



Nottinghamshire and City of Nottingham
Fire and Rescue Authority

RESERVES STRATEGY

2020/21 to 2023/24

Joint Report of the Treasurer to the Fire Authority and
Chief Fire Officer

Date: 20 December 2019

Purpose of Report:

To seek the approval of the Authority for the Reserves Strategy 2020/21 to 2023/24.

Recommendations:

It is recommended that Members approve:

- The Reserves Strategy 2020/21 to 2023/24 attached at Appendix A.
- The proposed minimum level of general fund reserves of £3.9m for 2020/21.
- The transfer of £1,387,124 from the following reserves to create a transformation and collaboration earmarked reserve:

Reserves to be used to create a transformation and collaboration reserve

Reserve	Amount to be re-invested £
LPSA Reward Grant	(38,452)
Safe and Well	6,787
Organisational Transitional One Off Costs	(683,996)
Retained Pay Policy Change	(212,000)
Staffing Resilience	(126,000)
Taxation Compliance	(3,135)
Pension Ill Health	(309,322)
Hep B Vaccinations	(21,006)
Total	1,387,124

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1. BACKGROUND

- 1.1 The Fire Authority holds a level of reserves to meet specific risks and potential liabilities of a strategic, operational and financial nature.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes guidance on the matter of financial reserves and sets out a number of specific risk areas that financial officers need to consider when setting the levels of balances.
- 1.3 In May 2018, the Government published the revised Fire and Rescue Services National Framework, which introduces a requirement for combined fire and rescue authorities to publish a reserves strategy on their website, and outlined the detail which should be included.

2. REPORT

GENERAL RESERVES

- 2.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 2.2 The Reserves Strategy 2020/21 to 2023/24 is attached at Appendix A. The Strategy includes the review of the general fund risk assessment to identify the minimum level of general fund reserves required by the Authority.
- 2.3 It is recommended that the level of general fund reserves remains at £3.9m, however due to a review of the risk assessment, there are a number of changes within individual areas.

The main changes are due to:

- An additional reserve for external contracts to cover any additional costs should a major contractor fail;
- An additional reserve for collaboration to cover financial uncertainty until schemes are properly embedded into revenue budgets;
- An increase to the pension risk to take account of the additional uncertainty following the McCloud legal case which found the transition arrangements into the 2015 pension scheme to be discriminatory on the grounds of age;

- Budgets have been carefully scrutinised for 2020/21 resulting in budgets being reduced for areas of consistent underspends. The risk of an overspend in these budget areas has consequently been increased;
 - The risk for unforeseen changes in legislation has been increased pending the outcome of the Grenfell Tower Inquiry.
- 2.4 More details can be found in Sections 2.13 and 2.14 of the Reserves Strategy.
- 2.5 The projected level of general fund reserves at 31 March 2020 is of the order of £5.50m, after an expected use of £75k to balance the 2019/20 budget. The general fund reserve exceeds the minimum level required by £1.6m.
- 2.6 There remains pressure on budgets going forward, including uncertainty regarding future funding levels. Whilst the Service is working towards a balanced budget for 2020 onwards, this is predicated on a number of assumptions, and funding for 2020/21 will not be announced until January.
- 2.7 A three-year funding review is expected during 2020, however this will be determined by the new incoming Government. This will be influenced by:
- The outcome of the General Election;
 - The impact of Brexit;
 - This will be the first full spending review that fire and rescue services fall under the Home Office;
 - The revised business rate retention scheme should become operational from 2021/22;
 - The fire funding formula is under review and may be replaced in 2021/22.

EARMARKED RESERVES

- 2.8 In total, earmarked reserves are expected to be in the region of £4.5m at 1 April 2020, but are expected to fall to £1.1m by March 2024. The remaining £1.1m relates to grant funding which needs to be spent in line with grant conditions. The majority of this relates to the Emergency Services Network project which has been extensively delayed. The expenditure profile for this project is very difficult to predict.
- 2.9 The relevance of, and balance in each reserve is reviewed annually. There have been several reserves which have remained unspent due to either changes in project needs or being funded from other sources. These have now been identified as being no longer required for their original purpose. In total, this exercise has identified £1.4m of earmarked reserves, which can be re-invested, as detailed in the table below.

