



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority

# **RESERVES STRATEGY 2018/19 to 2021/22**

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

**Date:** 14 December 2018

**Purpose of Report:**

To seek the approval of the Authority for the Reserves Strategy 2018/19 to 2021/22.

## **CONTACT OFFICER**

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## **1. BACKGROUND**

- 1.1 The Fire and Rescue 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 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. The Reserves Strategy can form part of the Medium Term Financial Strategy (MTFS) or be a stand-alone document.
- 1.4 The inaugural Reserves Strategy for this Authority has been prepared as a stand-alone document given that it is a new strategy but will be incorporated into the MTFS in future years.

## **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 2019/20 to 2021/22 is attached at Appendix A. The Strategy now includes the review of the General Fund Risk Assessment to identify the minimum level of General Fund Reserves required by the Authority.
- 2.3 The minimum level of General Fund Reserves has been recommended at £3.9m. This is a £0.4m reduction from the £4.3m approved for 2018/19. The review has been undertaken in the knowledge that in previous years there has been little need to call on General Fund Reserves, largely due to the fact that 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.

The main changes are due to:

- An additional £200k risk being included to cover any unexpected costs related to Brexit;

- The consolidation of several smaller reserve risks to create a £1.2m legal challenges risk (a reduction from £1.57m). This now incorporates damages brought against the Authority, discrimination cases, equal claims, legislation non-compliance, settlement agreements and some other smaller risks;
- The consolidation of 3 pension related risks totaling £687k (ill health, changes in legislation and general pension issues) into a £600k general pension risk.

2.4 More details can be found in sections 2.12 and 2.13 of the Reserves Strategy.

2.5 The projected level of general fund reserves at 31 March 2019 is of the order of £5.5m, after a planned use of £1.4m to balance the 2018/19 budget. 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. Funding for 2020/21 onwards will be the subject of the forthcoming Comprehensive Spending Review (CSR), against a backdrop of considerable change:

- The impact of Brexit may constrain the government in increasing public sector spending;
- It is possible that there will be a General Election in the near future which could impact the outcome of the CSR;
- This will be the first CSR that Fire fall under the Home Office;
- The revised Business Rate retention scheme should become operational from 2020/21;
- The Fire funding formula is under review and may be replaced in 2020/21.

2.6 This uncertainty raises the risk to the Authority going forward. Given the potential difficulty in replenishing any use of General Fund Reserves in the coming years it is felt prudent to maintain a level of general reserve in excess of the minimum agreed level.

## **EARMARKED RESERVES**

2.7 In total, earmarked reserves are expected to be in the region of £4.2m at 1 April 2019, but are expected to fall to £2.2m by March 2022. Again, these represent a finite resource for which it may be difficult to replenish in future years. £0.4m of these reserves relate to non ESN grant received in prior years which is yet to be spent.

## **SUMMARY**

2.8 The total value of the Authority's reserves on 1 April 2019 are expected to be in the region of £10.1m.

2.9 The expected level of General Fund Reserves as at 1 April 2019 is expected to be in the region of £5.5m, which exceeds the £3.9m minimum level identified for 2019/20 by £1.6m.

2.10 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.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

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

### **5. EQUALITIES IMPLICATIONS**

An initial equality impact assessment has not been prepared in relation to this matter.

### **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:

- 10.1 Approve the Reserves Strategy 2018/19 to 2021/22 shown at Appendix A.
- 10.2 Approve the proposed minimum level of working balances of £3.9m for 2019/20.

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

None.

Charlotte Radford  
**TREASURER TO THE FIRE AUTHORITY**

John Buckley  
**CHIEF FIRE OFFICER**



**NOTTINGHAMSHIRE**  
Fire & Rescue Service

# **RESERVES STRATEGY**

**2018/19 to 2021/22**

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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 2019/20 given that it is a new strategy but will also be incorporated into the MTFS.

