overcommitted in later years of the plan. Officers will closely monitor this. Currently there is an assumption of no surplus or deficit in 2022/23 so no additional contribution to the Capital Payments Reserve.

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	(30,599)	(20,964)	(8,935)	(635)	1,933
Draws	13,673	16,391	12,793	7,196	2,354
Contributions	(4,038)	(4,362)	(4,493)	(4,628)	(4,766)
Closing Balance	(20,964)	(8,935)	(635)	1,933	(479)

- 3.2 The balance on the Capital Payments Reserve remains high as there have been significant delays on the vehicle replacement programme in recent years. However, spend funded from the Capital Payments Reserve has increased during this financial year, with a number of vehicles delivered and more expected before the end of the

financial year. In addition, significant progress has been made on the Live Fire and Bishops Waltham Fire Station schemes that use funding from this reserve.

- 3.3 Inflationary pressures and specific market factors affecting the vehicle manufacture and construction industries mean that even with the inflationary increases built into the reserve contributions, the reserve is overcommitted during the course of the plan, and the balance is forecast to reduce significantly. This limits the ability to deliver new capital schemes in the future. The Authority must ensure that it continues to invest wisely in existing assets and the delivery of a programme of new ones in line with overall priorities and need, its Safety Plan priorities, and its Medium Term Financial Plan (MTFP).

#### 4. Transformation Reserve

- 4.1 The Transformation Reserve is used to fund service improvements or to provide one-off funding to deliver efficiency savings.

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	(2,602)	(2,034)	(488)	(136)	(121)
Draws	818	1,821	635	307	315
Contributions	(250)	(275)	(283)	(292)	(300)
Closing Balance	(2,034)	(488)	(136)	(121)	(106)

- 4.2 In recent years, the reserve has been used to provide extra funding for the improvements identified in the Safety Plan. In addition, in December a major commitment to deliver National Operational Guidance within the service to be funded from this reserve was approved by the Fire Authority.

#### 5. Equipment and ICT Reserves

- 5.1 Information and Communications Technology (ICT) and other equipment purchases are not spread evenly across years. This makes it difficult to budget for replacement within the annual revenue budget. Reserves have therefore been set up for both ICT and other equipment to allow larger items to be purchased whilst retaining a constant contribution from the revenue budget.

<b><i>Equipment</i></b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	(1,422)	(227)	(842)	(1,721)	(2,702)
Draws	2,210	502	271	204	538
Contributions	(1,015)	(1,117)	(1,150)	(1,185)	(1,220)
Closing Balance	(227)	(842)	(1,721)	(2,702)	(3,384)

<b><i>ICT</i></b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	(1,020)	(1,527)	(1,401)	(1,520)	(1,448)
Draws	300	1,014	795	1,014	720
Contributions	(807)	(888)	(914)	(942)	(970)
Closing Balance	(1,527)	(1,401)	(1,520)	(1,448)	(1,698)

5.2 Making reserve contributions in advance of the refresh of ICT and operational assets mitigates the risk that the replacement of assets will be unaffordable. It also allows a planned approach to the procurement of new assets. The balance on the equipment reserve is high by the end of the period as there is a planned refresh of breathing apparatus in 2027/28. Equipment and ICT assets have also been affected by price inflation so inflationary increases in the contributions to these reserves have also been built in.

5.3 The ability to draw down these reserves is delegated to officers, providing that they are used for their planned purposes (the refresh of operational equipment and ICT respectively) and that the drawdown does not create a pressure on the reserve. Unlike other reserves, this means that individual amounts above £200,000 do not require separate Authority approval as long as the requirements set out in this paragraph are met.

## 6. Revenue Grants Unapplied and Earmarked Underspends

- 6.1 The Revenue Grants Unapplied Reserve (RGUR) is used to hold grant received in advance of the relevant expenditure being incurred. The balance in the reserve is currently largely committed to the Emergency Services Network national programme and to the additional pension administration costs caused by the McCloud and Matthews pension remedies. The Earmarked Underspends Reserve is used to carry forward committed expenditure between financial years as approved by the Authority as part of the outturn report.

<b><i>RGUR</i></b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	(1,300)	(1,053)	(653)	(552)	-
Draws	247	400	101	552	-
Contributions	-	-	-	-	-
Closing Balance	(1,053)	(653)	(552)	-	-

<b><i>Earmarked Underspends</i></b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	(616)	-	-	-	-
Draws	616	-	-	-	-
Contributions	-	-	-	-	-
Closing Balance	-	-	-	-	-

### ***Specific Reserves***

## **7. Strategic Headquarters Maintenance Reserve**

- 7.1 This reserve is held specifically to fund the maintenance of the Police and Fire Strategic Headquarters in Eastleigh. The Fire Authority and the OPCC contribute to the reserve and its use is subject to agreement between officers in both organisations.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Opening Balance	(815)	(566)	(497)	(582)	(775)
Draws	430	254	104	-	-
Contributions	(181)	(185)	(189)	(193)	(193)
Closing Balance	(566)	(497)	(582)	(775)	(968)

## 8. Prince's Trust Reserve

- 8.1 This reserve is used for the financial management of Prince's Trust activities. Funding for this activity works on an academic year basis so this reserve is held to ensure that the Prince's Trust activities are self-funding across financial years.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Opening Balance	(74)	(74)	(74)	(74)	(74)
Draws	-	-	-	-	-
Contributions	-	-	-	-	-
Closing Balance	(74)	(74)	(74)	(74)	(74)

### *Reserves held to mitigate risk*

## 9. Budget Equalisation Reserve

- 9.1 Since 2019 the Authority has held a Grant Equalisation Reserve. The reserve is funded by a regular annual contribution using the £625,000 previously required to meet the



annual deficit contribution to the Hampshire Local Government Pension Scheme, which ceased to be required following the last triennial valuation of the Fund. A draw was made from this reserve to balance the budget in financial year 2021/22.

