



**AVON**  
FIRE & RESCUE



# Reserve Strategy 2018/19 – 2021/22

**PREVENTING PROTECTING RESPONDING**

## **Background**

There are a number of reasons why the Fire Authority holds reserves. Reserves are an essential tool to ensure long term budget stability particularly at a time when the Fire Authority is facing significant year on year reductions in grant funding over the medium term. There is no statutory minimum or maximum level of reserves.

## **Statutory Requirement**

When setting the budget for each financial year, section 43 of the Local Government Finance Act 1992 requires the Fire Authority, as a major precepting authority, to have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure. In addition an appropriate allowance is required for any deficit on the revenue account for an earlier financial year which has not already been provided for.

There are also a range of other safeguards in place that help to prevent the Fire Authority over-committing itself financially. These include:

- Section 42A of the Local Government Finance Act 1992 requires precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- Under section 25 of the Local Government Act 2003 the chief finance officer has a duty to report on the robustness of estimates and adequacy of reserves when the authority is considering its budget requirement
- Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves for the Fire Authority. However, the government has undertaken to apply this only where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty

## **Fire and Rescue National Framework**

Under section 21 of the Fire and Rescue Services Act 2004 (“the 2004 Act”), the Secretary of State must prepare a Fire and Rescue National Framework. The Framework:

- a) must set out priorities and objectives for fire and rescue authorities in connection with the discharge of their functions;

- b) may contain guidance to fire and rescue authorities in connection with the discharge of any of their functions; and
- c) may contain any other matter relating to fire and rescue authorities or their functions that the Secretary of State considers appropriate.

The latest framework was issued in May 2018 and can be viewed at:

<https://www.gov.uk/government/publications/fire-and-rescue-national-framework-for-england--2>

Specific reference to reserves is made under section 5 in relation to achieving value for money. In addition to the statutory requirements outlined above the framework includes the following requirements:

1. Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.
2. Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).
3. Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:
  - how the level of the general reserve has been set;
  - justification for holding a general reserve larger than five percent of budget; and
  - details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.

4. The information on each reserve should make clear how much of the funding falls into the following three categories:
  - a. Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.
  - b. Funding for specific projects and programmes beyond the current planning period.
  - c. As general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

### **Professional Guidance**

Best practice guidance on the use and management of reserves and balances is provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances' issued in July 2014. This document can be viewed at:

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-99>

### **Role of the External Auditor**

As part of their role the external auditor is required to satisfy themselves that the Fire Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources. They are also required to obtain sufficient and appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fire Authority's ability to continue as a going concern. It is not their responsibility to prescribe the optimum or minimum level of reserves for the Fire Authority.

### **The Fire Authority's Strategy on reserves**

As part of the annual budget setting process and medium term financial planning the Fire Authority will consider the establishment, maintenance and use of reserves. The nature and level of reserves will be agreed by the Fire Authority, informed by the judgement and advice of the Treasurer. This will be based on an assessment of what is appropriate and necessary in the light of the risks and circumstances facing the Authority.

## Categories of reserves

The reserves held by the Fire Authority are categorised into two separate categories as follows:

- **Usable reserves** – these are cash backed reserves that can be utilised by the Fire Authority to support future service provision.
- **Unusable reserves** – these cannot be used to support services and arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be detailed in the annual Statement of Accounts.

The Fire Authority maintains the following types of useable reserves:

- **general reserve (working balance):** to manage the impact of uneven cash flows and unexpected events or emergencies;
- **earmarked reserves**
  - **cash backed:** sums set aside to meet known or predicted specific requirements;
  - **non-cash backed:** sums set aside to meet known or predicted specific requirements where the sums are not held by the Fire Authority

## Principles to assess the adequacy of reserves

The Treasurer will advise the Authority on the adequacy of reserves as follows:

**General Reserve (working balance)** – In considering the General Reserve the Treasurer will have regard to:

- the strategic legislative, operational and financial risk contexts within which the Authority will be operating through the medium-term;
- the overall effectiveness of governance arrangements and the system of internal control;
- the robustness of the financial planning and budget-setting process;
- the effectiveness of the budget monitoring and management process

Having had regard to these matters, the Treasurer will advise the Authority on the monetary value of the required general reserve.



