



## **AGENDA ITEM: 8**

### **NORTH WALES FIRE AND RESCUE AUTHORITY**

**21 March 2016**

#### **RESERVES STRATEGY**

**Report by Dawn Docx, Deputy Chief Fire Officer and Interim Treasurer**

#### **Purpose of Report**

- 1 This report provides Members with information on the Authority's reserves, together with background on the appropriate management of reserves in a local authority context. Members are asked to:
  - (i) note the content of the report in respect of the reserves held by authorities;
  - (ii) approve the strategy at Appendix 1 as a basis for managing the Fire and Rescue Authority's usable reserves.

#### **Background**

- 2 The Fire and Rescue Authority differs from other local authorities in that it is funded from contributions from the six constituent authorities in North Wales so is not a precepting or billing authority. However, to understand the background to the holding of reserve funds it is useful for Members to have some wider context.
- 3 For precepting and billing authorities (county councils, community and town councils and police authorities) the requirement for financial reserves is acknowledged in statute. The Local Government Finance Act 1992 require these authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating budget requirements. Other legislation in support of holding and reporting on reserves is as follows:

- the Chief Finance Officer's duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when an authority is considering its budget requirement (precepting and billing authorities)
  - the legislative requirement for each local authority to make arrangements for the proper administration of its financial affairs
  - the Chief Finance Officer (the designated officer) has responsibility for the administration of those affairs set out in Section 112 of the Local Government Finance Act 1988 (specific to combined fire authorities)
  - Section 114 of the Local Government Finance Act 1988 requires that the Chief Finance Officer report to the full authority if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted, and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 4 The North Wales Fire Services (Combination Scheme) Order 1995 provides for the employment of a treasurer who is the proper officer for the administration of the financial affairs of the Fire and Rescue Authority.
  - 5 The Order also specifies how contributions are payable by constituent authorities including the payment of any revised contributions should the original estimates be inadequate to meet net expenditure. Such contributions would represent a significant unplanned burden on council budgets.
  - 6 Prior to 2009 fire and rescue authorities in Wales were unable to hold reserves as legislation only allowed for billing and precepting authorities to hold reserves. The Welsh Government enacted 'The Combined Fire and Rescue Services Schemes (Variation) (Wales) Order 2009' in recognition of the possible burden on council budgets should the authority require an additional contribution in any year. This meant that fire authorities in Wales had a statutory basis for holding reserves. From 2009 onwards the use of reserves

has been a critical component in managing the financial affairs of the Fire and Rescue Authority and has ensured that in any year there would be no need for revised contributions.

- 7 CIPFA's Prudential Code requires Chief Finance Officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of resources (including reserves) available to it.
- 8 It is good practice for an authority to maintain a medium term financial plan (MTFP) which includes the necessity for and use of reserves over the period in question.
- 9 There is currently no direct role for ministers to determine or advise on the appropriate level of reserves for specific authorities. This is a matter for local determination given the particular risks, circumstances and plans which prevail at any time.

## **RESERVES HELD**

- 10 There are different types of reserve funds held by authorities. The balance sheet has two categories, usable and unusable reserves. Unusable reserves are created due to technical accounting entries which ensure all the liabilities of the authority are reflected in the balance sheet and as such cannot be used to support service delivery.
- 11 In terms of usable reserves, the following are held by the Fire and Rescue Authority:

<b>Type of Reserve</b>	<b>Rationale</b>
General Reserve	To cushion the impact of unexpected events, emergencies and uneven cash flows. To cover the transitional costs of schemes that could not be funded from the revenue budget.

Type of Reserve	Rationale
Earmarked Reserves	<p>These represent amounts which are “earmarked” for specific items of expenditure and are defined as a voluntary action by the Authority to set resources aside for future schemes. Earmarked reserves are typically held for the following reasons:</p> <p><u>Projects not completed in year:-</u> Where it has not been possible to complete specific projects within the year where there has been budget allocated, reserves are used as a mechanism to carry forward these resources.</p> <p><u>Other earmarked reserves:-</u> May be set up from time to time to underpin future budgets and fund such schemes as may be approved by the Authority.</p>

- 12 The Authority will also carry provisions in accordance with the definitions contained in the accounting code of practice. These are where specific liabilities are known and a reliable estimate of the liability can be made.

