

LANCASHIRE COMBINED FIRE AUTHORITY

Meeting to be held on 14th January 2013

RESERVES AND BALANCES POLICY

Contact for further information:

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Executive Summary

The Fire Authority needs to hold reserves to meet potential future expenditure requirements.

The reserves policy is based on guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The policy explains the difference between general reserves (those held to meet unforeseen circumstances) and earmarked reserves (those held for a specific purpose). In addition, the policy identifies how the Authority determined the appropriate level of reserves and what these are.

The policy confirms that the level of and the appropriateness of reserves will be reported on as part of the annual budget setting process and as part of the year end accounting process.

Recommendation

The Authority is requested to approve the policy and the level of reserves included within it.

Reserves and Balances Policy

General Reserves

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

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	General Fund
Purpose	This covers uncertainties in future years budgets, such as: <ul style="list-style-type: none"> • future grant settlements being lower than forecast • higher levels of inflation than budgeted • service demands increasing, putting additional pressure on demand led budgets • changes in legislation impacting on future service provision • potential cost of industrial action
Utilisation	This is utilised to offset any in-year overspend that would occur when comparing budget requirement to the level of funding generated
Controls	The utilisation of this is agreed as part of the annual budget setting process. Any further utilisation requires the approval of the Resources Committee
Review	The adequacy of this is reviewed annually, as part of the budget setting process

Review of Level of Reserves

In determining the appropriate level of general reserves required by the Authority, the Treasurer is required to form a professional judgement on this, taking account of the strategic, operational and financial risk facing the Authority. This is completed based on guidance issued by CIPFA, and includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements and consideration of the Authority's financial management arrangements. In addition the assessment should focus on both medium and long-term requirements, taking account of the Medium Term Financial Strategy (as set out in the draft budget report elsewhere on this agenda).

For Lancashire Combined Fire Authority this covers issues such as: uncertainty surrounding future funding settlements and the potential impact of this on the revenue and capital budget; uncertainty surrounding future pay awards and inflation rates; the impact of proposed changes to pension schemes; demand led pressures etc.

The draft Local Government Finance Settlement for 2013/14 was published in December alongside a provisional settlement for 2014/15. However there remains a huge amount of uncertainty surrounding the full impact of the new Business Rates Retention Scheme and the Localisation of Council Tax Support will not be known for at least another 12 months, furthermore there also remains a great deal of uncertainty surrounding funding beyond the current Spending Review period, i.e. from 2015/16 onwards.

Given this level of uncertainty, and the unprecedented scale of potential funding reductions the Treasurer considers it prudent to maintain the minimum target reserves level at £4.0m, 6.5% of the 2013/14 net revenue budget.

Should reserves fall below this minimum level the following financial year's budget will contain options for increasing reserves back up to this level. (Note, this may take several years to achieve.)

Whilst this exercise sets a minimum level of reserves it does not consider what, if any, maximum level of reserves is appropriate. In order to do this the level of reserves held should be compared with the opportunity cost of holding these, which in simple terms means that if you hold reserves that are too high you are foregoing the opportunity to lower council tax or invest in further service improvements.

However, given the limited scope to increase council tax without holding a local referendum the ability to restore depleted reserves in future years is severely limited. Hence any maximum reserve limit must take account of future anticipated financial pressures and must look at the long term impact of these on the budget and hence the reserve requirement. Furthermore as stated earlier the Authority has never faced more uncertainty regarding future funding levels, with the next Spending Review due in two years' time, with both the Business Rates Retention Scheme and the Localisation of Council Tax Support Scheme only going live in April 2013, and with the final scheme for council tax support not due to be agreed until the end of January. All of this means it is virtually impossible to identify a reasonable maximum level of reserves, however based on professional judgement, the Treasurer feels that this should be maintained at £10.0m, until such time as more certainty on future funding is available.

Should this be exceeded the following financial years budget will contain options for applying the excess balance in the medium term.

Current level of General Reserves

The overall level of the general fund balance, i.e. uncommitted reserves, at the 31st March 2012 was £8.6m. The 2012/13 budget allowed for a marginal usage of just £12k, however this is more than offset by an anticipated year-end revenue underspend which will transfer to the general reserve, currently estimated at £1.0m. Therefore based on this the £9.6m reserve is within its target range. This will be reported on further as part of the final budget submission in February.

This reserve will continue to be utilised in future years in order to balance revenue budgets and facilitate changes arising from future funding reductions, and hence we anticipate the reserve reducing to £4.0m by 31st March 2016, our current minimum level.

