

**LANCASHIRE COMBINED FIRE AUTHORITY  
RESOURCES COMMITTEE**

Meeting to be held on 21 May 2018

**YEAR END USABLE RESERVES AND PROVISIONS OUTTURN 2017/18**

Contact for further information:

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**Executive Summary**

This report presents the year end outturn position in respect of usable reserves and provisions. It is based on the information reported in the Revenue Outturn, Capital Outturn and Treasury Management Outturn reports.

**Recommendation**

The Resources Committee is asked to:-

- note the net drawdown of £50k of earmarked reserves and the additional £12k of provisions, contributing to the overall revenue outturn position;
- agree the year end transfers associated with the revenue outturn, £10k to the general reserve and a drawdown of £17k from the DFM reserve;
- agree the following transfers between reserves:-
  - general reserve, transfer of £28k to earmarked reserves and £2,600k to capital funding reserve;
  - Provisions, transfer of £691k to earmarked reserves;
- agree the year end transfers associated with the capital outturn, £224k drawdown from earmarked reserves and £2.921m from capital reserves and the transfer of £0.926m of unused revenue contributions to capital reserves;
- note £81k of capital receipts;
- note and endorse the overall level of reserves and provisions as set out in the report.

**Information**

The Authority approves reserves and balances policy as part of its budget setting process, in February, with the year-end outturn position being reported to Resources committee and included in the statement of accounts.

The previously reported Revenue Outturn, Capital Outturn and Treasury Management Outturn all feed the Authorities overall reserves position, which is summarised over the page:-

	General Reserve	Earmarked Reserves	Capital Reserves	Total Usable Reserves	Provisions	Total
	£m	£m	£m	£m	£m	£m
Balances at 31/3/17	10.446	7.455	18.639	36.540	1.763	38.303
Revenue Adjustments						
• Utilised/Provided for In-Year	-	(0.050)	-	(0.050)	0.012	(0.038)
• Revenue Outturn	0.010	(0.017)	-	(0.007)	-	(0.007)
• Specific transfers to/(from) Earmarked Reserves	(2.628)	0.719	2.600	0.691	(0.691)	-
	(2.618)	0.652	2.600	0.634	(0.679)	(0.045)
Capital Adjustments						
• Capital Outturn	-	(0.224)	(2.921)	(3.145)	-	(3.145)
• Capital Receipts	-	-	0.081	0.081	-	0.081
• Unused Revenue Contributions	-	-	0.926	0.926	-	0.926
	-	(0.224)	(1.912)	(2.136)	-	(2.136)
Balances at 31/3/18	7.828	7.884	19.326	35.038	1.084	36.121

## General Reserve

These are non-specific reserves which are kept to meet short/medium term unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed in the medium term.

The Authority needs to hold an adequate level of general reserves in order 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.

As a precepting Authority any surpluses or deficits are transferred into/out of reserves in order to meet future potential commitments, and as such the balance of the surplus on the revenue budget, £10k, has been transferred into this reserve.

As agreed as part of the budget setting process a further £2.6m of general fund has been used to fund the capital programme in 2017/18, with a further £28k being transferred to earmarked reserves to meet requirements.

After allowing for transfers the Authority now holds a General fund balance of £7.8m. This is within the target range agreed by the Authority at its February meeting, £2.5m to £10.0m.

## Earmarked Reserves

The reserve covers all funds, which have been identified for a specific purpose. The overall reserves level increased slightly from £7.5m to £7.9m, with the detailed position in respect of the various earmarked reserves set out below:-

	Balance at 31 March 2017	Transfer 2017/18	Balance at 31 March 2018	
	£m	£m	£m	
Devolved Financial Management	0.426	(0.129)	0.297	<p>This reserve enables budget holders to carry forward any surplus or deficit from one financial year to the next, giving greater flexibility in managing budgets thereby optimising the use of available financial resources and facilitating better value for money.</p> <p>The principles being that any overspends and 50% of any underspends are carried forward into the new financial year, subject to a £25k maximum, other than where a specific business case could be made. The remaining 50% of any underspend is transferred to the authority's general reserve.</p> <p>The levels of individual DFM reserves are reviewed each year as part of the revenue outturn/annual accounts process, to ensure that they are reasonable and that budget holders are not building up excessive reserves. The latest such review has identified a reduction of £0.1m in 2017/18.</p>
PFI Equalisation Reserve	3.537	0.790	4.327	<p>This is used to smooth out the annual net cost to the Authority of both PFI schemes, and will be required to meet future contract payments. The level of reserve required to meet future contract payments has been updated to reflect current and forecast inflation levels, which are higher than previously allowed. This results in an increase of £0.7m in 2017/18, giving a revised balance of £3.5m.</p>
PWLB Loan repayment penalty	1.000	(0.223)	0.877	<p>This reserve was created to meet the potential penalty costs associated with repayment of the remaining PWLB loans. £0.6m was used to meet the penalty costs associated with the early repayment of £3.2m of loans, as agreed at Resources Committee.</p>

