



Reserves Strategy 2019/20

25 April 2019

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Introduction

1. In setting the London Fire Commissioner's (LFC) budget for the 2019/20 financial year, due consideration was given to both the robustness of the estimates used in preparing that budget and also the adequacy of the LFC's reserve levels. This report presents the information that was considered as part of that budget setting process.

Robustness of Estimates

2. As in every year the budget is a series of estimates and these carry with them a certain amount of risk that actual spending will not be the same as the estimate. There are risks around significant major projects, pay awards, pension costs, inflation rates etc. as set out in the 2019/20 budget report. The estimates in that report were kept under review in the light of decisions agreed by the LFC, changes to budget forecasts and also updated information from 2018/19 budget monitoring.

Reserves and General Balances

3. Subject to the Assembly's powers, the Mayor sets the overall level of funding available to each of the functional bodies. The functional bodies then determine how this funding is to be used through the balance of spending and internal funding – i.e. the LFC can choose to have lower or higher spending plans, with a lower or higher use of reserves.
4. To meet the requirement of the Local Government Act 2003 in respect of the adequacy of reserves and to demonstrate compliance with the guidance on local authority reserves and balances issued by CIPFA, but mindful of the requirements in the Mayor's Budget Guidance, the GLA and the functional bodies must provide:
 - A statement of policy on reserves and contingencies
 - Details of all reserves and general balances
 - An analysis and explanation of the expected movements between the start and end of each year from 1 April 2018 to 31 March 2023
 - In the case of earmarked reserves held for purposes beyond 31 March 2020, an indication should be given as to when they are likely to be applied.

Statement of Reserve Policy

5. CIPFA guidance to local authorities addresses the need for prudence in assessing the adequacy of reserves and recommends that chief finance officers (for LFC this is the Director of Corporate Services) take into account the strategic, operational and financial risks facing the LFC when setting the budget. The assessment should be made on the basis that core services will continue to operate in the event of unforeseen scenarios occurring and that there are adequate levels of reserves to meet these requirements. The guidance is non prescriptive in its approach as it expects each authority to form its own view on the adequacy of reserves.
6. In terms of an allowance against contingencies, the previously assessed minimum of 3.5% of the net revenue expenditure requirement is a challenging but not untypical position for

an upper tier local authority, and it is considered that this is still a reasonable basis for forward planning.

7. Whilst it is the case that a well managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves it is important to understand the quantum and likelihood of financial risks or threats in a given year. It is arguable that an FRA faces less financial volatility than a multi purpose local authority. However, it does face financial risks in a single year, for example, financial compensation claims for firefighters' death in service or the impact of industrial action, as well as significant operational incidents. It should be noted that if a risk materialises that requires significant cover from reserves, the LFC would need to prudently seek to rebuild reserves back to an adequate level in future years.
8. It is also important to bear in mind that reserves are not the only way in which the financial risks are managed. Insurance cover is in place for a wide range of eventualities. In terms of this cover there is an insurance excess, with the LFC meeting the first £0.85m on claims up to the aggregate of £1.9m. This means that the LFC is insured for the totality of any claims over and above this aggregate level in any one year – the maximum hit under the policy excess therefore being £1.9m. These levels are determined in discussion with the General Counsel's Department and the aggregate figure of £1.9m represents a material improvement from the figure of £7.0m included for previous years under prior insurance arrangements.
9. This insurance is supported by provisions that are raised in the statement of accounts each year for potential uninsured events where there is knowledge of a claim. There are specific amounts set aside where there is a present obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation. The provisions that it is forecast LFC will have in place as at 31 March 2019 are set out in the table below:

Summary of Provisions Expected at 31 March 2019

	£k
Legal	1,418
Motor Insurance	1,678
Property	327
MMI	50
Total	3,473

10. The LFC, via the GLA, also has potential access to the Bellwin scheme in particular circumstances for emergency financial assistance. The scheme is named after the late Lord Bellwin, a minister in the former Department of the Environment who introduced the scheme in 1983. It was given a statutory basis in Section 155 of the Local Government and Housing Act 1989. The scheme may be activated in any case where an emergency or disaster involving destruction of or danger to life or property occurs and, as a result, one or more local authorities incur expenditure on, or in connection with, the taking of immediate action to safeguard life or property, or to prevent suffering or severe inconvenience, in their area or among its inhabitants. However it should be noted that there is no automatic entitlement to financial assistance: Ministers are empowered by Section 155 of the Local

Government and Housing Act 1989 to decide whether or not to activate a scheme after considering the circumstances of each individual case.

