

**LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE**

Meeting to be held on 29 May 2019

**YEAR END USABLE RESERVES AND PROVISIONS OUTTURN 2018/19
(Appendix 1 refers)**

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 Committee is asked to:-

- note the additional £62k of earmarked reserves and the additional £198k of provisions, contributing to the overall revenue outturn position;
- agree the year end transfers associated with the revenue outturn, £333k to the general reserve and £102k to earmarked reserves;
- agree the year end transfer associated with the capital outturn, £352k drawdown from capital reserves and £28k drawdown from earmarked reserves;
- note £69k of capital receipts;
- note and endorse the overall level of reserves and provisions as set out in the report.

Information

The Authority approves its 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	NWFC Reserves	Total Usable Reserves	Provisions	Total
	£m	£m	£m	£m	£m	£m	£m
Balances at 31/3/18	7.828	7.884	19.326	0.192	35.230	1.084	36.314
Revenue Adjustments							
• Utilised/Provided for In-Year	-	0.062	-	-	0.062	0.198	0.260
• Revenue Outturn	0.333	0.102	-	-	0.435	-	0.435
• Specific transfers to/(from) Earmarked Reserves	-	-	-	-	-	-	-
	0.333	0.164	-	-	0.497	0.198	0.695
Capital Adjustments							
• Capital Outturn	-	(0.028)	(0.352)	-	(0.380)	-	(0.380)
• Capital Receipts	-	-	0.069	-	0.069	-	0.069
• Unused Revenue Contributions	-	-	-	-	-	-	-
	-	(0.028)	(0.283)	-	(0.311)	-	(0.311)
Balances at 31/3/19	8.161	8.020	19.043	0.192	35.415	1.282	36.698

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, £333k, has been transferred into this reserve.

After allowing for transfers the Authority now holds a General fund balance of £8.2m. This is within the target range agreed by the Authority at its February meeting, £3.2m 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 £7.9m to £8.0m, with the detailed position in respect of the various earmarked reserves set out below:-

	Balance at 31 March 2018	Transfer 2018/19	Balance at 31 March 2019	
	£m	£m	£m	
Devolved Financial Management	0.297	(0.027)	0.270	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. 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, with a maximum limit of £25k per budget. (Appendix 1 provides a breakdown of this reserve by individual department)
PFI Equalisation Reserve	4.327	0.086	4.413	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.
PWLB Loan repayment penalty	0.877	-	0.877	This reserve was created to meet the potential penalty costs associated with repayment of the remaining PWLB loans. 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.

Insurance Aggregate Stop Loss (ASL)	1.070	0.048	1.118	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. 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.
Fleet & Equipment	0.350	(0.018)	0.232	This reserve provides scope to meet new equipment requirements identified in-year, such as <ul style="list-style-type: none"> • replacement fuel tanks • battery powered hand tools
Prince's Trust	0.189	0.109	0.298	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. 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.

Apprentices/ Graduates	0.152	-	0.152	This reserve was created from the in-year underspend relating to the appointment of apprentices, which was delayed awaiting national developments. As such the reserve has been set up to offset some of the pay costs that will be incurred in future years, with the balance being met direct from the revenue budget. The flexibility this creates contributes to addressing apprenticeship targets, set by the Government, as well as addressing capacity issues within departments.
ESMCP Ringfenced Funding	0.094	0.066	0.160	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.
Training Centre (including bequest)	0.028	(0.028)	-	This reserve has been utilised to fund site improvement works in 2017/18, with the balance being utilised in 2018/19.
Innovation Fund	0.500	-	0.500	This reserve was established to cover any unfunded developments that are identified which will improve service delivery or fire fighter safety, with any requests to utilise the fund requiring the approval of the Executive Board.
	7.884	0.134	8.020	

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 2018/19 we utilised £352k of capital reserves. However this was partly offset by the sale of assets, which generated £69k of capital receipts.

As a result of this the Authority currently holds £19.0m of capital reserves/receipts.

