

Reserves Strategy 2018/19 to 2020/21

1. Introduction

- 1.1. Reserves are an essential part of good financial management. They allow authorities to manage unpredictable financial pressures and plan for their future spending. The level, purpose and planned use of reserves are important factors for Members to consider in developing medium-term financial plans (MTFP) and setting annual budgets.
- 1.2. Reserves are held for three main purposes:
 - a) a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
 - b) a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
 - c) a means of building up funds (often referred to as earmarked reserves) to meet known or predicted requirements Within the existing statutory and regulatory framework, it is the responsibility of the chief finance officer to advise the Authority about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

2. Current and Future Planned Reserve Levels

- 2.1. As at 31 March 2017, the Authority's total reserves were £11.6m. Based on the latest forecast outturn position, it is expected total reserves will decrease to £10.5m by 31 March 2018.
- 2.2. The current and future planned level of each reserve can be seen in section 2.3. The future planned level includes a reallocation between reserves that Members are asked to approve (see Recommendation 2). This reallocation will increase the level of capital reserves available for future expenditure, as it is anticipated significant expenditure will be required on fire stations in the south of the county over the medium term, in order to support the delivery of the Public Safety Plan.

2.3. The table below shows the current and future planned level of each reserve:

	Balance as at 31 March 2017 £000	Approved in Year Transfers £000 (Note 1)	Forecast Use/ (Additions) 2017/18 £000	Proposed Reallocations £000 (Note 2)	Planned Balance as at 31 March 2018 £000	Planned Balance as at 31 March 2019 £000	Planned Balance as at 31 March 2020 £000	Planned Balance as at 31 March 2021 £000
a) General Fund Balance	(3,035)	1,035	(263)	763	(1,500)	(1,500)	(1,500)	(1,500)
b) Invest to Save Reserve	(250)	-		250	-	-	-	-
c) Apprentice Reserve	(500)	-			(500)	(500)	(500)	(500)
d) Redundancy and Early Retirement Reserve	(250)	-		250	-	-	-	-
e) Sprinklers Reserve	(200)	(290)			(490)	(490)	(490)	(490)
f) Control Room Reserve	(371)	-	(52)		(423)	(475)	(527)	(579)
g) Continuing Projects Reserve	(582)	-	238		(344)	(70)	-	-
h) Insurance Reserve	(50)	-		50	-	-	-	-
i) Training Reserve	-	(85)		85	-	-	-	-
j) Usable Capital Receipts Reserve	(245)	-	(249)		(494)	-	-	-
k) Revenue Contribution to Capital	(6,156)	(900)	1,722	(1,398)	(6,732)	(2,360)	(3,064)	(3,773)
Total	(11,639)	(240)	1,396	-	(10,483)	(5,395)	(6,081)	(6,842)

Note 1 – this shows transfers to/from reserves approved by the Executive Committee during 2017/18

Note 2 – the amount to be reallocated from the General Fund is based on the forecast underspend as reported to the Executive Committee on 7 February 2018. The final amount to be transferred will be based on the actual year-end outturn figure.

2.4. The purpose for which each reserve is held, how holding each reserve supports the fire and rescue authority's medium term financial plan and the extent of any legal or contractual commitment is:

- a) General Fund Balance – this is a contingency to cushion the impact of unexpected events or emergencies. Detail of how the level of this reserve has been set can be seen in section 3.
- b) Invest to Save Reserve – the original purpose of this reserve was to fund upfront investment in projects that would realise savings in future years. It is more appropriate that this funding is held with the Revenue Contribution to Capital Reserve as these projects are likely to be capital in nature.

- c) Apprentice Reserve – this reserve is held in order to fund the introduction of operational apprentices, should these be unable to be funded from future in-year underspends. Due to the time taken to train new apprentices they will initially take our staffing numbers above the budgeted establishment figure. The introduction of apprentices is an essential part of our workforce strategy, which underpins the Public Safety Plan. None of this reserve is currently legally or contractually committed.
- d) Redundancy and Early Retirement Reserve – there is no forecast need for this reserve in the medium-term so it is proposed to transfer this amount to the Revenue Contribution to Capital Reserve to support the Authority’s capital programme.
- e) Sprinklers Reserve – this reserve is held to provide match funding for the installation of sprinkler systems at high risk premises. This is an essential part of our protection strategy. None of this reserve is currently legally or contractually committed.
- f) Control Room Reserve – this reserve is held by Oxfordshire Fire and Rescue Service in order to renew assets within the joint Thames Valley fire control service (the amount shown above represents this Authority’s share of the renewals fund). The control service is an essential part of mobilising appliances and firefighters to incidents across the Thames Valley. This reserve is contractually committed to be spent on the renewal of assets with Thames Valley fire control.
- g) Continuing Projects Reserve – this reserve is used to fund the business and systems integration project (BASI). It is expected that this reserve will be fully utilised by 31 March 2020.
- h) Insurance Reserve – this reserve was held to mitigate the risk of a large number of high value insurance claims. It now forms part of the risk assessed level of the General Fund (see Section 3.2)
- i) Training Reserve – this reserve was created to provide additional training for on-call staff in 2017/18. This training was able to be provided from in-year funding so it is recommended that this amount is transferred to the Revenue Contribution to Capital Reserve.
- j) Usable Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets, and can only be used for those purposes specified in the capital finance and accounting regulations. None of this reserve is currently legally or contractually committed.
- k) Revenue Contribution to Capital Reserve – this reserve holds the funds to pay for the current and future years capital programme. Investment in the Authority’s assets such as fire stations and fire appliances is essential to ensure delivery of the Public Safety Plan. Once the Authority has entered into a build contract for the construction of the blue light hub

in Milton Keynes, the majority of the planned balance as at 31 March 2018 will be contractually committed. Amounts not currently committed to specific projects are planned to be used towards investment required in fire stations in the south of the county over the medium term.

3. Unallocated General Reserves

- 3.1. In order to assess the adequacy of unallocated general reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, for example, the ability to deliver planned efficiency savings.
- 3.2. Details of how the level of the general reserve has been set are shown in the table below. This is based on guidance set out in Local Authority Accounting Panel (LAAP) Bulletin 99 (see Provenance Section and Background Papers):

Budget Assumptions	Comments	Amount Required £000
The treatment of inflation and interest rates	Pay inflation is a significant risk if increases above 1% are not funded centrally. The amount required is based on an additional 2% award.	360
Estimates of the level and timing of capital receipts	This amount is based on 5% of the total estimated capital receipts within the capital programme	60
The treatment of demand led pressures	An amount has been set aside to cover any spate conditions that could impact significantly on demand e.g. flooding or an exceptionally hot, dry Summer. It could also be used to cover other one-off spikes in demand e.g. investigations following a significant incident	100
The treatment of planned efficiency savings/productivity gains	A key future efficiency within the Medium Term Financial Plan is the property saving associated with consolidating our current property portfolio. This is the amount required if planned savings are delayed by one year.	177
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments	This amount is based on 5% of the total estimated expenditure on the capital programme for 2018/19	680
The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	The insurance excess is set at £5,000 for the majority of claims. There is a risk that there may be a large number of high value claims. This value assumes ten claims over £5,000 in any one year.	50
The general financial climate to which the authority is subject	There are risks to the continuation of the fire specific revenue grants that the Authority currently receives, covering Urban Search and Rescue (USAR) and Firelink (control room communication links). This amount is based on 10% of the specific grants receivable for 2018/19.	100
	Total Required	1,527

3.3. The above amount has been rounded down to £1.5m. This amount of general reserve is equal to 5% of the net revenue budget for 2017/18.