**Earmarked Reserves** - In considering earmarked reserves the Treasurer will have regard to matters relevant in respect of each reserve, and will advise the Authority accordingly.

### **Risk assessment to determine the adequacy of the General Reserve**

The Fire Authority needs a General Reserve (working balance) to provide protection against unforeseen events that impact on resources, without disrupting service delivery. It is for individual Authority's to determine the required level of its General Reserve based on local conditions, but taking into account national factors. Although advice can be sought from the external auditors, it is not their responsibility to prescribe the appropriate level.

As part of the annual budget setting and medium term financial planning process and in accordance with section 25 of the Local Government Act 2003, the Treasurer will report to the Fire Authority on the adequacy of the proposed financial reserves. The Fire Authority is required to have regard to this report when making decisions about the necessary calculations.

As part of the annual budget preparation the risk management process will identify the key financial risks and the proposed mitigations. These are currently as follows:

## Financial Risk Identification and Management

<b>Financial Risk Identification and Management</b>	
Item	Mitigation
Higher than budgeted pay awards	Reserves and balances, vacancy and recruitment management
Increase in employer pension contributions	Reserves and Balances
Higher than budgeted ill health payments	Ill health reserve, increase in pension operating cost budget. Increase in fitness training and use of medical intervention Fund. Occupational Health
Legislation e.g. NI, Apprenticeship Levy	Early identification and prioritisation of budgets
Reduction in Government formula funding	Use of reserves, IRMP and MTFP
Localisation of Council Tax Support - Impact on Council Tax base not off-set by Government Grant	Unitary Authority Council Tax discount schemes, Reserves and balances
Business Rate Retention scheme	Government safety net, Reserves and balances, MTFP, timely modelling.
Council Tax Collection rates	Reserves and balances , MTFP
Increased contribution to JTC sinking fund	Accounting treatment, utilisation of JTC, regular monitoring of the fund position.
USAR funding incorporated into Revenue Support Grant	Consultation, lobbying
Costs associated with maintaining control resilience, changes to control infrastructure.	Reserves, use of regional funding, control staffing
Costs associated with asset management exceed capital funding. Changes to capital grant allocation mechanism	Reserves, prudential borrowing, robust bidding processes
Lack of Government Capital Funding	Additional Prudential borrowing now built into the budget
Identified savings not achieved	Reserves and Balances. Budget working group and SMB monitoring
Major / sustained incident	Bellwin Scheme, reserves
ICT demands	Investment in resilience, reserves

As part of this process a sensitivity analysis is also undertaken annually and the current sensitivity analysis is as follows:

<b>Sensitivity Analysis</b>		
<b>Item / Risk</b>	<b>Variation of %</b>	<b>Estimated full year Cost / Saving £'000</b>
Pay awards		
- Uniformed	1%	203
- Other	1%	45
Pensions		
Uniformed employer contribution rate		
- 1992 scheme	1%	159
- 2006 scheme	1%	
- 2015 scheme	1%	31
Other employer contribution rate	1%	45
National Insurance Contributions	1%	176
Ill Health Retirement		
- Lower Tier (Crew Manger)	1 occurrence	64
- Higher Tier (Crew Manger)	1 occurrence	128
Council Tax Level	1%	257
Inflation	1%	74
Reduction in formula grant	1%	162

Having taken into consideration the risks and sensitivities the Fire Authority has agreed that the level of General Reserve (working balance) should be £1.5m, which represents 3.5% of the Revenue Budget before use of Reserves.

If it is necessary to utilise the General reserve (working balance) then it would be necessary to replace this in the budget for the following financial year.

### **Earmarked Reserves**

The process for the determination of earmarked reserves will be based upon the principles of effective operational and financial risk management. Budget holders are required to submit business cases in respect of any planned under-utilisation of the agreed budget that is required to be carry forward to apply in future years. Business cases are also required to be supported by the relevant Service Management Board member and Treasurer and approved by the Service Management Board.

## **Use of earmarked reserves**

As part of the annual budget setting process Members will agree the use of earmarked reserves on the advice of the Treasurer. The Treasurer will monitor the use of earmarked reserves and keep Members advised through normal monitoring reports.

