

ESSEX POLICE, FIRE AND CRIME COMMISSIONER
FIRE & RESCUE AUTHORITY
Essex County Fire & Rescue Service



RESERVES STRATEGY

CONTENT

BACKGROUND..... 2

CATEGORIES OF RESERVES 3

 General Reserves..... 4

 Earmarked Reserves..... 5

 Earmarked Contingency Reserves 6

 Earmarked Reserve – Productivity..... 7

 Earmarked Reserve – Specific Purpose 8

 Capital Receipts Reserve..... 8

BACKGROUND

The Reserves Strategy sets out our level of reserves and what we intend to use them for which will support the priorities in the Fire and Rescue Plan.

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).

CATEGORIES OF RESERVES

Reserves that are held the Fire Authority are categorised into two separate categories as follows:

- Useable Reserves – These reserves are those that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- Unusable Reserves – These reserves are those that the Authority cannot use to provide services. These arise due the accounting adjustments.

The table below shows the current position of our Unusable Reserves.

	Balance at 31 March 2019 £000's	Balance at 31 March 2020 £000's
Revaluation Reserve	33,381	36,522
Capital Adjustment Account	66,858	67,261
Holiday Pay Account	(838)	(587)
Collection Fund Account	1,198	467
Pension Reserve	(799,437)	(740,790)
General Reserves Closing Balance	(698,838)	(637,127)

The detail of each Unusable Reserve is outlined below:

- **Revaluation Reserve** – includes unrealised gains and losses made by the Authority arising from changes in the value of its Property, Plant and Equipment (and Intangible Assets).
- **Capital Adjustment Account** - absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction, or enhancement of those assets under statutory provisions.
- **Holiday Pay Account** - absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g., annual leave entitlement carried forward at the year end.
- **Collection Fund Account** - The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
- **Pension Reserve** - absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The Fire Authority maintains the following type of Useable Reserves:

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 table below provides a sensitivity analysis of the key risk areas within the Services Budget.

Item/Risk	Variation %	Estimated Full Year Impact £000's
Pay Awards		
- Firefighters	1.00%	414
- Other	1.00%	166
Pensions		
- Firefighters	1.00%	295
- Other	1.00%	123
National Insurance		
- Firefighters	1.00%	302
- Other	1.00%	130
Non pay costs	1.00%	239
Council Tax base	1.00%	487
Council Tax precept	1.00%	483
Business Rates	1.00%	165
Revenue Support Grant	1.00%	85

On the basis of the Sensitivity analysis, the Authority deems that an adequate level of general reserve is 3% of the budget, equating to £2.3m

If the general reserve is utilised within a year and this results in it falling below 3%, the Service would be required to identify cost savings to replenish the level of the general reserves in the following year.

The table below shows the current and projected position of our General Reserves:

	Balance at 31 March 2020	Projected Balance at 31 March 2021	Projected Balance at 31 March 2022
	£000's	£000's	£000's
General Reserves Opening Balance	7,935	3,439	3,473
Surplus / (Deficit) In Year	377	34	(1,075)
Transfer from / (to) Earmarked Reserves	(4,873)		
General Reserves Closing Balance	3,439	3,473	2,398
General Reserve Closing Balance as a % of Budget	4.54%	4.58%	3.16%

The level of general reserves at 31 March 2020 was £3.44m.

Based on our latest projection, we do not expect any material change to the level of General Reserves at 31st March 2021.

The budget for 2021-22 was approved on 4th February 2021. This showed a reduction in the general reserve of £1.1m, which would leave a remaining balance of £2.4m (3.16% of the budget).

The Fire and Rescue National Framework published by the Home Office, requires that any general reserve above 5% should be justified in the strategy document, in this context the Authority plans to continue to operate within the 5% requirement.

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 and will deliver on the priorities in the Fire and Rescue Plan.

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 use of any Earmarked Reserve, which must be approved by the Commissioner on the advice of the Chief Finance Officer.

Each reserve is reviewed on a regular basis, at least annually. Reviews of all reserves are also included as part of both the annual budget, annual accounts and the Medium Term Financial Plan.

