APPENDIX E

Reserve Strategy

Introduction and Background

Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

In May 2018 the Government published the New Fire and Rescue Services Framework which introduced a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan or be a stand-alone document.

In reviewing medium-term financial plans and preparing annual budgets, the Authority will consider the establishment and maintenance of reserves for the general fund. There is no statutory minimum or maximum level of reserves. The nature and level of reserves will be determined formally by the Authority, informed by the judgement and advice of the Assistant Director Resources / Treasurer. This will be based on an assessment of what is appropriate and necessary in the light of the circumstances facing the Authority.

Strategic Context

There are a number of reasons why a Local Authority might hold reserves, these include to:
(a) Mitigate potential future risks such as increased demand and costs;
(b) Help absorb the costs of future liabilities;
(c) Temporarily plug a funding gap should resources be reduced suddenly;
(d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on council tax;
(e) Spread the cost of large scale projects which span a number of years.

Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant uncertainty about its grant funding over the medium term. Due to the fact that funding for future Capital Projects and the IT Strategy is held as Earmarked Reserves, the current overall historically high level of reserves held by the Authority will reduce significantly as these programmes are delivered.

Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

There are two different types of reserve, and these are:

Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions
In addition to reserves the Authority may also hold provisions which can be defined as follows: a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

Unusable Reserves
The Authority will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be specified in the annual Statement of Accounts.

Governance
The Authority will agree the level of General Reserves and the purpose and level of Earmarked Reserves.

Business cases for the establishment of new Earmarked Reserves will be subject to initial consideration by the Senior Leadership Team.

The Assistant Director Resources / Treasurer shall advise SLT and the Authority on the adequacy of both General and Earmarked Reserves, approve any drawdown from reserves and will monitor and report upon their use through regular financial monitoring reports.

Risk Assessment to Determine the Adequacy of the General Reserve
A well-managed multipurpose authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, the Authority has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

The Authority currently sets its policy for the General Reserve at a minimum of 5% of its net revenue budget. The detailed risk assessment is attached at Annexe A and indicates that the overall assessed risk has not changed significantly since last year, save for the removal of the provision of services risk and an increase in the capital programme risk resulting in a small increase in the net financial impact calculation of £0.187m. Given that not all assessed risks are likely to crystallise in a single year it is deemed appropriate to maintain the minimum level of 5%. This aligns the Authority's General Reserves with the threshold set out in the National Fire Framework. A review of the NFCC's Survey of Fire Reserves (2019/20) indicates that the average level of General Reserves held will reduce from 7.0% (31/03/2019) to 5.6% (31/03/2020) and then below 5% by the end of 2022/23. Based on the Home Office published analysis of standalone FRA Reserves (as at 31 March 2019) the Authority holds below average levels of General and Earmarked Reserves, but above average levels of Capital Reserves. The NFCC has published a more recent survey covering 2020/21 but the results are significantly skewed by the impact of Covid-19 both in delays in projects funded by reserves and by Authorities holding significant levels of unspent specific grants. Capital Reserves are used to support the financing of the Capital Asset Strategy and will be exhausted by the end of 2022/23. The level of General Reserves held also reflects the current uncertainty about Fire Sector funding beyond 2021/22.

At the start of 2022/23, the General Reserve is forecast to represent 4.31% of the Authority's net revenue budget which is a small negative variance. Due to varying revenue budgets, maintaining a consistent level of General Reserve will result in the percentage varying over time. Transfers in or out of the General Reserve to conform to the 5% indicator will be considered annually as part of the budget setting process.

The prudential indicator is a useful control measure but is a rudimentary way of assessing the adequacy of the general reserve and a more meaningful approach is to develop a risk assessment. The Authority will consider both measures as part of its annual reserve strategy.

A risk assessment of the adequacy of the Authority's General Reserve is carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the coming financial year, 2022/23, has been prepared as part of the budget setting process and is shown in Annexe A. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £2.488m. The current policy minimum of 5% equates to £2.087m. At the start of 2022/23 the General Reserve is expected to be £1.796m and it is planned to increase by £0.442m over 2023/24 and 2024/25 to return the balance to £2.238m by 31 March 2025 and meet the policy minimum by this date.

Annual Review of Earmarked Reserves

The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy. When the Authority endorses the Reserves Strategy for publication it will be made available on its website.

