Appendix 1

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

RESERVES POLICY

2020/21 TO 2024/25

CONTENTS

INTRODUCTION

Reserves are an integral component of the Authority's overall strategic financial planning, and help to inform and support its Medium Term Financial Strategy. However, use of reserves needs to be taken into context as they can only help fund a temporary or one-off financial issue and are not a sustainable solution to ongoing financial problems.

With this in mind the level of reserves held by the Authority is very much a local decision and will be guided by Tyne and Wear Fire and Rescue Authority's perception of risks and threats, goals and aspirations. Recent increases in the overall levels of reserves reflect the fire sector's performance to date in managing austerity; having universally reduced budgets significantly in real terms and, in many cases, delivered underspends.

With two successive one year settlements for 2020/21 and now 2021/22 and the delay in the Comprehensive Spending Review, firstly because of Brexit and latterly because of the Coronavirus pandemic, there remains considerable financial uncertainty both at macro (overall UK economy perspective) but also at the micro level for each local authority. The Chancellor announced in September 2019 that austerity was over and although flat cash plus inflation settlements are an improvement to the previously projected cuts to funding for both 20/21 and 21/22, it remains to be seen whether the public sector and in particular the fire service continue to see this improvement in its funding although no real terms growth is anticipated. The medium term will still present challenges to the fire service and the CSR21 will be critical to improving financial certainty and planning stability after the pandemic and the challenges it has brought. New demands of the fire service, particularly recommendations resulting from high profile events such as 'The Cube', Manchester Arena, and Grenfell, and the additional impact and implications of the pandemic on the fire service's community safety role, along with an evolving Health and Wellbeing agenda mean that reserves are critical in allowing the Service to be able to plan ahead for more than 12 months at a time. This is crucial for the purpose of financial sustainability, improving our service to the community, and ensuring that taxpayers get value for money into the medium term.

The Service, therefore rightly holds general reserves to provide for unexpected events; the funding of future liabilities and to help manage one-off funding reductions or budget pressures being the most notable examples, with many public sector organisations already using reserves to temporarily balance budgets. This is the position with this Authority for 2021/22 where almost £1.2m of reserves have been earmarked to protect the approved revenue budget.

The General Reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and extraordinary in nature.

Earmarked reserves are held for specific future spending (i.e. planned service changes and developments, capital spending, legislative and statutory obligations), for specific risks (i.e. uncertainty surrounding future capital funding, potential or threatened litigation) or possible future events. It is prudent that the Authority identifies such areas of expenditure and sets aside amounts that limit future risk exposure. An insufficient level of reserves would render the Authority vulnerable to unexpected events and economic shock that could, if not fully addressed, adversely impact on the services provided by the Authority.

BACKGROUND

The revised National Framework that the Home Office published on 1st June 2018 includes requirements relating to reserves that all fire and rescue authorities must observe. The required disclosures in respect of reserves include:

- General Reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium term financial planning process.

- Each fire and rescue authority must publish their reserves strategy on their website. The reserves strategy will include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy must include information for at least two years ahead.

- Information must be provided to enable understanding for members of the public and include:

  - How the level of the General Reserve has been set;

  - Justification for holding a General Reserve larger than 5% of the Budget;

  - Whether the funds held in each earmarked reserve are legally or contractually committed, and if so what amount is so committed; and

  - A summary of what activities or items will be funded by each earmarked reserve, and how these support the fire and rescue authority's strategy to deliver good quality services to the public.

The Authority, as part of its financial stewardship role, has always provided open and transparent information on all of its reserves, both in respect of general fund balances and its earmarked reserves that form part of the Authority's overall Medium Term Financial Strategy. The Authority also regularly reviews its reserves to ensure they are fit for purpose and are held at the correct level to deal with the financial issues / risks they address. The Authority provides regular financial reports that include reserve information and a formal annual report is made to full Authority at least once in each financial year. The Authority also publishes detailed information on its reserves in its annually published Statement of Accounts, which explains the purpose of each reserve, the movement in each reserve and the amount remaining available to the Authority. This information is readily available on the Authority's website and can be found at www.twfire.gov.uk

The following Reserves Policy builds on existing financial best practice and in addition, addresses the requirements included in the National Fire Framework issued in July 2018.

GENERAL FUND BALANCE / RESERVE

This is a non-specific reserve in effect, which is maintained to meet short / medium term unforeseeable expenditure, and to a certain extent to enable changes in resources or expenditure to be properly managed over the medium term. All public authorities are required to hold such a reserve as part of best practice although the levels vary across public sector organisations usually according to factors such as type of Authority, the nature of their service and whether they are stand alone or part of a larger organisation.

The Authority needs to hold an adequate level of General Fund Reserve in order to provide:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;

- A contingency to help fund the impact of unexpected events that are not covered by the available service budget; and

- A means of smoothing out large fluctuations in spending requirements and / or available funding.

