

# Lancashire Combined Fire Authority Resources Committee

Meeting to be held on 06 July 2022

## Year End Usable Reserves and Provisions Outturn 2021/22

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*Table 1 Executive Summary and Recommendations*

### **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 utilisation of £690k of earmarked reserves;
- agree the year end transfers associated with the revenue outturn, £331k to the capital funding reserve;
- note the transfer of £336k from earmarked reserves into capital reserves;
- agree the year end capital outturn drawdown from capital reserves of £977k;
- note the transfer of £15k of unused RCCO to capital reserves;
- note £3k of capital receipts;
- note that we have not yet received NWFC accounts in order to calculate our share of their reserves, nor are we able to calculate our share of the Business Rates Collection Fund Appeal Provision;
- 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 below:-

Table 2 Overall Reserves as at 31 March 2022

	General Reserve	Earmarked Reserves	Capital Reserves	NWFC Reserves	Total Usable Reserves	Provisions*	Total
	£m	£m	£m	£m	£m	£m	£m
Balances at 31/3/21	6.044	10.769	19.647	-	36.460	1.536	37.996
Revenue Adjustments							
• Utilised / Provided for In-Year	-	(0.690)	-	-	(0.690)	-	(0.690)
• Revenue Outturn	-	-	0.331	-	0.331	-	0.331
• Specific transfers to/(from) Earmarked Reserves	-	(0.336)	0.336	-	-	-	-
	-	(1.026)	0.667	-	(0.359)	-	(0.359)
NWFC reserves movement	-	-	-	-	-	-	-
Capital Adjustments							
• Capital Outturn	-	-	(0.977)	-	(0.977)	-	(0.977)
• Unused RCCO	-	-	0.015	-	0.015	-	0.015
• Capital Receipts	-	-	0.003	-	0.003	-	0.003
	-	-	(0.959)	-	(0.959)	-	(0.959)
Balances at 31/3/22	6.044	9.743	19.355	-	35.141	1.536	36.677

Note the above figures exclude our share of the NWFC reserves. Furthermore, as we are still awaiting details of our share of the Business Rates Collection Fund Appeal, we are unable to update the position in respect of provisions.

## 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, £331k, 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 £4.0m to £10.0m.

## Earmarked Reserves

The reserve covers all funds, which have been identified for a specific purpose. The overall reserves level has reduced from increased significantly from £10.8m to £9.8m, with the detailed position in respect of the various earmarked reserves set out:-

*Table 3 Earmarked Reserves as at 31 March 2022*

	Balance at 31 March 2021	Transfer 2021/22	Balance at 31 March 2022									
	£m	£m	£m									
Devolved Financial Management	0.303	(0.053)	0.250	<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 financial resources and facilitating better value for money.</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.</p> <p>I propose setting the following DFM balances for each Directorate:</p> <table style="margin-left: 20px;"> <tr> <td>Service Delivery</td> <td>£100k</td> </tr> <tr> <td>Strategy and Planning</td> <td>£100k</td> </tr> <tr> <td>People and Development</td> <td>£25k</td> </tr> <tr> <td>Corporate Services</td> <td>£25k</td> </tr> </table>	Service Delivery	£100k	Strategy and Planning	£100k	People and Development	£25k	Corporate Services	£25k
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People and Development	£25k											
Corporate Services	£25k											

PFI Equalisation Reserve	4.593	0.474	5.067	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.
PFI Refinancing	-	0.212	0.212	The reserve arises from the PFI refinancing exercise undertaken in year and specifically the gain that arose from this.
Insurance Aggregate Stop Loss (ASL)	1.118	-	1.050	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 2021/22 as the costs were met from the revenue budget and existing insurance provision.
Fleet & Equipment	0.190	0.060	0.250	This reserve provides scope to meet new equipment requirements identified in year or timing issues in terms of deliveries.
Prince's Trust	0.422	0.025	0.447	This reserve has been established to balance short term funding

				<p>differences and to mitigate the risk of loss of funding and enable short term continuation of team activities, whilst alternative funding is found.</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	0.102	(0.024)	0.078	<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 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	0.080	(0.036)	0.044	<p>This reserve covers costs associated with the delivery of the Emergency Services Mobile Communication Programme (ESMCP), which are not met by the Home office. As such usage in year reflects the shortfall between Government funding and the actual costs incurred in year.</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 Ring fenced Funding	0.382	(0.382)	-	<p>The Government has provided £1.4m of total funding to meet costs associated with the Covid pandemic. This has now been fully utilised.</p>
Section 21 Business Rate Relief Grant	1.925	(0.824)	1.101	<p>In 20/21 the Government has 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>