				<p>The Authority still has £2.0m of long term loans, incurring £0.1m of interest charges per annum. We continue to review opportunities to repay these, hence saving any interest payments, however based on the current penalty associated with this, £0.9m, it is not considered prudent to do so at the present time.</p> <p>Members agreed this position in December 2017 but wished to review this in light of any further development relating to the potential relocation of Service Headquarters. As such the reserve has been topped up in order to provide sufficient scope to meet any penalty costs should the Authority decide to repay these loans.</p>
Insurance Aggregate Stop Loss (ASL)	1.500	(0.430)	1.070	<p>The Authority has aggregate stop losses (ASLs) on both its combined liability insurance policy (£0.4m) and its motor policy (£0.3m). This means that in any one year the Authority's maximum liability for insurance claims is capped at the ASL. As such the Authority can either meet these costs direct from its revenue budget or can set up an earmarked reserve to meet these. Within Lancashire we have chosen to meet the potential costs through a combination of the two. Hence the amount included in the revenue budget reflects charges in a typical year, with the reserve being set up to cover any excess over and above this. As such the reserve, combined with amounts within the revenue budget, provides sufficient cover to meet 2 years' worth of the maximum possible claims, i.e. the ASL (previously this allowed for 3 years' worth of cover but given our excellent claims history we have adjusted this downwards). It is worth noting that the revenue budget allocation has also been reduced in recent years reflecting the claims history. Without holding this reserve to cushion any major claims that may arise this would not have been possible.</p>
Fleet & Equipment	0.090	0.260	0.350	<p>This reserve has been increased to meet the cost of replacement projects which have not been completed in 17/18 relating to:-</p> <ul style="list-style-type: none"> <li>• fuel tanks</li> <li>• helmets and gloves</li> <li>• fire boats</li> </ul>

				<ul style="list-style-type: none"> <li>gas detectors</li> </ul> <p>We anticipate utilising all of this reserve in 2018/19</p>
Princes Trust	0.172	0.017	0.189	<p>This reserve has been established to balance short term funding timing differences and also to mitigate the risk of loss of funding and enable short term continuation of team activities, whilst alternative funding is found.</p> <p>The reserve is equivalent to 25% of the Teams current external funding target.</p> <p>Without this reserve any significant loss of funding would have an immediate impact on our ability to deliver the PT programme, and hence improve the lives of younger people.</p>
Apprentices/ Graduates	-	0.152	0.152	<p>This reserve was created from the in-year underspend relating to the appointment of apprentices, which was delayed awaiting national developments.</p> <p>As such the reserve has been set up to offset some of the pay costs that will be incurred in 2018/19, with the balance being met direct from the revenue budget.</p> <p>The flexibility this creates contributes to addressing apprenticeship targets, set by the Government, as well as addressing capacity issues within departments.</p>
ESMCP Ringfenced Funding	0.049	0.045	0.094	<p>As part of the Emergency Services Mobile Communication Programme (ESMCP), transitional funding was made available to fund costs associated with the transition to the new national arrangements, with any funds not spent being carried forwards for use in future years.</p>
Innovation Fund (incorporating non-specific ICT & Equipment reserves)	0.121	0.379	0.500	<p>The Authority previously created a Future Fire Fighting capital budget which has been used to meet costs arising from innovation within the sector, most notably the introduction of Technical Rescue Jackets. This capital budget will have been fully utilised in 2017/18.</p> <p>Given the fact that current replacement priorities are already included in the revenue budget we have not built any allowance into the capital programme for a continuation of this.</p> <p>However it is inevitable that developments will occur and we will continue to evaluate these with a view to introducing those that improve service delivery or fire fighter safety.</p>

				As such it was agreed to establish an innovation fund to cover any such developments, with any requests to utilise the fund requiring the approval of the Executive Board.
Training Centre (including bequest)	0.102	(0.074)	0.028	This reserve has been utilised to fund site improvement works in 2017/18, with the balance being utilised in 2018/19.
New Dimensions	0.384	(0.384)	-	All costs associated with the provision of New Dimension Services are now included in the base revenue budget, with any new equipment being met from this or the Innovations Reserve, hence this reserve is no longer required
Youth Engagement Scheme	0.075	(0.075)	-	As the Fire Cadets programme has been established as an on-going activity, and hence included in the agreed revenue budget, the reserve is no longer required
	7.456	0.428	7.884	

### Capital Reserves and Receipts

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years; as such they cannot be used to offset any deficit on the revenue budget, without having a significant impact on the level of capital programme that the Authority can support.