A number of earmarked reserves have been created to provide protection against unforeseen events that could impact on the Authority. These reserves have to be used carefully as they can only be used once. Any decision to use reserves to fund on-going spending or hold down council tax increases can only apply for one year. The medium term financial plan will need to identify either where additional budget reductions are to be made or additional council tax increases applied. There is a significant risk of future financial instability if significant levels of reserves are used to fund on-going spending or reductions in council tax.

## **Annual review of earmarked reserves**

A full review of existing earmarked reserves will be undertaken annually to ensure continuing relevance and adequacy. This review will be undertaken by the appropriate member of the Service Management Board in conjunction with the Treasurer as part of the Final Accounts process. This review will take into consideration existing and potential financial pressures on a risk basis and this will be informed by the Medium Term Financial Planning (MTFP).

Any movement in earmarked reserves will be required to be endorsed annually by Members on the advice of the Treasurer.

The details of earmarked reserves held at 31 March 2018 are shown in annex 1.

## **Provisions**

In accordance with proper accounting practices provisions will be created where an event has taken place that gives the Fire Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Fire Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions will be charged as an expense in the year that the Fire Authority becomes aware of the obligation, and will be measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.



When payments are eventually made, they will be charged to the provision carried in the Balance Sheet. Provisions will be reviewed at the end of each financial year to ensure continuing relevance and adequacy. Where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision will be reversed and credited back to the revenue account.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Fire Authority settles the obligation.

Provisions will be analysed between short term provisions, amounts expected to be paid within twelve months of the balance sheet date, and long term provisions, amounts expected to be paid after twelve months of the balance sheet date.

Details of provisions held at 31 March 2018 are shown in annex 2.

## AVON FIRE AND RESCUE AUTHORITY

## Reserves Analysis - 31 March 2018

Reserve	Purpose	Likelihood	Impact	31 March 2018 £'000	MTFP 2018/19 £'000	31 March 2019 £'000	Utilisation	National Frame work category	Lead Officer	Responsible Board Member
<b>Cash backed - Earmarked Reserves</b>										
PPE Replacement Reserve	To fund fluctuations in PPE costs	Medium	Medium	25	0	25	Over next 2 years	a	Supplies and Services Manager	Director of Corporate Services
Control Resilience Reserve	To provide supplementary support for implementation of control resilience programme	Medium	Medium	328	-32	296	Over next 4 years	a	Head of Fire Control & Communications	Director - Service Delivery
Premises / H&S Reserve critical works	To fund critical Premises / H&S works to include the removal of asbestos	Medium	Medium	200	0	200	As required	a	Premises Manager	Director of Corporate Services
Pension Reserve	To fund fluctuations in ill health retirements	High	Medium	320	0	320	As required	c	HR Manager	Director of Corporate Services
Legal Fees Reserve	Finance unexpected Legal Costs	Medium	Medium	100	0	100	As required	c	Clerk to the Fire Authority	Chief Fire Officer \ Chief Executive and Clerk to the Fire Authority
Marketing & Communications Reserve	To provide funding for rebranding of appliances in support of inclusivity, equality and community safety initiatives.	Medium	Medium	28	-28	0	2018-19	a	Corporate Communications Manager	Director of Corporate Services
Auxillary Reserve	To provide training and equipment for auxiliary staff	High	High	75	0	75	As required	c	Director - Service Delivery \ Director - Service Delivery Support	Director - Service Delivery \ Director - Service Delivery Support
Operational Fitness Reserve	To develop and implement fitness assessment and delivery programme including the recruitment of a Physical training instructor	High	Medium	70	-35	35	2 years	a	Director - Service Delivery Support	Director - Service Delivery Support
Document Management and Retention System Reserve	To fund development of a Corporate wide document system to improve administration and information security requirements including GDPR.	High	High	60		60	2 years	a	Corporate Assurance Manager	Director of Corporate Services
ESMCP Reserve	Government grant received to fund EMCP project.	High	High	462		462	2 years	a	Head of Fire Control & Communications	Director - Service Delivery
Procurement Reserve	To review the procurement function to align to the NFCC category model and strengthen skill sets.	High	High	40	-40	0	2018-19	a	Supplies and Services Manager	Director of Corporate Services
Equality & Inclusivity Reserve	To fund the review of the organisation's strategic direction to reflect issues of culture and inclusiveness	Medium	Medium	74	-43	31	2 Years	a	Director - Service Delivery Support	Director - Service Delivery Support
Community Fire Safety Reserve	To contribute to the Safe and Well Program to be launched April 2019	High	Medium	34	-34	0	2018-19	a	Group Manager - Risk Reduction	Director - Service Delivery
Strategic development software Reserve	To fund purchase and implementation of strategic development software	High	High	10	-10	0	2018-19	a	Learning Support Manager	Director - Service Delivery Support
Mobile Data Terminal software update Reserve	To fund purchase of Mobile Data Terminal software update	High	High	6	-6	0	2018-19	a	Head of Fire Control & Communications	Director - Service Delivery Support
Capital Financing	To support funding of the future Capital Programme including the reinvesting for the future and programme and any variations in expenditure.	High	High	608		608	As required	c	Chief Fire Officer \ Chief Executive and Treasurer	Chief Fire Officer \ Chief Executive and Treasurer
Hydrants	To fund additional cost of repair works arising from increased inspections	High	Medium	100	0	100	As required	c	Station Manager - Technical Centre	Director - Service Delivery Support
Medical Intervention	To fund medical interventions and prevention initiatives	Medium	Medium	40	0	40	As required	c	HR Manager	Director of Corporate Services
Improvement Programme Reserve	To provide funding for Best Value Improvement Programme	High	High	1,500	-500	1,000	Next 2 years	a	Chief Fire Officer \ Chief Executive	Chief Fire Officer \ Chief Executive
Invest to Save (former Austerity) Reserve	To support implementation of new procedures / ways of working	High	High	1,000		1,000	Next 4-5 years	a	Chief Fire Officer \ Chief Executive and Treasurer	Chief Fire Officer \ Chief Executive and Treasurer
<b>Cash backed Earmarked Reserves</b>				<b>5,080</b>	<b>-728</b>	<b>4,352</b>				
<b>Non Cash backed - Earmarked Reserves</b>										
PFI Equalisation Fund		High	High	1,613	0	1,613	2029/30	b	Treasurer	Treasurer
<b>Total Earmarked Reserves</b>				<b>6,693</b>	<b>-728</b>	<b>5,965</b>				
<b>General Reserve (Working Balance)</b>		Low	High	1,500	0	1,500	For unexpected events or emergencies	c	Treasurer	Treasurer
<b>Total Reserves</b>				<b>8,193</b>	<b>-728</b>	<b>7,465</b>				