				<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.</p> <p>As such, we accrued £1.9m for our anticipated share of this in 20/21 and carried this forward via this reserve in order to meet the business rate collection fund shortfall that has arisen. This was drawn down in 21/22.</p> <p>However, a similar exercise was undertaken in respect of 21/22 resulting in an estimated £1.1m now being due to the Authority, i.e. a net reduction of £0.8m.</p>
C/Fwd. 20/21 Underspend Relating to Timing of Activities	0.614	(0.372)	0.242	We carried forward a number of underspends from 20/21 reflecting timing issue arising during the pandemic. Whilst we have utilised some of this funding, £0.3m of this can be transferred into the capital funding reserve, leaving a balance of £0.2m to support training requirements and digital transformation.
Specific Grant C/Fwd.	0.490	0.058	0.416	<p>This reserve carries forward unspent specific grants provided in respect of</p> <ul style="list-style-type: none"> <li>• Protection Uplift Grant</li> <li>• Building Risk Review Grant</li> <li>• Grenfell Infrastructure Grant</li> <li>• Pensions Admin Grant</li> <li>• Efficiency Grant</li> </ul> <p>We anticipate utilising these funds in the new financial year.</p>
Various other ad hoc reserves	0.048	0.035	0.083	This balance covers various other smaller reserves for use in the medium term.
	10.769	(1.027)	9.742	

It is worth highlighting that a number of these reserves are short-term holding reserves and as such we anticipate drawing these down, reducing our earmarked reserves to approx. £7m by March 2027, 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 2021/22 we utilised £977k of capital reserves. However, this is partly offset by the proposed transfer of £336k from earmarked reserves, £3k of unused RCCO and of £331k from general reserve, representing the in-year revenue underspend. In addition, the sale of vehicles generated £3k of capital receipts.

As a result of this the Authority currently holds £19.4m of capital reserves/receipts.

*Table 4 Capital Reserves and Receipts as at 31 March 2022*

	Capital Reserves	Capital Receipts	Total
Balance at 31 March 2020	17.968	1.680	19.648
Capital expenditure	(0.977)	-	(0.998)
Capital receipts	-	0.003	0.003
Unused RCCO	0.015	-	0.015
Transfer from In-year revenue underspend	0.331	-	0.331
Transfer from earmarked reserves	0.336	-	0.336
Balance at 31 March 2021	17.672	1.683	19.355

However, the 22/23-26/27 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. We have not yet undertaken this review.
- 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. We have not yet undertaken this review

*Table 5 Provisions as at 31 March 2022*

	Insurance Provision	Business Rates Collection Fund Appeals Provision	Total
Balance at 31 March 2021	0.500	1.036	1.536
Additional provision/(Utilised in year)	-	-	-
Balance at 31 March 2022	0.500	1.036	1.536

## Summary

The overall position at year end shows the Authority (excluding draft North West Fire Control balances) holding £36.7m of reserves and provisions, compared with the anticipated £35.3m identified in the Reserves and Balances Policy, agreed in February, the majority of the difference reflecting the additional capital slippage.

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:-

*Table 6 Summary Position as at 31 March 2022*

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Total Usable Reserves	Provisions*	Total Reserves & Balances
	£m	£m	£m	£m	£m	£m
Balance 31/3/21	6.0	10.8	19.6	36.5	1.5	38.0
Change in year	-	-1.0	-0.3	-1.3	-	-1.3
Balance 31/3/22	6.0	9.7	19.4	35.1	1.5	36.7
Change in year	-	-2.5	-3.5	-6.0	-	-6.0
Balance 31/3/23	6.0	7.3	15.8	29.2	1.5	30.7
Change in year	-	-0.3	-12.3	-12.6	-	-12.6
Balance 31/3/24	6.0	7.0	3.5	16.6	1.5	18.1
Change in year	-	-0.2	-3.5	-3.8	-	-3.8
Balance 31/3/25	6.0	6.7	0.0	12.8	1.5	14.3
Change in year	-	-0.3	-	-0.3	-	-0.3
Balance 31/3/26	6.0	6.5	0.0	12.5	1.5	14.1
Change in year	-	-0.2	2.0	1.8	-	1.8
Balance 31/3/27	6.0	6.2	2.0	14.3	1.5	15.8

## 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:

Date:

Contact:

Reason for inclusion in Part 2 if appropriate: N/A