The Table below sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	**General Fund Reserve**
Purpose	This covers uncertainties in revenue budgets, such as: • future grant settlements being lower than forecast; • higher levels of inflation than budgeted; • increasing cost of changes to corporate and firefighter pensions; • service demands increasing, putting additional pressure on demand led budgets; • meeting all Emergency Planning costs and contingencies; • meeting costs associated with changes in legislation impacting on future service provision.
Utilisation	This is utilised to offset any in-year overspend that would occur when comparing budget requirement to the level of funding generated.
Controls	The utilisation of this is agreed as part of the annual budget setting process and any other utilisation requires the approval of the Authority.
Review	The Section 151 Officer reviews this balance annually, as part of the budget setting process.

Review of Level of Reserves

In determining the appropriate level of general reserves required by the Authority, the Finance Director (the Authority's Section 151 Officer) is required to form a professional judgement, taking account of the strategic, operational and financial risks facing the Authority. This is completed based on guidance issued by CIPFA, and includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements in the event of catastrophic incident and consideration of the Authority's financial management arrangements. In addition, the assessment includes both the medium and long-term requirements, taking into account the Medium Term Financial Strategy.

For Tyne and Wear Fire and Rescue Authority, this covers issues such as:

- uncertainty surrounding future funding settlements, Brexit, the Coronavirus pandemic and the potential impact of these on both the revenue and capital budgets;
- uncertainty surrounding future pay awards and inflation rates;
- the impact of changes to pension schemes;
- demand led pressures;
- risk of default associated with our investments as set out in the Treasury Management Strategy;
- costs associated with addressing any emergency planning contingencies and any legislative changes.

In considering a prudent minimum level of balances, the Authority considers:

- known commitments against balances in future years as forecast in the MTFS;
- volatile elements of service delivery, which make accurate prediction of expenditure more difficult;
- financial risks and uncertainties faced by the Authority and the measures in place to mitigate them, as outlined in the Financial Risk Analysis at Annex1.

Taking account of the level of risk within this Authority, which has increased particularly from the financial uncertainty that two one year funding settlements and no CSR brings, the retention of a minimum level of General Fund balances of up to £4 million is considered prudent to maintain, taking into consideration the following factors:

- the unknown impact of future government funding on the Fire and Rescue Authority from 2022/2023 onwards as the government understandably has had to delay its Comprehensive Spending Review (CSR) because of work being prioritised for Brexit and the coronavirus pandemic;
- a significant modernisation programme which brings with it both financial and change management risks;
- the uncertainty regarding price and pay inflation, including energy prices and the impact of potential further changes in interest base rates;
- uncertainty regarding the future funding for national and capital projects;
- uncertainty of the impact of the localised council tax benefit scheme on the
- amount of precept income;
- continued uncertainty of Brexit and its impact on both public sector funding and the cost of goods;
- uncertainty of the proposed changes to how local government is to be funded from 2022/2023 and the implications of the Fair Funding Review which has also been delayed because of Brexit and the pandemic;
- expectations to continue to grow Council Tax despite a fall in living standards across the North East region;
- uncertainty on the amount of business rates allocated from its constituent councils and their ability for growth in line with government expectations, especially in the aftermath of the pandemic and how the economy bounces back once the adverse impact of the pandemic has waned; and
- the Financial Risk Analysis included at Annex 1.

The Local Government Finance Settlement for 2021/22 is the second of two one-year settlements as the Government's planned Comprehensive Spending Review (CSR) for 2019 has not yet taken place. This was initially delayed as work on Brexit and negotiating an EU trade deal took priority by the government but now the impact of the coronavirus pandemic in March 2020 has caused a further delay, so the CSR is now expected in the summer of 2021.

The Government still aims to implement a revised funding system with a greater weighting (75%) based on business rates retention but this too has had to be pushed back because of Brexit and the pandemic. The new system will be aligned with implementation of the outcome of their fair funding review of relative needs and resources, which is currently being developed by government. The actual details of these developments and their impact on the Authority's resources remain unclear despite the delays experienced.

Furthermore, the impact of Brexit and the EU Trade deal subsequently secured in early January 2021 on the national economy is another issue that adds further uncertainty to likely implications on the proposed Comprehensive Spending Review in the summer of 2021 and the likely resources which will be made available to the fire service. Therefore, there is still a considerable degree of financial uncertainty over the medium to longer term funding for the Authority at this time.

Given this continued uncertainty around future funding of the fire service into the medium term and beyond, the Finance Director, in his Section 151 Officer capacity for the Authority, considers it prudent to set the minimum target reserve level at £3.944m, which represents 8.1% of the proposed 2021/22 net revenue budget requirement. The amount of this reserve exceeds the 5% threshold identified by the Home Office in the National Fire Framework which the Authority is required to observe and therefore needs to be justified.

