

MEETING: 19th MARCH 2018

SUBJECT: EARMARKED RESERVES REVIEW

**JOINT REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE (CLERK
TO THE AUTHORITY) AND THE STRATEGIC FINANCE MANAGER**

1. INTRODUCTION

- 1.1 This report advises Members of the outcome of a recent review of the full earmarked reserves held by the Authority to ensure all reserves held are still required and hold the appropriate amount of funding to address the financial risks of the Authority.

2. CURRENT LEVEL OF EARMARKED RESERVES

- 2.1 As reported to members at the last meeting held in February, the estimated amount of reserves held by the Authority at 31st March 2018 was £26.131m and that £5.739m was expected to be utilised during 2018/2019 reducing the level to £20.392m by 31st March 2019. Appendix 1 shows the detailed reserves as reported, including the use of £0.693m to balance the Revenue Budget 2018/2019 included within the Change Management Reserve.
- 2.2 This position was the starting point for the review, which was carried out by the Chief Fire Officer and the Strategic Finance Manager.

3. REVIEW OF EARMARKED RESERVES

- 3.1 Each reserve has been reviewed individually line by line in order to justify the reserve and then reconsider how adequate the level of the reserve is in respect of the known financial risks faced by the Authority and any other evidence available to help quantify any changes to the current number and/or level of reserves.
- 3.2 The table overleaf sets out the proposed revised level of reserves, a renaming of some Reserves to ensure they reflect the risks they cover and an explanation as to the rationale behind the proposed changes.
- 3.3 Because of the high profile reserves are held currently by the government this exercise will also help to address some of the proposed new requirements to provide greater transparency on reserves being considered by the Home Office, for implementation by Fire and Rescue Authorities.

3.4 The proposed changes are as follows:

Ref	Reserve	Balance @31.3.19	Proposed Changes	Proposed New Balance
		£m	£m	£m
1	'Development' now Capital Developments Reserve	2.822	+0.743 (3) +0.250 (4) +0.240 (5) +0.200 (6) +0.061 (7)	4.316
2	'Contingency Planning' now Resilience Reserve	1.512	+0.988 (3)	2.500
3	'Organisational Change' now Reform and Transformation	5.073	-0.743 (1) -0.988 (2) +0.258(GF)	3.600
4	Insurance	0.999	-0.250 (1)	0.749
5	Community Safety*	*0.240	-0.240 (1)	Nil
6	Civil Emergency	0.200	-0.200 (1)	Nil
7	Carbon Management	0.061	-0.061 (1)	Nil
8	PFI Smoothing	8.199	Nil	8.199
9	Medium Term Planning	0.700	Nil	0.700
10	New Dimensions	0.563	Nil	0.563
11	ESMCP	0.263	Nil	0.263
	TOTALS	20.632	+0.258	20.890

Please Note: GF = General Fund Balance

3.5 **Rationale for the Proposed Changes to Reserves**

3.5.1 Capital Developments Reserve

The Capital Developments Reserve requires an amount of £4.316m in order for this to fully fund the Capital Programme for 2019/20 and 2020/2021 approved by the Authority in February 2018. This total, however assumes that RCCO of £500k included within the Revenue Budget for each year continues up to 2020/2021, which is not certain.

3.5.2 Resilience Reserve

The Resilience Reserve has been identified as a key risk to the Authority in light of recent government scrutiny and as such has been bolstered to ensure the Authority can still provide an effective fire service to the Community it serves even if under strike conditions by firefighters. A conservative cost of covering a front line strike is at least £2.5m which is the cover the Authority used to provide

before the series of Pension strikes, mainly in 2015/2016, depleted this reserve to its present level of £1.512m.

3.5.3 Reform and Transformation Reserve

The Authority in February 2018 identified a financial gap in its Revenue Budget resources, over the medium term to 2020/2021, of £3.6m (latest updated MTFS reported to members). The funding for this was to be earmarked fully within this reserve as a protective measure in case further IRMP actions fail to make good the projected deficit. From the above table, the Reserve would only be able to fund £3.342m of this amount. It is, therefore proposed that £0.258m of General Fund Balances are transferred into this Reserve to make good the projected shortfall. Any non-required reserves can then be utilised to meet either the costs of any reforms or transformations to the Authority's operation, systems or business processes that are generally based on an invest to save basis or to help fund Capital schemes in the future to avoid the need to borrow over the medium term.

3.5.4 Insurance Reserve

The Authority has its Insurance liabilities independently assessed annually both to ensure it can meet any one-off claim costs and liabilities and also to ensure its accounts show that its reserves are justifiable and based on the best known information available. The reserve currently has two separate elements, the independently assessed value of £0.749m to meet projected future liabilities and an internal Management Reserve element of approximately £0.250m to manage short term budget variations to insurance premiums.

In the circumstances, it is proposed to transfer the £0.250m internal element of the Reserve to the Capital Development Reserve, which is made possible by the very low claims made by the Authority in recent years which has seen savings in its premiums rather than increases to be smoothed by this part of the Reserve.

3.5.5 Community Safety Reserve

This reserve is no longer required as all community safety capital projects and schemes will be fully considered and will form part of the Authority's wider Capital Programme, the balance of £0.240m that was to be used in 2018/2019 is therefore to transfer to the Capital Developments Reserve.

