Tyne and Wear Fire and Rescue Authority

TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No 7**

MEETING: 13th MARCH 2023

SUBJECT: REVIEW OF RESERVES

JOINT REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE (CLERK TO THE AUTHORITY) AND THE FINANCE DIRECTOR

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1. INTRODUCTION

1.1 This report advises Members of the outcome of a recent review of all reserves held by the Authority to ensure that they continue to be held and hold the appropriate amount of funding to address the financial risks of the Authority and in addition are properly categorised for the purposes that they are held.

2. CURRENT LEVEL OF EARMARKED RESERVES

2.1 As reported to members at the last meeting held in February, the projected estimated amount of earmarked reserves held by the Authority at 31st March 2023 was £28.806m and that £15.295m was expected to be utilised during 2023/24 reducing the level to £13.511m by 31st March 2024. Appendix 1 shows the detailed reserves as reported.

2.2 This position was the starting point for the review, which was carried out by the Chief Fire Officer and the Finance Director.

3. REVIEW OF EARMARKED RESERVES

3.1 Each reserve has been reviewed individually line by line in order to justify the reserve and then consider how adequate the level of the reserve is in respect of the known financial risks faced by the Authority and any other evidence available to help quantify any changes to the current number and/or level of reserves.

3.2 The table overleaf sets out the proposed revised level of reserves, a review and re-categorisation of some reserves has been necessary to ensure they reflect the risks they cover and an explanation provided as to the rationale behind the proposed changes.

3.3 The government continues to scrutinise the level of reserves held by FRA's and because of this high level interest and profile this exercise will help to address some of the misconceptions around the Authority's reserves, particularly earmarked reserves and why they are established and importantly to show they are fully committed by the Authority to ensure that the service can remain resilient, continue to be sustainable and can also fund its proposed capital spending plans.

3.4 The Authority has annually refreshed its Reserves Policy to comply with Home Office Regulations for the fire service and is open and transparent about the level of reserves held and the purpose for each reserve which is continually monitored in line with best practice.

3.5 The proposed changes in summary are as follows:

Ref	Reserve	Balance @31.3.23	Proposed Changes	Proposed New Balance
		£m	£m	£m
1	**Capital Developments Reserve**	**2.138**	+3.000 (2) +12.499 (3) +3.269 (6) +0.850 (7)	**21.756**
2	**Resilience Reserve**	**3.500**	-3.000 (1)	**0.500**
3	**Reform and Transformation**	**12.999**	-12.499 (1)	**0.500**
4	**Insurance**	**1.021**	Nil	**1.021**
5	**PFI Smoothing**	**7.858**	Nil	**7.858**
6	**Medium Term Planning**	**4.269**	-3.269 (1)	**1.000**
7	**Budget Carry Forward**	**1.498**	-0.850 (1)	**0.648**
8	**New Dimensions**	**0.582**	Nil	**0.582**
9	**ESMCP**	**1.080**	Nil	**1.080**
10	**Pensions**	**(6.139)**	Nil	**(6.139)**
	TOTAL	**28.806**	**Nil**	**28.806**

3.6 **Rationale for the Proposed Changes to Reserves**

3.6.1 Capital Developments Reserve

The Capital Developments Reserve was established to fund the Authority’s capital spending plans detailed in its Capital Programme each year. This was updated and approved by members at the Authority meeting held on 13th February 2023 for the 4 year period to 2026/27 which totals £23.311 million.

A review of how the Capital Programme is to be financed has shown that funding from reserves of £21.080 million is required (Capital Reserves £20.230m plus £0.850m RCCO included in the Budget Carry Forward Reserve). The remainder was to be funded from revenue contributions (revenue budget contribution of £250k each year) of £1 million and specific government grant mainly for ESMCP totalling £1.231 million.

It is therefore necessary to review the level of each reserve the Authority holds to ensure there is complete transparency to reflect the purposes they are being earmarked.

From the table set out in 3.5 there are a number of proposed changes to the Capital Development Reserve to ensure that it is very clear that these reserves are earmarked specifically to fund the Capital Programme over the next 4 year period. This is required because of the lack of central government capital grant funding which has been experienced since 2015/16, which means the Authority either has to use its reserves or borrow (which then adds additional financing costs to the revenue budget).