In response to this requirement, the Authority is a standalone, financially independent Fire and Rescue Authority that has to be able to manage its own cash flows and funding so that it can operate effectively without incurring unnecessary bank charges. To ensure this situation is avoided it is the view of the Section 151 Officer that a cushion of between 5% to 10% of the net revenue budget is deemed commensurate with this risk and the possible further budget risks the Authority faces, which have been outlined above. This Fund additionally holds funding of approximately £0.200m previously earmarked for Emergency Planning Contingencies, so the amount available for the wider issues covered by the General Fund is just over 7.7%, which is seen as a prudent level of financial resilience for the Authority in the professional opinion of the Authority's Section 151 Officer.

Should the General Fund reserve fall below this minimum level (£3.944m) the following financial year's budget will contain options for increasing reserves back up to this level. (Note that this may take several years to achieve.) Whilst this exercise sets a minimum level of reserves it does not consider what, if any, maximum level of reserves is appropriate. In order to do this the level of reserves held should be compared with the opportunity cost of holding these, which in simple terms means that if too high a level of reserves is held the opportunity to lower council tax or invest in further service improvement is lost.

However, given the limited scope to increase Council Tax without holding a local referendum, the ability to restore depleted reserves in future years is severely limited. Hence, any maximum reserve limit must take account of future anticipated financial pressures and look at the longer-term impact of these on the budget and thus the reserve requirement. Based on professional judgement, the Finance Director is of the opinion that this should be maintained at £3.944m over the medium term until such time as the finances of the Authority stabilise. Should this be exceeded, the following financial year's budget will contain options for applying the excess balance in the medium term, i.e. over 3-5 years unless a specific earmarked reserve needs additional funding.

Level of General Reserves

The overall level of the general fund balance, i.e. uncommitted reserves at the 31 March 2020 was £3.944m and is expected to remain around this level in cash terms for the next 4-year period. The percentage ratio to the Net Budget Requirement may however vary according to the actual Budget approved in subsequent years but unless the ratio falls below the minimum 5% level, the General Fund Balance will not be replenished during the next 4-year period.

EARMARKED REVENUE RESERVES

All reserves are assessed annually by the Finance Director for their appropriateness in accordance with the Local Government Act 2003. At this time, a comprehensive review of their purpose, volatility and impact on the financial position of the Service is undertaken.

Earmarked reserves are created for specific purposes to meet known or anticipated future liabilities and are not available to meet other budget pressures, which are covered by the General Fund Reserve as previously described. These reserves, therefore, can only be used for the specific purpose for which they have been established. It is not appropriate to set any specific limits on their level but, as part of the revenue budget and annual accounts processes, their adequacy and relevance are regularly reviewed and reported to members to ensure they can meet the anticipated financial risks they are designed to address.

The Authority therefore retains an appropriate level of earmarked reserves as determined by its MTFS and Risk Analysis. A Statement of the Estimated Earmarked Reserves and their planned estimated usage over the next 4-year period is set out at Annex 2, for information.

The reserves are also subject to a further thorough review by the Chief Fire Officer / Chief Executive and the Finance Director, to ensure they continue to be required, are robust and appropriate, and will meet the assessed and significant financial risks of the Authority. The outcome of this exercise is reported to members annually to provide information on the Authority's reserves and the rationale to justify the levels of reserves held.

An appropriate level of reserves is essential in safeguarding the sustainability and future financial resilience of the Service, particularly in a time of economic uncertainty and instability. As such, the Authority holds two types of earmarked reserves, those that a) prevent an increase in its revenue budget and b) support service delivery requirements.

The Authority holds Earmarked Revenue Reserves of £29.419m as at 31st March 2020[1] with those that prevent an increase in its Revenue Budget totalling £23.989m and those that support service delivery requirements of £5.430m.

The Table below shows the justification for each individual reserve within each of the two specified categories:

Earmarked Revenue Reserves	**Balance As at 1st April 2020**
	£000
1. Insurance Reserve Reserve held to protect the Authority from unexpected volatility in insurance premiums that could be retrospective, unknown insurance exposures that may arise in the future, and to cover an element of self-insurance.	1,132
Early Retirements Reserve Reserve to cover future compensatory added year's payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue budget implications	9
2. PFI Smoothing Reserve Reserve established to smooth the impact of the PFI scheme on the Authority's revenue budget over the 25-year life-span of the scheme.	8,288
3. Budget Carry Forward Reserve Reserve established to fund the slippage of specific items of revenue expenditure.	1,688
4. Medium Term Planning Reserve Reserve established to plan for future grant reductions and the effects of localisation of business rates retention.	1,336