11. The Bellwin scheme requires an expenditure threshold to be exceeded in order to trigger claims, and the threshold is set each year. For the latest Bellwin claim (Grenfell Tower) this was set at £0.75m for fire within the GLA Group. In addition, only a proportion of costs can be recovered, in particular these have to be marginal costs, and only costs in excess of the threshold will be reimbursed.
12. There are however other schemes that the Government may provide in exceptional circumstances. For example the former Department for Communities and Local Government (DCLG) wrote on 19 August 2011 to Leaders of local authorities, and fire and rescue authorities, which were affected by the civil disturbances advising of a recovery package for communities, including new funding for local authorities and fire and rescue authorities which incurred additional costs because of the disturbances. The funding that was made available was at or below the Bellwin scheme threshold with funds nationally available of £10 million. LFC recovered £194k of funds through this scheme.
13. The robustness of the current assessment of the adequacy of reserves is tested against the LFC's established and audited risk management arrangements by carrying out an evaluation of the potential financial impact of each of the relevant corporate risks materialising and assessing this against the likelihood of this given the control measures that are in place. The current assessment of risk impact and likelihood once current controls have been applied highlights the areas where the financial consequences might be considered to be significant (if the risk materialised), and where these cannot be covered from existing provisions or insurance arrangements. A notable example is the cost of covering a significant business continuity event. Whilst the likelihood of this occurring is considered low given the application of our current controls, its impact would be significant. It is therefore important to ensure that adequate financial arrangements are in place to meet the expected costs, whilst bearing in mind that these costs can only be estimated. For example the cost of using the contract for emergency cover for a few months in the event of a significant business continuity event may require a substantial drawing from reserves. However as experience has shown the net cost would depend upon the nature of that event, the proportion of the workforce included within it and the resulting level of any offsetting cost savings.
14. A summary of the current corporate risks that are assessed as having a potential financial impact, along with the estimate of that impact and examples of the types of events the risk covers, is set out in the table below. This shows both the estimated short term and long term financial impact. It also shows the estimated highest single drawing that might need to be made from reserves in both the short and long term. It should be noted that these can only be estimates based upon an informed judgement in the absence of any other detailed information.

Corporate Risks

Corporate		Total		Highest Single Drawing	
Risk Level	Type of risk	Short Term	Long Term	Short Term	Long Term
High	Capability to provide a specialist response.	£6.9m	£6.8m	£5.0m	£6.0m
Medium	Death or serious injury, failure of a significant contract, uncertainty on government approach to Home Office funding, Breakdown in industrial relations, ESN programme fails to deliver	£18.7m	£30.5m	£5.0m	£10.0m
Low	Pandemic outbreak	£0.1m	£0.0m	£0.1m	£0.0m

15. The focus of this review of the adequacy of reserves is on the short term only as reserves can only be used once and are not a permanent source of funding. The table shows that the total short term exposure, if all risks were to materialise in a single year, is £25.7m. However this needs to be considered against the probability of more than one significant risk materialising in any one year. The CIPFA guidance emphasises that a well managed authority will ensure that reserves are not only adequate but also necessary. It would not be appropriate to set funds aside to cover risks that are deemed extremely unlikely to occur. CIPFA also advises that a balance needs to be found between maintaining adequate levels of reserves and investing in risk reduction measures – for example it may be possible to reduce the level of balances held where appropriate action to mitigate or remove risks has been successfully taken. The table shows that £18.8m of the total short term exposure is assessed as low or medium with the remaining £6.9m as high risk. So while the total risk exposure is above the LFC's currently assessed minimum level of reserves (£15.5m based upon the proposed 2019/20 budget), this needs to be considered against the probability of all these risk events occurring. The highest estimated single drawing in the short term is for £5.0m.

