



**Essex Police, Fire and Crime Commissioner Fire and Rescue
Authority**

Decision Report

Please ensure all sections below are completed

Report reference number: 181-19

Government security classification Not protectively marked

Title of report: Reserves Statement 2019-20

Area of county / stakeholders affected: Countywide

Report by : Glenn McGuinness – Section 151 Officer

Date of report: 19/09/2019

Enquiries to: Glenn McGuinness

1. Purpose of the report

The Authority is required to publish a reserves strategy on its website. The purpose of this report is to approve the attached Reserves Statement 2019-20 for publication. A more comprehensive strategy will be published once the medium term financial plan 2020 to 2024 has been completed.

2. Recommendations

- Note the position regarding reserves held by the Authority at 31st March 2019.
- Review and agree the reserves statement for publication.
- Agree that this will be updated once the Medium Term Financial Plan 2020 to 2024 has been completed.

3. Benefits of the proposal

- To demonstrate that the Authority has regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget and medium term financial planning requirements.
- To set out the position on reserves in a way that is transparent and understandable for members of the public.

4. Background and proposal

Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

Both the Fire and Rescue National Framework and Financial Management Code of Practice published by the Home Office require the Authority to publish a reserves strategy.

This statement addresses these requirements.

5. Alternative options considered and rejected

None applicable.

6. Strategic priorities

Decisions on reserves utilisation will form a critical part of the development of the medium term financial plan 2020 to 2024.

7. Operational implications

There are specific earmarked reserves set aside to improve operational capability. These include investment in operational training and to improve on-call recruitment and retention. These are as set out in the attached paper.

8. Financial implications

As set out in the attached paper.

9. Legal implications

No direct legal implications.

10. Staffing implications

None.

11. Equality and Diversity implications

None.

12. Risks

None arising directly

13. Governance Boards

Agenda item P&R Board 29th July then discussed at P&R Board on 2nd September. It was agreed, that a holding statement would be published and updated once the medium term financial plan 2020 to 2024 had been completed.

14. Background papers
None Directly

Decision Process

Step 1A - Chief Fire Officer Comments

(The Chief Fire Officer is asked in their capacity as the Head of Paid Service to comment on the proposal.)

..... *Agreed*

.....

Sign: *[Signature]* (DCO)

Date: *12.12.19*.....

Step 1B – Consultation with representative bodies

(The Chief Fire Officer is to set out the consultation that has been undertaken with the representative bodies)

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Step 2 - Statutory Officer Review

The report will be reviewed by the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority's ("the Commissioner's") Monitoring Officer and Chief Finance Officer prior to review and sign off by the Commissioner or their Deputy.

Monitoring Officer

Sign: *[Signature]*.....

Print: *P. DEAN-RUCEWOOD*.....

Date: *24 DECEMBER 2019*.....

Chief Finance Officer

Sign: *[Signature]*.....

Print: *GRENW MCGUINNESS*.....

Date: *12/12/2019*.....

Step 3 - Publication

Is the report for publication? YES/~~NO~~

If 'NO', please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State 'none' if applicable)

.....
..... N/A

If the report is not for publication, the Monitoring Officer will decide if and how the public can be informed of the decision.

Step 4 - Redaction

If the report is for publication, is redaction required:

1 Of Decision Sheet YES/NO

2 Of Appendix YES/NO

If 'YES', please provide details of required redaction:

.....
..... N/A

Date redaction carried out:

If redaction is required, the Chief Finance Officer or the Monitoring Officer are to sign off that redaction has been completed.

Sign:

Print:

Date signed:

Step 5 - Decision by the Police, Fire and Crime Commissioner or Deputy Police, Fire and Crime Commissioner

I agree the recommendations to this report:

Sign: J Gardner (PFCC / DPFCC)

Print: JANE GARDNER

Date signed: 24 December 2019

I do not agree the recommendations to this report because:

.....
.....