[1] Source : Audited Statement of Accounts 2019/20

Earmarked Revenue Reserves	Balance As at 1st April 2020
	£000
5. Capital Development Reserve Reserve created to fund medium term and long-term capital developments as approved in the Authority's Capital Programme in the continued absence of government grant funding. This also reduces the Authority's need to take out new borrowing in the medium term.	9,325
6. Transformation and Reform Reserve Reserve covers expected costs following a review of organisational changes required by the Authority to operate more effectively and to provide temporary revenue funding if revenue budget savings are required and also to be used in invest to save initiatives which modernise and transform the service.	8,335
7. Injury Pension Reserve Reserve established to account for over claimed injury pension top up grant that has been recognised as a long-term liability on the Authority's Balance Sheet. This will be replenished over the life of the repayment plan period.	(7,639)
8. Covid19 Reserve Reserve established to meet the implications of all unfunded Covid19 pandemic costs.	1,515
9. Collection Fund Resilience Reserve Reserve established from Local Council Tax Support (LCTS) funding to meet potential reductions in council tax income in future years.	0
Total Reserves that prevent an increase in revenue budgets	**23,989**
10. Resilience Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	3,500
11. New Dimensions Reserve Reserve to be used to provide for any adverse effect of potential changes in specific grant arrangements and to provide resources to support delivery of the Urban Search and Rescue response.	767
12. ESMCP (Revenue) Reserve Reserve to finance the Emergency Services Mobile Communications Project.	1,163
Total Reserves to support service delivery requirements	**5,430**
Total Earmarked Revenue Reserves	**29,419**

Review of Earmarked Revenue Reserves

As already documented, each Reserve is reviewed on a regular basis, at least annually and, in addition, is separately subject to members' formal scrutiny and approval. The following summaries provide more detail for each reserve, the planned usage and impact (***activity***), who carries out the review (***Procedure for management and control***) and its frequency (***Timescale for review***). From the table above it is clear the Authority reviews and amends reserves as necessary to meet its changing financial and service delivery risks.

1. Insurance Reserve

Activity: The Reserve is used to meet all additional insurance claim costs not covered by the revenue budget provisions each year. It is set at a level based on external advice from our Insurers so that the Authority can smooth out any new claims that should come to light which otherwise could have a significant impact on the revenue budget. A recent good example of this is the liabilities the Authority has had to meet from the demise of MMI, the additional cost of the historic claims it has had to meet and to help cushion the volatility of insurance premiums. Impact could be significant depending on the scale of the claim / liability.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director.
Timescale for review: Annually.

2. PFI Smoothing Reserve
Activity: The Reserve is regularly reviewed throughout the year to ensure it can meet the projected higher costs (which increase by RPI annually) of the Authority's PFI schemes in the latter years of the contractual arrangements in place. The reserve has been built up since the PFI schemes began and is now being used as anticipated and will be fully utilised by 2035 when the PFI schemes end. Impact Low as the Authority has regular updates of likely costs to ensure the reserve is adequate to meet its liabilities.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director, who regularly reviews the projections of the scheme.

Timescale for review: Annually.

3. Budget Carry Forward Reserve

Activity: This Reserve holds prior year underspends which Members have approved for carry forward purposes, which are usually incurred in full in the financial year following approval. Minimal impact.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director.

Timescale for review: Annually.

4. Medium Term Planning Reserve

Activity: The Reserve has been established to meet most of the potential annual liability to the Authority of changes to the Government's national funding system such as the level of Council Tax Local Support and the impact of a significant fall in business rates (approx. £1.4m) before 'safety net' funding is triggered. It was considered unlikely that a funding shortfall would be experienced in the short term, however the reserve has been utilised in 2021/22 to smooth the £2m business rate collection fund deficit reported in January 2021, which would otherwise have adversely impacted on the Revenue Budget for 2021/22. When government funding is received to help fund 75% of the in year council tax and business rates losses due to the Covid-19 pandemic, this reserve will be replenished. The main purpose is to safeguard against future effects especially the adverse impact on resources as government moves towards a higher reliance on local government self-funding through a proposed 75% business rates retention model from April 2022. Potentially significant impact, limited notice of changes in government policy is likely and material sums of money are involved.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director, which is further informed by government policy.

Timescale for review: *6 monthly*.

5. Capital Development Reserve

Activity: The Reserve has been established to meet the costs of the Authority's current Capital Programme into the medium term in the absence of government capital grant funding, combined with the Authority's restricted ability to generate capital receipts because of its limited property portfolio. This reserve therefore has to provide the funding to maintain and acquire infrastructure, equipment and response vehicles necessary for the Authority to fulfil its statutory role and responsibilities. The use of the reserve is documented as part of the Capital Programme approvals made by members annually, with progress formally reported quarterly to Authority. Impact will be significant once reserves are fully utilised, as the Authority will then have to consider borrowing to fund its Capital Programme in the longer term, which will add more cost to the Revenue Budget in the future.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director, which is further informed by government announcements, and funding proposals. The Capital Programme is also reviewed quarterly, to members, to show progress on schemes and how they are funded.

Timescale for review: *Annually and Quarterly*.

6. Transformation and Reform Reserve

Activity: To provide funding to deliver structural change and pump prime projects, such as TWFRS25, the Authority's key vision for the transformation of the service up to and beyond 2025, which requires investment to deliver radical and sustainable service improvements. The reserve also provides temporary funding until further budget efficiencies can be delivered as part of the Authority's Integrated Risk Management Plan actions. Uncertain – uncertainty in government funding beyond the current one year settlement. Significant impact, limited notice of changes in government policy and material sums of money are involved.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Finance Director / Chief Fire Officer.