Conclusion

16. There are a range of factors that need to be taken into account in determining an appropriate level of reserves and as the CIPFA guidance states a considerable degree of professional judgement is required. For LFC the combination of a maximum insurance liability of £1.9m in any one year, the current availability of £3.5m in provisions to cover known or expected events, the availability of earmarked reserves, and a generally prudent approach to cost estimation and budgeting indicates that a general reserve level of 3.5% (£15.5) can currently be deemed to be adequate given the corporate governance and control arrangements in place across the organisation.

Details of Reserves

17. The table below shows how total reserves would be made up if the reserve use set out in this report is agreed. These are discussed in turn.

Movement on Reserves

£000s	Anticipated Balance at 01/04/19	Use of Reserves in 2019/20	Use of Reserves in 2020/21	Use of Reserves in 2021/22	Use of Reserves in 2022/23	Anticipated Balance at 31/03/23
Additional Resilience Requirements	767	(767)				0
Capital Expenditure Reserve	11,745	(11,745)				0
Compensation	1,000	(250)	(250)	(250)	(250)	0
Emergency Services Mobile Communication Programme	1,928	(203)	(326)	(1,399)		0
Emergency Medical Response	294	(294)				0
Fire Safety and Youth Engagement	715	16	(624)	(88)	(19)	0
HMICFRS inspection regime	21	(21)				0
Hydrants	462	(95)	(120)	(120)	(127)	0
ICT Development Reserve	1,851	(960)	(550)	(241)	(100)	0
LFC Control Centre	959	(230)				729
LFC Museum Project	210	(70)	(70)	(70)		0
London Resilience	1,015	(1,015)				0
London Safety Plan Initiatives	4,178	(1,423)	(465)	(26)	0	2,264
Organisational Reviews	505	(505)				0
Recruitment/ Outreach	370	(370)				0
Sustainability	235	(235)				0
Vehicle & Equipment Reserve	2,865	(2,106)	(345)	(221)	(193)	0
Budget Flexibility	23,110	(3,578)	(18,141)	(1,391)		0
General	23,257					23,257
Total	75,488	(23,851)	(20,891)	(3,806)	(689)	26,251

18. The general reserve provides working balances to help cushion the impact of uneven cash flows and a contingency to cushion the impact of unexpected events or emergencies. There are also a number of earmarked reserves. These contain funds that the LFC has agreed should be set aside for specific purposes. The table also shows how these reserves are moving over time. The earmarked reserves are considered further in the following paragraphs.

19. The additional resilience requirements reserve was approved in July 2017 (FEP2763). The reserve was set up to temporarily fund the initial revenue costs identified following the Grenfell Tower fire and the terrorist incidents at Westminster, London Bridge and Finsbury Park. Spend against this reserve is reviewed as part of the quarterly financial position reports.

20. The compensation reserve was set up during the 2011/12 budget process (FEP1698). The aim of this reserve is to move financial risk out of the annual revenue budget. Previously the budget had contained a budgeted sum for compensation – which is unpredictable, and which will therefore often significantly under or over spend. This reserve will be used to fund compensation claims in excess of budgeted amounts. Its level has been kept under review for adequacy.