A commentary on the purpose and planned use of each of the existing earmarked reserves is detailed below and a full listing together with phasing of drawdown is set out in Annexe B:

- ***Business Rate Pool***: This reserve holds the balance of income from the East Sussex Business Rate Pool which is to be used to fund Business Safety initiatives, in support of the Pool's aim to promote economic growth. The Pool has been utilised to support investment in the Authority's protection (business safety) services and it is proposed to continue this by investing a further £0.3m over 2022/23 and 2023/24 to fund the cost of the recruitment and training of six trainees which cannot be contained within the one-off Protection Surge grant provided by Government.

- ***Business Rates Retention Pilot***: holds the additional income from the East Sussex Pilot and is split between financial stability and economic development as set out in the Memorandum of Agreement with other partners. Following the decision of the Fire Authority in July 2019 the majority of the financial stability element (£0.480m) was transferred into the Mobilising Strategy Reserve to fund investment in Project 21, with a proportion (£0.027m) being utilised to balance the 2022/23 budget. The economic development element was fully utilised in 2021/22 to finance estates capital spend.

- ***ESMCP Readiness***: this is grant funding from central government is ring-fenced to fund the IT upgrades to mobilising systems that are required as part of the Emergency Services Mobile Communications Project (ESMCP). The timing of drawdown is dependent on national programme timescales (which have been significantly delayed). Further discussion with the Home Office will be required to determine use of the grant as it was originally intended in part to fund improvements jointly for East and West Sussex through our joint control service which ended 4 December 2019.

- ***ESMCP Regional Programme***: the Authority acts as regional lead for ESCMP implementation and holds grant funding for regional and local resourcing on behalf partner FRAs. The actual drawdown is dependent on regional business cases made to the Home Office.

- ***Improvement & Efficiency***: This reserve is to enable the Authority to develop its collaborative approach to service delivery, support changes to services that will deliver efficiencies and respond to priority areas for service improvement. This includes support for the Authority's transformation programme and any costs that may arise from it including redundancy payments. The Authority has identified a number of areas of future focus for the potential delivery of efficiencies. These areas are built into business plans and it is anticipated that they will require additional resources to progress. The forecast balance of £0.467m at 1 April 2022 is currently uncommitted but is forecast to be drawn down over the next two financial years as new bids are made. Provision has been made in the MTFP for contributions of £0.2m to be made into this Reserve in both 2024/25 and 2025/26.

- ***Insurance***: The Authority has joined the Fire and Rescue Indemnity Company (FRIC) from 1 April 2019 to both improve its risk management practice and provide insurance cover. This reserve is intended to cover the financial costs of: in-year supplementary payments to the FRIC pool should these be necessary; additional costs from the increase in some deductibles; and, investment in pro-active risk management initiatives resulting from best practice benchmarking through FRIC.

- ***IT Strategy***: The Authority has set aside funds to support the delivery of its IT Strategy including the contractual transformation milestones delivered by Telent. A Revenue contribution is made into this reserve each year and as agreed at Fire Authority in September 2020 this will continue and will fund the IT Strategy 2020-25. The MTFP includes a one-off additional payment into this reserve of £0.250m in 2025/26 to fund additional investment in new IT beyond the current Strategy.

- ***Mobilising Strategy Reserve***: to facilitate to delivery of the Authority's mobilising strategy – as agreed at the Fire Authority in January 2020 this reserve holds the one off funding for Project 21 (P21) which includes the delivery of a tri-partite mobilising service with Surrey and West Sussex County Fire Authorities and associated investment in other aspects of our mobilising such as pagers & alerters and MDT replacement (outside of that already planned in the IT Strategy and funded from the IT Strategy Reserve). The reserve is expected to be fully drawn down by the end of 2021/22 (subject to decommissioning works at Haywards Heath Fire Station) excepting any remaining provision for TUPE related costs e.g. pensions that may not be incurred until 2022/23.

- ***People Strategy***: this Reserve is utilised to hold funds for the implementation of the People Strategy 2020-25. Where projects within the Strategy that are funded from the revenue budget slip or underspend, any unutilised balances will be held in this reserve.

- ***Sprinklers***: as part of its policy of promoting the use of sprinklers the Authority has made provision for match-funding the retro-fitting of sprinklers in high risk / high rise residential premises. The Authority (P&R Panel Nov 2021) agreed in principle that the remaining balance of £0.640m should be re-purposed as a Community Safety Intervention Fund, subject to the budget setting process. The MTFP proposes using £0.200m of the balance to assist in balancing the 2022/23 revenue budget with the remainder being available for the Community Safety Intervention Fund.