- 9.2 This reserve was held to mitigate uncertainty around fire service funding. The risk of funding reductions continues to be held on the corporate risk register. It was recommended that the contribution was made for three years until the results of the 2022 triennial pension fund valuation were known. This valuation is now complete and there continues to be no deficit so the £625,000 is still available.
- 9.3 Whilst the uncertainty over fire service funding in the medium term remains, with a further single year funding settlement in 2023/24, the economic climate has changed markedly since 2019. In particular pay and price inflation have become significant risks to the medium term position. This risk is now held on the corporate risk register, alongside the existing financial risk relating to reduced funding. Additionally, the threat of a recession may impact the council tax base and the collection fund and business rates income.
- 9.4 Taking the challenging economic climate, the projected medium term position, and the lack of a multi-year funding settlement into account, it is recommended that the Grant Equalisation Reserve is re-designated as a Budget Equalisation Reserve. The annual contribution of £625,000 will continue until there is a multiyear settlement or a more stable economic outlook, subject to affordability. This re-designation would allow the Authority to use the reserve to respond to funding cuts but also to deal with the effects of inflation on the revenue budget (including real terms cuts in funding).
- 9.5 On 9<sup>th</sup> February 2023, a revised firefighter pay offer of 7% from July 2022 and 5% for July 2023 was made by the National Joint Council. Although there has been no agreement to date it is sensible to budget for an award of this level. In the main budget report it is proposed that the contribution to the BER is removed for 2023/24 and that there is a draw from this reserve of £264,000 to balance the budget. This is clear evidence of the importance of having risk reserves to allow us to immediately respond to financial challenges that are more likely in the economic climate.
- 9.6 Based on current assumptions, the full balance of this reserve will be needed to offset budget deficits over the life of this plan. This will need to be addressed in future planning activity.

<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>

Opening Balance	(472)	(1,097)	(833)	0	0
Draws	-	264	1,458	625	625
Contributions	(625)	0	(625)	(625)	(625)
Closing Balance	(1,097)	(833)	0	0	0

## 10. Capital and Investment Risk Reserve

- 10.1 This is a new reserve proposed in response to inflationary and interest rate risks to the capital programme. In December 2022, the Fire Authority agreed to resize the capital programme in light of interest rate rises. This reserve is proposed to ensure that the resized capital programme is deliverable, by providing a one-off contingency against increased costs or interest rates. During 2022/23 a one-off contribution will be made to the reserve from the one-off benefit of successful business rates appeals of £1m. During 2023/24, an additional one-off contribution of £1.5m will be made, subject to affordability. This will be funded from additional forecast investment income and a forecast underspend on capital financing costs due to the use of internal borrowing while reserve balances remain reasonably high and the impact of the timing of expenditure on the capital programme financed by borrowing.
- 10.2 In addition, this reserve will also hold an allocation to mitigate risks to investments held by the Fire Authority. Currently there is a statutory override that prevents unrealised capital gains and losses on investment assets being charged to the revenue budget (required by International Financial Reporting Standard 9). However, this override is currently subject to a consultation and may be removed. This reserve would be used to absorb these in-year unrealised gains and losses so that the service budget continued to be unaffected by unrealised changes. The Authority would only crystallise a gain or loss on these investments at the point it decided to sell them. Further details are included in the Treasury Management Strategy.

2022/23	2023/24	2024/25	2025/26	2026/27
£'000	£'000	£'000	£'000	£'000

Opening Balance	0	(1,000)	(2,500)	(2,500)	(2,500)
Draws	0	0	0	0	0
Contributions	(1,000)	(1,500)	0	0	0
Closing Balance	(1,000)	(2,500)	(2,500)	(2,500)	(2,500)

### ***General Reserve***

#### **11. Determine the Adequacy of the General Reserve**

- 11.1 The General Fund is the reserve of last resort and as such should be maintained at as low a level as possible, while still covering financial risks. As outlined above, additional reserves have been developed to deal with the current funding and economic risks facing the Authority. Additionally, the Authority has robust risk and financial management processes. However, there is always a risk that the Authority will become liable for expenditure that it has not budgeted for.
- 11.2 The General Reserve has stood at £2.5m for several years. It has not increased in line with the increases in the service budget due to factors such as the Combination or inflation. However, as outlined above additional reserves to deal with specific new financial risks have been created. Given the challenges outlined elsewhere in the report and appendices the level of General Reserve remains appropriate.
- 11.3 At the start of 2022-23, the General Reserve will represent around 2.7% of the Authority's net revenue budget, which is considered adequate to mitigate the risks that it faces. While the percentage of the Authority's net revenue budget held in the General Reserve continues to reduce, the additional financial risk reserves mean that this level is adequate.
- 11.4 The level and adequacy of reserves is assessed annually by the Chief Financial Officer in preparing the Section 25 report (Appendix G) that Members must take into account in setting the annual budget and precept.