### **PRINCIPLES TO DETERMINE THE LEVEL OF RESERVES**

- 13 The nature of risk facing the Authority will determine the level of reserves held.
- 14 The assessment of risk should cover both external risk and internal risk including the medium term forecast of resources and the success or otherwise of delivery of savings.
- 15 In financial terms, the following risks will be considered:

Financial standing	The overall financial standing of the authority
Financial management	The authority’s track record in budget and financial management including the robustness of the medium term plans
The treatment of planned efficiency savings	The strength of the financial information and project management arrangements

<b>Financial standing</b>	<b>The overall financial standing of the authority</b>
The treatment of demand led pressures	The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term
The treatment of inflation	How variations in estimates can be handled and whether general reserves are adequate to deal with unexpected increases
Interest rates	How changes in interest rates will affect borrowing or income given the agreed treasury management strategy
The financial risks inherent in any significant projects	These can include procurement outcomes, contracting issues, land transactions etc
The adequacy of the authority's insurance cover to meet risks	Risk assessments should be used when balancing the structure and level of insurance cover
The general financial climate	External factors such as future funding changes, political landscape, world economic conditions

## **MANAGEMENT OF RESERVES**

- 16 A number of reports are available which provide guidance to Members for managing reserves.
- 17 The Audit Commission's report '*Striking a balance – Improving Councils' decision making on reserves*' December 2012, offers a clear statement of the role of Members in this regard. The questions that are set out in the report are listed below together with the mechanism that will be used to discharge the requirement for reporting and transparency:-

<b>Question</b>	<b>Reported to Members</b>
How much is held in reserves?	This is reported in statement of accounts, financial performance report and medium term financial strategy
How have reserves changed in recent years?	Reported in statement of accounts, financial performance report and medium term financial strategy

<b>Question</b>	<b>Reported to Members</b>
How do changes compare with those made by Authorities facing similar circumstances?	Comparator data reported as part of financial performance report
What reserves are held for?	Reported in statement of accounts, financial performance report and medium term financial strategy
What are the risks or future spending plans for which the Authority is holding reserves?	Reported in medium term financial strategy and statement of accounts
What proportion of reserves is held to cover short-term financial risk versus medium and long-term risks and to cover specific spending plans.	Reported in medium term financial strategy and statement of accounts
Are the levels of the Authority's different reserves appropriate to the risks it faces and the scale of its future spending plans?	Reported in medium term financial strategy and statement of accounts
How is the need for reserves determined?	By utilising this strategy
At what point(s) in the financial year is the need for reserves assessed?	Reports to FRA December, March and June
Is the interaction between spending, income, movements on reserves clear to elected members and the public?	Report in statement of accounts and financial performance report
In each of the last three years, what difference has there been between the movements on reserves the Authority expected when setting its budget and the movements that occurred when closing the accounts	Reported to Members in the outturn reports and in the financial performance report
How much of the variation was the result of factors within the Authority's control	Financial performance report
Advice from the chief finance officer on the level of reserves held makes clear what reserves are needed and why	Report on medium term financial strategy, financial performance report and the statement of accounts

## **REPORTING OF RESERVES**

- 18 The Accounting Codes of Practice determine reporting requirements around reserves. Recent commentary on austerity and the level of reserves held by authorities had led to calls for clearer, more transparent reporting arrangements. Best practice suggests that for each reserve, the following information should be reported:
- the reason for the reserve
  - how and when the reserve can and will be used
  - management and control processes
  - review mechanisms.
- 19 The MTFs report to the Authority should include any use of reserves to meet recurring costs.
- 20 The report will include a statement from the Treasurer on the adequacy of the general reserves in respect of the forthcoming financial year, and the Authority's medium term financial strategy.
- 21 The financial performance report at the end of the financial year will include the annual review of reserves.

## **FINANCIAL IMPLICATIONS**

- 22 These are discussed in the body of the report.

## **EQUALITY RISK ASSESSMENT**

- 23 The recommendations of this report will, if adopted, provide a sustainable way forward in terms of managing reserves.
- 24 The MTFs, which includes the use of reserves, has been designed to ensure there is no reduction in the quality of frontline service delivery and, as such, will have no disproportionate impact on different categories of people.

## **RECOMMENDATIONS**

- 25 It is recommended that Members:
- (i) note the content of the report in respect of the reserves held by authorities;
  - (ii) approve the strategy at Appendix 1 as a basis for managing the Fire and Rescue Authority's usable reserves.



**NORTH WALES FIRE AND RESCUE AUTHORITY  
RESERVES STRATEGY**

**RESERVES HELD**

The Authority will maintain reserves in accordance with current legislation.

The Authority will, where possible, avoid using reserves to fund a general deficit in the net revenue budget as this represents an unsustainable financial position.

In addition to a general reserve, the Authority will maintain earmarked reserves for specified purposes where this is necessary to meet one-off time limited costs associated with specific initiatives or liabilities.

**REPORTING OF RESERVES**

The reporting of reserves in the statement of accounts will be in line with the accounting codes of practice applicable to the Authority.

Further details on reserves will be reported to Members throughout the year, but specifically when agreeing the Medium Term Financial Strategy (MTFS); when reporting the outturn position during the year and in the financial performance report at year end which is presented to Members in June.

The information that will be reported to Members will contain:

- the purpose of reserves
- the basis of assessment of level of reserves held
- transfers in and out of reserves
- variations arising between budgeted and actual levels of reserves.

**RESPONSIBILITY AND DELEGATION**

The creation, deletion, assessment of adequacy and transfers in/out of reserves will be delegated to the Treasurer of the Authority and be approved by Members.

The level of reserves held will be assessed by the Treasurer at least annually as part of the accounts closedown process.