## 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 retained pay costs.

## 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 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.

2.4 At the start of 2019-20, the General Reserve was £6.953m, which represented 16.5% of the 2018/19 net revenue budget. At its meeting on 16 February 2018 the Fire Authority approved the use of £1.444m to balance the 2019/20 budget, leaving anticipated reserve levels at March 2019 at £5.5m. This remains above the minimum general fund reserve level of £4.3m (10.2% of net revenue budget) also set by Fire Authority in February 2018. Whilst general reserve levels exceed £4.3m, 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. £1.4m

- 2.5 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, 2019-20, has been brought forward from February Fire Authority to align it with the Medium Term Financial Strategy to ensure the Authority complies with the framework requirements. The risk assessment is shown in Appendix 1.
- 2.6 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.
- 2.7 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.
- 2.8 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.
- 2.9 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.
- 2.10 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.
- 2.11 The updated risk assessment shows that an appropriate level of general reserves and working balances is £3.9m. This has decreased since last year by £0.4m. The review has been undertaken in the knowledge that in previous years there has been little need to call on General Fund Reserves, largely due to the fact that 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.

2.12 The only new risk added to the risk assessment is for Brexit. An amount of £200k has been added for 2019/20 to address the risk of a no deal Brexit in March 2019. Although it is very difficult to estimate what any additional costs will be, £200k was thought to be sufficient given that there is already provision for fluctuations in exchange rates in the assessment from previous years (£600k), and reduction in short term income (£400k). This is an area that will clearly need to be kept under review in future years as should there be a downturn in the economy as a result of Brexit it could lead to potential reduction in Business Rate income and Council Tax receipts.

2.13 The risks which have significantly changed are:

2.13.1 In previous years there have been several individual risks identified for legal challenges to the Authority, such as discrimination cases, unfair dismissal, equal pay claims and cases for damages against the Authority. The total risk value for these totaled £1.57m. These have now been amalgamated into one risk – Legal challenges brought against the service. Given the Authority has an extensive set of procedures in place to minimise this risk and that few claims have materialised over recent years, it is felt that a cumulative risk of £1.2m with a risk factor of 0.3 would be sufficient to cover this risk.

2.13.2 There were previously several pension related risks, such as medical appeals, general pension reserve covering accounting errors and mal-administration, totaling £688k. These have similarly been amalgamated into one pension related risk of £600k.

2.13.3 The risk factor of overspend against budgets has been reduced from 0.5 to 0.3 (ie once in every three years) as it is felt that the main areas of overspend risk are already identified elsewhere in the risk assessment (eg higher than expected pay awards and unforeseen increases in fuel prices etc).

2.13.4 The risk value of a breach of data security fine has had its risk factor increased from 0.125 to 0.25 to reflect increased awareness and challenges under the new General Data Protection Regulation - GDPR.

2.13.5 There were some smaller insurance excess values that have been removed from the assessment as it is felt that there is adequate budget provided in the insurance excess revenue budget to cover them should they materialise.

2.14 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.

2.15 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.

2.16 Previous year's minimum levels of General Reserves have remained between £3.8m and £4.4m as detailed below:

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

2.17 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. Even so paragraphs 2.13 above demonstrate that risk values can and do change, and the strategic risk register includes external risks which could impact on the Authority in the future.

2.18 The projected level of general fund reserves at 31 March 2019 is of the order of £5.5m, after a planned use of £1.4m to balance the 2018/19 budget. 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. Funding for 2020/21 onwards will be the subject of the forthcoming Comprehensive Spending Review (CSR), against a backdrop of considerable change:

- The impact of Brexit may constrain the government in increasing public sector spending;
- It is possible that there will be a General Election in the near future which could impact the outcome of the CSR;
- This will be the first CSR that Fire fall under the Home Office;
- The revised Business Rate retention scheme should become operational from 2020/21;
- The Fire funding formula is under review and may be replaced in 2020/21.

- 2.19 This uncertainty raises the risk to the Authority going forward. Given the potential difficulty in replenishing any use of General Fund Reserves in the coming years it is felt prudent to maintain a level of general reserve in excess of the minimum agreed level.
- 2.20 It is appropriate to advise Members in this report that the level of balances held by the Authority will be sufficient during 2019/20 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 2019/20 budgets are set in February 2019. However, it should be noted that the reserve levels discussed in this report assume that there will be no requirement to use reserves to balance the budget going forward in 2019/20 onwards. Any requirement to do so would reduce the £1.7m 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, 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. These reserves have been reviewed for 2019/20 and are considered to be appropriate. When the Authority endorses the Reserves Strategy for publication it will be made available on its website.
- 3.2 As part of the annual review of reserves 2019-20, Earmarked Reserves are presented in broad categories and analysed as outlined below.

