

AGENDA ITEM 9

TO: Policy and Resources Committee

FROM: Deputy Chief Executive Officer (DCEO) - Matthew Warren

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FIRE AUTHORITY RESERVE STRATEGY

1. Purpose

- 1.1 The purpose of this report is to provide the Policy and Resources Committee with an outline of the current position with regard to reserves held by the Service and gain approval for the use of reserves going forward.

2. Recommendation

- 2.1 The Committee is asked to approve the reallocation and utilisation of the On-Call Operations Reserve as detailed in Paragraph 5 below.

3. Risk Assessment

- 3.1 **Political** – the Authority is responsible for providing planning in relation to reserves held. Reserves must be used appropriately to protect front line services and maintain stations, as well as to provide long term financial security.
- 3.2 **Economic** – as a result of Government cuts there is pressure on both the revenue and capital budgets. It is important to hold reserves that could be released to fund any foreseen and/or unforeseen financial risk. It will also be important to look at the long term investment of reserves, rather than holding cash, as the ability to generate income from short term investments has diminished. Financially, the use of reserves is beneficial in comparison to borrowing; reduced borrowing will result in less costs and liabilities being incurred.

4. Background

- 4.1 Reserves are held to meet capital funding and financial requirements, which the Service cannot fund from within its revenue budget. Reserves are assessed in relation to operational, strategic and financial risk. This includes the risk that future Government funding will be significantly reduced. Reserves are also held in relation to specific projects where funding has been received but is yet to be spent.
- 4.2 The Chartered Institute of Public Finance Accountancy (CIPFA) states the following [LAAP Bulletin 77];

“CIPFA and the Local Authority Accounting Panel do not accept that a case for introducing a generally applicable minimum level of reserves has been made. Local authorities, on the advice of their chief finance officers, should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary. 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 also are necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.

Imposing a generally applicable minimum level would also run counter to the promotion of local autonomy and would conflict with the financial freedoms introduced for English and Welsh local authorities in the Local Government Act 2003 and for Scottish authorities in the Local Government in Scotland Act 2003. Nor is it considered appropriate or practical for CIPFA, or other external agencies, to give prescriptive guidance on the minimum (or maximum) level of reserves required, either as an absolute amount or a percentage of budget.”

- 4.3 Government continue to show strong interest in the level of reserves held by fire authorities and there is a requirement for a reserve strategy to be published. The Authority's current Reserve Strategy is compliant with the latest guidelines issued by the Home Office and attached at Appendix 1 to this report.
- 4.4 The Service has two types of reserves; useable and unusable. Useable reserves can be earmarked or non-earmarked. Earmarked reserves are those funds that have been built up, or received specifically, for known or predicted requirements. Some of these earmarked reserves will relate to grants that have been received which carry certain conditions for them to

be utilised. Non-earmarked reserves are those that form general reserves. The general reserve is essentially a working balance to reduce the financial impact of uneven cash flows, or unexpected events or emergencies. Unusable reserves are those that arise out of workings of legislation and proper accounting practices. These unusable reserves are not resource backed and cannot be used for any other purpose therefore they do not form part of this paper.

- 4.5 Current reserves have been accumulated through the transfer of unallocated year-end surpluses and grants received but not used.