National Framework categories:

a = Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan

b = Funding for specific projects and programmes beyond the current planning period.

c = As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

## AVON FIRE AND RESCUE AUTHORITY

## Provisions Analysis - 31 March 2018

Provision	Purpose	31 March 2018 £'000
<b>Short term provisions - cash backed</b>		
Fire Hydrants	Created and retained due to a backlog of maintenance work.	65
HQ relocation expenses	The Fire Authority moved support staff to share the Police headquarters site at Portishead. The staff, previously located at the headquarters site at Temple Back, were relocated in September 2017 and a provision was created to cover the expected additional travel costs that will be incurred by support staff as a result of this move in accordance with the Fire Authority's approved relocation policy. This provision will be used over the three year period after relocation	186
Uniformed pay award	Firefighters were offered a 2% pay award from July 2017 subject to agreement being reached on a number of changes to the roles that they undertake. An interim payment of 1% was made in December 2017 whilst negotiations are ongoing at a national level. This provision has been set up to allow for the additional 1% pay award on the basis that this will be backdated to July 2017 once final settlement is reached	191
		<b>442</b>
<b>Short term provisions - non cash backed</b>		
NDR Appeals	This provision has been created to allow for the Fire Authority's share of the cost of possible NDR Appeals. This will impact on future collection fund surpluses \ deficits of the Unitary Authorities required to be taken into account in setting the Council Tax.	586
<b>Short term provisions</b>		<b>1,028</b>
<b>Long term</b>		
PFI Equalisation Fund	Provision created and retained to reflect the likely impact of current low interest rates on the equalisation fund balance at the end of the contract period.	590
<b>Long term provisions</b>		<b>590</b>
<b>Total provisions</b>		<b>1,032</b>