Timescale for review: As necessary but at least 6 monthly.

7. Injury Pensions Reserve

Activity: This Reserve has been established to account for injury pension top up grant that the Authority unknowingly over claimed from the period 2006/2007 to 2011/2012, which had the effect of initially bolstering the revenue reserves of the Authority. External Auditor advice states that the Authority must show this as a negative reserve until the total over claimed grant of £8.639m is repaid to the Government. A repayment schedule was agreed and £0.500m is to be repaid annually to the Home Office. The Authority has therefore identified this amount due to Government as a long-term liability on its Balance Sheet and this and the Reserve will be reduced by £0.500m per annum until it is fully repaid. The Home Office will invoice the Authority every year and the impact has been contained, at the moment, within the Authority's Revenue Budget.

Procedure for management and control: the level of the reserve is being reduced by £0.500m per annum as agreed with the Home Office until the amount is fully repaid.

Timescale for review: Annually but it is important to note that this arrangement has already been agreed by the Authority and the Government in advance.

8. Covid-19 Reserve

Activity: To meet significant unforeseen cost pressures as a result of the Covid-19 pandemic that are not met by additional grant provided by the government in 2020/21 and, which may extend further into 2021/22 and beyond. This is seen as a prudent measure, especially in recognition that the government has not allocated any further funding for the fire service in tranches 3 and 4 of the 2020/21 grant monies announced and, furthermore, no funding is to be provided in 2021/22 to the fire service from the additional £1.55bn announced in the government's one year 2021/22 Spending Round which was confirmed in the Local Government Finance Settlement 2021/22.

Procedure for management and control: the level and utilisation of the Reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Finance Director and the Chief Fire Officer.

Timescale for review: At least annually but more regularly if events dictate.

9. Collection Fund Resilience Reserve

Activity: This Reserve was established in January 2021 with the aim of using the one off Local Council Tax Support Grant monies announced by the government nationally of £670m for 2021/22, of which the Authority will receive £826k. This is to help council tax payers pay their council tax bills in 2021/22 but the impact of these reductions will not be known until the Collection Fund Deficit for 2021/22 is calculated by the 5 district councils by 31st January 2022. The Reserve will then be used to fund the deficit; any surplus remaining will help to fund potential future years Collection Fund deficits.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Finance Director.

Timescale for review: At least annually but more regularly if events dictate.

10. Resilience Reserve

Activity: To meet significant unforeseen cost pressures, major incidents, strike action, business continuity and security implications, which means that this Reserve can be volatile, as such events are unpredictable but need to be provided for. It has significant impact, as it provides the Authority with capacity to maintain operations in the event of significant one off large-scale incidents and/or pressures.

Procedure for management and control: the level and utilisation of the Reserve is formally determined by the Fire Authority, on the advice of, and information supplied by the Finance Director.

Timescale for review: At least annually but more regularly if events dictate.

11. New Dimensions Reserve

Activity: The Reserve has been established to provide for any adverse effect of potential changes in grant arrangements and to provide resources to support delivery of the Authority's Urban Search and Rescue response. Uncertain – the timeline for the full use of the Reserve is unclear although it is being used annually to help meet one-off additional costs associated with the Authority's USAR activity. If specific grant funding is reduced or ends, the Authority will use this Reserve to help manage out the position in the future.

Procedure for management and control: the level and utilisation of the reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director in consultation with Senior Service Delivery Management / Chief Fire Officer.

***Timescale for review**:* Annually.

12. ESMCP (Revenue) Reserve

Activity: The Reserve holds the unused specific grant funding currently received from the Home Office, with the establishment of the reserve arising through uncertainties associated with the transfer to the Emergency Services Network (ESN). Uncertain – the timeline for the ESN remains unclear as the government assesses the implementation plan for this national project. Impact may be significant as the project overall has overrun its timescales. The Authority is now faced with potential significant additional costs of upgrading existing hardware and software that is end of life which it had not expected or planned to replace as a result. The project was meant to be resource neutral to the Fire Service and it is now expected that additional grant will be required from government, the position of which is being kept under review.

Procedure for management and control: the level and utilisation of the Reserve is formally determined by the Fire Authority on the advice of, and information supplied by the Finance Director in consultation with Senior Service Delivery Management / Chief Fire Officer.

Timescale for review: Annually or as necessary.

Level of Reserves and Proposed Use Over The Medium Term – 2020/2021 to 2024/2025

Finally, the Authority has plans to utilise its Revenue Reserves over the next four year (medium term period) as shown in the Table below. A more detailed analysis is included at Annex 2, which shows annual planned usage over the next four years and is consistent with compliance to the most recent NFCC Reserves Statement analysis (published annually) that must be provided by the Authority.

The summary in the table below shows that the Authority expects its revenue reserves to reduce in total by £18.391m over the next five years from £29.419m as at 31st March 2020 to £11.028m as at 31st March 2025, whilst its General Fund is expected to remain at £3.944m throughout this period barring any unexpected events.

