

Reserves and Balances Policy

Background

This policy sets out the Authority's approach to reserves and balances. The policy has regard to LAAP Bulletin 99 'Local Authority Reserves and Balances', issued in July 2014.

Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves for which an Authority must provide in setting its budget. The Secretary of State indicated that "the provisions are a fall-back against circumstances in which an Authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty".

Sections 31A and 42A of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

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.

Types of reserve

The Authority will maintain the following reserves:

- general reserve: to manage the impact of uneven cash flows and unexpected events or emergencies;
- earmarked reserves: sums set aside to meet known or predicted specific requirements.

Earmarked reserves will be maintained as follows:

- Improvement and Efficiency Reserve: to enable the Authority to develop its collaborative approach to service delivery and respond to priority areas for service improvement that will deliver efficiencies;
- Insurance Reserve: to enable to effective financial management of the cost of uninsured losses;
- Service Reserves: funds set aside for specific purposes in respect of individual service business cases;
- Capital Programme Reserve: to support the provision of the capital infrastructure required to deliver the Authority's service priorities;
- Capital Receipts Reserve: capital receipts not yet applied to capital expenditure; and,

- Capital Grants and Capital Contributions Unapplied: capital grants and contributions from partners received but not yet applied to capital expenditure.

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.

Principles to assess the adequacy of reserves

The Assistant Director Resources / Treasurer will advise the Authority on the adequacy of reserves. In considering the general reserve, the Assistant Director Resources / 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 Assistant Director Resources / Treasurer will advise the Authority on the monetary value of the required general reserve.

In considering specific reserves, the Assistant Director Resources / Treasurer will have regard to matters relevant in respect of each reserve, and will advise the Authority accordingly.

Service reserves

The process for the determination of Service reserves will be based upon the principles of effective operational and financial risk management. Service Directorates will be asked to submit business cases in respect of any planned under-utilisation of the agreed budget which they would wish to carry forward to apply in future years. Business cases will be considered by the Corporate Management Team and will be subject to the final approval of the Assistant Director Resources / Treasurer.

Use of reserves

Members, as part of agreeing the budget, will agree the policy for drawdown of reserves on the advice of the Assistant Director Resources / Treasurer.

The Assistant Director Resources / Treasurer will monitor the drawdown of specific reserves in accordance with the agreed policy, and keep Members advised through normal monitoring reports.

Risk assessment to determine the adequacy of the General Reserve

Authorities need reserves so that they can deal with unforeseen calls on resources, without disrupting service delivery. It is the responsibility of each authority to set its level of reserves 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. In setting the level, the Authority should take into consideration the advice of their Assistant Director Resources / Treasurer, taking into account all local relevant circumstances.

Members will be aware that the working reserves provide protection against unforeseen events that could impact on the Authority. Reserves have to be used carefully. They can be used only once. Decisions to use reserves to fund on-going spending or hold down council tax increases can only apply for one year. In the following year, either additional budget reductions have to be made or additional council tax increases are required. 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. This will impact on council tax rises in future years to pay for one-off use of balances.

As a general rule, the Authority should only plan to use reserves to fund one-off spending where the reserves exceed the recommended level. Where the Authority decides to use such reserves to fund on-going spending or reductions in council tax, they should indicate how they plan to make up the budget shortfall in future years. All Members must be mindful of their stewardship responsibility to the Authority.

A full review of reserves, as in the past, has taken place as part of the budget setting process. The main risks identified and their potential financial impacts are set out below and these have been used as the basis for determining the level of general reserves required.

- **Operational incident performance failure:** Non-insured costs of HSE and other investigations following a serious incident with serious implications for ESFRS, project team, ancillary costs and putting right the organisation (£1m).
- **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. A prolonged seasonal problem could easily generate additional costs of £200,000 in 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 (£0.5m).
- **Pension costs:** – this provision relates to additional ill health pensions not predicted at budget preparation. The Authority continues to monitor the age profile of workforce and expenditure forecasting. The Authority is also subject to a sector wide Employment Tribunal challenge to the Transitional Protections within the 2015 Firefighters Pension Scheme. If the claim is successful it is not clear whether the Government will fund any additional costs resulting (£0.4m).
- **Staff severance and redundancy provisions:** In order to achieve the level of financial savings required in future years, it may be appropriate to agree additional business case savings in advance and, as a consequence, incur additional severance payments paid to staff that exceed the sums already put by in earmarked reserves (£0.3m).
- **Funding volatility:** As a result of the Local Government Resource Review, including the Localisation of Council Tax Support Grant, the Authority is

exposed to potential increased volatility in two key income streams, business rates and council tax. (£0.7m).