Members have already approved the Capital Programme for 2023/24 to 2026/27 and have also agreed to the level of reserves this will require to finance the Programme. This exercise therefore sets out proposals and the rationale to transfer reserves into the Capital Development Reserve in order to ensure greater transparency of why the Authority holds the level of reserves it does and that most of these are earmarked to fund business essential capital projects.

It must also be pointed out that any other capital schemes that are developed or required out of necessity will be in addition to the approved capital programme and will then have to be funded by re-allocation of the remaining reserves it holds or by acquiring affordable new borrowing.

3.6.2 Resilience Reserve

The Resilience Reserve has been identified as a key risk to the Authority in order to ensure that the Authority can still provide an effective fire service to the Community it serves. This would cover funding arrangements under strike conditions by firefighters or if a serious depletion of the available workforce was ever encountered.

The reserve has been long established as a key financial risk to the Authority and funds have been put in place and increased over a number of years to a level considered appropriate for this risk.

It is proposed to transfer £3.000 million to the Capital Development Reserve on the basis that although this risk still prevails the cost implications of strike action will be greatly reduced with the government’s recent legislative proposals to introduce a minimum service level for key emergency services.

This in effect reduces the financial risk of the future although it is not negated altogether and may need to be reviewed should the legislation not be passed.

3.6.3 Reform and Transformation Reserve

This reserve was originally set up to help the Authority transform and adapt its services when austerity measures were being implemented which necessitated radical staffing reviews, response reviews and all services provided by the Authority were also reviewed with the objective of meeting severe grant funding reductions. This reserve was thus established to help fund one-off unavoidable redundancy costs and investment in systems mainly to enable the Authority to manage the funding reductions and transform its services to maintain an effective fire service across all aspects of its business.

More recently the Authority has used this reserve to help fund the Capital Programme which is where major systems, facilities and equipment are acquired to reform and transform the essential services of the Authority in line with its Community Risk Management Plan.

This reserve has also been used to temporarily fund any revenue budget shortfalls until efficiencies have been achieved (usually within the year in question) and has proved to be an effective use of this reserve.

It is however considered prudent to review the purpose of this reserve and to recognise that the capital programme is the main conduit to help reform and transform the service. It is therefore proposed to retain £0.500 million for revenue budget implications of any major capital investments or service reviews but with the bulk of this reserve £12.499 million transferring to the Capital Development Reserve where this funding will have the greatest impact on reforming and transforming the service.

3.6.4 Insurance Reserve

The Authority has its Insurance liabilities independently assessed annually both to ensure it can meet any one–off claim costs and liabilities and also to ensure its accounts show that its reserves are justifiable and based on the best known information available. The reserve currently has been independently assessed so that the Authority can meet all future and projected liabilities and is set at £1.021 million. This is considered appropriate, prudent and realistic and as such there are no plans to amend this reserve.

3.6.5 PFI Smoothing Reserve

This Reserve was established to smooth the impact of the Authority’s PFI properties on future Revenue Budgets over the life of the 25 year programme. The level of the reserve is reviewed each year to ensure that forecast future costs of the PFI scheme, the costs of which increase by RPI annually with additional benchmarking exercises every 5 years, can be accommodated from the reserve and therefore does not place any undue pressure on future Revenue Budgets.

The Authority is now drawing down significant amounts of this reserve each year, as anticipated, to meet and smooth the increased costs of the PFI contract which has risen significantly with the recent inflation increases. The reserve recently has been reassessed to ensure it can still meet the projected increased unitary charges (linked to annual RPI increases) each year up until May 2027 when the contract ends. Although the position will be closely monitored it is not expected that this reserve has any scope to be utilised for any other purpose.