Sign: (PFCC / DPFCC)

Print:

Date signed:



RESERVES STATEMENT 2019-20

RESERVES AND BALANCES GUIDANCE

The Home Office published the Fire and Rescue National Framework in May 2018; in addition, a Financial Management Code of Practice has been issued. Both these documents include reference to reserves. The main elements are:

- Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement
- Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their Chief Finance Officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. These should be established as part of the medium-term financial planning process.
- Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should 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 should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
- Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:
 - how the level of the general reserve has been set;
 - justification for holding a general reserve larger than five percent of budget; and
 - details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.
- The information on each reserve should make clear how much of the funding falls into the following three categories:
 - Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
 - Funding for specific projects and programmes beyond the current planning period.
 - As a general contingency or resource to meet, other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

Overall current reserves position

The general reserves of the Authority were £7,935k on 31 March 2019, In addition, to ear marked reserves of £5,653k and a capital receipts reserve of £8,335k.

That takes the total useable reserves of the Authority to £21,923K at 31st March 2019.

General Reserves

These are held by the Authority and managed to balance funding and spending priorities and to manage risks. These are established as part of the medium term financial planning process.

The Authority needs to hold an adequate level of general reserves to provide:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events;
- A means of smoothing out large fluctuations in spending requirements and/or funding available.

The 2019-20 budget, agreed in January 2019 is £73,797K. The level of general reserves stands at £7,935K (10.7%). The National Framework requires that any general reserve above 5% should be justified in the strategy document.

The Authority plans to reduce the level of general reserves to comply with the financial management code of practice, details are given in the "forward reserves position" section below.

Earmarked Reserves

The Authority has established specific reserves to manage key financial risks and to support the transformation of the service to ensure it is fit for the future.

There are clear policies in place to set out how and when each earmarked reserve can be used. This includes the requirement for the submission of a business case to support the release of any earmarked reserve, which must be approved by the Commissioner on the advice of the Chief Finance Officer.

Annual reviews of all reserves are also included as part of both the annual budget and annual accounts processes.

The table below shows earmarked reserves at 31 March 2019 (per note 8 of annual accounts).

Analysis of Reserves (All Figures are £000's)	31st March 2019 - Actual	Comment
On-Call Demand Pressures	600	To provide for exceptional in-year demand pressure
On-Call - Support	400	Project to fund on-call recruitment and retention initiatives
Operational Training Reserve	1,000	Project to invest in operational training initiatives
Spend to Save Reserve	808	Fund to support savings initiatives, this includes £50K allocated to an efficiency review of support departments
Innovation and Transformation		To facilitate new improvement and efficiency initiatives in line with the Fire and Rescue Plan and new IRMP requirements. This includes, ICT infrastructure transformation. Service control systems, property portfolio and new operational
Rolling Budgets Reserve	1,960	equipment technology
Taxbase and Collection Account Reserve	85	One off spend 2019-20 to support culture project
National Non-Domestic Rates Collection Reserve	200	To cope with fluctuations in collection account
Business Continuity Reserve	200	To cope with fluctuations NNDR
Risk Protection	150	To provide funds for any business interruption event not covered through risk protection funding.
	250	Expected limit of calls from our insurers.
Total Earmarked Reserves	5,653	

Review of the level of reserves

In determining the appropriate level of reserves required by the Authority, the Chief Finance Officer is required to form a professional judgement on this, taking account of the strategic, operational and financial risk 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 and consideration of the Authority's financial management arrangements.

In addition, the assessment focuses on both medium and long-term requirements, taking account of the Medium Term Financial Plan.

On 1st March 2019, the Commissioner launched the Fire and Rescue Plan 2019-2024. This statutory document sets out the Commissioner's strategic vision, priorities and objectives for the fire and rescue service over this period. This also forms the basis for the new Integrated Risk Management Plan being developed in 2019.

Based on the foregoing a new medium term financial plan is being developed for publication in 2020.

This plan will affect the level of forward reserves held by the Authority, an updated reserves strategy 2020 to 2024 will therefore be published in 2020.

There are a number of factors which will influence our financial planning 2020 to 2024, these include, the level of public sector pay settlements, non-pay inflation, future funding settlements, the level of council tax and the impact of changes to pension schemes. These all have the potential to materially affect our financial planning.