3.5.6 Civil Emergency Reserve

This reserve was established to meet the costs of a catastrophic event locally or nationally however the purpose of the General Fund Balance is to meet the costs of a one-off event such as this. It is, therefore proposed to transfer the £0.200m amount to the Capital Developments Reserve.

3.5.7 Carbon Management Plan

This reserve was established to initiate changes within the Authority to reduce its carbon footprint, over a number of themes which has been very successful. The basis of the funding was to encourage invest to save initiatives such as replacing all traditional fluorescent lighting with LED low energy lighting across our non-PFI properties, carry out cavity wall insulation and a high efficiency central heating boiler replacement programme. There is £0.061m remaining in the Reserve, which it is proposed to transfer to the Capital Developments Reserve as all future initiatives will now form part of the Authority's wider Capital Programme.

3.5.8 PFI Smoothing Reserve

This Reserve was established to smooth the impact of the Authority's PFI properties on future Revenue Budgets over the life of the 25 year programme. The level of the reserve is reviewed each year to ensure that forecast future costs of the PFI scheme, the costs of which increase by RPI annually with additional benchmarking exercises every 5 years, can be accommodated from the reserve and therefore does not place any undue pressure on future Revenue Budgets. The Authority is expected to draw down from this reserve in 2020/2021 and currently is expected to be able to meet all future PFI increased costs from this Reserve. There is therefore no scope to utilise this Reserve for any other purpose.

3.5.9 Medium Term Planning

This Reserve was set up to provide the Authority with some limited safety net protection when the new Business Rates Retention system was first introduced in 2013/2014. There is a risk that the Baseline funding position determined by the government each year as part of the local government finance settlement is not achieved. The government indicate each year the level at which resources can fall before they will provide any financial assistance. In the current year as in previous year's this gap is over £1m, for 2018/2019 the gap resources can fall before an intervention is £1.2m. The government however will only make good the lost income up to the safety net threshold limit and not the full amount of resources lost.

Additionally there is also considerable uncertainty over the impact of both the proposed revised Business Rates Retention system to be introduced from 2020/2021 and the outcome of the Fair Funding Review. For both of these reasons it is prudent to retain this Reserve which may be called upon to help the Authority manage future financial risks.

3.5.10 New Dimensions and ESMCP Reserves

These two reserves are made up from specific government grant funding that can only be used for that specific purpose and is being drawn down as required

by the Authority to meet the costs associated with each unique area within the fire service.

The Authority's Urban Search and Rescue response (New Dimensions Reserve) is to meet any additional capital and revenue costs of providing the USAR capability and may also help manage out any potential fall in grant funding in the future should this situation ever arise.

The Emergency Services Mobile Communications Project (ESMCP) will eventually replace the current Airwave communications system. The ESMCP Reserve has been set up to recognise that specific government grant funding was received in advance for this project in 2017/2018 to meet the assessed costs of this government national initiative, so that the Authority can meet the development costs of this complex project and thus ensure that the costs incurred are resource neutral to the Authority. Additional grant is anticipated in the next month and all monies received are fully accounted for.

For the reasons set out above there is no possibility for the Authority to use these Reserves for any other purpose than the specific purpose.

4. GENERAL FUND BALANCE

- 4.1 The Review also examined if the level of the General Fund Balance at £3.943m, was set at an appropriate amount bearing in mind the financial risks faced by the Authority, which is a standalone Fire and Rescue Authority. The financial cover provided, which covers just over 8% of the Authority's Net Budget Requirement (excluding use of reserves), is considered reasonable and justifiable. It is proposed however to transfer £0.258m of General Fund Balances to the Reform and Transformation Reserve to address the potential shortfall in the resources it requires to meet the projected Revenue Budget deficit accumulation as set out in the current MTFS.
- 4.2 The revised General Fund Balance, should members agree to this transfer, will reduce to £3.685m but will still provide cover of 7.5% of the Authority's Net Budget Requirement, which is still considered prudent and appropriate to the financial risks faced by the Authority.

5. CAPITAL RECEIPTS UNAPPLIED

- 5.1 The Authority held Capital Receipts of £3.286m as at 31st March 2017 and has utilised £1.103m in this financial year with the remaining balance of £2.183m fully committed in 2018/2019. This means, therefore, that this source of funding is totally exhausted unless new Capital Receipts can be generated by the Authority. Any such receipts however can only be used to help fund the Capital Programme in the future.
- 5.2 The Authority has recently completed a full review of its asset base and there are a number of land disposals being actively progressed. Members will be informed of these as they develop into positive disposals, which will then be earmarked to help to fund the Authority's future Capital Programme.

6. RISK MANAGEMENT

- 6.1 A risk assessment has been undertaken to ensure that any risk to the Authority will be minimised as far as practicable. From this assessment the risk to the Authority has been categorised as low.

7. FINANCIAL IMPLICATIONS

- 7.1 The financial implications are set out in the report.

8. EQUALITY AND FAIRNESS IMPLICATIONS

- 8.1 There are no equality and fairness implications in respect of this report.

9. HEALTH AND SAFETY IMPLICATIONS

- 9.1 There are no health and safety implications in respect of this report.

10. RECOMMENDATIONS

- 10.1 Members are requested to:
- a) Note the report and Approve the proposed changes to the Earmarked Reserves held by the Authority.
 - b) Approve the transfer of £0.258m of General Fund Balances to the Resilience Reserve.
 - c) Note that an annual review of the Authority's Earmarked Reserves will be formally reported to the Authority at least annually.