Earmarked Revenue Reserves	Balance at 31.3.2020 £000	Planned use £000	Anticipated Balance at 31.3.2025 £000
Insurance Reserve	1,132	?	**1,132**
Early Retirements Reserve	9	(9)	**0**
PFI Smoothing Reserve	8,288	(1,584)	**6,704**
Budget Carry Forward Reserve	1,688	(1,688)	**0**
Medium Term Planning Reserve	1,336	(1,179)	**157**
Capital Development Reserve	9,325	(9,325)	**0**
Transformation and Reform Reserve	8,335	(4,048)	**4,287**
Injury Pension Reserve	(7,639)	2,500	**(5,139)**
Covid19 Reserve	1,515	(1,515)	**0**
Collection Fund Resilience Reserve	0	826 / (826)	**0**
Resilience Reserve	3,500	?	**3,500**
New Dimensions Reserve	767	(380)	**387**
ESMCP (Revenue) Reserve	1,163	(1,163)	**0**
TOTAL EARMARKED REVENUE RESERVES	**29,419**	**(18,391)**	**11,028**

EARMARKED CAPITAL RESERVES

Capital Reserves in contrast to Revenue Reserves can only be applied to either repay debt or help fund Capital costs (usually via the Capital Programme). Most Capital resources either come directly from the Government in the form of specific capital grant funding or from the proceeds from the sale of the Authority's surplus land and assets. All Capital Reserves held by the Authority are assessed annually by the Finance Director for their appropriate utilisation in aid of the Capital Programme for which they have all been earmarked. This policy in turn has reduced the need for the Authority, in the medium term at least, to take out new external borrowing and thus helps to keep the costs of existing borrowing to a minimum in the Revenue Budget.

Since 2015/2016, the government has not awarded any capital grant funding to the fire service, which means that the Authority has lost funding of just over £1m per annum towards the cost of its Capital Programme. The Authority in common with most other Fire and Rescue Authorities has had to use its available cash reserves (both capital and revenue) to help fund essential capital works and schemes to ensure it is equipped to fulfil its statutory obligations.

The Authority is a standalone Metropolitan Fire and Rescue Authority covering the Tyne and Wear area and currently has 17 Community Fire Stations, of which 7 are PFI along with the Fire Service HQ and Training Centre and the new Technical Service Centre. It also has Safetyworks! which is located in a leased building. Its property portfolio therefore is quite limited and as such it has limited scope to generate significant capital receipts, although it is currently rationalising its portfolio wherever it can. The Authority's Capital Reserves are therefore limited at this time and will be fully utilised.

The Table below sets out these in more detail:

Earmarked Capital Reserves	**Balance As at 1st April 2020**	**Planned use**	**Revised Balances as at 31st March 2025**
	£000	**£000**	**£000**
1. Usable Capital Receipts Reserve This Reserve, which holds all of the proceeds from the sale of the Authority's surplus assets disposed of in past years. The reserve is to be fully utilised by 2022/23 to help fund the Capital Programme. Unless the Authority can generate more income from the sale of its assets, this reserve will be cleared by 31st March 2023.	2,147	(2,147)	**0**
2. ESMCP (Capital) Reserve This Reserve holds the specific capital grant funding received from the Home Office, with the establishment of the Reserve arising through uncertainties associated with the transfer to the Emergency Services Network (ESN). Uncertain – as the proposed timeline for the ESN is currently delayed with implementation now expected in 2023. As this is much later than expected and out of the control of the Authority as it is a government led and controlled project the Authority is having to consider replacing legacy hardware and software just to maintain existing systems which was not planned for or resourced. The project funding received is all earmarked and accounted for and more funding will be required from government if it is not to be a financial burden on the Authority.	261	(261)	**0**
TOTAL EARMARKED CAPITAL RESERVES	**2,408**	**(2,408)**	**0**

TOTAL RESERVES – SUMMARY POSITION

The Authority consistently reports the level of all of its reserves in its financial Statement of Accounts each year. The policies attributed to each Reserve held by the Authority have been fully explained and the table below shows the Total Reserves the Authority currently holds as at 1st April 2020 and the levels expected at the end of the 5-year period ending 2024/25.

More details are shown in Annex 2 for information.

What is clear is that the Authority plans to utilise a significant amount of its reserves totalling £20.799m over the medium term. Once they are used it will be very difficult to replenish these in future years if growth in the fire sector is not in prospect. Only a budget surplus generated in a financial year will allow Reserves to be built up and / or replenished. This scenario is considered unlikely to occur as the Service transforms its services over the next few years as it needs most of its reserves to invest in its capital development programme and improvements through the TWFRS25 programme.

