

### Hampshire Fire and Rescue Authority Reserves Strategy

#### 1. Introduction and Background

- 1.1 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to 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.
- 1.2 Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.
- 1.3 In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan (MTFP) or be a stand-alone document.

#### 2. Strategic Context

- 2.1 There are a number of reasons why Authorities might hold reserves, these include to:
  - a) Mitigate potential future risks such as increased demand and costs;
  - b) Help provide for the costs of future liabilities;
  - c) Temporarily plug a funding gap should resources be reduced suddenly or as part of an agreed medium term financial strategy;
  - d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
  - e) Spread the cost of large scale projects which span a number of years.
- 2.2 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term financial plan.
- 2.3 Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority has been facing significant year on year reductions in grant funding and uncertainty over the medium term. Due to the fact that funding for future capital projects is held as an earmarked reserve, the overall level of reserves held by the Authority is currently still relatively high but will reduce as the capital programme progresses.
- 2.4 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks.

As a minimum, there are sufficient balances to support the budget and capital programme and provide an adequate contingency for budget risks.

2.5 There are two different types of reserve, and these are:

**Earmarked Reserves** – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

**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 retained pay costs. Generally, this is deemed to be a reserve of ‘last resort’ and the Hampshire Fire and Rescue Authority (HFRA) has never been required to use its General Reserve.

### 3. Determine the Adequacy of the General Reserve

3.1 A well-managed Fire Authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, HFRA has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

3.2 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

3.3 A number of years ago, the Authority agreed to increase the General Reserve to £2.5m to reflect the increased risk in the budget as a result of the period of austerity and year on year grant reductions. At the same time the Authority was also receiving 4 year grant settlements which significantly helped in planning for future financial sustainability, even during a period of grant reductions.

3.4 At the start of 2020-21, the General Reserve will represent 3.6% of the Authority’s net revenue budget, which is considered adequate to mitigate the risks that it faces. Whilst this may be below the percentage level of General Fund Reserves of other Authorities, this also takes into account the fact that the base revenue budget has over £6.1m a year for contributions to reserves built in (equivalent to 9% of the net revenue budget) and this therefore offers a very significant mitigation to any potential unexpected spending before use of the General Reserve is required.

3.5 The level and adequacy of reserves is assessed annually by the Chief Financial Officer in preparing the Section 25 report that Members must take into account in setting the annual budget and precept.

#### 4. Earmarked Reserves

- 4.1 The Authority has a number of earmarked reserves which have been established for specific purposes where there have been emerging risks, future cost pressures or as part of sensible medium term financial planning.
- 4.2 The relevance of, and balance in, each of these is reviewed annually as part of the update of the MTFP and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy.
- 4.3 The Earmarked Reserves for the Authority are presented and analysed as outlined below.

#### 5. Transformation Reserve

- 5.1 This is used to help deliver value for money improvements, implement change programmes and to 'pump-prime' environmental improvement initiatives. Any budget surpluses or underspends achieved at the end of the year are generally transferred to this reserve in order to maintain its level and provide funding for further improvements or change programmes as they arise.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Opening Balance	-3,601	-1,119	-1,000	-946	-1,176
Draws	3,414	1,404	304	20	0
Contributions	-932	-1,285	-250	-250	-250
Closing Balance	-1,119	-1,000	-946	-1,176	-1,426

- 5.2 The majority of commitments against this reserve currently relate to the Combined Fire Authority (CFA) Project and non-capital elements of the Service Delivery Redesign (SDR) vehicle changes.

#### 6. Capital Payments Reserve

- 6.1 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 no recent bidding processes for capital have been announced. Regular contributions are now made to the reserve from the base budget, set at the amount required to fund the vehicle replacement programme and a contribution to retained station replacements.

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	-23,090	-17,122	-10,695	-9,067	-7,207
Draws	9,997	10,392	5,593	5,825	3,542
Contributions	-4,029	-3,965	-3,965	-3,965	-3,965
Closing Balance	-17,122	-10,695	-9,067	-7,207	-7,630

6.2 Due to the recent Service Delivery Review programme and the hold on vehicle purchases, whilst vehicle requirements were being assessed, there is currently a backlog on vehicle purchases. The majority of the approved spend in this reserve is for this purpose. In addition, funding is being held for retained station replacements, which are being reviewed as part of the Station Investment Programme and business cases are expected to be presented to the Authority during 2020/21 for approval to spend some of this allocation, albeit the majority of the spend is expected to come from prudential borrowing.

## 7. Equipment and ICT Reserves

7.1 Information and Communications Technology (ICT) and other equipment purchases are not often 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>Equipment</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	0	-37	-330	-910	-134
Draws	563	457	170	1,526	89
Contributions	-600	-750	-750	-750	-750
Closing Balance	-37	-330	-910	-134	-795

<b>ICT</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	-75	0	-500	-1,000	-1,500
Draws	75	0	0	0	0
Contributions	0	-500	-500	-500	-500
Closing Balance	0	-500	-1,000	-1,500	-2,000

## 8. Grant Equalisation Reserve

- 8.1 In October 2019 the results of the Hampshire Local Government Pension Scheme (LGPS) revaluation and de-grouping exercise were announced. The revaluation has indicated that the scheme is now almost 100% funded and therefore the annual deficit contribution is no longer required. Against this, there has been a small increase in the future service contribution rate for HFRS, leaving a net saving of around £625,000.
- 8.2 Given the uncertainty around all pension schemes and the fluctuating nature of all changes of this type, it was agreed at the December 2019 HFRA meeting that this saving should be transferred to reserves in the interim 3 year period to provide funding to protect against unexpected grant changes in the future. This retains the provision within the budget which will be reviewed once the results of the 2022 valuation are known and could be used at that point to protect against future swings in the pension scheme charges.

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	0	0	-625	-1,250
Draws	0	0	0	0
Contributions	0	-625	-625	-625
Closing Balance	0	-625	-1,250	-1,875