- ***BRR – Protection Uplift***: this Reserve holds the balance of grant received from Government for investment in protection services as a result of the Moore Bick and Hackett inquiries. The balance is expected to be spent in 2022/23.

- ***Tax Income Guarantee Scheme (TIG):*** these reserves hold the balance of the grant provided by Government to offset that impact of Covid-19 on business rates and council tax collected in 2020/21. The remaining balance will be utilised over 2022/23 and 2023/24.

- ***Pension Administration:*** this is funding set aside from the revenue budget to fund some of the one-off costs of implementing the Remedy to the discrimination case brought against the Firefighter Pension Scheme, including software costs and tax charges and other costs not funded by the Pension Fund Account or Government. It is expected to be fully spent in 2023/24.

- ***Responding to New Risks***: holds the unspent balance of the Marauding Terrorist Attack grant which will be used for the replacement of specialist equipment and training.

- ***S31 Business Rate Retention Reliefs*** – holds S31 grants received from Government in 2021/22 which compensate for the loss of Business rates income due to reliefs granted by Government but impacted by Covid 19. These amounts will be released in 2022/23 when related losses will be charged via the Collection Fund

- ***Carry Forwards***: comprises the balance of the revenue budget underspends from previous financial years which it has been agreed to carry forward to fund specific expenditure.

- ***Capital Programme***: To support the provision of the capital infrastructure required to deliver the Authority's strategic priorities. There has been no core capital grant from Government since 2014/15 so the Authority must fund its own investment in capital assets. £0.5m each year is paid into this reserve from the Authority's revenue budget. The MTFP proposes to increase the payment into the Capital Programme Reserve in stages to £2.0m by 2026/27. This is part of a strategy to achieve greater financial sustainability by revenue funding the replacement and maintenance of existing assets and seeking only to borrow where a new capital asset in proposed.

- ***Capital Receipts***: Capital receipts not yet applied to capital expenditure. Under statute capital receipts may only be used to finance capital expenditure. Having disposed of its stock of service houses and its HQ building the Authority has only one surplus property, Fort Road, Newhaven and this has been sold to Lewes District Council – subject to LDC obtaining planning permission for development. This process has been delayed and it is possible that the sale will not complete in 2021/22. No further disposals are currently planned and this reserve will be fully utilised over the life of the current Capital Asset Strategy, with the balance remaining at 31 March 2022 primarily being used to fund investment in the new Estates Strategy to bring our property assets up to the standard set out in the Design Guide.

Together the use of the Capital Programme Reserve and the Capital Receipts Reserve, along with other revenue funding, grants and contributions from partners has meant that the Authority has been able to finance its capital investment requirements without recourse to external borrowing since 2008.

Annexe A – Risk Assessment of the Adequacy of General Reserves

Risk type	RISK	Likelihood	Impact	Net Impact
			£m	£m
Abnormal weather conditions	A long hot summer, flooding in autumn and winter and heath land fires in the spring have all occurred in previous years resulting in excessively high operational costs (retained pay, overtime) and other support costs. In worst-case scenarios for civil emergencies, the Bellwin Scheme funding is available to support qualifying expenditure in excess of 2% of Revenue Budget	Medium	0.300	0.150
Pension Costs	With an ageing workforce and the increase in the normal retirement age the risk of ill health retirements is increasing and may exceed the existing budget provision.	Medium	0.100	0.050
External contracts	The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier or a customer. Based on aged debtor analysis the Authority does not currently hold a bad debt provision to fund a loss from a major contract. Additionally, Public Sector procurement processes and contracts are coming under increasing scrutiny and could be open to legal challenge.	Low	0.500	0.125
Capital Programme / Projects	The Authority has a range of both revenue and capital projects planned for the next five years - there is the risk of cost overruns for a variety of reasons e.g. unforeseen ground conditions, planning approvals, technology risk, impact of Covid 19, supply chain disruption.	Low	1.000	0.250