The above factors demonstrate a considerable degree of uncertainty over longer-term financial pressures on the Authority.

Given the limited scope for the Authority to increase council tax without holding a local referendum the ability to restore depleted reserves is quite restricted. The medium term financial plan being developed for the period 2020 to 2024 is taking into account future financial pressures and the impact of these on the budget, cash flow and the reserve requirement.

Any significant reduction in the level of reserves will mean we will need far greater financial agility

with a more flexible cost base over the next few years.

Capital Receipts Reserve

Capital Receipts have been generated from the sale of surplus assets, which have not yet been utilised to fund the capital programme. The balance on the capital receipts reserve is £8,335K at 31st March 2019. There was no use of this reserve in 2018-19.

The use of the Capital Receipts Reserve is governed by regulations and this can only be used to fund expenditure or repay debt.

Provisions

The Authority has the following provisions to meet estimated future liabilities:

- **Risk Protection Provision**
This provides for potential liabilities associated with outstanding insurance claims. The provision includes an allowance for incidents in the period where claims have not yet been notified. The amount proved at 31st March 2019 is £150K.
- **Non- domestic rating appeals**
This covers the Authority's share of outstanding appeals against business rates collection funds, these are calculated each year by local authorities based on their assumptions of outstanding appeal success rates. The amount provided at 31st March 2019 is £675K.
- **Provisions for taxation on pension scheme payments.**
This provides for potential settlements to leavers where the amounts have not yet been agreed at the balance sheet date. The amount provided at 31st March 2019 is £25K

At the 31st March 2019, the total provisions held in the Balance sheet were £850k.

Summary Forward Reserves Position

General reserves at 31st March 2019 are £7,935K or 10.7% of the revenue budget for 2019-20. It is planned to reduce the general reserve balance to c. 5% (£3,500K) of the revenue budget in accordance with the Financial Management Code of Practice.

Earmarked reserves at 31st March 2019 are £5.653K.

The planned level of reserves is as set out in the table above.

Analysis of Reserves (All Figures are £000's)	31st March 2019 - Actual	31st March 2020 Forecast	31st March 2021 Forecast	Comment
On-Call Demand Pressures	600	600	600	To provide for exceptional in-year demand pressure
On-Call - Support	400	150	0	Project to fund on-call recruitment and retention initiatives
Operational Training Reserve	1,000	800	400	Project to invest in operational training initiatives
Spend to Save Reserve	808	1,758	1,758	Fund to support savings initiatives, this includes £50K allocated to an efficiency review of support departments
Innovation and Transformation				To facilitate new improvement and efficiency initiatives in line with the Fire and Rescue Plan and new IRMP requirements. This includes, ICT infrastructure transformation, Service control systems, property portfolio and new operational equipment technology
Rolling Budgets Reserve	1,960	3,306	2,306	One off spend 2019-20 to support culture project
Taxbase and Collection Account Reserve	85	0	0	To cope with fluctuations in collection account
National Non-Domestic Rates Collection Reserve	200	200	200	To cope with fluctuations NNDR
Business Continuity Reserve	200	200	200	To provide funds for any business interruption event not covered through risk protection funding.
Risk Protection	150	150	150	Expected limit of calls from our insurers.
	250	250	250	
Total Earmarked Reserves	5,653	7,414	5,864	
General Reserve	7,935	4,000	2,800	Assumed reduce to 3.5m c.5% budget
Capital Receipts Reserve	6,335	8,335	8,335	Depends on capital receipts from house sales
Total Usuable Reserves	21,923	19,749	16,999	

As stated above the position beyond March 2020 is more of a concern as the factors addressed above (funding review, pay settlement, pension funding, council tax policy, inflation, RSG and section 31 grants including USAR) are all uncertain moving forward.

For this reason an updated reserves strategy will be published on 2020.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
Proper Officer:	Acting Chief Finance Officer
Contact Officer:	Glenn McGuinness Essex County Fire & Rescue Service, Kelvedon Park, London Road, Rivenhall, Witham CM8 3HB Tel: 01376 576100

