

**LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE**

Meeting to be held on 23 September 2020

**YEAR END USABLE RESERVES AND PROVISIONS OUTTURN 2019/20
(Appendix 1 refers)**

Contact for further information:

Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

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 £646k of earmarked reserves and the additional £298k of provisions, contributing to the overall revenue outturn position;
- agree the year end transfers associated with the revenue outturn, £286k from the general reserve and £38k to earmarked reserves;
- note the transfer of £877k from earmarked reserves into capital reserves;
- agree the year end transfer associated with the capital outturn, £860k drawdown from capital reserves;
- note £13k of capital receipts;
- note the additional £172k of unused revenue contributions to capital increasing capital reserves;
- 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 31/3/19	8.161	8.020	19.043	0.793	36.017	1.282	37.299
Revenue Adjustments							
• Utilised/Provided for In-Year	-	0.646	-	-	0.646	0.298	0.944
• Revenue Outturn	(0.286)	0.038	-	-	(0.248)	-	(0.248)
• Specific transfers to/(from) Earmarked Reserves	-	(0.877)	0.877	-	-	-	-
	(0.286)	(0.193)	0.877	-	0.398	0.298	0.696
NWFC reserves movement	-	-	-	(0.049)	(0.049)	-	(0.049)
Capital Adjustments							
• Capital Outturn	-	-	(0.860)	-	(0.860)	-	(0.860)
• Capital Receipts	-	-	0.013	-	0.013	-	0.013
• Unused Revenue Contributions	-	-	0.172	-	0.172	-	0.172
	-	-	(0.674)	(0.049)	(0.723)	-	(0.723)
Balances at 31/3/20	7.875	7.827	19.246	0.744	35.692	1.580	37.272

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 deficit on the revenue budget, £286k, has been drawn down from this reserve.

After allowing for transfers the Authority now holds a General fund balance of £7.9m. This is within the target range agreed by the Authority at its February meeting, £3.0m to £10.0m.

Earmarked Reserves

The reserve covers all funds, which have been identified for a specific purpose. The overall reserves level reduced slightly from £8.0m to £7.8m, with the detailed position in respect of the various earmarked reserves set out:-

	Balance at 31 March 2019	Transfer 2019/20	Balance at 31 March 2020	
	£m	£m	£m	
Devolved Financial Management	0.270	0.018	0.288	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	4.413	0.070	4.483	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 however, given the reducing likelihood of repaying the loans with such a large penalty, the balance was transferred into the Capital Funding Reserve as part of the 2020/21 budget setting process.
Insurance Aggregate Stop Loss (ASL)	1.118	-	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. There was no utilisation during 2019/20 as the costs were met from the revenue budget and existing insurance provision.
Fleet & Equipment	0.232	0.348	0.580	This reserve provides scope to meet new equipment requirements identified in-year, such as battery powered hand tools, and other new technologies. In addition the reserve has been increased by the unspent budgets for replacement structural firefighting boots and replacement duty rig, as neither were purchased in 2019/20, both of which should be spent during 2020/21, plus £0.1m for a delayed delivery of firefighting PPE which was received in April rather than March as expected.
Prince's Trust	0.298	0.074	0.372	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. The impact on income in 2020/21 due to the Covid-19 pandemic is yet to be fully realised, this reserve will help bridge any gap in funding.
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 Ring fenced Funding	0.160	(0.064)	0.096	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 previously spent being utilised.
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.
Covid-19 Ring fenced Funding	-	0.189	0.189	This fund is the unspent balance of specific grant funding received in March 2020 to assist Fire Services with additional costs in relation to the

				response to the Covid-19 pandemic. We received further funding in 2020/21.
Various other ad hoc reserves	-	0.048	0.048	This balance covers various other smaller reserves in relation to timing issues, ie budgets not spent during 2019/20 that will be spent during 2020/21.
	8.020	(0.193)	7.827	

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

In 2019/20 we utilised £860k of capital reserves. However this was partly offset by the sale of assets, which generated £13k of capital receipts from sale of a vehicle.