Risk type	RISK	Likelihood	Impact	Net Impact
			£m	**£m**
Loss of income	Income targets are set within the budget for a number of functions, for example commercial and service training, and the Authority also receives income from the investment of its cash balances where rates achieved remain low. Amounts invested will reduce significantly over the next few years. Although the amounts involved are small relative to the overall budget they continue to present a risk in year	Low	0.250	0.063
Delivery of savings	The Authority is developing its savings plans for the next 5 years and has already agreed a range of measures for implementation. However, it is possible that implementation may take longer than anticipated or savings may be less than originally estimated, leading to an in-year budget pressure. However for 2022/23 the savings target is relatively small	Low	0.500	0.125
Legal Issues	As a service provider and an employer the Authority faces the potential that legal action could be taken against it on a range of grounds, including equal pay, discrimination, unfair dismissal and corporate negligence / manslaughter. Awards and legal costs in such cases can be significant	Low	1.000	0.250
Service delivery failure	Given the nature of the work of the Authority there is a possibility that it could suffer a major health and safety or environmental failure.	Low	1.000	0.250
System/ Infrastructure Issues	In the event that a key system, such as the control mobilising system or system networks, were to fail, it is possible that urgent consultancy or replacement equipment would be required within short time constraints.	Low	0.500	0.125

Risk type	RISK	Likelihood	Impact	Net Impact
			£m	**£m**
Funding Issues	The changes to the funding mechanism for local government, introduced following the Local Government Resource Review, transferred potentially significant levels of financial risk to the Authority.	Medium	0.500	0.250
Inflation	Whilst allowances for inflation have been made within specific budget lines, the uncertainty surrounding the UK economy might lead to increased inflation. This may include the impact of new tariffs on the cost of goods purchased from the EU for example vehicle chassis.	Medium	0.200	0.100
Employment Issues	Issues that might arise in respect of pay settlements or other factors which might lead to industrial action would, in the first instance, be managed within the revenue budget. Prolonged Action or issues would require funding from Reserves. This risk also addresses the potential for actual pay awards to be higher than that budgeted.	Medium	1.000	0.500
Estimated Reserve Requirement				**2.238**

The planned movement on each of the earmarked reserves is shown in the following table:

Description	2022/23 Opening Balance 01/04/22 £'000	2022/23 Planned Transfers In £'000	2022/23 Planned Transfers Out £'000	Projected Closing Balance 31/03/23 £'000	Projected Closing Balance 31/03/24 £'000	Projected Closing Balance 31/03/25 £'000	Projected Closing Balance 31/03/26 £'000	Projected Closing Balance 31/03/27 £'000
Earmarked Reserves								
Improvement & Efficiency	467	0	(279)	188	88	188	288	388
Sprinklers	640	0	(200)	440	330	220	110	0
Insurance	249	0	0	249	249	249	249	249
ESMCP ESFRS readiness	1,425	0	(30)	1,395	1,315	0	0	0
ESMCP Regional Programme	83	0	(83)	0	0	0	0	0
BRR -Protection Uplift	46	0	(46)	0	0	0	0	0
IT Strategy	2,724	592	(3,188)	128	210	0	0	0
People Strategy	50	0	(15)	35	0	0	0	0
Mobilising Strategy	425	0	(425)	0	0	0	0	0
Business Rates Retention Pilot - financial stability	112	0	(27)	85	85	85	85	85
Business Rate Pool	683	0	(200)	483	288	193	98	0
S31 Business Rate Retention Reliefs	836	0	(836)	0	0	0	0	0
Tax Income Guarantee Scheme (75%) CT & BR	60	0	(29)	31	0	0	0	0
Covid-19	64	0	(64)	0	0	0	0	0

Carry Forwards	77	0	(77)	0	0	0	0	0
Pensions Administration	147	0	(147)	0	0	0	0	0
Green Book pay award 21/22	117	0	(117)	0	0	0	0	0
Capital Programme Reserve	2,709	500	(3,209)	0	48	429	1,143	2,191
Total Earmarked Reserves	**10,914**	**1,092**	**(8,972)**	**3,034**	**2,613**	**1,364**	**1,973**	**2,913**
General Fund	1,796	0	0	1,796	2,017	2,238	2,238	2,238
Total Revenue Reserves	**12,710**	**1,092**	**(8,972)**	**4,830**	**4,630**	**3,602**	**4,211**	**5,151**
Capital Receipts Reserve	4,017	0	(4,017)	0	0	0	0	0
Total Capital Reserves	**6,726**	**500**	**(7,226)**	**0**	**48**	**429**	**1,143**	**2,191**
Total Usable Reserves	**16,727**	**1,092**	**(12,988)**	**4,830**	**4,630**	**3,602**	**4,211**	**5,151**