- **Unanticipated business or economic pressures:** The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier. Equally, the Authority has a number of key ICT systems which, were they to fail, could require urgent external support or replacement equipment at short notice which could be costly for the Authority. The Authority is also involved in a range of transformation projects for which there is a risk of cost over-runs. There is also a risk of additional costs as a result of industrial action (£1m).
- **Inflationary increases:** Provision has been made for anticipated increases in pay and prices within the budget. However, national pay restraint is based on an average of 1% and so actual increases within different Services may vary. With the Government's relaxation of the 1% cap in 2017/18, the failure to settle the Grey Book pay claim for 2017/18 and the potential for significantly higher increases in Scotland and London the risk that actual pay inflation exceeds the budget provision is increased. The Authority is also subject to global inflationary pressures, particularly in relation to oil-based and other natural resources. The fall in the value of the pound since the vote to leave the European Union also exposes us to potential price increases from overseas suppliers (£0.2m).
- **Legal and employment 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 so a provision within balances is prudent (£0.5m).
- **Savings plans:** The Authority has put in place 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 (£0.3m).
- **Provision of services:** The Authority has taken on delegated responsibility for the delivery of mobilisation and control functions for West Sussex Fire and Rescue Service under a S16 agreement. Failure to provide the service to the agreed performance levels could result in additional costs for the Authority (£0.2m).
- **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 continue to decline. Although the amounts involved are small relative to the overall budget they continue to present a risk in year (£0.1m).

Proposal for the level of General Reserves

The assessment gives a preliminary figure of £5.2m (13.7%) on the net budget requirement of £37.9m (1.94% increase option) in 2018/19 or 13.6% on a net budget requirement of £38.1m (2.94% increase option). This is a slight reduction from previous years reflecting a reduction in the assessed risk in a number of areas. Although it would be unlikely for all areas of risk to impact at the same time, it is conceivable for a number of them to be interlinked, for example a major incident could

impact on operational performance and result in damage to assets and insurance losses.

Taking into account the current economic climate, pressure on budgets and the uncertainty around funding beyond 2019/20, it would seem appropriate to continue to maintain the minimum level of general reserves at 8% in line with the Authority's existing policy. This equates to £3.031m in the 1.94% increase option or £3.051m in the 2.94% increase option. Currently, general balances (reserves) provision is projected to be above this level at £3.142m.

Review of earmarked reserves

Since the Authority became a precepting body, Members have agreed, in principle, to the establishment of a number of earmarked reserves. Each year, the relevance of these is reconsidered as part of the service planning process and Members are informed of the latest plans for the balances held in such reserves. As the Authority has developed its response to the reduction in government funding and the need to deliver savings through different ways of working, Members have approved the establishment of a number of key reserves to support this process – the Improvement and Efficiency Reserve, IT Strategy Reserve and also the Capital Programme Reserve (which, along with the Capital Receipts Reserve, supports the funding of the Authority's capital programme). Through careful budget management, the Authority has also established a range of Service Reserves to support the delivery of specific initiatives. These reserves remain critical in supporting the delivery of change and transformation within the Service and also ensuring continued investment in our capital assets in the absence of central government grant support.

A commentary on the purpose and planned use of each of the existing earmarked reserves is detailed below:

- **Improvement & Efficiency reserve:** 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. Collaborative projects are also being progressed with a number of potential partners, many of which may require proportionate pump priming funding to realise future financial savings for all partners involved. Of the balance of £1.026m at 1 April 2018 approximately £0.278m is allocated to specific projects for example FireWatch Implementation, Service HQ Relocation (excess travel costs) and the IECR pilot. The balance is available for future projects including the outcomes from the IRMP areas of focus.
- **Insurance Reserve:** ESFRS has always sought to be risk adverse in managing its insurance risks and has approached the insurance market accordingly. Savings made on premiums in previous years due to increases in excesses have been placed in this reserve to help offset years when higher levels of claims may occur which have to be paid for internally. The Authority will be reviewing its options in advance of the end of its current insurance arrangements in March 2019. This will include consideration of FRICs (Fire &

Rescue Insurance Consortium) and this reserve could cover any one off costs associated with membership.

- Capital Programme Reserve: To support the provision of the capital infrastructure required to deliver the Authority's service priorities. Given the reduction in availability of capital grant from Government and the potential investment implications of new IMD and Estates Strategies, it is important that this source of funding is maintained in the short to medium term. As part of the non-operational savings proposals the Authority has agreed to reduce the base budget contribution to this reserve to £500,000 per annum in 2017/18. There is an unallocated balance of £2.099m remaining at the end of the current Capital Asset Strategy. The Authority is, however, reviewing its Estates Strategy and it is anticipated that there will be a significant requirement for additional investment as a result. The remaining balance on this reserve will be available to finance this investment.
- Capital Receipts Reserve: 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 is due for disposal in 2018/19. No further disposals are currently planned and this reserve will be fully utilised over the life of the current Capital Asset Strategy.

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.