Earmarked Reserves

These are reserves created for specific purposes to meet known or anticipated future liabilities and as such are not available to meet other budget pressures. They can only be used for that specific purpose, for which they were established, and as such it is not appropriate to set any specific limits on their level, but as part of the annual accounts process their adequacy will be reviewed and reported on.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	Earmarked
Purpose	This covers monies set aside for specific purposes
Utilisation	Once set up these reserves can only be used for the specific purpose for which they were established
Controls	The utilisation of these are discussed at quarterly DFM meetings between the budget holder, relevant Executive Board member, and the Director of Finance
Review	The level of earmarked reserves is reviewed each year as part of the revenue outturn/annual accounts process to ensure these are reasonable and remain relevant

The Director of Corporate Services has delegated authority to create new earmarked reserves valued at up to £100,000; any request which exceeds this must be reported to the Resources Committee for approval.

Specific earmarked reserves will be closed when there is no longer a requirement to hold them, at which point they will either hold a nil balance or when any outstanding balance will be transferred into the general reserve.

Current level of Earmarked Reserves

The following table provides details of the individual earmarked reserves, including the balance as at 31st March 2012, as previously agreed by Resources Committee:-

	Balance at 31 March 2012	
	£m	
DFM Reserve	0.696	Devolved Financial Management Reserve enables budget holders to carry forward any surplus or deficit from one financial year to the next, within prescribed limits, giving greater flexibility and optimising the use of resources. This is utilised by the individual budget holder, as required. 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.
PFI Reserves	2.137	Private Finance Initiative Reserve, which is used to smooth out the annual net cost to the Authority of the existing PFI scheme, and will be required to meet future contract payments. The utilisation of this is set out in the budget agreed at the start of the year, any variance in requirements from this are agreed by the Treasurer as part of the revenue outturn/annual accounts process. The level of reserve required to meet future contract payments is assessed on an annual basis by the Treasurer.
New Dimensions Funding	1.489	To fund further training / expenditure in respect of the New Dimensions and the provision of accommodation for the USAR team.
Retained Bounties	0.078	Following the introduction of the New Fire-fighters Pension Scheme in April 2006 all accrued liabilities in respect of retained bounties were frozen at that point in time, with the amounts being set aside in this earmarked reserve. As these bounties become payable the reserve is used to offset the revenue cost of this, with the final payment due in 2016/17.
Mobile data capture project	0.055	This project will review the feasibility of utilising mobile data capture technology during Home Fire Safety Checks to capture the required information. It is expected that a pilot will be carried out prior to any roll out of the technology.

Community Risk Management	0.038	This is a new earmarked reserve designed to fund the development of interactive Childsafe educational materials to replace the use of DVD's and ensure that the most recent material is available for delivery.
Insurance Aggregate Stop Loss (ASL)	1.068	The Authority's current insurance policies have a combined aggregate stop loss of £0.835m (the self-insured loss liability for vehicles standing at £0.235m and the combined insurance liability standing at £0.600m). In order to reduce the future burden on the revenue budget, it is proposed to increase the level held in earmarked reserves to meet 2 years' worth of claims, which will allow the revenue budget to be reduced from 13/14 budget setting onwards.
Backlog Maintenance	0.449	As approved by Resources Committee in November, to tackle backlog maintenance identified in the stock condition survey carried forwards to 12/13.
PFI Joint Bid	0.162	This is to provide a contingency fund to meet any unexpected events that may occur before completion of buildings, such as decanting costs etc.
Innovation Fund	0.250	This reserve has been established to provide the Authority with pump priming monies to trial any new initiatives that are identified in year.
Training Centre improvements	0.098	This reserve will be utilised to fund works required to make good the Training Centre site following the cessation of commercial activity.
ICT	0.232	This earmarked reserve is required to fund the remaining projects from 2011/12 which have been delayed until the completion of the WAN (Wide Area Network) capital project, and also to fund the improvements to the SAN (Storage Area Network) again following completion of the WAN project.
RDS Pensions national case	0.302	This reserve has been created to meet potential costs arising from the Retained Duty System staff on-going national tribunal in respect of less favourable treatment.
	7.055	

Whilst it is hard to be specific on the timing of the use of these, the latest budget forecast shows this increasing by £1.7m in respect of the PFI Reserves and the creation of a new Restructuring earmarked reserve funded from the current revenue budget, this latter reserve will be used to fund future costs in respect of the restructuring of services in order to meet future efficiency targets. As such the forecast year end position is total earmarked reserves of £8.8m.

We currently anticipate utilising approx. £1.5m of these to fund the capital programme in 2013/14, in respect of the provision of new accommodation for the Urban Search and Rescue team, and other Property related projects, and anticipate a further drawdown of £0.5m to meet other revenue costs such as further restructuring costs. Hence we anticipate holding balance at 31 March 2014 of £6.8m.