3.6.6 Medium Term Planning Reserve

This Reserve was set up to provide the Authority with some limited safety net protection when the new Business Rates Retention system was first introduced in 2013/2014. There is still a risk that the baseline funding position determined by the government each year as part of the local government finance settlement is not achieved. The government indicate each year the level at which resources can fall before they will provide any financial assistance. In the current year this gap is almost £0.660 million for 2023/24 which means the gap in resources can fall before government intervention. In the past this figure has been as high as £1.5 million. The government however will only make good the lost income up to the safety net threshold limit and not the full amount of resources lost and this is still considered to be a real risk for the Authority.

Additionally there is also considerable uncertainty over the impact of both the proposed revised Business Rates Retention system to be introduced and the outcome of the Fair Funding Review. However the government has now confirmed that these reviews will not take place in this parliament and have also indicated that where authorities are disadvantaged transitional arrangements can be expected. For these reasons it is proposed to transfer £3.269 million to the Capital Development Reserve and retain £1.000 million in this reserve to maintain a reasonable sum that will protect the Authority in the event that its business rates threshold is ever breached.

3.6.7 New Dimensions and ESMCP Reserves

These two reserves are made up from specific government grant funding that can only be used for that specific purpose and is being drawn down as required by the Authority to meet the costs associated with each unique area within the fire service.

The Authority's Urban Search and Rescue response (New Dimensions Reserve) is to meet any additional capital and revenue costs of providing the USAR capability and may also help manage out any potential fall in grant funding in the future should this situation ever arise.

The Emergency Services Mobile Communications Project (ESMCP) will eventually replace the current Airwave communications system. The ESMCP Reserve has been set up to recognise that specific government grant funding was received in advance for this project to meet the assessed costs of this government national initiative, so that the Authority can meet the development costs of this complex project. Although the project is in effect paused at the moment this funding still prevails and will be used for the purposes allocated in due course as appropriate.

There is consequently no scope to utilise these funds for any other purposes.

For the reasons set out above there is no possibility for the Authority to use these Reserves for any other purpose than the specific purpose.

3.6.8 Pensions Reserve

The Pensions Reserve is in place mainly as an accounting requirement to reflect the over claimed injury pensions top up grant dating back to 2015/16 which is in effect a long term liability. This is being repaid by the Authority with annual instalments of £0.500 million and is, with the agreement of the external auditor, reflected as a negative reserve to absorb the difference that would arise on the General Fund Balance. Although this is very technical in nature, it is unavoidable, but has no scope to impact on this review.

4. GENERAL FUND BALANCE

4.1 The review also examined if the level of the General Fund Balance at £4.090 million, was set at an appropriate amount bearing in mind the financial risks faced by the Authority, which is a standalone Fire and Rescue Authority. The financial cover provided, is 7.15% of the Authority's Net Budget Requirement (excluding use of reserves), and this is considered reasonable and justifiable by the Finance Director.

5. CAPITAL RECEIPTS UNAPPLIED

5.1 The Authority currently holds Capital Receipts of £1.403 million and this will be allocated to future capital projects as there are a number that are yet to be fully quantified. This means, therefore, that this source of funding is already totally earmarked for future capital projects. Capital Receipts can only be generated by the Authority if it disposes of fixed assets and any such receipts can only be used to help fund the Capital Programme in the future.

5.2 The Authority has in the past 3 years disposed of a number of surplus land sites and leasehold buildings and the amount of £1.403 million is the unused balance from these disposals. Members will be kept informed of any future disposals as these develop, (although there is now limited scope as it has disposed of most of its surplus assets), which will then be earmarked to help to fund the Authority's future Capital Programme.

6. RISK MANAGEMENT

6.1 A risk assessment has been undertaken to ensure that any risk to the Authority will be minimised as far as practicable. From this assessment the risk to the Authority has been categorised as low.

7. FINANCIAL IMPLICATIONS

7.1 The financial implications are set out in the report.

8. EQUALITY AND FAIRNESS IMPLICATIONS

8.1 There are no equality and fairness implications in respect of this report.

9. HEALTH AND SAFETY IMPLICATIONS

9.1 There are no health and safety implications in respect of this report.

10. RECOMMENDATIONS

10.1 Members are requested to note the report and to approve the proposed changes to the Earmarked Reserves as set out in this report, (and which are summarised in the Table at paragraph 3.5).