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

	Capital Reserves	Capital Receipts	Total
Balance at 31 March 2019	17.393	1.650	19.043
Capital receipts	-	0.013	0.013
Capital expenditure	(0.860)	-	(0.860)
Transfer from earmarked reserves	0.877	-	0.877
RCCO not utilised in 2019/20	0.172	-	0.172
Balance at 31 March 2020	17.583	1.663	19.246

However the 20/21 capital programme, after allowing for slippage, shows all of this being utilised over the next 3 years of the capital programme.

North West Fire Control Reserves

The North West Fire Control (NWFC) reserves brought forwards form part of the opening balances, and the draft accounts' balances are included in the report and the draft accounts. This is not available for our use as it is our share of the NWFC required reserves.

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 £522k at 31 March 2020.

- 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.

	Insurance Provision	RDS Provision	Business Rates Collection Fund Appeals Provision	Total
Balance at 31 March 2019	0.502	0.022	0.758	1.282
Additional provision/(Utilised in year)	0.020	-	0.278	0.298
Balance at 31 March 2020	0.522	0.022	1.036	1.580

Summary

The overall position at year end shows the Authority (excluding draft North West Fire Control balances) holding £37.3m of reserves and provisions, compared with the anticipated position of £35.4m identified in the Reserves and Balances Policy, agreed in February. The majority of the difference relating to:

- The slippage on the capital programme, £0.6m;
- Unexpected NNDR levy fund surplus and S31 grant in relation to previous years, £0.1m;
- The unspent balance of the Covid-19 specific grant received in March, £0.2m; and
- Several planned areas of spend which have been deferred to 2020/21.

At this level the Treasurer believes these are adequate to meet future requirements in the medium term.

Future forecasts (excluding NWFC balances) have been updated and are set out below:-

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Total Usable Reserves	Provisions	Total Reserves & Balances
	£m	£m	£m	£m	£m	£m
Balance 31/3/19	8.2	8.0	19.0	35.2	1.3	36.5
Change in year	(0.3)	(0.2)	0.2	(0.3)	0.0	(0.3)
Balance 31/3/20	7.9	7.8	19.2	34.9	1.3	36.2
Change in year	(0.4)	(0.9)	(8.2)	(9.5)	0.0	(9.5)
Balance 31/3/21	7.4	6.9	11.1	25.4	1.3	26.7
Change in year	(0.6)	(0.4)	(4.8)	(5.8)	0.0	(5.8)
Balance 31/3/22	6.8	6.5	6.2	19.6	1.3	20.9
Change in year	(0.4)	(0.3)	(6.2)	(6.8)	0.0	(6.8)
Balance 31/3/23	6.4	6.3	0.1	12.8	1.3	14.1
Change in year	(0.6)	(0.2)	(0.0)	(0.8)	0.0	(0.8)
Balance 31/3/24	5.8	6.0	0.1	11.9	1.3	13.2
Change in year	(0.2)	(0.2)	(0.1)	(0.4)	0.0	(0.4)
Balance 31/3/25	5.6	5.8	0.0	11.5	1.3	12.8

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:		

Devolved Financial Management Earmarked Reserve

	Balance at 31 March 2019	Transfer 2019/20	Balance at 31 March 2020
	£000	£000	£000
Service Delivery			
Service Delivery	(100)	-	(100)
Winter Hill	-	-	-
Training & Operational Review	-	(25)	(25)
Control	-	-	-
Prince's Trust Volunteers Scheme	(25)	-	(25)
Strategy & Planning			
Fleet & Technical Services	(13)	13	-
Information Technology	(25)	-	(25)
Service Development	(25)	-	(25)
Special Projects	(15)	2	(13)
People & Development			
Human Resources	(10)	1	(9)
Occupational Health Unit	(10)	-	(10)
Corporate Communications	-	(10)	(10)
Safety Health & Environment	-	-	-
Corporate Services			
Executive Board	-	-	-
Central Admin Office	(5)	-	(5)
Finance	(5)	-	(5)
Procurement	(25)	-	(25)
Property	-	-	-
External Funding	(12)	1	(11)
Pay			
TOTAL	(270)	(18)	(288)