

**LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE**

Meeting to be held on 7 July 2021

**YEAR END USABLE RESERVES AND PROVISIONS OUTTURN 2020/21
(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 £2,995k of earmarked reserves and the £44k reduction in provisions, contributing to the overall revenue outturn position;
- agree the year end transfers associated with the revenue outturn, £348k to the capital funding reserve and £15k to earmarked reserves;
- note the transfer of £200k from earmarked reserves into capital reserves;
- agree the year end capital outturn drawdown from capital reserves of £163k;
- note £17k 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 Authority's 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 31/3/20	6.044	7.827	19.246	0.744	33.861	1.580	35.441
Revenue Adjustments							
• Utilised/Provided for In-Year	-	2.995	-	-	2.995	(0.044)	2.951
• Revenue Outturn	-	0.015	0.348	-	0.363	-	0.363
• Specific transfers to/(from) Earmarked Reserves	-	(0.200)	0.200	-	-	-	-
	-	2.810	0.548	-	3.358	(0.044)	3.314
NWFC reserves movement	-	-	-	(0.228)	(0.228)	-	(0.228)
Capital Adjustments							
• Capital Outturn	-	-	(0.163)	-	(0.163)	-	(0.163)
• Capital Receipts	-	-	0.017	-	0.017	-	0.017
	-	-	(0.146)	(0.228)	(0.374)	-	(0.374)
Balances at 31/3/21	6.044	10.637	19.648	0.521	36.848	1.536	38.384

* The collection fund accounting has not been completed – therefore the Authority's share of the business rates appeals provision has not been updated.

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. Given the Authority's current general fund balance stands at £6.0m and the scale of our capital programme it is proposed that the revenue underspend, £348k, is transferred into the capital funding reserve, reducing future borrowing requirement. Hence the year-end General fund balance will remain at £6.0m compared with a target range agreed by the Authority at its February meeting of £3.5m to £10.0m.

Earmarked Reserves

The reserve covers all funds, which have been identified for a specific purpose. The overall reserves level has increased significantly from £7.8m to £10.6m, with the detailed position in respect of the various earmarked reserves set out:-

	Balance at 31 March 2020	Transfer 2020/21	Balance at 31 March 2021	
	£m	£m	£m	
Devolved Financial Management	0.288	0.015	0.303	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 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	4.483	0.110	4.593	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.
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

				<p>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 2020/21 as the costs were met from the revenue budget and existing insurance provision.</p>
Fleet & Equipment	0.580	(0.390)	0.190	<p>This reserve provides scope to meet new equipment requirements identified in year or timing issues in terms of deliveries. In year usage reflects the purchase of both replacement of duty rig and firefighting PPE. In addition, £200k was transferred into the capital funding reserve to contribute to the future equipment replacement</p>
Prince's Trust	0.372	0.050	0.422	<p>This reserve has been established to balance short term funding timing differences and to also 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.</p>
Apprentices/ Graduates	0.152	(0.050)	0.102	<p>This reserve was created from previous in-year underspend relating to the appointment of apprentices, which was delayed awaiting national developments. As such the reserve was set up to offset some of the costs that are</p>

				<p>incurred in future years, 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	0.096	(0.016)	0.080	<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.</p> <p>Usage reflects our in-year spend against this as well as the return of any unused funds to the Regional pot for future usage.</p> <p>This is partly offset by earmarking a further £80k to meet future unfunded staffing costs associated project implementation.</p>
Innovation Fund	0.500	-	0.500	<p>This reserve was established to cover any unfunded developments that are identified which will improve service delivery, with any requests to utilise the fund requiring the approval of the Executive Board.</p>
Covid-19 Ringfenced Funding	0.189	0.193	0.382	<p>The Government has provided £1.4m of total funding to meet costs associated with the Covid pandemic.</p> <p>This balance represents the unused funding held by the Authority at year end, which is available to support activities in 2021/22.</p>
Section 21 Business Rate Relief Grant	-	-	1.925	<p>The Government provided Section 31 Rate Relief grant to individual billing authorities, in order to cover the additional in-year reliefs provided as a result of the pandemic. Business rates are split between the Government, billing authorities, Lancashire County Council and ourselves, we receive 1% of the total. As such this grant</p>

				should be split in line with business rates. However, the Govt allocated all of this to billing authorities to aid cash flow, with the correct distribution anticipated in the new year, once the outturn business rates position has been agreed. As such we have accrued for our anticipated share of this in 20/21 but need to carry this forward via this reserve in order to meet the business rate collection fund shortfall that has arisen due to these additional reliefs.
C/Fwd. 2020/21 Underspend Relating to Timing of Activities	-	-	0.614	Within the revenue budget there are a number of items that have been delayed by the pandemic, and which therefore need funding carried forward from 20/21 to 21/22. These relate to areas such as fire safety, training provision, property maintenance, organisational development and digital transformation, and are purely a timing issue. This carry forward is already reflected in the year end revenue budget position reported earlier on this agenda.
Specific Grant C/Fwd. 20/21	-	-	0.358	This reserve carries forward unspent specific grants provided in 20/21 in respect of <ul style="list-style-type: none"> • Protection Uplift Grant • Building Risk Review Grant • Grenfell Infrastructure Grant We anticipate utilising these funds in the new financial year.
Various other ad hoc reserves	0.048	-	0.048	This balance covers various other smaller reserves for use in the medium term.
	7.827	2.810	10.637	