Reserves available for re-investment

Reserve	Balance 01/04/19 £	Amount to be re- invested £	Expected Balance 31/3/20 £	Comments
LPSA Reward Grant	63,452	(38,452)	15,000	
Safe and Well	(6,787)	6,787	0	Over-utilised 2019/20
Organisational Transitional One-Off Costs	714,071	(683,996)	0	Expenditure been included in revenue budgets
Retained Pay Policy Change	212,000	(212,000)	0	Expenditure been included in revenue budgets
Staffing Resilience	163,735	(126,000)	0	Expenditure been included in revenue budgets
Taxation Compliance	3,135	(3,135)	0	Project completed
Pension Ill Health	309,322	(309,322)	0	Sufficient cover in the general reserve
Hep B Vaccinations	21,006	(21,006)	0	Expenditure been included in revenue budgets
Total	1,479,934	1,387,124	15,000	

- 2.10 Further details on the major reserves can be found in Sections 3.10 to 3.22 of the Strategy.
- 2.11 In recent years, the Authority has had insufficient resources to invest in innovative projects to improve services. Any savings which have been identified in the revenue budget have been utilised to balance the budget. The lack of investment in services to drive innovation and transformation has been identified as an area for improvement by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) in the recent inspection of the sector.
- 2.12 A Transformation and Efficiency Strategy will be presented to Fire Authority in February 2020. This will outline areas of change in the organisation required to deliver the key objectives of the Strategic Plan and HMICFRS Action Plan. It will also enable the Service to consider the outcomes of the Grenfell Tower

inquiry and the Hackitt inquiry (review of building regulations). Any additional funding required is likely to be project based with one off funding being potentially required.

- 2.13 Collaboration with other public services (predominantly blue light services) is an area that is continuing to be explored and is seen to be a potential vehicle which could assist with the transformation of the service. A collaboration strategy was approved by Fire Authority on 22 September 2017. Collaboration projects often require up front expenditure before ongoing savings can be achieved.
- 2.14 The £1.4m surplus earmarked reserves have been used to create a transformation and collaboration reserve. This will be allocated to projects by the Strategic Leadership Team over life of the Strategic Plan. The reserve will be available for one off project based expenditure, for example on new equipment or short-term salary costs. Any ongoing expenditure will need to be met from revenue budgets. Projects will need to demonstrate that they:
- Contribute to the key objectives as set out in the Strategic Plan;
 - Address areas of weakness identified in the HMICFRS inspection;
 - Reduce corporate risks identified in the Corporate Risk Register;
 - Are required to meet the outcomes of the Grenfell Tower inquiry or the Hackitt inquiry (building regulations).
- 2.15 The Transformation and Efficiency Strategy will provide further information on an appropriate level of funding for the programme, which may differ from the £1.4m currently identified.

SUMMARY

- 2.16 The total value of the Authority's reserves on 1 April 2020 is expected to be in the region of £10.0m.
- 2.17 The expected level of general fund reserves as at 1 April 2020 is expected to be in the region of £5.5m, which exceeds the £3.9m minimum level identified for 2020/21 by £1.6m.
- 2.18 Any deficit in future years' revenue budgets will need to be met from this £1.6m surplus on the general fund.

3. FINANCIAL IMPLICATIONS

- 3.1 The maintenance of adequate reserves is a legal requirement under S27 Local Government Act 2003, and the Authority's Treasurer is charged with determining the adequacy of those balances or, as they are described in the Act, the "Controlled Reserve".

3.2 The risk assessment demonstrates that the level of reserves should be in the order of £3.9m for 2020/21.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because there are no equality implications.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The legal implications and requirements are set out in full within the report.

8. RISK MANAGEMENT IMPLICATIONS

The risk management implications are set out in full in the report and in Appendix A.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members approve:

- 10.1 The Reserves Strategy 2020/21 to 2023/24 shown at Appendix A.
- 10.2 The proposed minimum level of working balances of £3.9m for 2020/21.
- 10.3 The transfer of £1,387,124 from the following reserves to create a transformation and collaboration earmarked reserve.

Reserves to be used to create a transformation and collaboration reserve

Reserve	Amount to be re-invested £
LPSA Reward Grant	(38,452)
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Pension Ill Health	(309,322)
Hep B Vaccinations	(21,006)
Total	1,387,124

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

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NOTTINGHAMSHIRE
Fire & Rescue Service

RESERVES STRATEGY

2020/21 to 2023/24

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1 INTRODUCTION AND BACKGROUND

- 1.1 Sections 32 and 43 of the Local Government Finance Act 1992 require 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.
- 1.2 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.
- 1.3 In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included (see Appendix 3). The Reserves Strategy can form part of the Medium Term Financial Strategy (MTFS) or be a stand-alone document.
- 1.4 The Reserves Strategy for this Authority is prepared as a stand-alone document for 2020/21. It sits aside and complements the Authority's Medium Term Financial Strategy.

