TYNE AND WEAR FIRE AND RESCUE AUTHORITY

RESERVES POLICY

2018/19 TO 2021/22

CONTENTS

INTRODUCTION

Reserves are an integral component of the Authority's overall strategic financial planning, and helps 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 austerity set to continue up to 2025 according to the Chancellor however, further funding reductions are still on the horizon and will need to be managed effectively despite changes to the way the fire service is to be funded from 1st April 2020. New challenges and demands and an evolving Health and Wellbeing agenda means that reserves are critical in allowing the Service to be able to plan ahead for more than 12 months at a time, which 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 LGA's last Spending Review (2015) submission included a recommendation for the establishment of a joint task force to undertake further research and analysis into public sector reserves. Findings concluded that '*with continuing funding reductions, the ability of the sector to manage unexpected expenditure in year has reduced substantially and the need for adequate levels of reserves has increased*.'

The Service holds general reserves to provide for unexpected events and ongoing budget pressures, the funding reductions being the most notable example, with many public sector organisations already using reserves to balance budgets.

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 new 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 includes 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 now, in addition, addresses the new requirements included in the revised National Fire Framework.

GENERAL FUND BALANCE / RESERVE

This is a nonspecific 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;

- 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 Strategic Finance Manager (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 and the potential impact of this on the revenue and capital budget;
- 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 under the new government funding regime and Four Year Settlement, 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 reductions on the Fire and Rescue Authority from 2020/2021 when the four year settlement has ended;
- 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;
- 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 2020/2021 and the implications of the Fair Funding Review;
- expectations to continue to grow Council Tax despite a fall in living standards across the region;
- uncertainty on the amount of business rates allocated from its constituent councils and their ability for growth in line with government expectations;
- the Financial Risk Analysis included at Annex 1.

The draft Local Government Finance Settlement for 2018/19 maintained the current four-year settlement, and barring exceptional circumstances, the Government expects to honour these amounts to Parliament each year, up to 2019/20. This four-year settlement has provided much greater financial certainty to the Authority for service planning. However it should be noted that there is now only one year of the current multi-year settlement remaining before the Government aims to implement a revised funding system with a greater weighting (75%) based on business rates retention. This is 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 and impact on the Authority's resources regarding these developments are still uncertain.

Furthermore the impact of Brexit on the national economy is another issue that adds further uncertainty to likely implications on the forthcoming Comprehensive Spending Review in the summer of 2019 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.

However, given the continuation of the four year settlement the Strategic Finance Manager, considers it prudent to set the minimum target reserves level at £3.944m, which represents 8.1% of the 2018/19 net revenue budget, as the budget has been adjusted to allow for 2% pay awards, meeting the additional cost of the Pensions issue of £0.5m per annum (until 2035/36), other cost pressures and the implications of the final Local Government Finance Settlement 2018/19. The amount of this reserve however exceeds the 5% threshold identified by the Home Office in their revised National Fire Framework which the Authority is now required to observe and needs to justify why it holds a level of reserve in excess of the 5% Home Office limit.

In response to this requirement, the Authority is a standalone, financially independent Fire and Rescue Authority and 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 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 Strategic Finance Manager 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 specifc 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 2018 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 Strategic Finance Manager 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 the Authority's 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 Strategic Finance Manager, 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 £21.041m as at 31st March 2018 (Source : Audited Statement of Accounts 2017/18) with those that prevent an increase in its Revenue Budget totalling £15.996m and those that support service delivery requirements of £5.045m.