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

Category	Balance at 31 March 2020 £000's	Transfers In Year £000's	Forecast Addition / (Use) £000's	Projected Balance at 31 March 2021 £000's	Forecast Addition / (Use) £000's	Projected Balance at 31 March 2022 £000's	Forecast Addition / (Use) £000's	Projected Balance at 31 March 2023 £000's	Forecast Addition / (Use) £000's	Projected Balance at 31 March 2024 £000's
Earmarked Contingency Reserves										
Demand Pressures	600			600	0	600	0	600	0	600
Taxbase & Collection Account Reserve	200			200	(200)	0	0	0	0	0
National Non Domestic Rates Collection Reserve	200			200	0	200	0	200	0	200
Rolling Budgets Reserve	85	(85)		0	0	0	0	0	0	0
Risk Protection	250	235	(200)	285	0	285	0	285	0	285
Business Continuity	150	(150)		0	0	0	0	0	0	0
	1,485	0	(200)	1,285	(200)	1,085	0	1,085	0	1,085
Earmarked Reserve - Productivity										
On Call - Support	400			400	(283)	117	0	117	0	117
Invest to Save	495			495	0	495	0	495	0	495
Innovation & Transformation	4,000			4,000	(2,166)	1,834	(370)	1,464	(53)	1,411
	4,895	0	0	4,895	(2,449)	2,446	(370)	2,076	(53)	2,023
Earmarked Reserve - Specific Purpose										
Unspent Government Grant - Covid 19	262		88	350	(412)	(62)	0	(62)	0	(62)
Operational Training Reserve	1,000			1,000	(378)	622	0	622	0	622
Learning & Development Programme	1,400			1,400	(300)	1,100	(300)	800	(300)	500
Community Safety Programme - Sprinkler Support	600		(120)	480	(225)	255	0	255	0	255
LGPS Deficit	884		(285)	599	(295)	304	(304)	0	0	0
	4,146	0	(317)	3,829	(1,610)	2,219	(604)	1,615	(300)	1,315
Total Earmarked Reserves	10,526	0	(517)	10,009	(4,259)	5,750	(974)	4,776	(353)	4,423

It is expected that new business cases will be submitted during the financial year which will impact upon the future levels of Earmarked Reserves.

The movements in the Earmarked Reserves for the year ending 31 March 2021, are based on estimates made prior to year end. Upon finalisation of the financial statements, there could be some variations in the final movements for the year which are not expected to be material.

The purpose for each category of Earmarked Reserve is explained below:

Earmarked Contingency Reserves

This relates to specific risk-based contingencies that have been identified and includes:

Demand Pressures – This reserve has been established to fund any exceptional in year costs that arise to increase in demand pressure resulting from major incidents.

Tax base and Collection Account Reserve – This reserve has been established to fund any unplanned fluctuations on the Council Tax Collection Account.

National Non-Domestic Rates Collection Reserve - This reserve has been established to fund any unplanned fluctuations on the National Non-Domestic Rates Collection Account.

Risk Protection – The purpose of this reserve is to fund any unknown legal or insurance exposures that may arise in the future.

Earmarked Reserve – Productivity

This relates to Earmarked Reserves set aside for investment in productivity improvements within the Service and includes:

On Call Support – This is to support the On Call Development Programme, specifically targeting an improvement in recruitment and retention initiatives within this duty system.

Invest to Save Reserve – The purpose of this reserve is to enable managers to bid for investment funding for projects that would realise savings and efficiencies in future years.

Innovation and Transformation Reserve – This reserve has been established to fund innovation and transformation projects in line with the IRMP and the Fire & Rescue Plan. This will include Infrastructure, for ICT, vehicles, property and Service control facilities and systems. This reserve will also be looked at to fund any one off investment which will result in improved productivity in the service.