<b>Earmarked Reserve Category</b>	<b>Balance 1 April 18 £'000</b>	<b>Estimated Balance 1 April 19 £'000</b>	<b>Forecast Spend 2019/20 £'000</b>	<b>Forecast Spend 2020/21 2021/22 £'000</b>	<b>Estimated Balance 31 Mar 22 £'000</b>
<b>Grants Unapplied:</b>					
Resilience Crewing and Training	383	343	(3)	(50)	290
Community Safety Innovation Fund	194	167	(38)	(10)	119
LPSA Reward Grant	126	63	(63)	0	0
Other	118	22	0	0	22
<b>Sub Total</b>	<b>821</b>	<b>595</b>	<b>(104)</b>	<b>(60)</b>	<b>431</b>
<b>General Earmarked Reserves</b>					
Capital Reserve	1,114	1,058	(96)	0	962
ESN reserves	1,238	933	(300)	(300)	333
Transition Reserve	849	774	(774)	0	0
Tri Service Control	258	190	(70)	(70)	50
Pensions	309	309	0	0	309
Retained policy Change	212	162	(80)	(82)	0
Other	355	191	(29)	(0)	162
<b>Total</b>	<b>5,156</b>	<b>4,212</b>	<b>(1,453)</b>	<b>(512)</b>	<b>2,247</b>

3.3 In total, earmarked reserves are expected to be in the region of £4.2m at 1 April 2019, but are expected to fall to £2.2m by March 2022. £0.4m of this relates to grant received in previous years which has not yet been spent.

3.4 Details of the larger reserves can be found below. Further details of individual Earmarked Reserves can be found in Appendix 2.

## **GRANTS UNAPPLIED FROM PREVIOUS YEARS**

3.5 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.

3.6 **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. This project has been running for some time now and is proving to be very effective.

- 3.7 **LPSA Reward Grant** This is a pump priming grant for service improvements such as the fitting of sprinklers.
- 3.8 **Capital Reserve** This reserve has been set aside as a contingency against overspends on capital projects.
- 3.9 **ESN Reserves** £134k of these reserves are regional reserves held on behalf the ESN regional project. A further element of the reserve relates 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.
- 3.10 **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.
- 3.11 **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.
- 3.12 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 2019 are expected to be in the region of £9.7m.
- 4.2 The expected level of General Fund Reserves as at 1 April 2019 is expected to be in the region of £5.5m, which exceeds the £3.9m minimum level identified for 2019/20 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 £4.2 at 1 April 2019 and are expected to reduce to £2.2 by March 2022.

2019/20 General Fund Risk Analysis

APPENDIX 1

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	2019/20 Reserve Required £
1	Legal challenges brought against the services 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
2	Pay awards agreed at higher rate than budget	Additional costs		N	640,000	0.5	320,000
3	Pension issues - ombudsman rulings / medical appeals, accounting errors / mal-administration	Additional costs	Systems now improved but some legacy issues still emerging.	N	600,000	0.3	180,000
4	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.	Maintain adequate contingency cover. Contingency arrangements well tested during 2013-2015 industrial action.	N	500,000	1	500,000
5	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
6	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	200,000	0.2	40,000
7	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
8	Reignition or other negligence	Reputational, financial	Operating procedures	Y	13,000	0.25	3,250
9	Serious injury to public	Reputation, cost, staff time	Training and procedures	Y	10,000	0.1	1,000



Risk No	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	2019/20 Reserve Required £
10	Breach of data security	Loss of confidential data; Information Commission fines	Security measures	N	150,000	0.25	37,500
11	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	1	500,000
12	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
13	Damage to vehicle	Loss of use; cost of repair; replacement vehicle hire; lease extensions	Road Risk Group - review of road risk; training; inclusion of vehicle safety options	Y	50,000	1	50,000
14	Appliance written off in an accident	Loss of use; insurance receipt may not cover cost of replacement	Road Risk Group - review of road risk; training; inclusion of vehicle safety options	Y	120,000	0.5	60,000
15	Multiple appliances written off in major incident (maximum 2 appliances)	Loss of use; insurance receipt may not cover cost of replacement; appliance degradation enacted; impact on service delivery; impact on appliance replacement programme	Training and procedures; appliance degradation procedure	Y	200,000	0.3	60,000
16	Major vehicle defect (affecting part of fleet)	Loss of use; cost of rectifying defect if beyond warranty	Mutual assistance, robust and routine fleet inspections	N	150,000	0.2	30,000
17	Unforeseen increase in fuel prices	Increased costs	None	N	70,000	0.25	17,500
18	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	Focus on realistic assumptions, rather than risky assumptions. Close monitoring of budget throughout year to allow corrective action to be taken	N	400,000	0.3	120,000
19	Major operational equipment defect	Loss of use; cost of modifications and replacements	Inspection routines	N	100,000	0.2	20,000
20	Significant change in interest rates	Increased costs / loss of income	Prudential code and treasury management indicators	N	120,000	0.2	24,000