STRATEGIC CONTEXT

- 1.5 There are a number of reasons why a Local Government Authority might hold reserves. these include to:
 - Mitigate potential future risks such as increased demand and costs;
 - Help absorb the costs of future liabilities;
 - Temporarily plug a funding gap should resources be reduced suddenly;
 - Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
 - Spread the cost of large scale projects which span a number of years.
- 1.6 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.
- 1.7 **Long-Term Sustainability** - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term.

1.8 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.

1.9 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 on-call pay costs.

Provisions – in addition to reserves, the Authority may also hold provisions which can be defined as: 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.

2 RISK ASSESSMENT TO DETERMINE THE ADEQUACY OF THE GENERAL RESERVE

2.1 Whilst it is primarily the responsibility of the local authority and its Chief Financial Officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

2.2 CIPFA does not prescribe a formula for calculating a minimum level of reserves. Local authorities, on the advice of their Chief Financial Officers, should make their own judgements on such matters taking into account all the relevant local circumstances, which may vary between authorities. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.

2.3 The Home Office suggest a benchmark for the General Reserve of 5% of annual budget. The Authority has consistently set a minimum level of General Reserve higher than 5% (currently 8.7%). However, as discussed in sections 2.1 and 2.2, it is the responsibility of the Authority to set an appropriate level

of reserves reflecting the individual circumstances of the Authority. The method used is a risk based approach, in line with CIPFA guidance. The levels of reserves set are felt to reflect the circumstances and risk appetite of the Authority.

- 2.4 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 external influences, such as national and local economics and Government policy has 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.
- 2.5 At the start of 2019/20, the General Reserve was £5.576m, which represented 12.45% of the 2019/20 net revenue budget. The budget monitoring report presented to Finance and Resources Committee on 11 October 2019 estimated that £75k would be required from the General Fund to balance the 2019/20 budget, leaving anticipated reserve levels at March 2020 at £5.50m. This remains above the minimum general fund reserve level of £3.9m (8.7% of net revenue budget) also set by Fire Authority in February 2019. Whilst general reserve levels exceed £3.9m, it should be noted that should there be a need to use general reserves in future years it would be difficult to replenish them given current budget constraints.
- 2.6 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 is shown in Appendix 1.
- 2.7 There are three main categories of risk shown in the assessment: the risk of legal action being taken against the Authority, resulting in a financial loss; the risk of financial loss arising specifically from financial activities, and operational risks which could lead to financial loss. Where risks have been identified, control measures are in place to minimise either the likelihood or the impact of the risk and these are also shown in Appendix 1.
- 2.8 The approach has examined each of the risk exposures and considered both the possible financial impact on the Service and the likelihood of occurrence. A risk factor has been allocated to each risk reflecting the likely frequency of occurrence of the risk based on historic experience and professional judgment. It should be noted that the underlying assumption is that not all of these risk events will occur simultaneously and, to reflect this, the potential value of each financial impact is multiplied by its risk factor.
- 2.9 The approach also considers the extent to which financial risks can be transferred by way of insurances, thus creating a balance between insured and self-financed risk. Where insurances are in place, the risk value reflects the level of deductible within the insurance policy.
- 2.10 Residual risk is the extent to which the Authority remains exposed to risks which are neither insured nor provided for within revenue budgets or

balances. The level of acceptable residual risk equates to the “risk appetite” of the Service and the estimated minimum level of balances reflects this risk appetite.

