

MFRA Reserves as at 30.09.18 (and forecast future years position)

NOTES:

1. MFRA earmarked reserves reached a high at the **end of 2016/17, £29.9m plus a £2.0m general reserve**. As at the 30.09.18 the value had reduced **by -£6m or -20% to £23.9m** plus a £2.0m general reserve. By the end of 2019 the value of earmarked reserves is expected to be below £17m.
2. The CFO is currently reviewing reserves with the aim of increasing the capital reserve as part of a strategy to pay debt or control debt in order to invest future freed-up revenue debt servicing budget to invest in the front line services.
3. The table below outlines the current reserve allocations as at 30.09.18, the expected use over the coming years, and a comment on the purpose of the reserve.

	2018/19 Closing Balance	Expected Use in Future Years				Closing Balance	
		2019/20	2020/21	2021/22	Future Years		
<u>Earmarked Reserves</u>	£'000	£'000	£'000	£'000	£'000	£'000	
<u>Emergency Related Reserves</u>							
Bellwin Reserve	147					147	) The Bellwin scheme is intended to reimburse the eligible cost of local authority actions taken in the immediate phase of an emergency. The Gov expects councils to cover costs themselves up to a certain level - an individual authority is required to have spent 0.2% of its calculated annual budget on works that have been reported. These reserves provides the Authority with the funds to meet those cost not deemed to be eligible for grant support. The Authority has a number of insurance premiums that require it to cover an excess, (£250k on employee & public liability, £10k on vehicles). Based on recent claims history this reserve has been established to cover those costs and the residue of any payments required to fund outstanding MMI (municipal mutual insurance claims). This reserve was created to provide additional resilience in light of the growing terrorist threat to the UK.
Emergency Planning Reserve	75					75	
Insurance Reserve	859	-200	-100	-100	-100	359	
Catastrophe Reserve	100	0	0	0	0	100	
	1,181	-200	-100	-100	-100	681	
<u>Modernisation Challenge</u>							
Smoothing Reserve	1,508		-1,000			508	) This reserve was created and used to allow the Authority the time to re-engineer the Service and deliver the saving options required as a result of Government funding cuts. By having the reserve the Authority was able to avoid compulsory redundancies as it had the time to allow staff, particularly firefighters, to leave the service on a voluntary basis (mainly when firefighters reach their retirement age). The level of uncertainty over funding from 2020/21 is significant and unlikely to be known until December 2019. Any firefighter ill health retirement results in a one-off charge to the Authority of either 2 or 4 times the relevant salary. This charge is currently spread over three years and the reserve is used to ensure the cost can be contained within the revenue budget provision. Given over 50% of the current firefighter will retire over the next 5 to 8 years the Authority is currently planning to recruit in advance of these employees leaving over this period. This means the firefighter establishment will be on average +20 FTE above the budgeted establishment at a potential +£0.7m p.a. This reserve may need to be increased over the next 5 years. This reserve was established to pump prime efficiency initiatives required to deliver longer term savings. £0.6m of this reserve is committed to fund a temporary increase in the Applications team up to 2021 in order to facilitate the development of in-house applications. These new applications should lead to savings on staff administration support costs in the future.
Ill Health Penalty Reserve	322	-161	-161			0	
Recruitment Reserve	3,000	-750	-750	-750	-750	0	
Invest to Save / Collaboration	671	-300	-300		-71	0	
	5,501	-1,211	-2,211	-750	-821	508	
<u>Capital Investment/Debt Repayment</u>	11,410	-8,519	-7,133	0	0	-4,242	) The reserve was created to fund the station merger initiative, TDA refurbishment and other capital investment schemes. It has also now been earmarked to fund the LGPS deficit (potentially up to £10m but the figure is subject to the 2019 actuarial review and may reduce significantly if the Fund's asset valuation continues to improve - a figure of £6m is the current worst case scenario). Without the reserve the Authority would have to borrow to fund all the capital investment and this would mean an increase in the debt servicing budget (currently £6m). The LGPS deficit payment has been assumed to be £6m and therefore the reserve would require an increase of £4m . It is hoped this can be found through a realignment of reserves.

	2018/19 Closing Balance	Expected Use In Future Years				Closing Balance
		2019/20	2020/21	2021/22	Future Years	
<u>Earmarked Reserves</u>	£'000	£'000	£'000	£'000	£'000	£'000
<u>Specific Projects</u>						
PFI Annuity Reserve	2,001	-200	-220	-240	-1,341	0
Equality / DDA Investment	285	-140	-145			0
Community Sponsorship	6	-6				0
Equipment Reserve	339	-239	-100			0
Contestable Research Fund	24	-24				0
Training Reserve	450	-150	-300			0
Healthy Living / Olympic Legacy	35	-35				0
Clothing / Boots Reserve	308	-308				0
Inflation Reserve	700	0				700
	4,148	-1,102	-765	-240	-1,341	700
<u>Ringfenced Reserves</u>						
Princes Trust Reserve	121	-121				0
Community Risk Management	325	-325				0
Energy Reserve	40	-40				0
New Dimensions Reserve	1,193	-1,000	-193			0
Total Earmarked Reserves	23,919	-12,518	-10,402	-1,090	-2,262	-2,353
General Revenue Reserve	2,000					2,000
Total Reserves	25,919					-353

PFI schemes have an affordability gap (existing budget plus grant never covers the proposed total cost of the scheme). As grant is paid in advance of the full pfi scheme being completed PFI authorities therefore receive "excess" grant relative to the unitary charge payments at the beginning of the scheme. This available grant is put into a reserve and is then drawdown to smooth out the affordability gap over the life of the pfi. This reserve provides the Authority with that resource and will be fully utilised over the PFI life.

) At the end of each financial year requests are received from budget managers to carry forward some small one-off underspends in order to meet committed expenditure on projects or assets that had been planned but not completed in the year. These reserves reflect those planned projects or invests that had been budgeted for but not completed in the anticipated year.

) This reserve provides some resilience if the key assumption in the Budget/Financial Plan around pay and price inflation proves to be too low. The current 2017/18 - 2019/20 firefighter pay increase is assumed to be 2% p.a. The current claim is for 17% over this period. For each additional 1% it would require a permanent budget increase of £0.4m p.a. This reserve would allow the Authority time to identify and implement any new savings to fund the pay award if it exceeded they level assumed in the

) External grants / contributions have been received to fund specific projects. These reserve carry forward unused external funds until they have been fully spent.

) This reserve has been funded by the New Dimensions grant unspent monies over recent years. c£1m will be used to fund the TDA search and rescue infrastructure investment to allow the training of SRT and other staff to deliver USAR and other rescues.