

### Hampshire and Isle of Wight 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. In contrast to this the Covid-19 pandemic starkly highlights why a prudent approach to reserves is needed in order to deal with unexpected financial shocks.
- 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.
- 1.4 The Reserves Strategy sets out details of current and future planned reserve levels over the period covered by the MTFP. It covers both resource and capital reserves and sets out where reserves are earmarked for planned spend and where they are held as a general contingency or to meet other expenditure needs in accordance with sound principles of good financial management.

#### 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 plan;
  - 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 is facing year on year price rises and

pressures 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 financial 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 Authority 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, HIWFRA 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. The continuing uncertainty over public sector finances and the lack of a multi-year settlement would indicate that keeping the General Reserve at the same level is sensible at this time.
- 3.4 At the start of 2022-23, the General Reserve will represent around 2.9% 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 nearly £6.8m a year for contributions to reserves built in (equivalent to 8% 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 (Appendix G) 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' improvement initiatives. Budget surpluses or underspends may be transferred to this reserve at the end of the year, depending on the level of the reserve and plans for future usage.

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	-2,467	-655	-1,020	-1,020	-770
Draws	2,062	756	250	500	250
Contributions	-250	-1,121	-250	-250	-250
Closing Balance	-655	-1,020	-1,020	-770	-899

- 5.2 In recent years the reserve has been used to provide extra funding for the improvements identified in the Safety Plan. Funding for future years is currently limited to the annual contribution but may be supplemented by any underspend for the current financial year. The position above assumes that the 2021/22 underspend is contributed to this reserve.

## 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 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 with some additional resources used for other schemes.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Opening Balance	-25,782	-25,738	-9,502	-1,945	-79
Draws	5,009	20,274	11,522	5,831	3,994
Contributions	-4,965	-4,038	-3,965	-3,965	-3,965
Closing Balance	-25,738	-9,502	-1,945	-79	-50

- 6.2 There has been significant slippage in the vehicle replacement programme and the majority of this spend is now forecast to happen in 2022/23 and 2023/24. There have been unavoidable delays in the delivery of chassis from the supplier, however, agreement has been reached that from July 2022, two chassis a month will be delivered, so the vehicle programme has been reprofiled on that basis. The other main projects being funded from this reserve are Bishop's Waltham Fire Station (part of the Station Investment Programme) and the Live Fire training facility. Most costs for redevelopment of the other stations in the Station Investment Programme will be funded through Prudential Borrowing.
- 6.3 Over the period of the Programme most of the available funding in the Capital Payments Reserve is used up, which limits the flexibility available to commit to new capital investment priorities.

## 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><i>Equipment</i></b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	-797	-1,241	-46	-559	-1,303
Draws	506	2,210	502	217	204
Contributions	-950	-1,015	-1,015	-1,015	-1,015
Closing Balance	-1,241	-46	-559	-1,303	-2,114

<b><i>ICT</i></b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	-575	-293	-65	343	50
Draws	1,000	1,035	1,215	514	424
Contributions	-718	-807	-807	-807	-807
Closing Balance	-293	-65	343	50	-333

The contributions from the revenue budget have been increased to both reserves from 2022/23. This is to reflect the additional equipment and ICT required for the Isle of Wight.

## **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 HIWFRS, 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.
- 8.3 In the absence of a multi-year settlement, retaining this contribution to reserves for the present time is a prudent measure. It is currently forecast that in future years contributions from this reserve may be needed to balance the budget. When the medium term position becomes clearer the contributions to and planned use of this reserve can be reviewed.

## Appendix D

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Balance	-625	-472	-1,097	-1,533	-1,377
Draws	153	0	189	781	0
Contributions	0	-625	-625	-625	0
Closing Balance	<hr/> -472	<hr/> -1,097	<hr/> -1,533	<hr/> -1,377	<hr/> -1,377