Summary of all Reserves

	Balance At 1st April 2020	**Projected use 2020/21 to 2024/25**	**Projected Balance at 31st March 2025**
	£000	**£000**	**£000**
General Fund Balance Reserve	**3,944**	0	**3,944**
Revenue Earmarked Reserves	**29,419**	(18,391)	**11,028**
Earmarked Capital Reserves	**2,408**	(2,408)	**0**
Total Reserves	**35,771**	**(20,799)**	**14,972**

Medium Term Financial Strategy – Financial Risk Analysis Annex 1

Impact of the outcome of the Spending Review 2021 and Proposed Changes to Local Government Funding

A Comprehensive Spending Review will not be completed until the summer of 2021. Until this time, future funding continues to remain uncertain. Assumptions beyond 2021/2022 are based on the Chancellor's announcement that 'austerity is over' and all government departments will see at least inflationary increases.

Risk that funding will not increase in line with inflation. Funding assumed in the MTFS has been adjusted for best local knowledge and information currently available, and will be updated regularly for the impact of government reviews of funding and related announcements.

Business Rates Retention Scheme

Risk is that each district council does not collect the level of income indicated, which would then filter through to a reduction to the funding received, becoming a budget pressure in future years.

Risk that the Government's safety net level in the new arrangements is not directly linked to the level of business rates collectable and as such has been set too low.

From notifications of each district's business rates, the projected position for 2021/2022 is indicating a significant deficit over the government's assessment of business rates income, provided the level of business rates notified is actually collected in the year.

These risks will be mitigated by regular monitoring of the actual positions on collection with each of the district councils to identify issues and to take corrective action where possible. The Authority has earmarked funding in a separate Reserve to address this risk should it arise and the fact the government have confirmed it will provide additional grant funding in 2021/22 to fund 75% of the in-year losses for 2020/21 of council tax and business rates income experienced. Use of Reserves will then be replenished by the grant income in 2021/22 when received.

Council Tax Support Scheme

Risk that Local Council Tax Benefit schemes are determined by each district council so the Authority has little real influence over the schemes which could impact on the collectable income of the Authority. This will become transparent when the surplus/deficit position on the Collection Fund is reported by each district annually.

The risk will be mitigated by regular monitoring of the actual positions on collection with each of its district councils, to identify issues and to take corrective action where possible. This action will complement funding that the Authority has earmarked in a separate reserve to address this risk should it arise. The government also has provided £670m nationally to help local authorities fund LCTS in 2021/22 and the Authority was awarded £826k which it has earmarked a special Reserve to meet any additional lost Council Tax income as a result of more support being provided to the public.

Inflation

Risk is that pay and price increases may exceed the levels provided for within the MTFS.

This is very unlikely to occur due to the realistic provisions made:

- Prudent provision has been made for all employees' pay awards;
- Expenditure in respect of most of the budget heads can be either influenced or controlled.
- CPI has reached very low levels as the pandemic has impacted on the global economy getting down to as low as 0.3% at one stage and is not expected to exceed 2% into the medium term.

Debt Charges

Risk is that Debt Charges will be greater than budgeted.
This is very unlikely to arise due to:

- the current level of variable rate debt is low in comparison to the fixed-rate level of debt;
- the impact of the increase in interest rates has been considered. Future increases are expected to be gradual;
- the economic outlook is that base rates are likely to remain low over the course of the coming year and the Treasury Management Strategy can be adjusted to minimise the impact of any significant increases;

Investment Interest

Risk is that income generated will not match budget provision.

This is unlikely to arise in relation to investment income as a prudent rate of return has been included in the budget which reflects the investments made to date, the prevailing market conditions and the economic forecasts for the year ahead.

Other sources of income are small in the context of the overall budget.

Contingencies

Risk is that the contingency provision will be insufficient to meet the needs identified.

This is unlikely to occur due to:

- prudent estimates included for each category of contingency provision;
- specific contingencies are created for all known spending pressures;
- the total contingency provision is deemed sufficient in the context of the net revenue
- budget;
- past experience suggests an underspending against the contingency provision;
- can, if required, be supplemented by the temporary use of Reserves should the need
- arise.

Risk Management

Risk is that all risks have not been identified and that major financial consequences may result.

This is very unlikely to occur due to:

- existence of Bellwin Scheme;
- a corporate risk profile in place, which is regularly and formally reviewed, and action is
- taken to mitigate and manage risks;
- Authority risk management action plans developed;
- comprehensive self and external insurance arrangements are in place;
- an adequate self insurance fund.

Financial Planning

Risk is that a major liability or commitment currently exists but has not been taken into account in the financial planning of the Authority.

This is unlikely to arise due to:

- the existence of a comprehensive Medium Term Financial Strategy process with regular updates during the year;
- benchmarking and networking with senior finance staff in other Authorities who are likely to identify similar liabilities.

Revenue Budget - Budgetary Control

Risk is that the budget will be overspent in the year.

This is very unlikely to occur due to:

- monthly budget monitoring procedures;

- quarterly Revenue Budget Budgetary Control reviews undertaken, reported to the Authority and corrective action agreed or set in train;
- Financial Procedure Rules relating to delegated budgets provide for virements and carry forward of under / over spending to be used / met in the following financial year;
- Good financial governance with clear budget management responsibilities are in place;
- demonstrable track record.