	Capital Reserves	Capital Receipts	Total
Balance at 31 March 2018	17.745	1.581	19.326
Capital receipts	-	0.069	0.069
Capital expenditure	(0.352)	-	(0.352)
Balance at 31 March 2019	17.393	1.650	19.043

However the 19/20 capital programme, after allowing for slippage, shows £16.1m of this being utilised over the latest 5 year capital programme, leaving a balance of approx. £2.9m at the end of 2023/24.

North West Fire Control Reserves

Members will recall that last year's accounts were amended to reflect the Authority's 25% share of North West Fire Control Ltd. As such we will update the 2018/19 accounts in due course for this, however as these are not available at the time of writing the report we have assumed that the year end position has not changed from 2017/18 to 2018/19 (this will be updated for the final version of the accounts). It must be emphasised that these reserves are not available for our use, as they form an essential part of NW Fire Controls financial planning.

Provisions

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

- Insurance Provision, which covers potential liabilities associated with outstanding insurance claims. A review of current claims outstanding and our claims history has been undertaken and as such the provision has increased to £502k at 31 March 2019.
- 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 2018	0.434	0.022	0.628	1.084
Additional provision/(Utilised in year)	0.068	-	0.130	0.198
Balance at 31 March 2019	0.502	0.022	0.758	1.282

Summary

The overall position at year end shows the Authority (excluding North West Fire Control balances) holding £36.5m of reserves and provisions, compared with the anticipated position of £36.1m identified in the Reserves and Balances Policy, agreed in February. The majority of the difference relating to the additional grant funding received in respect of Business Rates at the end of the year. At this level the Treasurer believes these are adequate to meet future requirements in the medium term.

Future forecasts (excluding North West Fire Control balances) 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 31/3/18	7.8	7.9	19.3	35.0	1.1	36.1
Change in year	0.3	0.1	(0.3)	0.2	0.2	0.4
Balance 31/3/19	8.2	8.0	19.0	35.2	1.3	36.5
Change in year	(0.3)	(0.4)	(4.5)	(5.2)	0.0	(5.2)
Balance 31/3/20	7.9	7.6	14.6	30.0	1.3	31.3
Change in year	(0.9)	(0.4)	(8.5)	(9.7)	0.0	(9.7)
Balance 31/3/21	7.0	7.2	6.1	20.3	1.3	21.6
Change in year	(1.2)	(0.3)	(3.7)	(5.1)	0.0	(5.1)
Balance 31/3/22	5.9	6.9	2.4	15.2	1.3	16.5
Change in year	(1.5)	(0.2)	(0.1)	(1.8)	0.0	(1.8)
Balance 31/3/23	4.4	6.7	2.3	13.4	1.3	14.7
Change in year	(1.7)	(0.2)	0.6	(1.3)	0.0	(1.3)
Balance 31/3/24	2.7	6.5	2.9	12.0	1.3	13.3

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	Date	Contact
Reason for inclusion in Part II, if appropriate:		

Devolved Financial Management Earmarked Reserve

	Balance at 31 March 2018	Transfer 2018/19	Balance at 31 March 2019
	£000	£000	£000
Service Delivery			
Service Delivery	(100)	-	(100)
Winter Hill	-	-	-
Training & Operational Review	-	-	-
Control	-	-	-
Prince's Trust Volunteers Scheme	(25)	-	(25)
Strategy & Planning			
Fleet & Technical Services	(25)	12	(13)
Information Technology	(25)	-	(25)
Service Development	(24)	(1)	(25)
Special Projects	-	(15)	(15)
People & Development			
Human Resources	(10)	-	(10)
Occupational Health Unit	(10)	-	(10)
Corporate Communications	(25)	25	-
Safety Health & Environment	(5)	5	-
Corporate Services			
Executive Board	(2)	2	-
Central Admin Office	(5)	-	(5)
Finance	(5)	-	(5)
Procurement	(25)	-	(25)
Property	-	-	-
External Funding	(12)	-	(12)
Pay			
TOTAL	(297)	27	(270)