- 2.11 The risk assessment review identified some changes in risks, mainly in terms of the increase (or sometimes decrease) in the potential costs of existing risks. The frequency of risk occurrence has also been reviewed in the light of another year of experience.
- 2.12 The updated risk assessment shows that an appropriate level of general reserves and working balances remain at £3.9m. The review has been undertaken in the knowledge that in previous years there has been little need to call on General Fund Reserves, largely because any additional expenditure has been absorbed from within the revenue budget. With this in mind, the review has been undertaken with a more critical eye, whilst also remembering that reducing budgets may make this difficult to maintain in future years.
- 2.13 There are two new risks that have been added to the register:
- a) **External Contracts (Risk 9)**. following the collapse of several large organisations such as Carillion a new risk has been added to the value of £200k to cover any additional costs incurred should the service be affected by such a collapse. Thorough checks are undertaken before any major contract is awarded, but clearly history demonstrates that this can only minimise the risk.
 - a) **Collaboration (Risk 11)** – unforeseen costs. With the increasing number of collaborative projects there is a level of increased financial uncertainty until schemes are embedded and full costs can be estimated with certainty. £200k has been added to the risk register.
- 2.14 Several risks which have significantly changed. These are detailed below:
- a) **Pension Issues (Risk 1)** has been increased from £180k to £500k. This reflects the increased uncertainty around McCloud and other legal cases being brought before the courts.
 - b) **Significant overspend against budgets (Risk 3)** has been increased to reflect that budgets have been set at levels based on current levels of activity in order to reduce prior year underspends. £800k has consequently been taken out 2020/21 budgets. This is considered appropriate given levels of underspends in previous years in areas such as on-call staff training and support staff pay. However, there is a risk that if turnover is lower than expected, for example, these budget areas could overspend. This risk has therefore been increased from £120k to £400k. Some other budget related risks have been taken out of the reserve, such as unforeseen increases in fuel prices as this is now covered under this risk.

- c) **Local / National Industrial Dispute (Risk 10)** has been reduced from £500k to £150k to reflect the revised resilience arrangements which are now funded from within the revenue budget.
 - d) **Unforeseen changes in legislation / major incident reviews (Risk 12)** – this has been increased from £40k to £150k to reflect the increased risk of unidentified costs arising from Grenfell.
 - e) **Redundancies due to current on-going financial constraints (Risk 13)** – this has been reduced from £500k to £100k to reflect reduced uncertainty now that the joint control has been completed.
 - f) There were previously several insurance excess related risks that have now been amalgamated into one risk **called Insurance Excess not included in Budget (Risk 21)**. This has also been reduced from £50k to £30k to reflect the reduced excess charges included in the new insurance contract.
- 2.15 There are a number of other risks where minor amendments have been made to reflect changes in either risk value or in expected likelihood or impact in the light of another year’s experience.
- 2.16 The risk assessment which determines what the minimum level of reserves is carried out using the professional judgement of the Officers involved in the process. Several managers with particular areas of expertise have been consulted as part of the exercise to determine any new risks and to identify appropriate levels of risk value and risk frequency. This detailed review of risks inevitably results in fluctuations in the resulting minimum level.
- 2.17 Previous year’s minimum levels of General Reserves have remained between £3.8m and £4.4m as detailed below:

Year	Minimum General Fund Reserve level £'m
2020/21	3.9
2019/20	3.9
2018/19	4.3
2017/18	4.4
2016/17	3.8
2015/16	4.0

- 2.18 The Finance and Resources Committee regularly receives risk management reports, which show that corporate risks are regularly reviewed by Officers

and that controls are in place to manage those risks. The review of reserves reflects these changes.

- 2.19 The projected level of general fund reserves at 31 March 2020 is of the order of £5.5m, after a planned use of £75k to balance the 2019/20 budget (section 2.5). The General Fund reserve exceeds the minimum level required by £1.6m. There remains significant pressure on budgets going forward, including considerable uncertainty regarding future funding levels. The service is working towards setting a balanced budget for 2020 onwards, although this is dependent on levels of government funding. Funding for 2020/21 will be the subject of the one year Spending Review, for which outline details were announced in September. Further details are expected in January.
- 2.20 A further spending review is expected to cover the three years 2021/22 to 2023/24 during 2020, however, this will be determined by the new incoming Government. This will be influenced by:
- The outcome of the General Election;
 - The impact of Brexit;
 - This will be the first full spending review that Fire fall under the Home Office;
 - The revised Business Rate retention scheme should become operational from 2021/22;
 - The fire funding formula is under review and may be replaced in 2021/22.
- 2.21 It is appropriate to advise Members that the level of reserves held by the Authority will be sufficient during 2020/21 to cover the risk based liabilities which may arise and the Treasurer will report on this as part of her duties under Section 25 of the Local Government Act 2003 when the 2020/21 budgets are set in February 2020. However, it should be noted that reserve levels assume that reserves will not be required above the £75k currently identified to balance the 2019/20 budget, and that there will be no requirement to use general fund reserves to balance the budget in 2020/21 onwards. Any requirement to do so would reduce the £1.6m excess of the General Fund over the minimum recommended level.

