



Essex County Fire and Rescue Service Reserves Strategy

2022/23

Contents

| | |
|--|-----------|
| 1. Background | 3 |
| 2. Categories of Reserves | 5 |
| 3. Risks | 11 |

1. Background

The Reserves Strategy sets out our level of reserves and what we intend to use them for.

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, as presented in the Medium Term Financial Strategy.
- Each Fire and Rescue authority should publish their reserves strategy on their website, either as part of their Medium Term Financial Strategy 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 Strategy (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 strategy. 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 strategy.
 - 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).

2. Categories of Reserves

Reserves that are held by 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 from accounting adjustments and change annually as part of the year end process.**

UNUSABLE RESERVES

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

| | Balance at 31st March 2020 £000's | Balance at 31st March 2021 £000's |
|----------------------------|---|---|
| Revaluation Reserve | 36,522 | 38,180 |
| Capital Adjustment Account | 67,261 | 67,401 |
| Holiday Pay Account | (587) | (828) |
| Collection Fund Account | 467 | (3,170) |
| Pension Reserve | (740,790) | (924,685) |
| Unusable Reserves | (637,127) | (823,102) |

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.

USABLE RESERVES

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 shows the current and projected position of our General Reserves:

| | Published Balance at 31st March 2021 £000's | Projected Balance at 31st March 2022 £000's | Projected Balance at 31st March 2023 £000's | Projected Balance at 31st March 2024 £000's | Projected Balance at 31st March 2025 £000's |
|---|--|--|--|--|--|
| General Reserves Opening Balance | 3,439 | 4,351 | 3,330 | 3,330 | 3,330 |
| Surplus / (deficit) in year | 3,867 | (221) | - | - | - |
| Transfer from / (to) Earmarked Reserves | (2,955) | (800) | - | - | - |
| General Reserves Closing Balance | 4,351 | 3,330 | 3,330 | 3,330 | 3,330 |
| Per Previous Reserves Strategy | 3,473 | 2,398 | | | |
| Movement | 878 | 932 | | | |

| | | | | |
|--|----|----|----|----|
| General Reserve Closing Balance as a % of Budget | 5% | 4% | 4% | 4% |
|--|----|----|----|----|

The actual level of general reserves at 31 March 2021 was £4.351m, with the projected level of general reserves at 31 March 2022 expected to be £3.33m.

The 2022/23 budget was approved on 3 February 2022 by the Police, Fire and Crime Panel, which showed a balanced budget with no use of general reserves. The latest Medium Term Financial Strategy was also included as part of the budget paper.

The table above is reflective of the latest Medium Term Financial Strategy which also shows a balanced position with no use of general reserves.

There is a favourable movement in the level of general reserves as compared to the prior year Strategy. This is due to an improvement in the final financial outturns, as compared to those projected in the prior strategy.

The 2020/21 surplus, includes a specific year end entry to recognise a S31 Grant to fund the National Non Domestic Rates Deficit of £3.0m.

The National Framework 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.

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 Strategy.

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

| Category | Published Balance at 31 March 2020 £'000's | Forecast Addition / (Use) £'000's | Tfr (to) / from General Reserve £'000's | Published Balance at 31 March 2021 £'000's | Forecast Addition / (Use) £'000's | Tfr (to) / from General Reserve £'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 | - | - | 600 | - | 600 | - | 600 |
| Taxbase & Collection Account Reserve | 200 | - | - | 200 | - | - | 200 | - | 200 | - | 200 |
| National Non Domestic Rates Collection Reserve | 200 | 3,019 | - | 3,219 | (3,020) | - | 199 | - | 199 | - | 199 |
| Rolling Budgets Reserve | 85 | - | (85) | - | - | - | - | - | - | - | - |
| Risk Protection | 250 | 235 | (200) | 285 | - | - | 285 | - | 285 | - | 285 |
| Business Continuity | 150 | - | (150) | - | - | - | - | - | - | - | - |
| | 1,485 | 3,254 | (435) | 4,304 | (3,020) | - | 1,284 | - | 1,284 | - | 1,284 |
| Earmarked Reserve - Productivity | | | | | | | | | | | |
| On Call - Support | 400 | - | - | 400 | (208) | 300 | 492 | (48) | 445 | - | 445 |
| Invest to Save | 495 | - | - | 495 | - | - | 495 | - | 495 | - | 495 |
| Innovation & Transformation | 4,000 | - | - | 4,000 | (665) | 500 | 3,835 | (1,110) | 2,725 | (153) | 2,572 |
| | 4,895 | - | - | 4,895 | (873) | 800 | 4,822 | (1,157) | 3,665 | (153) | 3,512 |
| Earmarked Reserve - Specific Purpose | | | | | | | | | | | |
| Unspent Government Grant - Covid 19 | 262 | 541 | - | 803 | (369) | - | 434 | - | 434 | - | 434 |
| Operational Training Reserve | 1,000 | - | - | 1,000 | (203) | - | 797 | (215) | 582 | - | 582 |
| Learning & Development Programme | 1,400 | - | - | 1,400 | (113) | - | 1,287 | (300) | 987 | (300) | 687 |
| Community Safety Programme - Sprinkler Support | 600 | - | (120) | 480 | - | - | 480 | - | 480 | - | 480 |
| LGPS Deficit | 884 | - | (285) | 599 | (295) | - | 304 | (304) | (0) | - | (0) |
| | 4,146 | 541 | (405) | 4,282 | (981) | - | 3,301 | (819) | 2,482 | (300) | 2,182 |
| Total Earmarked Reserves | 10,526 | 3,795 | (840) | 13,481 | (4,873) | 800 | 9,408 | (1,976) | 7,432 | (453) | 6,979 |
| Per Previous Reserves Strategy Movement | 10,526 | (517) | - | 10,009 | (4,259) | - | 5,750 | (974) | 4,776 | (353) | 4,423 |
| | | | | 3,472 | | | 3,658 | | 2,656 | | 2,556 |