5. Proposal

- 5.1 ***The utilisation of reserves to invest in property.*** The current rate of return on cash investments continues to be poor and it continues to be more beneficial for the Authority to utilise reserves rather than borrow. This reserve has been updated to reflect the latest position with regard to training facilities and Huntingdon fire station.
- 5.2 ***The utilisation of reserves to avoid borrowing.*** The cost of borrowing is greater than the return on cash investments it is therefore more cost effective to use funds currently held. This will be regularly reviewed to ensure this policy remains beneficial.
- 5.3 ***The utilisation of reserves to meet future demands on revenue.*** It is anticipated that there will be no additional Government funding in the future to allow for significant investment in our asset portfolio. The necessary purpose of the general reserve is to allow flexibility when managing the financial challenge. Having assessed the level of the General Reserve, it is recommended that it is utilised to offset borrowing in the short- term, reducing it to a still prudent level.
- 5.4 ***The utilisation of the On-Call Operations Reserve to create a Wholetime Recruitment Reserve.*** The On-Call reserve was created to fund potential changes to the On-Call system. However as this project has progressed it is now apparent that this reserve will not be utilised to invest in one-off areas of expenditure. It is therefore proposed to re-name this reserve so that it can be used to fund investment in wholetime firefighters. The Authority will be aware of the significant firefighter recruitment required over the coming years as firefighters leave the Service. Given the extended time it takes to recruit and train our firefighters, it is recommended that the wholetime recruitment reserve funds the appointment of additional firefighters. This will allow the Service to recruit in advance of need and aid a smooth transition as others leave the organisation.

- 5.5 ***The Community Safety Reserve.*** This reserve will be managed as a fund on behalf of the Authority. Release of funds will be subject to a successful bidding process made by partner organisations. Any bid will have to meet success criteria that will be based around community risk reduction.

6. Summary

- 6.1 Ultimately the utilisation of reserves will be prioritised to reduce revenue expenditure going forward.

BIBLIOGRAPHY

Source Documents	Location	Contact Officer
None	Fire Service HQ Hinchingsbrooke Cottage Huntingdon	Matthew Warren 01480 444619 matthew.warren@cambsfire.gov.uk

Appendix 1

General / Earmarked Reserve Breakdown 2018/19

	18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000	22/23 £'000	Narrative
Estimated Reserves at Start of Financial Year	14,211	9,065	6,924	4,924	6,924	
Property Development Reserve	9,789	5,434	4,224	2,224	4,224	<p>The Property Development Reserve is earmarked to fund major property improvement and new schemes. Currently, Wisbech fire station is being redeveloped to create a combined police and fire station. The Monkswood training centre development is awaiting planning. SHQ and Huntingdon are in planning at this stage. <i>This reserve was committed to fund the new combined HQ/fire station and training centre at Monkswood. However, owing to potential governance changes, this was put on hold whilst the alternative options of collaboration with the police were explored.</i></p> <p>Currently going through planning process that will take until September 2018. Decision expected 2018, with completion in December 2019.</p> <p>Options appraisal and designs complete. This work will be split into phases. Once decision on PCC is known, decisions will be taken on options to take forward.</p> <p>Currently assessing land on Police HQ site for suitability. Outcomes are expected by Summer 2018.</p> <p>Funding of Capital Programme</p>
Wisbech Training/Refurbishment -	150					
Monkswood Training Centre -	2,000					
SHQ Refurbishment -	1,000					
Huntingdon fire station Capital Financing Property Improvements -	1,205 -	- 1,210	2,000	2,000		
General Reserve	2,423	1,632	901	901	901	<p>This reserve is used to fund unforeseen events. In the short-term this reserve will be reduced as the call on it has been historically low. In future it will be used to fund costs arising from having to maintain a stable operational crewing model.</p> <p>Funding of Capital Programme</p>
Capital Financing -	791 -	731				
Community Safety Reserve	200	-	-	-	-	<p>This reserve is held to fund specific projects and programmes. It will be called upon when required but it is not expected to be held for the long-term.</p>
On-Call Reserve	975	975	975	975	975	<p>The On-Call review is scheduled to finish in 2019/20. Any funds remaining will be transferred to the General Reserve, where the on-going demand associated with On-Call will be managed.</p>
Pension Reserve	824	824	824	824	824	<p>This reserve is held to fund ill health retirements that are often unexpected.</p>
Estimated Reserves at Year-end	9,065	6,924	4,924	6,924	6,924	
General Reserves at Year-end	1,632	901	901	901	901	
Earmarked Reserves at year end	7,433	6,023	4,023	6,023	6,023	