3 ANNUAL REVIEW OF EARMARKED RESERVES

- 3.1 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 to address emerging risks or cost pressures.
- 3.2 The relevance of, and value in, each reserve is reviewed annually. There have been several reserves that have remained unspent over several years due to either changes in project needs or being funded from other sources.

These have now been identified as being no longer required for their original purpose. In total, this exercise has identified £1.4m of Earmarked Reserves which can be re-invested in new projects.

- 3.3 In recent years, the Authority has had insufficient resources to invest in innovative projects to improve services. Whilst significant savings have been made from delivering the Sustainability Strategy, these have been largely utilised to balance the budget. The lack of investment in services has been identified as an area requiring improvement by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) in the recent inspection of the service.
- 3.4 A Transformation and Efficiency Strategy will be presented to Fire Authority in February 2020. This will outline areas of change in the organisation required to deliver the key objectives of the Strategic Plan and HMICFRS Action Plan. It will also enable the service to consider the outcomes of the Grenfell Tower inquiry and the Hackitt inquiry (review of building regulations). Any additional funding required is likely to be project based with one off funding being potentially required.
- 3.5 Collaboration with other public services (predominantly blue light services) is an area that is continuing to be explored and is seen to be a potential vehicle that could assist with the transformation of the service. A collaboration strategy was approved by Fire Authority on 22 September 2017. Collaboration projects often require up front expenditure before ongoing savings can be achieved.
- 3.6 The £1.4m surplus earmarked reserves have been used to create a Transformation and Collaboration Reserve. This will be allocated to projects by the Strategic Leadership Team over life of the Strategic Plan. The reserve will be available for one off project based expenditure, for example on new equipment or short term salary costs. Any ongoing expenditure will need to be met from revenue budgets. Projects will need to demonstrate that they:
 - Contribute to the key objectives as set out in the Strategic Plan;
 - Address areas of weakness identified in the HMICFRS inspection;
 - Reduce corporate risks identified in the Corporate Risk Register;
 - Are required to meet the outcomes of the Grenfell Tower inquiry or the Hackitt inquiry (building regulations).
- 3.7 The Transformation and Efficiency Strategy will provide further information on an appropriate level of funding for the programme, which may differ from the £1.4m currently identified.
- 3.8 A summary of the movement in Earmarked Reserves is shown in Table 2 below.

Summary of Movement in Earmarked Reserves

Earmarked Reserve Category	Balance 1 April 2019	Estimated Balance 1 April 20	Forecast Spend 2020/21	Forecast Spend 2021/22 - 2023/24	Estimated Balance 31 Mar 24
	£'000	£'000	£'000	£'000	£'000
Grants Unapplied:					
Resilience Crewing and Training	337	231	(80)	(151)	0
Community Safety Innovation Fund	166	106	(10)	(96)	0
LPSA Reward Grant	63	15	(15)	0	0
Other	87	56	(6)	(12)	38
Sub Total	653	408	(111)	(259)	38
General Earmarked Reserves:					
Capital Reserve	1,038	1,037	(1,037)	0	0
ESN reserves	1,292	1,361	(100)	(300)	961
Transition Reserve	714	0	0	0	0
Transformation and Collaboration	0	1,387	(500)	(887)	0
Tri Service Control	193	178	(50)	(128)	0
Pensions	309	0	0	0	0
On Call Policy Change	212	0	0	0	0
Staffing Resilience	164	0	0	0	0
Other	188	159	(66)	(41)	51
Total	4,763	4,531	(1,866)	(1,614)	1,050

3.9 In total, earmarked reserves are expected to be in the region of £4.5m at 1 April 2020, but are expected to fall to £1.1m by March 2024. The remaining £1.1m relates to grant funding which needs to be spent in line with grant conditions. The majority of this relates to the Emergency Services Network project which has been extensively delayed. The expenditure profile for this project is very difficult to predict.