Risk No	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	2019/20 Reserve Required
21	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
22	Impact of Brexit				200,000	1	200,000
23	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
24	Failure of counterparty to purchase fixed asset for sale	Loss of capital receipt to be used to finance capital programme, or contribute towards required savings – financial loss	Legal advice for major contracts and due diligence including risk analysis of prospective purchasers	N	575,000	0.2	115,000
25	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	0.5	200,000
26	Major CBRN / terrorist incident	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid. Belwin	N	80,000	0.1	8,000
27	Natural disasters	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	80,000	0.5	40,000
28	Multiple large incidents	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	80,000	0.3	24,000
29	Hot or dry summers	Increased retained call-outs	None	N	220,000	0.33	72,600
	<b>TOTALS</b>				<b>10,373,000</b>		<b>3,874,350</b>

**Minimum Level of General Reserves 2019/20 £3,874,350**

## EARMARKED RESERVES

## APPENDIX 2

<b>Funded by Grants</b>	<b>Balance at 31 Mar 18 £000</b>	<b>Estimated Balance April 19 £000</b>	<b>Forecast spend 2019/20 £000</b>	<b>Forecast Spend 2020-22 £000</b>	<b>Est Balance 2022 £000</b>
LPSA Reward Grant	126	63	(63)	0	0
Fire Investigation	72	26			26
Safe as Houses - Smoke Alarms	22	18			18
Community Fire Safety - Innovation Fund	194	167	(38)	(10)	119
Resilience Crewing and Training	382	343	(3)	(50)	290
New Threats / MTFA	22	22			22
Thoresby Estate Charitable Trust	3	3	(3)		0
<b>SubTotal</b>	<b>821</b>	<b>642</b>	<b>(107)</b>	<b>(60)</b>	<b>475</b>

	<b>Balance at 31 Mar 18 £000</b>	<b>Estimated Balance April 19 £000</b>	<b>Forecast Spend 2019/20 £000</b>	<b>Forecast Spend 2020/21 £000</b>	<b>Estimated Balance 2022 £000</b>
<b>Earmarked Reserves</b>					0
Pensions - Ill Health	208	208	0	0	208
Fire Safety - On Fire Fund	75	75			75
Business Systems Development	60	0			0
Emergency Services Mobile Communications Programme	16	16	(16)		0
ICT Sharepoint / Internet / Intranet	62	0			0
Operational Equipment	10	10	(10)		0
Capital Reserve	1,114	1,058	(96)		962
Organisational Transition – one off costs	849	774	(774)		0
Backlog Buildings Maintenance	95	0			0
Duke of Edinburg	23	23			23
Tri Service Control Project Phase 2	258	190	(70)	(70)	50
HEP B Vaccinations	21	21			21
Taxation Compliance	10	0			0
Retained Policy Change	212	162	(80)	(82)	0
Pensions – General	100	100			100
	<b>3,113</b>	<b>2,637</b>	<b>(1,046)</b>	<b>(152)</b>	<b>1,439</b>

	<b>Balance at 31 March 2018 £000</b>	<b>Estimated Balance 01 April 2019 £000</b>	<b>Forecast Spend 2019/20 £000</b>	<b>Forecast Spend 2020/21 2021/22 £000</b>	<b>Estimated Balance 2022 £000</b>
<b>ESN Reserve</b>					
Communications					
Development – ESN	193	0		0	0
ESN Balance	118	22	(22)		0
ESN Control Room ICT	20	20	(20)		0
Emergency Services					
Network - RAP Work	452	452	(151)	(150)	151
System Security PSN Work	266	266	(57)	(75)	134
System Airwave ESN Transition	173	173	(50)	(75)	48
	<b>1,222</b>	<b>933</b>	<b>(300)</b>	<b>(300)</b>	<b>333</b>
<b>Total</b>	<b>5,156</b>	<b>4,212</b>	<b>(1,453)</b>	<b>(512)</b>	<b>(2,247)</b>

**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)