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 2018**	**Members Approved changes after review**	**Revised Balances as at 1st April 2018**
	£000	**£000**	**£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.	764	(250)	**514**
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 * Note that as the level has reduced to a minimal level now it is proposed to write this back to the Revenue Budget in 2019/20.	16	0	**16**

Earmarked Revenue Reserves	Balance As at 1st April 2018	Members Approved changes after review	Revised Balances as at 1st April 2018
	£000	£000	£000
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.	7,864	0	**7,864**
3. Budget Carry Forward Reserve Reserve established to fund the slippage of specific items of revenue expenditure.	727	0	**727**
4. Medium Term Planning Reserve Reserve established to plan for future grant reductions and the effects of localisation of business rates retention.	1,000	0	**1,000**
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.	7,435	1,494	**8,929**
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 whilst revenue budget savings are achieved from the Authority's IRMP actions.	7,316	(1,731)	**5,585**
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.	(8,639)	0	**(8,639)**
Total Reserves that prevent an increase in revenue budgets	**16,483**	**(487)**	**15,996**
8. Resilience Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	2,012	988	**3,000**
9. New Dimensions Reserve Reserve to be used to provide for any adverse effect of potential changes in grant arrangements and to provide resources to support delivery of the Urban Search and Rescue response.	781	0	**781**
Community Safety Reserve Reserve to deliver community safety initiatives in future years.	240	(240)	0
Civil Emergency Reserve Reserve to enable the Authority to respond to a catastrophic event, locally or nationally.	200	(200)	0
Carbon Management Plan Reserve Invest to Save on specific carbon management initiatives with the aim of reducing revenue costs.	61	(61)	0
10. ESMCP (Revenue) Reserve Reserve to finance the Emergency Services Mobile Communications Project.	1,264	0	**1,264**
Total Reserves to support service delivery requirements	**4,558**	**487**	**5,045**
Total Earmarked Revenue Reserves	**21,041**	**0**	**21,041**

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 member's 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 and the additional cost of the historic claims it has had to meet. 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 Strategic Finance Manager.

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 it is expected that use of this reserve will commence in 2021/22 and will be fully utilised by 2029/ 2030 when the PFI scheme ends. 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 Strategic Finance Manager who regularly reviews the projections of the scheme.

Timescale for review: Annually.

3. Budget Carry Forward Reserve

Activity: 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 Strategic Finance Manager.

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. £1.2m) before 'safety net' funding is triggered. It is unlikely that a funding shortfall will be experienced in the short term, however the reserve has been established to safeguard against future effects especially as government moves towards a higher reliance on local government self-funding through a proposed 75% business rates retention model from 2021. 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 Strategic Finance Manager, 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 Strategic Finance Manager, 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, which require investment to deliver revenue budget savings in the longer term. The reserve further provides for service improvements, funding for which is not built into the base budget and provides temporary funding to cover delays or shortfalls in delivering the Authority's Integrated Risk Management Plan actions. Uncertain – uncertainty in government funding beyond the current four-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 Strategic Finance Manager / 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 over claimed injury pension top up grant that the Authority unknowingly over claimed from the period 2006/2007 to 2011/12, which initially bolstered 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 £0.5m 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 £0.5m 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 will be reduced by £0.5m per annum as agreed with the Home Office until the amount is fully repaid.

Timescale for review: Not applicable as this has already been agreed.

8. 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 Strategic Finance Manager.

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

9. 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 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 Strategic Finance Manager in consultation with Senior Service Delivery Management / Chief Fire Officer.

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

10. 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 is currently unclear as the government assesses its options for the national project. Impact is however unlikely to be significant as the project overall is meant to be resource neutral to the Fire Service.

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 Strategic Finance Manager 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 - 2018/2019 to 2020/2021

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 four years and is consistent with the recent NFCC Reserves Statement analysis provided by the Authority in July 2018.

The summary in the table below shows that the Authority expects its revenue reserves to reduce in total by £14.031m over the next four year period from £21.041m as at 31st March 2018 to £7.009m as at 31st March 2022, whilst its General Fund is expected to remain at £3.944m throughout this period barring any unexpected events.