3.10 Further details of individual Earmarked Reserves and movement in reserves can be found in Appendix 2.

GRANTS UNAPPLIED FROM PREVIOUS YEARS

- 3.11 The most significant of these grants is the **Resilience Crewing and Training** which is awarded from the Home Office each year to assist the Authority to undertake necessary resilience work in order that it can fulfil its obligations in major national incidents.
- 3.12 **Community Safety Innovation Fund** This grant enables the Authority to work very closely with partner agencies to identify and address risk with the aim of reducing fires in vulnerable groups. An example of this work is where an Environmental Health officer has been seconded to the Authority to work alongside our Fire Prevention Officers to ensure that the assistance provided is the most effective available.
- 3.13 **LPSA Reward Grant** This is a pump priming grant for service improvements such as the fitting of sprinklers. There has been little usage of the grant and it has been amalgamated into the Transformation and Collaboration reserve to help improve services in a more co-ordinated way.
- 3.14 **Capital Reserve** This reserve has been set aside as a contingency against overspends on capital projects. There has been no expenditure against this reserve for several years due to high levels of slippage in the capital programme. For this reason, it will be used to fund capital expenditure in 2020/21, thus reducing the borrowing requirement for the capital programme.
- 3.15 **Emergency Services Network (ESN) Reserves** These reserves relate to ESN grant that has been awarded but not spent due to the delays in the national project. There are also some smaller reserves created to fund expenditure funded directly by the Authority.
- 3.16 **Transition Reserve** This reserve was set up to meet the costs of organisational change required as part of the savings strategy. It is currently being used to meet the costs of employing staff to manage specific projects and to meet the set-up costs potential of collaboration projects. This reserve is being moved to help create the Transformation and Collaboration Reserve.
- 3.17 **Transformation and Collaboration Reserve** This is a new reserve created to fund service improvements -see section 3.6.
- 3.18 **Tri Service Control** This is funding set aside to make continuing improvements to the control software installed as part of a joint project with Derbyshire and Leicestershire Fire Authorities.
- 3.19 **Pensions** This was a reserve set aside to smooth out the expenditure that falls to the authority to fund for ill health pensions. The cost of these can be considerable (on average about £70k), which can create an overspend even for one retirement above what is included in the budget. However, the reserve has not been utilised for several years and there is considered to be adequate cover provided by the General Reserve (see 2.14). For this reason, the £309k has been moved to the Transformation and Collaboration Reserve.

- 3.20 **On Call Policy Change** This reserve was set up to support the On-Call Section pending the introduction of day crewing at Retford and Ashfield. However, these costs have been budgeted for as part of the revenue budget as they are of an ongoing nature. This reserve is therefore surplus to requirements and has been transferred into the Transformation and Collaboration Reserve.
- 3.21 **Staffing Resilience** A reserve of £200k was approved by Fire Authority in December 2018 to ensure adequate resilience in times of industrial action. These costs have now been included in the revenue budget and the £164k remaining budget has been moved to the Transformation and Collaboration Reserve.
- 3.22 It is expected that the level of Earmarked Reserves will reduce over the next few years given the inability to create new revenue reserves from within the revenue budget.

4 SUMMARY

- 4.1 The total value of the Authority's reserves on 1 April 2020 are expected to be in the region of £10.0m.
- 4.2 The expected level of General Fund Reserves as at 1 April 2020 is expected to be in the region of £5.5m, which exceeds the £3.9m minimum level identified for 2020/21 by £1.6m.
- 4.3 Any deficit in future years' revenue budgets will need to be met from this £1.6m surplus on the General Fund.
- 4.4 Earmarked Reserves are expected to be in the region of £4.4m at 1 April 2020 and are expected to reduce to £1.1m by March 2024.

2020/21 GENERAL FUND RISK ANALYSIS

APPENDIX 1

	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	2020/21 Reserve Required £
1	Pension issues - ombudsman rulings / medical appeals, accounting errors / mal-administration	Additional costs	Systems now improved but some legacy issues still emerging.	N	1,000,000	0.5	500,000
2	Business failure of bank or investment counterparty	Loss of working capital or investment funds up to £2m	Treasury management strategy, risk analysis of investment options and counterparties	N	2,000,000	0.2	400,000
3	Risk of significant overspend against budgets	Overspend against revenue budget in year which will have effect of reducing general reserves by the amount of the overspend	Have reduced budgets to reflect previous years' overspends	N	800,000	0.5	400,000
4	Legal challenges and discretionary compensation awards	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	1,200,000	0.3	360,000
5	Pay awards agreed at higher rate than budget	Additional costs. Reserve covers 2% over rate included in budget.		N	714,000	0.5	357,000
6	Unforeseen price increases due to currency exchange fluctuation	Increased costs / potential for reduced competition	May not be possible to avoid through contract obligations	N	600,000	0.5	300,000
7	Impact of Brexit	Additional costs to redress any impact of Brexit		N	200,000	1	200,000