Capital Grant had been previously received in relation to Lancaster Fire Station rebuild, this has been fully utilised within the year.

Capital Receipts are generated from the sale of surplus assets, which have not yet been utilised to fund the capital programme.

In 2017/18 we utilised £2.9m of capital reserves. However this use of reserves was more than offset by the agreed transfer from general reserves of £2.6m, the transfer in of unused revenue contributions of £0.9m and the sale of assets, which generated £81k of capital receipts.

As a result of this the Authority currently holds £19.3m of capital reserves/receipts.

	Capital Reserves	Capital Grant	Capital Receipts	Total
Balance at 31 March 2017	16.633	0.505	1.501	18.639
Transfer from General Reserve	2.600	-	-	2.600
Capital receipts	-	-	0.081	0.081
Capital expenditure	(2.416)	(0.505)	-	(2.921)
Transfer Unused Revenue Contributions	0.926	-	-	0.926
Balance at 31 March 2018	17.745	-	1.582	19.327

However the 18/19 capital programme, after allowing for slippage, shows £17.9m of this being utilised over the latest 5 year capital programme, leaving a balance of approx. £1.4m at the end of 2022/23.

## Provisions

The Authority has three provisions to meet future estimated liabilities:-

- Insurance Provision, which covers potential liabilities associated with outstanding insurance claims. A fundamental review of current claims outstanding and our claims history has been undertaken and as such the provision has been reduced to £434k at 31 March 2018. (This reduction has been used to offset the change in earmarked reserves, and in particular the creation of the Innovation Reserve and the increase in the PFI Reserve.)
- RDS Provision, which covers potential costs associated with RDS personnel relating to employment terms and eligibility to join the Pensions Scheme.
- Business Rates Collection Fund Appeals Provision, which covers the Authority's share of outstanding appeals against business rates collection funds, which is calculated each year end by each billing authority within Lancashire based on their assumptions of outstanding appeal success rates, as part of their year-end accounting for the business rates collection fund. The change in this reflecting the latest estimates provided by billing Authorities.

	Insurance Provision	RDS Provision	Business Rates Collection Fund Appeals Provision	Total
Balance at 31 March 2017	1.129	0.021	0.613	1.763
Additional provision/(Utilised in year)	(0.004)	0.001	0.015	0.012
Review of requirement	(0.691)	-	-	(0.691)
Balance at 31 March 2018	0.434	0.022	0.628	1.084

## Summary

The overall position at year end is broadly in line with those identified in the Reserves and Balances Policy, agreed in February, at £36.1m. At this level the Treasurer believes these are adequate to meet future requirements in the medium term.

Future forecasts have been updated and are set out below:-

	General Reserve	Earmarked Reserves	Capital Reserves	Total Usable Reserves	Provisions	Total
	£m	£m	£m	£m	£m	£m
Balance 31/3/17	10.4	7.5	18.6	36.5	1.8	38.3
Change in year	(2.6)	0.4	0.7	(1.5)	(0.7)	(2.2)
Balance 31/3/18	7.8	7.9	19.3	35.0	1.1	36.1
Change in year	0.0	(0.2)	(13.6)	(13.8)	0.0	(13.8)

Balance 31/3/19	7.8	7.7	5.7	21.2	1.1	22.3
Change in year	(1.1)	(0.2)	(3.2)	(4.5)	0.0	(4.5)
Balance 31/3/20	6.7	7.5	2.5	16.7	1.1	17.8
Change in year	(1.7)	(0.1)	(1.9)	(3.7)	0.0	(3.7)
Balance 31/3/21	5.0	7.5	0.6	13.0	1.1	14.1
Change in year	(2.3)	(0.1)	(0.0)	(2.4)	0.0	(2.4)
Balance 31/3/22	2.7	7.4	0.5	10.6	1.1	11.7
Change in year	(2.6)	(0.1)	0.9	(1.8)	0.0	(1.8)
Balance 31/3/23	0.2	7.3	1.4	8.8	1.1	9.9

### **Financial Implications**

As outlined in the report

### **Business Risk Implications**

The outturn report enables stakeholders to monitor how the Authority has performed financially in the year

### **Environmental Impact**

None

### **Equality and Diversity Implications**

None

### **Human Resource Implications**

None

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	<i>Date</i>	Contact
Reason for inclusion in Part II, if appropriate:		