It is worth highlighting that a number of these reserves are short-term holding reserves and as such we anticipate drawing down these reducing our earmarked reserves to approx. £5m by March 2026, the majority of which will be attributable to the PFI reserve and the Insurance reserve.

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 2020/21 we utilised £163k of capital reserves. However, it is more than offset by the proposed transfer of £200k from earmarked reserves and of £348k from the general reserve, representing the in-year revenue underspend. In addition, the sale of vehicles generated £17k of capital receipts.

As a result of this the Authority currently holds £19.6m of capital reserves/receipts.

	Capital Reserves	Capital Receipts	Total
Balance at 31 March 2020	17.583	1.663	19.246
Capital expenditure	(0.163)	-	(0.163)
Capital receipts	-	0.017	0.017
Transfer from In-year revenue underspend	0.348		0.348
Transfer from earmarked reserves	0.200	-	0.200
Balance at 31 March 2021	17.968	1.680	19.648

However, the 2021/22-2025/26 capital programme, after allowing for slippage, shows all of this being utilised over the next 5 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 reduced slightly to £500k at 31 March 2021;
- RDS Provision, this provision dates back to the Part Time workers Regulations 2000 and, given we have resolved all the cases where we are able to, the remaining balance has been removed from this provision;
- 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. *Members should note that the 2020/21 core statements presented do not include the adjustments required for recognising the Authority's share of the collection fund income position for both Council Tax and Business Rates, as the information was not received from all billing authority's in time for inclusion in this report (this will be updated for the final version of the accounts).

	Insurance Provision	RDS Provision	Business Rates Collection Fund Appeals Provision*	Total
Balance at 31 March 2020	0.522	0.022	1.036	1.580
Additional provision/(Utilised in year)	(0.022)	(0.022)	-	(0.044)
Balance at 31 March 2021	0.500	-	1.036	1.536

Summary

The overall position at year end shows the Authority (excluding draft North West Fire Control balances) holding £37.8m of reserves and provisions, which is broadly in line with the anticipated £38.0m identified in the Reserves and Balances Policy, agreed in February.

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 31/3/20	6.0	7.8	19.2	33.1	1.5	34.6
Change in year	0.0	2.8	0.4	3.2	(0.0)	3.2
Balance 31/3/21	6.0	10.6	19.6	36.3	1.5	37.8
Change in year	(1.3)	(3.2)	(7.3)	(11.8)	0.0	(11.8)
Balance 31/3/22	4.7	7.4	12.4	24.5	1.5	26.0
Change in year	(1.2)	(0.8)	(1.3)	(3.3)	0.0	(3.3)
Balance 31/3/23	3.6	6.6	11.1	21.2	1.5	22.7

Change in year	(0.7)	(0.5)	(7.4)	(8.6)	0.0	(8.6)
Balance 31/3/24	2.8	6.1	3.7	12.6	1.5	14.1
Change in year	(1.0)	(0.4)	(3.5)	(4.8)	0.0	(4.8)
Balance 31/3/25	1.9	5.8	0.2	7.8	1.5	9.3
Change in year	(0.5)	(0.4)	(0.2)	(1.1)	0.0	(1.1)
Balance 31/3/26	1.4	5.4	0.0	6.7	1.5	8.2

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 2020	Transfer 2020/21	Balance at 31 March 2021
	£000	£000	£000
Service Delivery			
Service Delivery	(100)	-	(100)
Control	-	-	-
Youth Engagement (inc PTV)	(25)	-	(25)
Special Projects	(13)	7	(6)
Strategy & Planning			
Fleet & Technical Services	-	(25)	(25)
Information Technology	(25)	-	(25)
Digital Transformation	-	(25)	(25)
Service Development	(25)	-	(25)
Training & Operational Review	(25)	-	(25)
People & Development			
Human Resources	(9)	9	-
Occupational Health Unit	(10)	-	(10)
Corporate Communications	(10)	(10)	(10)
Safety Health & Environment	-	-	-
Corporate Services			
Executive Board	-	-	-
Central Admin Office	(5)	-	(5)
Finance	(5)	5	-
Procurement	(25)	25	-
Property	-	(4)	(4)
External Funding	(11)	(8)	(19)
Pay			
TOTAL	(288)	(15)	(303)