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Factor Reflecting Frequency	2020/21 Reserve Required £
8	Unanticipated loss of short term income i.e. from precept, business rates, eg surplus on collection fund movement	Timings of budget process may not allow sufficient time to plan for such changes	Network of Chief Financial Officers keep abreast of developments.	N	400,000	0.3	120,000
9	External Contracts	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	Effective monitoring of contracts	N	1,000,000	0.2	200,000
10	Local/national industrial dispute	Potential loss of service; risk of non compliance with statutory duties and ensuing legal case / fines; selective industrial action may not result in sufficient underspend to cover additional costs. Potential ministerial intervention and ensuing reputational damage.	Resilience arrangements now in place which has reduced the risk of needing additional cover. Haver reduced the risk factor accordingly.	N	500,000	0.3	150,000
11	Collaboration unforeseen costs	With several collaboration projects underway there is a level of increased financial uncertainty until schemes are bedded in and full costs are known.	Effective planning and identification of costs at the outset of the project	N	400,000	0.5	200,000
12	Unforeseen general change in legislation / Major Incident Reviews	Increased costs of working due to doing more or doing things differently & costs of training	Awareness	N	300,000	0.5	150,000

Risk No	Risk Description	Risk Effect	Control Measure	Insurable	Risk Value £	Risk Factor Reflecting Frequency	2020/21 Reserve Required £
13	Redundancies due to current and on-going financial constraints, if savings cannot be found from elsewhere	One-off cost of redundancy payment and potential pension strain is too high a cost to budget for within the revenue budget	Business case and payback period	N	500,000	0.2	100,000
14	Increase in numbers of vulnerable people due to economic climate	Loss of council tax precept income, additional cost of fire prevention activity	No controls in place	N	200,000	0.5	100,000
15	Hot or dry summers	Increased retained call-outs	None	N	220,000	0.3	66,000
16	Discovery of major property structural problem that restricts / prevents use of all or part of building(s)	Loss of use; cost of repair; impairment to operational effectiveness	Continuity plans, repair and refurbishment programme	P	600,000	0.1	60,000
17	Major vehicle / equipment defect (affecting part of fleet)	Loss of use; cost of rectifying defect if beyond warranty	Mutual assistance, robust and routine fleet inspections. New contract.	N	250,000	0.2	50,000
18	Natural disasters	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	90,000	0.5	45,000
19	Breach of data security	Loss of confidential data; Information Commission fines	Security measures	N	150,000	0.25	37,500
20	HSE Interventions	Cost of remedial measures; cost of fine; fees for HSE intervention, indirect costs of covering internal resources used to investigate the issue etc.	Operating procedures; training; written safety policy; risk assessments	N	315,000	0.1	31,500
21	Insurance Excess not included in budget	Insurance receipt may not cover costs. Excess for fraud, indemnity cover and personal damage total £35k.	Training and procedures	Y	100,000	0.3	30,000

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	2020/21 Reserve Required £
22	Multiple large incidents	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	90,000	0.3	27,000
TOTALS					11,629,000		3,884,000

Minimum level of General Reserve 2020/21 **3,884,000**

Minimum level of General Reserve 2019/20 **3,874,350**

APPENDIX 2

EARMARKED RESERVE POSITION 2019/20 TO 2023/24

	Balance 01-Apr-19	Committed 2019/20	Movement between Reserves	Balance 31-Mar-20	Required 2020/21	Required 2021/22	Required 2022/23	Required 2023/24	Balance 31-Mar-24
	£	£	£	£	£	£	£	£	£
Prevention Protection and Partnership									
Fire Investigation	30,607	- 30,607	-	-	-	-	-	-	-
Safe as Houses - Smoke Alarms	18,301	-	-	18,301	6,301	6,000	6,000	-	-
Community Fire Safety - Innovation Fund	166,207	- 60,000	-	106,207	10,207	- 48,000	48,000	-	-
Thoresby Estate Charitable Trust	2,506	-	-	2,506	-	-	-	-	2,506
LPSA Reward Grant	63,452	- 10,000	- 38,452	15,000	15,000	-	-	-	-
Safe and Well	(6,787)	-	6,787	-	-	-	-	-	-
Fire Cadets Project - Duke of Edinburgh	22,648	- 10,000	-	12,648	12,648	-	-	-	-
On Fire Fund - Fire Safety	71,066	- 4,000	-	67,066	4,000	- 4,000	- 4,000	- 4,000	51,066
Swan Project Ashfield	217	-	-	217	-	-	-	-	217
Home Safety Equipment Scheme	7,400	- 7,400	0	0	-	-	-	-	0
Sub Total	375,617	122,007	-31,665	221,945	-48,156	-58,000	- 58,000	- 4,000	53,789
Resilience									
Resilience Crewing and Training	337,075	- 106,380	0	230,695	- 80,000	- 80,000	- 70,695	-	-
New Threats	35,103	-	-	35,103	-	-	-	-	35,103
Sub Total	372,177	- 106,380	0	265,797	- 80,000	- 80,000	-70,695	-	35,103
Capital									
Capital Reserve	-	-	-	-	-	-	-	-	-
	1,037,419	-	-	1,037,419	1,037,419	-	-	-	-