Earmarked Revenue Reserves	**Balance at 31.3.2018 £000**	**Planned use £000**	**Anticipated Balance at 31.3.2022 £000**
Insurance Reserve	514	?	**514**
Early Retirements Reserve	16	(14)	**2**
PFI Smoothing Reserve	7,864	366	**8,230**
Budget Carry Forward Reserve	727	(727)	**0**
Medium Term Planning Reserve	1,000	?	**1,000**
Capital Development Reserve	8,929	(8,929)	**0**
Transformation and Reform Reserve	5,585	(5,127)	**458**
Injury Pension Reserve	(8,639)	2,000	**(6,639)**
Resilience Reserve	3,000	?	**3,000**
New Dimensions Reserve	781	(335)	**446**
ESMCP (Revenue) Reserve	1,264	(1,264)	**0**
TOTAL EARMARKED REVENUE RESERVES	**21,041**	**(14,032)**	**7,009**

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 Strategic Finance Manager 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 boundary 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 a leased building arrangement. Its property portfolio therefore is quite limited and as such it does not have much 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 in 2018/2019.

The Table below sets out these in more detail:

Earmarked Capital Reserves	**Balance As at 1st April 2018**	**Planned use**	**Revised Balances as at 31st March 2022**
	£000	**£000**	**£000**
1. Usable Capital Receipts Reserve 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 in 2018/19 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 2019.	2,798	(2,798)	**0**
2. ESMCP (Capital) Reserve This reserve provides for 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 – the timeline for the ESN is currently unclear as the government assesses its options for the national project. Impact is however unlikely to be significant as the project overall is meant to be resource neutral with applicable government funding provided.	656	(656)	**0**
TOTAL EARMARKED CAPITAL RESERVES	**3,454**	**(3,454)**	**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 2018 and the levels expected at the end of the 4-year period ending 2021/22.

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 £17.486m over the medium term. Once they are used it will be almost impossible to replenish these in future years if austerity is further prolonged for the public sector. Only a budget surplus generated in a financial year will allow reserves to be built up and / or be replenished. This scenario is unlikely to occur in the next few years.

Summary of all Reserves

	Balance At 1st April 2018	Projected use 2018/19 to 2021/22	Projected Balance at 31st March 2022
	£000	£000	£000
General Fund Balance Reserve	**3,944**	0	**3,944**
Revenue Earmarked Reserves	**21,041**	(14,032)	**7,009**
Earmarked Capital Reserves	**3,454**	(3,454)	**0**
Total Reserves	**28,439**	**17,486**	**10,953**

Medium Term Financial Strategy – Financial Risk Analysis Annex 1

Impact of the outcome of the 4 year Settlement and Proposed Changes to the Local Government Funding System

Risk is that the funding cuts have a significantly greater impact on the authority's financial position than currently envisaged as a result of unknown factors, such as the impact of Brexit and other possible economic financial 'shocks'. Assumptions beyond 2019/2020 are based on indicative data released by Government as part of the 2016/2017 4 year settlement and the updates received annually, adjusted for the best local knowledge and information available. The Authority also takes into account, the economic environment and other financial implications of service developments, the political landscape and gauges the impact of government announcements and reviews. A new system of funding local government will be implemented from 2020/2021 and a Fair Funding Review is also to be implemented at the same time. The outcome of these and other developments will be carefully monitored and included in the MTFS and the Revenue Budget, as they become known.

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 in the funding received by the Authority, thereby becoming a budget pressure in future years.

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

From notifications of each district's business rates, the projected position for 2018/2019 is indicating a small deficit over the government's assessment of business rates income, provided the level of business rates notified is actually collected in the year. This has been accommodated within the estimates for 2018/2019.

These risks can 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. The Authority also has earmarked funding in a separate Medium Term Planning (MTP) reserve to address the risk of significantly lower business rates income should it arise which will help bridge the considerable gap between the 'lost income' up to the threshold level that the government has set when funding support then becomes available.

Council Tax Support Scheme

Risk that the Council Tax Benefit schemes which are determined by each district council (the Authority has little real influence over these) could affect the collectable Council Tax income of the Authority. This will become clearer as the surplus/deficit position on the Collection Fund is reported by each district.

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 MTP reserve to address this risk should it arise.