21. The emergency medical response reserve was established in the Financial Position as at the end of September 2017 report (FEP2792). This reserve is to fund an inoculation programme for staff if co-responding is rolled out across the Brigade and is forecast to be fully used in the 2018/19 and 2019/20 financial years.
22. The Emergency Services Mobile Communications Programme (ESMCP) is a cross-government, multi-agency programme that will deliver a new communication system to the emergency services and other public safety users throughout Great Britain. This system will be called the Emergency Services Network (ESN) and it will provide integrated critical voice and broadband data services. DCLG committed to provide grants to cover the reasonable cost of transition from the current Airwave service to ESN and it is expected the Home Office will provide similar guarantees. However, the full financial implications of implementation of the network are not yet known. It is proposed that this reserve is fully used by 2022/23.
23. The Fire Safety and Youth Engagement reserve was established in 2016/17 (FEP2661) and is funded from the net contribution to overheads from the LFC's trading company, LFB Enterprises and contributions received to fund youth engagement activities. The reserve is to be used to support fire safety and youth engagement activities. It is currently forecast that the current balance on this reserve will be utilised by 2022/23.
24. The HMICFRS (Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services) Inspection Regime reserve was established as part of the review of the 2017/18 outturn (LFC-0031). The reserve will fund the establishment of a project team for 12 months to facilitate the inspection regime. This project team will support the wider work of Scrutiny and Inspection as set out in the Growth bid reference 15.
25. The Hydrants reserve (FEP1698) was set up during the 2011/12 budget process to deal with payments for water companies catching up with a backlog of repairs that had built up over a number of years. The remaining balance on the reserve will now be used on invest to save projects to help support further efficiency improvements within the hydrants team.
26. The ICT development reserve holds funds to accommodate changes to HR, Finance and Fire Safety systems and the NOG implementation budget. It is currently expected that this reserve will be fully used over the next four financial years.
27. The LFC control centre reserve has been set up in this report to fund any one-off shortfall in funding for the LFC Control Centre at Merton, after government funding expires. It will also support the one year cost of increasing the control rota as discussed in this report.
28. The London Resilience reserve was established to manage the costs of the implementation of new London Resilience workstreams between financial years. These workstreams are now well established and the remaining balance will be used to fund costs related to the Command Unit project and specialist operational equipment.
29. The LFB Museum Project reserve was created as part of the Financial Position as at the end of September 2018 report (LFC-0084). This reserve will fund a Museum project manager for a period of three years to support that work.

30. Under the new London Safety Plan a number of trials and pilots could be carried out in future financial years. LFC currently holds an earmarked reserve of £4.2m to aid in the implementation of any new operational delivery models.
31. The recruitment/outreach reserve was created in the January 2017 Budget Update report (FEP2685) to fund the proposed establishment of the firefighter recruitment and outreach team for a period of two years (£550k), and the development of new advertising campaign materials arising from the recent firefighter recruitment market research exercise in 2017/18 (£50k). It is forecast that this reserve will be fully used by the end of the 2019/20 financial year and then closed.
32. The sustainability reserve was set up to deliver the LFC's programme of investment in enhanced energy efficiency and renewable technologies, the spend is expected to be completed in 2019/20.
33. The vehicle and equipment reserve includes funding of £2.0m for the ultra low emission fleet programme, £670k for alterations to vehicles to comply with the Ultra Low Emission Zone (FEP2687) and £60k to retrofit some LFB non-frontline vehicles with hybrid diesel/hydrogen alternatives to further reduce the environmental impact of the LFB fleet (FEP2661). It is expected that this reserve will be fully used by the end of 2022/23.
34. The Organisational Reviews reserves was created as part of the Role to Rank programme as part of the review of the 2017/18 outturn position (LFC-0031) to meet the costs of that review. This reserve was previously called the watch structure review reserve. This reserve is expected to be fully used in 2019/20 after which it will be closed. This reserves also includes funding of £50k for a review of Training.
35. The Budget Flexibility Reserve was set up in response to the Mayor's 2017/18 Budget consultation letter that requires the temporary boost to LFC's balances to be held to assist balancing future year's budgets, and is funded from budgeted savings in 2017/18 of £6.2m followed by an additional transfer in that year of £12.5m identified during that year. The reserve will also be supplemented by a further £4.4m in 2018/19 from further savings. This will be used to support the budget position over the current planning period to 2022/23. An additional transfer into this reserve will be considered as part of the review of the 2018/19 outturn position.