The activities that are currently included within the Innovation and Transformation Reserve are detailed below:

Activity to be funded from Transformation Reserve	Purpose of Activity	Year Ended 31 March 2022 £000's	Year Ended 31 March 2023 £000's	Year Ended 31 March 2024 £000's	Total £000's
ICT	To fund improvements in ICT in line with the Digital and Data Strategy.	(560)	(370)	(53)	(983)
Day Crew Conversion	Support required for the Conversion of 3 Day Crewed Stations to On Call	(307)	-	-	(307)
Productivity Improvement	This is to fund initiatives aimed at improving the productivity of the service.	(1,151)	-	-	(1,151)
Competency Management System	To fund the Replacement of the services Competency Management System	(150)	-	-	(150)
		(2,166)	(370)	(53)	(2,872)
Innovation and Transformation Reserve Opening Balance		4,000	1,834	1,464	
Innovation and Transformation Reserve Closing Balance		1,834	1,464	1,411	

Earmarked Reserve – Specific Purpose

This relates to Earmarked Reserves set aside for other specific purposes which includes:

Unspent Government Grants – Covid-19 – This reserve reflects unspent Government funding in respect to Covid 19 support.

Operational Training Reserve – This reserve has been established to support investment in operational training.

Learning and Development Programme – The reserve has been established to invest in structured learning and development initiatives between 2021-2024.

Community Safety Programme – Sprinkler Support – The purpose of this is to support the retro fitting of sprinklers in high rise premises in Essex.

LGPS Deficit – This reserve has been established to Fund the Local Government Pension Deficit, following the 2019 revaluation. There are 3 annual payments starting in the financial year ending 31 March 2021.

Capital Receipts Reserve

Capital Receipts are generated from the sale of surplus assets.

The use of the Capital Receipts Reserve is governed by regulations and they can only be spent on:

- Capital Financing of new expenditure.
- Repayment of Debt
- Funding the costs of disposals

The table below shows the current and future planned level of the Capital Receipts Reserve:

	Year Ending 31 March 2021	Year Ending 31 March 2022	Year Ending 31 March 2023	Year Ending 31 March 2024
	£000's	£000's	£000's	£000's
Capital Receipts Reserve - Opening Balance	8,477	10,154	14,291	8,671
Proceeds from Disposal of Day Crew Housing	1,677	5,602	-	-
Utilisation of Capital Receipts:				
Shoeburyness Fire Station	-	(1,000)	(460)	-
Service Workshops	-	(250)	(4,000)	(750)
ICT Strategy	-	(215)	(1,160)	
Capital Receipts Reserve - Closing Year End Balance	10,154	14,291	8,671	7,921

During the year ending 31 March 2021, the value of housing stocks deemed to be surplus and listed for sale are valued at £4.0m. It is expected that 6 houses to a value of £1.67m will be completed by the 31 March 2021.

The Fleet, Estate and ICT Digital and Data Strategies will determine the baseline level of funding that is to be included within the Annual Capital Programme. This baseline funding will primarily consist of Vehicle Replacement Programme, Asset Protection Works and ICT laptop rolling replacement.

The Capital Receipts Reserve will look to be utilised for Capital Expenditure that is outside of the baseline funding. This will require the submission of a business case, which must be approved by the Commissioner on the advice of the Chief Finance Officer.

There are 3 projects that have currently been identified that could be funded from the Capital Receipts Reserve. These projects are outlined below:

- Training Facilities
- Shoeburyness Fire Station – The investment is for the upgrade of the Station.
- Service Workshops - The investment is for the relocation of the Service Workshops to a new location in Collaboration with Essex Police.

Business cases are being prepared and have not yet been approved for Shoeburyness Fire Station and Service Workshops.

The Ministry of Housing, Communities & Local Government published guidance in 2018 granting Fire Authorities freedom to use capital receipts to fund revenue costs of transformation projects and release savings up to 31 March 2022. ECFRS reserve the right to apply capital receipts to any project where efficiency savings can be demonstrated.

The Reserves Strategy will be reviewed and updated on an Annual Basis. Business cases prepared to support the use of reserves, will be aligned to the Fire & Rescue Plan. Useable reserves will be monitored on a regular basis through the Performance and Resources Board.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
Proper Officer:	Chief Financial Officer (S151)
Contact Officer:	Neil Cross Essex County Fire & Rescue Service, Kelvedon Park, London Road, Rivenhall, Witham CM8 3HB Tel: 01376 576100