Other commitments are likely to reduce this balance to £6.0m by 31 March 2016, with over half of this relating to the PFI reserve required to meet future contractual commitments.

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. Under current regulations these receipts can only be used to fund the capital programme and cannot be used to offset any deficit on the revenue budget.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	Capital reserves and receipts
Purpose	This covers monies set aside to fund the future capital programme
Utilisation	Once set up these reserves can only be used to fund capital expenditure
Controls	The proposed utilisation of these are reported to the Authority as part of the capital programme setting and monitoring arrangements
Review	These are reviewed on an annual basis as part of the year end outturn, reported to Resources Committee and as part of the capital budget setting report to the Authority

At 31 March 2012 the Authority held £9.7m of capital reserves and receipts. We anticipate utilising £1.7m of this in 2012/13, leaving a year-end balance of £8.0m which will be used to fund the relocation of SHQ.

The sale of surplus sites, such as Chorley or SHQ will generate additional funds for these reserves. However based on the draft capital programme presented elsewhere we will utilise all of these reserves by 31 March 2016.

Provisions

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

Insurance Provision

This covers potential liabilities associated with outstanding insurance claims. The precise costs of these are uncertain but which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits. This provision fully covers all estimated costs associated with outstanding claims. Until such time as the year-end position is known it is not possible to estimate, with any accuracy, the likely changes to this provision. As such this is not available to meet other budget pressures.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

Name	Insurance Provision
Purpose	This covers monies set aside to meet future insurance claims
Utilisation	Once set up the provision can only be utilised to meet insurance claims
Controls	The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee
Review	The level of the provision is reviewed annually based on existing and anticipated outstanding insurance claims to ensure these are reasonable and remain relevant

At 31 March 2012 this provision stood at £1.1m to cover anticipated costs of outstanding insurance claims. Whilst a significant element of this will be utilised in the current financial year, reflecting the settlement of outstanding claims, it is impossible to accurately predict the extent of this usage or the need for any additional provision to meet claims that arise in year, until such time as a full review is undertaken as part of the financial year end process. Therefore for the purpose of this report we have assumed that the level of insurance provision remains unchanged.

Retained Fire-fighters' Provision

This covers potential liabilities associated with Retained Fire-fighters' claims (under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000) concerning employment terms and eligibility to be part of the Fire-fighters' Pension Scheme, which is subject to negotiation at a national level. As such this is not available to meet other budget pressures.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

Name	Retained Fire-fighters' Provision
Purpose	This covers monies set aside to meet future costs associated with the Retained Fire-fighters' claim
Utilisation	Once set up the provision can only be utilised to meet costs associated with settlement of such claims
Controls	The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee
Review	The level of the provision is reviewed annually based on national guidance to ensure the level of the provision is appropriate and is still required

At 31 March 2012 this provision stood at £0.3m, which is in line with the latest estimated cost and we anticipate utilising all of this in the current financial year.

Summary Reserve Position

The following table sets out the summary anticipated position in terms of reserves and balances showing the overall level reducing to approx. £12.3m by 31 March 2016:-

	<u>General Reserve</u>	<u>Earmarked Reserve</u>	<u>Capital Reserves & Receipts</u>	<u>Provisions</u>	<u>Total Reserves & Balances</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance 31/3/12	8.6	7.1	9.7	1.4	26.8
Change in year	1.0	1.7	(1.7)	(0.3)	0.7
Balance 31/3/13	9.6	8.8	8.0	1.1	27.5
Change in year	(0.9)	(2.0)	-	-	(2.9)
Balance 31/3/14	8.7	6.8	8.0	1.1	24.6
Change in year	(1.1)	(0.4)	(6.8)	-	(8.3)
Balance 31/3/15	7.6	6.4	1.2	1.1	16.3
Change in year	(3.6)	(0.4)	(1.2)	-	(5.2)
Balance 31/3/16	4.0	6.0	-	1.1	11.1

Financial Risk

There is a risk that the level of reserves will not be sufficient to meet future requirements, this policy and the subsequent reporting mechanism is designed to mitigate this.

HR Risk

None.

Equality and Diversity Implications

None.

Environmental Impact

None.

Business Risk Implications

The management of reserves forms a key element of our budget strategy. Having an agreed policy, within which we are able to manage our reserves, provides clearer accountability, and reduces the risk of the Authority maintaining an inappropriate level of reserves, either too high or too low.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
CIPFA Guidance	Various	Keith Mattinson
Local Government Finance settlement	December 2012	Keith Mattinson
Revenue and Capital Budget Reports to CFA	January 2013	Keith Mattinson
Reason for inclusion in Part II, if appropriate:		