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;

- CPI is forecast to remain around 2.75% before gradually falling to around 2.2% by the end of 2019; a prudent approach has been maintained;
- Expenditure in respect of most budget heads can be either influenced or controlled through regular budget monitoring arrangements.

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 from the historical low of 0.25% to 0.50% has been considered, with a further small increase anticipated later in 2018/19;
- 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.

Interest receipts are small in the context of the overall budget and would not therefore cause a major issue for the revenue 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.
- supplementary resources available in the General Fund Reserve if all avenues have been explored and the need arises.

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 that 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 other senior finance staff in other Authorities who are likely to identify similar liabilities;
- access to fire service and other professional bodies that help to raise awareness of key issues and developments nationally eg NFCC / CIPFA / LGA

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;
- clear budget management responsibilities in place;
- full review at the half way way stage with all budget holders takes place to avoid overspends;
- 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:

- prudent level of capital reserves is retained;
- 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, Fire Capital Grant and prudential regime gives added flexibility in terms of financing the Capital Programme;
- The Capital Programme may need to be re-prioritised / and schemes may have to be rescheduled to reflect the available resources.

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;
- Use of the General Fund and /or Reserves could be diverted depending on how extreme the position is.

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;
- provision exists to meet any shortfall in business rates income above the safety net threshold;
- The Authority holds a Medium Term Planning Reserve to help bridge a significant shortfall of this kind should it occur.

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 and wholly committed, could be used in an emergency;
- Use of Bellwin funding if the liability or issue satisfies the requirements;
- Use of General Fund Balances as appropriate
- Opportunity to request additional government support as appropriate.

Statement of Reserves 2018/2019 to 2021/2022

Annex 2

Reserves	Position as at 1.4.18	2018/2019 Approp to/from Reserves	2018/2019 31.03.19	2019/2020 Approp to/from Reserves	2019/2020 31.03.20	2020/2021 Approp to/from Reserves	2020/2021 31.03.21	2021/2022 Approp to/from Reserves	2021/2022 31.03.22
	£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**
Earmarked Revenue Reserves									
Insurance Reserve	**514**	0	**514**	0	**514**	0	**514**	0	**514**
Early Retirement Reserve	**16**	-3	**13**	-4	**9**	-3	**6**	-4	**2**
PFI Smoothing Reserve	**7,864**	253	**8,117**	150	**8,267**	64	**8,331**	-101	**8,230**
Budget Carry Forward Reserve	**727**	-727	**0**	0	**0**	0	**0**	0	**0**
Medium Term Planning Reserve	**1,000**	0	**1,000**	0	**1,000**	0	**1,000**	0	**1,000**
Capital Developments Reserve	**8,929**	-3,789	**5,140**	-3,695	**1,445**	-1,445	**0**	0	**0**
Transformation and Reform Reserve	**5,585**	-852	**4,733**	-1,809	**2,924**	-956	**1,968**	-1,512	**456**
Injury Pension Reserve	**-8,639**	500	**-8,139**	500	**-7,639**	500	**-7,139**	500	**-6,639**
Resilence Reserve	**3,000**	0	**3,000**	0	**3,000**	0	**3,000**	0	**3,000**
New Dimensions Reserve	**781**	-125	**656**	-70	**586**	-70	**516**	-70	**446**
ESMCP (Revenue) Reserve	**1,264**	-232	**1,032**	-263	**769**	-769	**0**	0	**0**
Total Earmarked Revenue Reserves	**21,041**	-4,975	**16,066**	-5,191	**10,875**	-2,679	**8,196**	-1,187	**7,009**
Earmarked Capital Reserves									
Usable Capital Receipts Reserve	**2,798**	-2,798	**0**	0	**0**	0	**0**	0	**0**
ESMCP (Capital) Reserve	**656**	-656	**0**	0	**0**	0	**0**	0	**0**
Total Earmarked Capital Reserves	**3,454**	-3,454	**0**	0	**0**	0	**0**	0	**0**
Total Reserves	**28,439**	-8,429	**20,010**	-5,191	**14,819**	-2,679	**12,140**	-1,187	**10,953**