Service reserves: funds set aside for specific purposes in respect of individual service business cases:

- 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. This will be increased if the recommendation to increase council tax by 2.94% is accepted, if not then any £0.2m will be transferred from the Capital Programme Reserve as agreed by CFA in December 2017, as part of its local response to the risks highlighted by the Grenfell Tower incident.
- Safer Business Training: 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.
- IT Strategy Reserve (formerly IMD Transformation): The Authority has set aside funds to support the delivery of its IT Strategy including the contractual transformation milestones delivered by telent. A transfer of £2.077m will be made from other reserves in order to ensure that the Strategy can be fully funded. It will be fully utilised by the end of 2021/22.
- ESMCP Readiness Reserve: this is grant funding from central government to fund the IT upgrades to the Sussex Control Centre that are required as part of the ESMCP. The timing of drawdown is currently expected during 2018/19 and 2019/20 but is dependent on national programme timescales.

- ESMCP Regional Programme Reserve; the Authority acts as regional lead for ESCMP implementation and holds grant funding for regional and local resourcing on behalf partner FRAs.
- Wholetime Firefighter Recruitment Reserve: the 2016/17 revenue budget underspend was set aside in this reserve to fund the additional costs of the planned recruitment of 32 new Wholetime Firefighters over the period 2017/18 – 2019/20.

The planned movement on each of the earmarked reserves is shown in the following tables, depending on the option for council tax increases adopted:

Option of 1.94% council tax increase:

Description	2018/19	2018/19	2018/19	Projected Closing Balance				
	Opening Balance 01/04/18 £'000	Planned Transfers In £'000	Planned Transfers Out £'000	31/03/19 £'000	31/03/20 £'000	31/03/21 £'000	31/03/22 £'000	31/03/23 £'000
Earmarked Reserves								
Improvement & Efficiency	1,026	0	(538)	488	228	0	0	0
Sprinklers	290	0	(290)	0	0	0	0	0
Insurance	249	0	0	249	249	249	249	249
ESMCP ESFRS readiness	1,060	0	(660)	400	0	0	0	0
ESMCP Regional Programme reserve	277	639	(468)	448	0	0	0	0
Safer Business Training	165	0	(83)	82	0	0	0	0
IT Strategy	923	2,525	(1,226)	2,222	1,505	854	219	0
Wholetime Firefighter recruitment	294	0	(294)	0	0	0	0	0
Capital Programme Reserve	5,812	500	(2,077)	4,235	4,735	4,357	2,937	2,099
Total Earmarked Reserves	10,096	3,664	(5,636)	8,124	6,717	5,460	3,405	2,348
General Fund	3,142	0	0	3,142	3,142	3,142	3,142	3,142

Total Revenue Reserves	13,238	3,664	(5,636)	11,266	9,859	8,602	6,547	5,490
Capital Receipts Reserve	7,668	515	(1,624)	6,559	895	0	0	0
Total Capital Reserves	7,668	515	(1,624)	6,559	895	0	0	0
Total Usable Reserves	20,906	4,179	(7,260)	17,825	10,754	8,602	6,547	5,490

Option of 2.94% council tax increase for 2018/19 and 2019/20 and 1.94% thereafter:

Description	2018/19	2018/19	2018/19	Projected Closing Balance				
	Opening Balance	Planned Transfers In	Planned Transfers Out	31/03/19	31/03/20	31/03/21	31/03/22	31/03/23
	01/04/18	In	Out	31/03/19	31/03/20	31/03/21	31/03/22	31/03/23
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Earmarked Reserves								
Improvement & Efficiency	1,026	0	(538)	488	228	0	0	0
Sprinklers	290	200	(290)	200	250	0	0	0
Insurance	249	0	0	249	249	249	249	249
ESMCP ESFRS readiness	1,060	0	(660)	400	0	0	0	0
ESMCP Regional Programme reserve	277	639	(468)	448	0	0	0	0
Safer Business Training	165	0	(83)	82	0	0	0	0
IT Strategy	923	2,525	(1,226)	2,222	1,505	854	219	0

Wholetime Firefighter recruitment	294	0	(294)	0	0	0	0	0
Capital Programme Reserve	5,812	500	(2,077)	4,235	4,735	4,357	2,937	2,099
Total Earmarked Reserves	10,096	3,864	(5,636)	8,324	6,967	5,460	3,405	2,348
General Fund	3,142	0	0	3,142	3,142	3,142	3,142	3,142
Total Revenue Reserves	13,238	3,864	(5,636)	11,466	10,109	8,602	6,547	5,490
Capital Receipts Reserve	7,668	515	(1,624)	6,559	895	0	0	0
Total Capital Reserves	7,668	515	(1,624)	6,559	895	0	0	0
Total Usable Reserves	20,906	4,379	(7,260)	18,025	11,004	8,602	6,547	5,490