

# COUNTY DURHAM & DARLINGTON FIRE & RESCUE AUTHORITY

## RESERVES STRATEGY 2019/20

### Background

- 1 The Fire and Rescue National Framework for England sets out the priorities and objectives for fire and rescue authorities (FRA's) and makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's medium term financial plan (MTFP).
- 2 The information which FRA's are required to publish includes:
  - How the level of the general reserve has been set;
  - Justification for holding a general reserve larger than 5% of budget;
  - Details of the activities or items to be funded from each earmarked reserve and how they 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.
- 3 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 MTFP.
  - 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).

### Reserves Policy

- 4 The Authority's reserves are held as:
  - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of general reserves.
  - A contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

- 5 The current reserves policy is that the Authority will:
- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
  - Aim to maintain a general reserve of 5% of the net expenditure, currently £1.425m.

## Estimated Reserves Position

- 6 The estimated reserves position for the period 2018/19 to 2022/23 is set out in Table 1 below:

**Table 1: Estimated Reserves Position 2018/19 – 2022/23**

| Reserve                            | 2018/19<br>£m | 2019/20<br>£m | 2020/21<br>£m | 2021/22<br>£m | 2022/23<br>£m |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>General Reserve</b>             | <b>1.425</b>  | <b>1.425</b>  | <b>1.425</b>  | <b>1.425</b>  | <b>1.425</b>  |
|                                    |               |               |               |               |               |
| <b>Modernisation Reserve</b>       | 2.821         | 2.197         | 0             | 0             | 0             |
| Use of Reserve – Capital Financing | -0.624        | -2.197        | 0             | 0             | 0             |
| <b>Closing Balance</b>             | <b>2.197</b>  | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      |
|                                    |               |               |               |               |               |
| <b>Other Earmarked Reserves</b>    | <b>2.309</b>  | <b>2.209</b>  | <b>1.250</b>  | <b>1.250</b>  | <b>1.250</b>  |
|                                    |               |               |               |               |               |
| <b>TOTAL RESERVES</b>              | <b>5.931</b>  | <b>3.634</b>  | <b>2.675</b>  | <b>2.675</b>  | <b>2.675</b>  |

## General Reserve

- 7 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. However, given the high level of influence that third parties such as the Local Government Employers and government departments have on income and expenditure there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure therefore proportionally it's general reserve may be slightly higher than a multi-purpose authority.
- 8 The Authority has a policy to maintain the general reserve at 5% of the net expenditure which is a commonly used benchmark across the fire sector. A risk assessment of the adequacy of the Authority's general reserve is carried out at the year-end and any necessary adjustments are made as part of the final accounts process. A general reserve of 5% of net expenditure is considered to be adequate taking account of the risks associated with the MTFP, the level of earmarked reserves and the Authority's track record of delivering efficiency savings and sound budget management.

## **Earmarked Reserves**

- 9 The Authority holds the following earmarked reserves to meet known or predicted liabilities:

### **Pensions Reserve (General Contingency)**

The purpose of the pensions reserve is to meet any unforeseen pension costs which may arise as a result of changes to pension schemes, or any increase in the level of ill-health retirements over and above the level included in the revenue budget. Each higher tier ill-health retirement can cost in the region of £125K therefore the pensions reserve equates to the equivalent of an additional 4 higher tier ill-health retirements over the four-year MTFP period.

### **Insurance Reserve (General Contingency)**

The excess levels on the Authority's insurance policies are significant and the purpose of this reserve is to meet any unexpected increase in the level of claims excesses that may arise over and above the sums included in the revenue budget. Provision has not been made in the revenue budget to cover the payment of policy excesses which are £50K on the vehicle insurance policy and £100K on the public and employer's liability policies.

### **Resilience (General Contingency)**

The National framework requires the Authority to maintain national resilience capabilities in a high state of operational readiness. The funds in this reserve have been set aside to meet any unforeseen costs which may arise in order to meet this obligation and any costs associated with a business continuity event such as a prolonged period of industrial action or the need to support a significant operational incident over a prolonged period of time, either within our area or elsewhere.

### **Replacement Mobilisation System Reserve (Grant funding for a planned project)**

This reserve comprises of the balance of unspent grant, earmarked to fund the replacement mobilisation system. The funds in this reserve will be utilised during 2019/20 to fund licence and maintenance costs associated with the command and control system.

### **Modernisation Reserve (Funding for a planned project)**

The funds in this reserve will be fully utilised during 2019/20 on the Darlington Fire Station capital replacement project.

### **Emergency Services Mobile Communications Programme (Grant funding for a planned project)**

The reserve comprises of the balance of unspent grant, earmarked to fund the replacement mobile communications systems. Whilst the funds in this reserve are not legally or contractually committed at this stage, they will be fully utilised over the MTFP period to finance the replacement systems.

- 10 The estimated movement on each of the earmarked reserves during the period 2019/20 to 2022/23 is set out in Table 2 below:

**Table 2: Earmarked Reserves 2019/20 to 2022/23**

| <b>Earmarked Reserve</b>        | <b>Estimated Balance at 01/04/19 £m</b> | <b>Transfers to Reserves £m</b> | <b>Use of Reserves £m</b> | <b>Estimated Balance 31/03/23 £m</b> |
|---------------------------------|---|---------------------------------|---------------------------|--------------------------------------|
| Pensions                        | 0.500                                   | 0                               | 0                         | 0.500                                |
| Insurance                       | 0.250                                   | 0                               | 0                         | 0.250                                |
| Resilience                      | 0.500                                   | 0                               | 0                         | 0.500                                |
| Replacement Mobilisation System | 0.100                                   | 0                               | -0.100                    | 0                                    |
| Modernisation                   | 2.197                                   | 0                               | -2.197                    | 0                                    |
| ESMCP                           | 0.959                                   | 0                               | -0.959                    | 0                                    |
| <b>TOTAL</b>                    | <b>4.506</b>                            | <b>0</b>                        | <b>-3.256</b>             | <b>1.250</b>                         |