The movements in the Earmarked Reserves for the year ending 31 March 2022, 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.

Compared to the previous Reserves Strategy, Earmarked Reserves were £3.4m higher as at 31 March 2021 which was a result of:

- £3m S31 Grant relating to the National Non Domestic Rates deficit at the 2020/21 year end. This is expected to be paid in March 2022, where it will then be released from Earmarked reserves.
- £0.4m additional specific government grants relating to Covid 19.

It is also projected that Earmarked Receives will be higher than projected as at 31 March 2022. This is primarily relating to an underspend within the Innovation and Transformation Reserve in the year. Some general funds are also expected to be transferred into the reserve in the year, to ensure that the service has funding available to Innovation and Transformation projects in the future.

The purpose for which each Earmarked Reserve is held is explained below:

Earmarked Contingency Reserves:

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. Business rates collections were severely impacted by the COVID-19 pandemic in 2021/22. Section 31 grants were awarded to compensate for this reduction in funding, and this resulted in an increase of £3,019k in this reserve. The actual payment of the grants is expected in February 2022.

Rolling Budget Reserve – This reserve has been established to fund any carried forward expenditure from previous financial years.

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

Business Continuity – The purpose of this reserve is to fund unknown business interruption events in the future.

Earmarked Reserves – Productivity:

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.

Earmarked Reserves – Specific Purpose:

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 LGPS Deficit.

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:

| Capital Receipts Reserve (CRR) | Published Balance at 31 March 2021 £000's | Projected Balance at 31 March 2022 £000's | Projected Balance at 31 March 2023 £000's | Projected Balance at 31 March 2024 £000's | Projected Balance at 31 March 2025 £000's |
|---------------------------------------|---|---|---|---|---|
| CRR Opening Balance | 8,477 | 9,669 | 13,343 | 11,511 | 8,511 |
| Sale of Assets | 1,192 | 3,900 | 2,250 | - | - |
| Utilised in Year | - | (226) | (4,082) | (3,000) | (5,000) |
| CRR Closing Balance | 9,669 | 13,343 | 11,511 | 8,511 | 3,511 |
| Per Previous Reserves Strategy | 10,154 | 14,291 | 8,671 | 7,921 | |
| Movement | (485) | (948) | 2,840 | 590 | |

The Capital Receipts from the Sale of Asset primarily relate to the sale of surplus day crew housing.

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 5 projects that utilising the Capital Receipts Reserves and these are outlined below:

- 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.
- Wethersfield Training Centre – The investment is for the replacement of our existing training facilities at Wethersfield.
- Control Project – The investment is required to upgrade the Emergency Services Network, vital to the delivery of services.
- ICT Strategy – Funding was agreed as part of the Digital & Data Strategy, to update the Service's ICT infrastructure.

As compared to the Capital Receipts Reserves within the previous Reserves Strategy, the key points are:

- The value of the Sale of Assets is consistent, however there timing differences between the financial years which these are projected.
- There are 2 additional projects, which are now expected to utilise the Capital Receipts Reserve. These are Weathersfield Training Centre (£3m) and The Control Project (£1.7m)

The projected use of capital receipts, and the impact on borrowing, is further reviewed as part of the Treasury Management Strategy.

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.

3. Risks

Risks have been considered in the preparation of the the Reserves Strategy.

One specific risk to the Service, for which an Earmarked Reserve has not been created, is the outcome of the McCloud/Sargeant case in respect of the Firefighters Pension Scheme. As the remedy has not been agreed and the financial impact on the Service is still uncertain, an Earmarked Reserve has not been created. This will be given further consideration as more information becomes available.

The levels of Reserves are monitored throughout the year and these will be reported regularly in the finance pack presented to 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 |