

RESERVES STRATEGY

Introduction

The level of reserves held by public sector authorities has attracted a lot of media attention over the years, and is often brought to the headlines by comments from Central Government saying reserves should be used to lessen the impact of the austerity measures.

As the level of reserves have nearly always been built up for specific purposes, and as using these reserves to bridge funding gaps only effectively means delaying the point at which savings need to be found, it is not really a viable option to use these reserves for this purpose on a pro-longed basis. Instead the Authority chooses to use the reserves for investment and improvement in the service and as a sensible means of giving the authority the time and capacity to deliver on its savings programmes.

At the end of the 2017/18 financial year the Authority's reserves and General Fund balance stood at £30.3M. This strategy outlines the individual reserves and their purpose and highlights the strategy that the Authority has adopted in using, and more importantly, to contributing to reserves.

Reserves Position 31 March 2018

Current useable reserves together with the General Fund balance totaled £30.3M at the end of the 2017/18 financial year.

The table below summarises each of the Authority's reserves into partially and fully committed reserves, and for those partially committed reserves the amount which is either committed or in the case of the Transformation Reserve is known will need to be funded over the medium term. This demonstrates the fact there is only quite a small percentage of the reserves available for other purposes once other potential capital commitments are taken into account.

The narrative beneath the table explains in more detail why the reserves are held and why the majority of these reserves cannot be used for any other reasons.

Fully Committed to Existing Spend Programmes	Balance as at 31.03.18 £'000	Known & Committed to 2021/22 £'000	Available for Use £'000
Revenue Grants Unapplied Reserve	616	616	0
Earmarked Underspendings Reserve	196	196	0
Capital Grants Unapplied Reserve	0	0	0
Capital Receipts Reserve	0	0	0
	812	812	0

Partially Committed Reserves	Balance as at 31.03.18 £'000	Known & Committed to 2021/22 £'000	Available for Use £'000
Capital Payments Reserve	23,266	11,491	11,775
Transformation Reserve	3,754	3,265	489
General Fund Balance	2,500	0	2,500
Total Reserves	30,332	15,568	14,764

Fully Committed to Existing Spend Programmes

These reserves really only represent the extent to which resources, in the form of Government grants or contributions to capital are received or generated in advance of the actual spend on the project, or they reflect commitments which have been carried forward from one year to the next.

The capital and revenue grants unapplied reserves vary significantly over time, with specific grant levels for both capital and revenue being dependent on what funding is available and whether we are successful in bidding for it. These reserves are required to be shown separately in the accounts due to the introduction of the International Financial Reporting Standards (IFRS) in 2010/11 which requires unapplied government grants to be shown as earmarked reserves.

Partially Committed Reserves

These represent reserves which have been built up for specific purposes, but have a current balance which is generally committed to spending priorities. Therefore, potentially these could be used to mitigate the loss of Government grants on a one off basis. However, the Authority has decided these should be used in specific areas which bring about efficiencies to the service and benefits to the residents of Hampshire.

The Transformation Reserve:- This is used to help implement and deliver savings programmes, deliver value for money and service improvements and to 'pump-prime' environmental improvement initiatives. Current policy is that any underspends achieved at the end of the year are transferred to this reserve in order to maintain the fund and achieve further improvements or savings.

The Capital Payments Reserve:- This provides an essential resource for the capital programme and helps to reduce the need for borrowing. This is essential as no capital grant is now received from Government and is only available on occasion through a bidding process. Regular contributions are now made to the reserve from the base budget, set at the amount required to fund the vehicle replacement

programme and retained station improvements on an annual basis.

Whilst there remains a large uncommitted balance on the Capital Payments Reserve, this reflects the fact that items are only committed against this reserve once they have been formally approved by the Authority. Capital investment planning by the Service has identified potential calls against this amount which include

- A new live fire training facility at Warsash (£3.8m) which is being considered by the Authority in July 2018
- Potential property liabilities that may arise if a new combined fire authority is created with the Isle of Wight (around £6.0m of which 50% could be funded by HFRA)
- Replacement of Airwave as part of the Emergency Services Mobile Communication Programme (£1m)

These items together with other minor capital liabilities would if approved, bring the uncommitted balance down to a few hundred thousand pounds by 2021/22.

General Fund Balance

The General Fund Balance by definition is not earmarked for any purpose. It represents the minimum safe level of reserves as recommended by the Chief Finance Officer that are available to address any unforeseen financial shocks that may arise. The level of the Reserve was increased at the beginning of the period of austerity to reflect the greater risk in the budget as savings programmes were being implemented and there was a greater reliance on income generation to balance the budget.

Reserves Strategy

The cyclical approach that the Authority has applied to the generation and use of reserves is well recognised across the public sector and an article in the Municipal Journal by the Director of Local Government at the Chartered Institute of Public Finance and Accountancy stated

“What reserves do allow authorities to do is to take a more medium term view of savings and expenditure and make decisions that give the best value for money. This is better than having to make unnecessary cost reductions in the short term because they do not have the money or funding cushion to allow for real transformation in the way they provide services.”

In line with this principle, the Authority’s reserves have allowed them to develop sensible options around service reform and efficiencies and given them time to make reasoned decisions around which option to take without having to make rushed, urgent decisions which risk public safety.

As the period of austerity continues, it will become ever more important to look at future funding arrangement and ensure that sufficient reserves are available to pay for the one-off costs to continue to invest in and improve the Service.

A core strand of this strategy going forward will be the continued use and replenishment of reserves in line with the strategy and ensuring there is sufficient capacity to cope with the challenges over the next 4 to 5 years.

The Authority adopts a well established approach based on a cyclical pattern as follows:

- Planning ahead of time and implementing efficiencies and savings in advance of need.
- Generating surplus funds in the early part of the programme.
- Using these resources to fund investment and transformation in order to achieve the next phase of savings.

This has been the case with the Service Delivery Redesign Programme which delivers the largest element of the Phase 2 savings, with the plans being drawn up and consulted on several years prior to implementation. The result is that pilots are being run and costs significantly reduced a year in advance of the budgetary savings being needed. Part of the resultant underspend can be used for in year priorities within the SDR Programme, with the remainder being transferred to the Transformation Reserve to provide funding for other future efficiencies and improvements.

It is important to highlight that the strategy the Authority has adopted means that 'business as usual' capital funding for vehicles and retained stations should be secured for the future. However, any significant building programmes or other high value capital schemes are likely to use borrowing along with any spare funding within the reserves in order to fund them. Costs of borrowing are reflected in the MTFP and will need to be met from further efficiencies, albeit that the ongoing revenue budget contains high levels of revenue contributions to capital that could be flexed to help manage this strategy.

As austerity continues, it is also likely that underspends against budget will reduce, which will in turn limit the amounts available to be transferred to the Transformation Reserve for future projects. Planning well in advance will be key to ensuring that the available funding is prioritised and the best use is made of all available resources.