Capital Programme Implications

Risk is that funding will not be available as planned or that over spending may occur.

This is unlikely to happen due to:

- retention of a prudent level of unused capital receipts;
- quarterly Capital Programme Budgetary Control reviews undertaken through the Asset Management Group, reported to the Authority and corrective action agreed or set in train;
- Revenue Contribution to Capital and prudential regime gives added flexibility in terms of financing the Capital Programme.

Reductions to the Revenue Budget

Risk is that planned reductions to the Revenue Budget will not occur or are unachievable.

This is unlikely to occur due to:

- the reductions to budgets planned have all been subject to due diligence and there are no significant barriers to implementation;
- the budgetary control processes that are in place will identify any shortfall and remedial action will be taken;
- contingencies exist to safeguard against the non-realisation of some of the efficiency reductions.

Income from Business Rates and Council Tax

Risk is that forecast levels of income from Business Rates and Council Tax are not achieved.

This is unlikely to occur due to:

- a prudent approach taken in setting the forecast income levels;
- the establishment of enhanced monitoring processes to identify any shortfall and
- remedial action will be taken or government support will be provided in extreme cases such as the pandemic;
- provision exists to meet any shortfall in business rates income above the safety net
- threshold
- government interventions may also be made depending on circumstances (eg in year
- 2020/21 council tax and business rates losses additional grant funding, LCTS one-off 2021/22 grant).

Availability of Other Funds

Risk is that the Authority could not call on any other funds to meet unforeseen liabilities. This is very unlikely as the Authority has a range of other funds which, whilst earmarked, are not wholly committed, so could be used in an emergency if so required.

Annex 2 - Statement of Reserves 2020/2021 to 2024/2025

Reserves	Revised Position as at 1.4.20	2020/2021 Approp to/from Reserves	2020/2021 31.03.21	2021/2022 Approp to/from Reserves	2021/2022 31.03.22	2022/2023 Approp to/from Reserves	2022/2023 31.03.23	2023/2024 Approp to/from Reserves	2023/2024 31.03.24	2024/2025 Approp to/from Reserves	2024/2025 31.03.25
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund Balance Reserve	**3,944**	0	**3,944**	0	**3,944**	0	**3,944**	0	**3,944**	0	**3,944**
Earmarked Revenue Reserves											
Insurance Reserve	**1,132**	0	**1,132**	0	**1,132**	0	**1,132**	0	**1,132**	0	**1,132**
Early Retirement Reserve	**9**	-4	**5**	-4	**1**	-1	**0**	0	**0**	0	**0**
PFI Smoothing Reserve	**8,288**	-120	**8,168**	-206	**7,962**	-296	**7,666**	-412	**7,254**	-550	**6,704**
Budget Carry Forward Reserve	**1,688**	-426	**1,262**	-679	**583**	-583	**0**	0	**0**	0	**0**
Medium Term Planning Reserve	**1,336**	0	**1,336**	-1,178	**158**	0	**158**	0	**158**	0	**158**
Capital Developments Reserve	**9,325**	1,344	**10,669**	-10,453	**216**	-216	**0**	0	**0**	0	**0**
Transformation and Reform Reserve	**8,335**	0	**8,335**	0	**8,335**	-1,592	**6,743**	-618	**6,125**	-1,838	**4,288**
Injury Pension Reserve	**-7,639**	500	**-7,139**	500	**-6,639**	500	**-6,139**	500	**-5,639**	500	**-5,139**
Covid19 Reserve	**1,515**	0	**1,515**	-1,515	**0**	0	**0**	0	**0**	0	**0**
Collection Fund Resilience Reserve	**0**	0	**0**	825	**825**	-825	**0**	0	**0**	0	**0**
Resilience Reserve	**3,500**	0	**3,500**	0	**3,500**	0	**3,500**	0	**3,500**	0	**3,500**
New Dimensions Reserve	**767**	-100	**667**	-70	**597**	-70	**527**	-70	**457**	-70	**387**
ESMCP (Revenue) Reserve	**1,163**	-56	**1,107**	-1,088	**19**	-19	**0**	0	**0**	0	**0**
Total Earmarked Revenue Reserves	**29,419**	1,138	**30,557**	-13,868	**16,689**	-3,103	**13,586**	-600	**12,986**	-1,958	**11,028**
Earmarked Capital Reserves											
Usable Capital Receipts Reserve	**2,147**	-966	**1,181**	-1,181	**0**	0	**0**	0	**0**	0	**0**
ESMCP (Capital) Reserve	**261**	-35	**226**	-226	**0**	0	**0**	0	**0**	0	**0**
Total Earmarked Capital Reserves	**2,408**	-1,001	**1,407**	-1,407	**0**	0	**0**	0	**0**	0	**0**
Total Reserves	**35,771**	137	**35,908**	-15,275	**20,633**	-3,103	**17,530**	-600	**16,930**	-1,958	**14,972**