	Balance 1 Apr 19 £	Committed 2019/20 £	Movement between Reserves £	Balance 31 Mar 20 £	Required 2020/21 £	Required 2021/22 £	Required 2022/23 £	Required 2023/24 £	Balance 31 Mar 24 £
Transition									
Organisation Transition One Off Cost	714,071	- 30,075	- 683,996	-	-	-	-	-	-
HMICFRS preparation	-	50,000	-	50,000	- 50,000	-	-	-	-
Sub Total	714,071	19,925	- 683,996	50,000	- 50,000	-	-	-	-
ICT									
PSN - Systel Security Work	266,370	-	-	266,370	-	-	-	-	266,370
ESN RAP Work	348,817	-	-	348,817	-	-	-	-	348,817
ESN Balance	206,936	99,513	-	306,449	-	-	-	-	306,449
ESN Control Room ICT	20,100	-	-	20,100	-	-	-	-	20,100
ESN Communication Development	171,753	-	-	171,753	-	-	-	-	171,753
ESN Systel Airwave Transition	173,184	-	-	173,184	-	-	-	-	173,184
ESN - Notts Local Transition Fund	27,479	- 29,811	-	2,332	-	-	-	-	2,332
Delivery of ESN – additional fund	77,000	-	-	77,000	-	-	-	-	77,000
ESN grant - forecast usage	-	-	-	-	- 100,000	- 100,000	- 100,000	- 100,000	400,000
ESN Sub Total	1,291,639	69,702	-	1,361,341	- 100,000	- 100,000	- 100,000	- 100,000	961,341
Business System Development	59,603	- 30,000	-	29,603	-	- 29,603	-	-	-
ICT Subtotal	1,351,242	39,702	-	1,390,944	100,000	-129,603	-100,000	- 100,000	961,341
Operational									
Tri Service Control Phase 2	193,048	- 15,500	-	177,548	- 50,000	- 50,000	- 77,548	-	-
Retained Pay Policy Change	212,000	-	- 212,000	-	-	-	-	-	-
Operational Equipment	10,000	- 10,000	-	-	-	-	-	-	-
Sub Total	415,048	- 25,500	- 212,000	177,548	- 50,000	- 50,000	- 77,548	-	-

	Balance 1 Apr 19 £	Committed 2019/20 £	Movement between Reserves £	Balance 31 Mar 20 £	Required 2020/21 £	Required 2021/22 £	Required 2022/23 £	Required 2023/24 £	Balance 31 Mar 24 £
Other									
Staffing Resilience	163,735	- 37,735	- 126,000	-	-	-	-	-	-
Taxation Compliance	3,135	-	- 3,135	-	-	-	-	-	-
Pension III Health	309,322	-	- 309,322	-	-	-	-	-	-
HEP B Vaccinations	21,006	-	- 21,006	-	-	-	-	-	-
Sub Total	497,198	- 37,735	- 459,463	-	-	-	-	-	-
Transformation and Collaboration									
Transformation and Collaboration	-	-	1,387,124	1,387,124	- 500,000	- 500,000	-387,124	-	-
	-	-			-			-	-
Sub Total	-	-	-1,387,124	1,387,124	- 500,000	- 500,000	- 387,124	-	-
Total	4,762,772	- 231,995	0	4,530,777	-1,865,575	-817,603	-693,366	-104,000	-1,050,233

EXTRACT FROM NATIONAL FRAMEWORK REFERENCE RESERVES**Reserves**

- 5.6 Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 5.7 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.
- 5.8 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).
- 5.9 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.
- 5.10 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 a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance)