

## 2019/20 and Later Years Budget Summary

### Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915 or Joanne Coadey, Head of Finance, on 01743 260215.

### 1 Purpose of Report

This report summarises the budgets that are proposed by the Strategy and Resources Committee. The results are put forward to the Fire Authority for approval as the basis for consultation, leading to a final decision at the Fire Authority meeting in February 2019.

### 2 Recommendations

The Fire Authority is recommended to:

- a) Approve the recommendations set out in section 5 of the report, using option 1 for 2019/20, and allowing officers to continue to work on a range of planning scenarios for later years of the planning period;
- b) Agree the recommendations on Reserves and Provisions, set out in report 7 of the Appendix, and confirm the general reserve; and
- c) Request the Strategy and Resources Committee to prepare a final budget package in January 2019, for final decision by the Fire Authority in February 2019.

### 3 Background

The Strategy and Resources Committee agreed to submit a five-year revenue and capital budget for consideration by the Fire Authority. Full details are set out in the reports, which were agreed by the Committee and which are attached at the Appendix to this report.

The Committee reviewed expenditure budgets, and also received a report which detailed the Authority's reserves and provisions. The reserves and provisions currently total £16.0m.

## 4 Current Position

The tables below show the expenditure proposed by the Committee and the projected surplus or deficit using current assumptions for income.

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Expenditure budget proposed by the Committee	21,014	21,429	21,788	22,179	22,583
Income	21,559	21,634	22,096	22,572	23,061
Surplus / - deficit on revenue budget	545	205	308	393	477

Income shown is based on the following assumptions:

- Grant as per the provisional settlement published in January 2018 for 2019/20; cessation of Rural Services Delivery Grant in 2019/20; net nil movement in grant and rates income from 2020/21
- Precept increase of 2.99% for 2019/20, and 1.99% from 2020/21
- Council tax base increase of 0.8% from 2019/20
- Pay award of 2% from 2019/20

Savings factored into the Integrated Risk Management Planning projects on changing shift patterns on watches are now shown in the expenditure budget from 2019/20. It is anticipated that these savings will be realised as a result of natural wastage. Some of these savings may be used to provide additional resources to manage change in the organisation in the years leading to 2020.

In addition, the major refurbishment of the Stafford Park site in Telford will require funding in excess of the reserves and balances currently allocated to the scheme. Some additional borrowing will be required, and this will be factored into the revenue budget as the costs and timing of expenditure becomes clearer. The costs are still to be determined, however it is estimated that around £1.7m borrowing may be undertaken.

## 5 Grant Assumptions

Current assumptions on grant and rates income, as shown above, show a nil movement from 2019/20, with rates and top up grant increasing and grant reducing by around 6%.

Officers have used this set of planning assumptions which have been agreed with members, but further scenarios are modelled so that the effects of movements in these assumptions can be illustrated.

As more work is done in this area, it is felt that a larger reduction in grant income would be a more realistic assumption for years after 2019/20, although nothing firm is known at this stage.

The Government is undertaking a review of public finances and is proposing a new Fair Funding mechanism for Local Government which is expected to impact directly on Fire Authority funding. The Government is working towards implementing the outcome of the review as part of the 2020/21 local government finance settlement, alongside increased business rates retention, a full business rates baseline reset, and the 2019 Spending Review. As a result, the figures included in this report from 2020/21 must be taken with a high degree of caution.

### Fire Pension Scheme Revaluation

At its meeting in November 2018, members of the Strategy and Resources Committee were informed about the impact of the 2016 revaluation of Fire pension schemes (see appended report 6). At that time it was estimated that the additional annual costs to the Authority were around £750,000. However, further work that is being carried out to determine grants payable by Treasury to cover £97m of the anticipated £107m total cost to the Fire sector, indicate that the Authority's additional annual costs may be nearer to £950,000.

This additional burden has been factored in to the options below. Although it is not clear how the additional costs will be met from 2020/21, Government have indicated that the issue will be considered as part of the Comprehensive Spending Review.

### Options for Consideration

The table below exemplifies a number of options in terms of grant reduction and other movements. The current assumptions are shown first; from option 1, the change in each option is shown in italics.

		Surplus / -Deficit				
	Assumptions	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
	<b>Current</b> Rates / top up grant increase 2% RSG reduction 6% (equal to nil movement in total funding) CT Base growth 0.8% Precept increase 2.99% 2019/20, then 1.99%	524	5	108	192	277
1	Rates / top up grant increase 2% RSG reduced to zero by 2023/24 CT Base growth 1.87% Precept increase 2.99% Pay award 3%	578	12	88	168	66

		Surplus / -Deficit				
	Assumptions	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
2	Rates / top up grant increase 2% RSG reduced to zero by 2022/23 CT Base growth 1.87% Precept increase 2.99% Pay award 3%	578	-96	-127	-155	66
3	Rates / top up grant increase 2% RSG reduced to zero by 2023/24 CT Base growth 1.87% Precept increase 2.99% 2019/20, then 1.99% Pay award 3%	578	-153	-256	-372	-678
4	Rates / top up grant increase 2% RSG reduced to zero by 2023/24 CT Base growth 1.87% Precept increase 2.99% Pay award 3% 2019/20 to 2020/21, then 2%	578	12	208	445	507

To enable to demonstrate the single year impact of each change in the assumptions used, the following table illustrates the effects of one off changes.

Change in assumption	Impact £'000
1% increase in pay award	-146
1% increase in precept	+165
0.5% increase in council tax base	+83

Revenue implications of the capital programme will be added to the revenue budget, following consideration of the programme by the Strategy and Resources Committee in January 2019. Indicative figures are shown below, although this is for illustration only.

2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
-14	-54	-84	-106	-189

Given the uncertainty surrounding the mid to late years of the planning period, members are advised to approve a budget for 2019/20, using the information available in February, and to task officers to continue to work on a range of scenarios, that can be adapted as and when more definite information becomes available.

## **6 Council Tax Base and Collection Fund**

### **Council Tax Base**

Current modelling includes growth in council tax base of 1.87% in 2019/20 to 2023/24, to reflect increases in the number of houses built in Shropshire and Telford & Wrekin in future years. These assumptions have been made available by both authorities, but are subject to review and change. No firm numbers are yet available from Shropshire Council and the Borough of Telford & Wrekin for 2019/20; bases must be approved by January 2019.

### **Collection Fund**

The Authority continues to take a prudent approach and has removed any surplus on Collection Funds from budget planning. This policy applied to both the council tax and business rates Collection Funds.

When Collection Fund balances are confirmed in January 2019, adjustments can be made to the proposed budget for 2019/20, however nothing will be anticipated for future years.

## **7 Outstanding Issues**

Following an independent review into the Government's oversight of the business rates system, the Minister for Local Government has announced that the provisional finance settlement for 2019/20 will be published on or around 6 December, to allow local authorities more time for scrutiny and budget setting. It is proposed that this publication date will feature in future settlement timetables.

## **8 Financial Implications**

These are detailed in the main body of the report.

## **9 Legal Comment**

There are no direct legal implications arising from this report.

## **10 Initial Impact Assessment**

An Initial Impact Assessment has been completed.

## **11 Appendix**

Shropshire and Wrekin Fire and Rescue Authority  
Strategy and Resources Committee, 8 November 2018, Reports 6 and 7.

## **12 Background Papers**

The background papers associated with this report are attached as an appendix.

## 2019/20 and Later Years Revenue and Capital Budgets

### Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915, or Joanne Coadey, Head of Finance, on 01743 260215.

### 1 Purpose of Report

This report brings together the elements of an initial revenue budget, based on current planning assumptions, and seeks the Committee's approval for this outline to be recommended to the Fire Authority in December 2018.

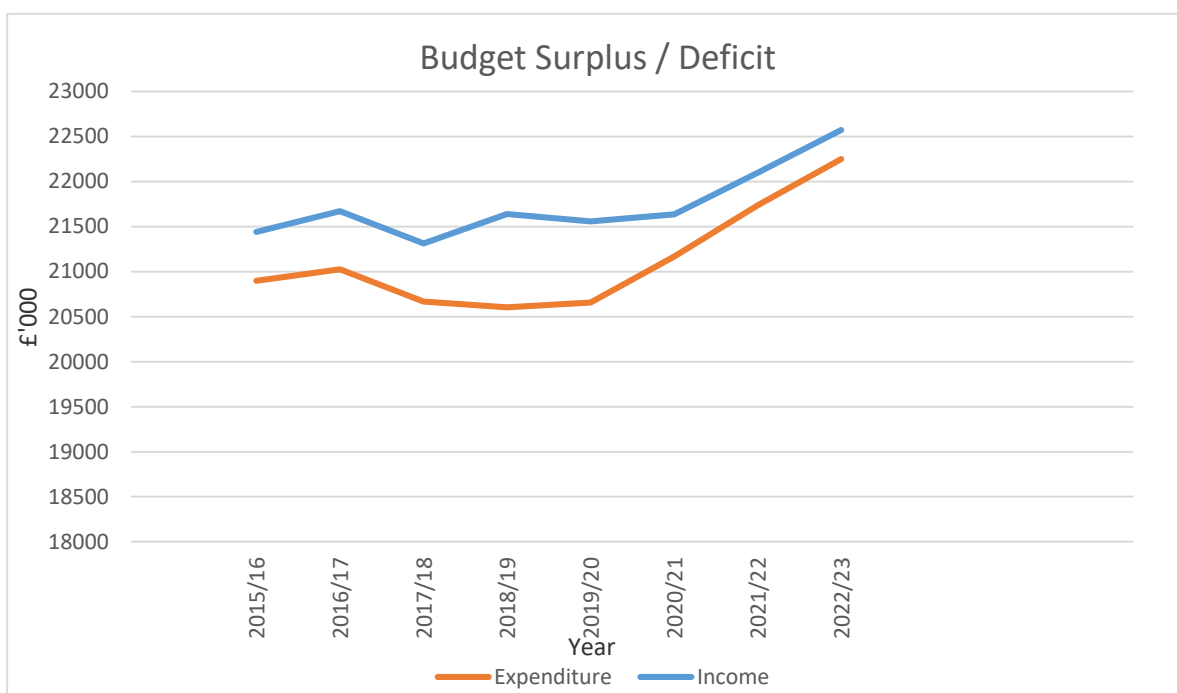
### 2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Note the revisions and the committed changes to the base budget, as shown in section 4;
- b) Bases its pay and price contingency in the revenue budget on the calculations set out in section 5;
- c) Note the process for the approval of the capital programme, and
- d) Approves the expenditure figures associated with those approved assumptions as a basis for developing the budget at the meeting of the Fire Authority on 12 December 2018.

### 3 Background

At its meeting in February 2018, the Fire Authority approved a revenue budget of £21.641m for 2018/19, which included a budgeted surplus of £1.037m. Revenue budgets to 2020/21 were also projected, along with the provisional four year figures provided by Department for Communities and Local Government (DCLG), which are shown in the following graph.



The following assumptions, upon which the budget was set, were approved by the Fire Authority:

- Precept increase of 2.99% from 2018/19 onwards
- Pay award of 2% from 2018/19 onwards
- Revenue Support Grant reduced in line with provisional four year settlement from DCLG to 2019/20
- Council tax base growth at 2.25% in 2018/19, 0.8% thereafter
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government
- Contribution to Telford improvements capital scheme from the revenue account
- Additional grants received from DCLG at the final settlement to be treated as revenue contributions to the Telford scheme.

This report deals with the revenue budget, and proposes changes in revenue expenditure. The stages in the budget process, and the proposed updates to assumptions during, and as a result of, the review are laid out in the following sections. The Committee is asked to consider each element and approve the associated recommendations at the beginning of the report.

Although funding estimates can only be completed once final information becomes available, for Council Tax Band D base and Collection Fund surpluses planning will continue, based on the assumptions adopted by the Authority.

### **Four Year Efficiency Plan**

As part of the move to more self-sufficient local government, an offer was set out to any authority that wished to take it up, of a four-year funding settlement to 2019/20. In order to obtain this four-year settlement, authorities were required to submit a robust and transparent efficiency plan. The offer of a four-year settlement was put forward by the DCLG; however following the move of the Fire Service to the Home Office, it was confirmed that this offer was still available to fire authorities.

The plan for this Authority was approved by members on 5 October 2016 and subsequently approved by the Home Office. The plan was based on the assumptions agreed by the Authority while setting the budget.

The financial year 2019/20 will be the final year of the four year settlement, and so indicative numbers are already known. The provisional settlement which should confirm the figures for 2019/20 will be received towards the end of the year.

### **Budget Management Board – overarching principles**

Senior managers are members of the Service's Budget Management Board, which reviews the Authority's financial performance and its long term budget strategy. The principles within which the Board operates are as follows:

- The target remains to manage a balanced budget to 2022/23;
- The Service will focus on continued service improvement, taking into account all necessary budgetary constraints;
- Future changes to be tailored to the needs of the community and the capacity of the Service; and
- The Fire Authority will continue to pursue collaborative opportunities actively with other organisations, where they offer potential advantages to the community.

## **4 Stage One – Base Budget Review and Committed Changes**

As the first step in the budget setting process, revenue budgets have been reviewed with officers; this has taken into account both changes that have been made to date to the 2018/19 revenue budget, and anticipated changes for 2019/20 and future years.

Work on the base budget review is ongoing, and adjustments will be made throughout the budget setting process, and reported to Members.



	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b>2018/19 Budget</b>	<b>20,604</b>	<b>20,604</b>	<b>20,604</b>	<b>20,604</b>
<b>Committed Changes</b>				
Release from Pay Contingency		-175	-175	-175
Pensions contributions	70	750	750	750
Lease car rentals (note 1)	-29	-49	-77	-81
Emergency response fleet maintenance	10	10	10	10
Staff savings from IRMP1 (moved from 2019/20 to 2020/21))		-450	-450	-450
<b>Base Budget Review</b>				
Hydrants	-50	-50	-50	-50
Personal Protective Equipment maintenance (note 3)	30	30	30	30
<b>Total</b>	<b>20,635</b>	<b>20,670</b>	<b>20,642</b>	<b>20,638</b>
<b>Total movement in base budget</b>	<b>31</b>	<b>66</b>	<b>38</b>	<b>34</b>

## Fire Pension Scheme Revaluation

Members will be aware that reforms have been made to public service pension schemes, and that new career average re-valued earnings (CARE) schemes were introduced in April 2015. A new framework for actuarial valuations was introduced, and the second of these valuations has been carried out, covering benefits for members employed between April 2019 and March 2023.

The two main reasons for the valuation are:

- To measure certain costs of the scheme against a target rate; the 'employer cost cap'; this implements a mechanism that shares the risks for unexpected costs between members and taxpayers; and
- To set the employer contribution rate; when combined with member contributions, contributions are expected to meet the full cost of pension benefits being earned, including past service effects.

There are two factors that have affected the valuation of the Fire schemes:

- The 'employer cost cap' sets a target of what percentage of pensionable pay is required to pay for the pension schemes; this rate is set at 16.8% with a buffer of +/- 2%. Any breach of this buffer requires an increase in employer contribution rates to ensure that the liabilities of the fund are being covered. The findings of the valuation are that the indicative cost cap is now 11.6%, a breach of 5.2%. This has been affected by reductions in the forecasts of short term pay growth and future life expectancy.

- As the Fire schemes are unfunded, a notional pot of assets (Superannuation Contributions Adjusted for Past Experience - SCAPE) is used to calculate the appropriate level of contributions to be paid in to the scheme to meet the cost of accruing benefits. In the last valuation this would have taken into account the introduction of the Modified scheme, GAD vs Milne cases and the Contributions Holiday for those reaching 30 years before age 50.

The discount rate used to calculate the present value of future money (SCAPE rate) was reduced in the 2016 Budget, from 3% to 2.8%, and is expected to reduce again from April 2019, from 2.8% to 2.4%. This means that future money is now worth less. This change has had the greatest impact on the changes proposed for the employer contribution rates.

The effects of these changes are still being exemplified; however information provided to date suggest that **the average employer contribution rate for the Fire schemes will increase from 17.6% to 30.2% from 1 April 2019.**

The impact on the Fire sector as a whole will be an increased cost of £107m from 2019/20. It is understood that the Treasury will cover £97m of the costs in the first year, and the costs in the years following will be taken into account in the Comprehensive Spending Review from 2020/21.

A high level calculation for this Authority indicates that **the additional costs from 2020/21 may be between £750,000 and £1m**, and work is ongoing to establish how this cost can be covered.

**Note 1** – In February 2018 the Authority approved a capital scheme which will see the introduction of a new emergency response vehicle fleet into the Service. The costs of these vehicles will be covered in part by the reduction in costs for vehicles that are currently leased, being phased out as the leases came to an end. The reduction shown above reflects this change, and also allows for an increase in servicing and maintenance costs of the new fleet.

**Note 2** – members will be aware that a major capital scheme to replace personal protective equipment (PPE) throughout the Service was funded with a capital scheme and was completed in 2014. Due to the investment in new PPE and a recognition that there would be fewer repairs, this revenue budget was reduced accordingly.

In 2018/19, it was necessary to increase the revenue budget, reflecting the increase in repairs as the kit became older, and more stringent kit inspection regimes were introduced. Following a review of expenditure in the current year, the budget has been increased again to reflect these increasing costs.

Please see recommendation a).

## 5 Stage Two – Pay and Price Contingency

Officers have used the following methodology for establishing pay and prices contingencies:

- Analyse base budget (2018/19) into the spending areas, where pay or price changes can be significant;
- Make pay assumptions for firefighters, based on a realistic expectation for the outcome of the nationally negotiated settlement;
- Make pay assumptions for other pay, based on a realistic expectation of the outcome of any outstanding negotiations;
- Take account of known issues, such as increments; Continuing Professional Development, National Insurance and tax changes; and
- Analyse the non-pay and income budgets into key elements, including those to which no inflation applies, and create an appropriate contingency.

### Current Developments

Despite a public sector pay cap of 1% being in place, negotiations on the pay award for 2017/18 resulted in an offer to employees of a 2% award. This was retrospectively built into the revenue budget in 2018/19.

Negotiations for the 2018/19 pay award are ongoing, however an interim award of 2% has been awarded while talks continue. A contingency of 2% has been built into the base budget and following recommendations by members, a scenario featuring a pay award of 3% has also been included in the Authority's strategic planning.

In terms of prices, non pay increases have been provided for at 2.5% to reflect current levels. Where inflationary increases are higher than this level, adjustments will be accommodated within the contingency.

### Conclusions

It is proposed that the figures for pay and price assumptions over the planning period will be budgeted as follows:

	Pay		Prices	
	%	£'000	%	£'000
<b>2019/20</b>	2.0	291	3.0	88
<b>2020/21</b>	2.0	289	3.0	91
<b>2021/22</b>	2.0	294	3.0	93
<b>2022/23</b>	2.0	300	3.0	95

Please see recommendation b).

## **6 Stage Three – Capital Programme 2019/20 to 2022/23**

The Authority has already agreed capital programmes for 2018/19 and earlier years. It has also agreed how these schemes are funded and the revenue consequences for future years.

This stage deals with the options available for new schemes, starting next year.

### **The Capital Programme from 2018/19**

The schemes under consideration include appliances and operational equipment, and are currently being reviewed by officers. The schemes in the early years of the planning period will be funded by Earmarked Capital Reserve, or government grant. Therefore there are no revenue consequences associated with the funding of the programme.

Funding for the major capital scheme at Telford is also being reviewed; the initial stages are likely to be funded from contributions from the Unearmarked Capital Reserve, which has been built up in readiness for the major development.

In the later stages of the planning period, some borrowing will be required to fund part of the Telford improvements, and some of the other later schemes. However, the associated borrowing costs should be offset by savings from the Integrated Risk Management Plan shift changes project.

It should be noted that revenue consequences are limited to financing costs – any other costs need to be flagged up as part of the project appraisals. Also, the Authority is presently only committing itself to schemes that start in 2019/20. The majority of schemes are currently shown as being spent in the start year. However, experience shows that payments often slip into later years, thereby slowing the build-up of costs and resulting in revenue underspend.

The capital programme proposed will be brought to the Committee in January 2019 for consideration; it will then go forward to the Fire Authority for approval.

Appraisals for each scheme will confirm their service value, the capital cost, phasing of expenditure and revenue consequences. There is, therefore, scope for these figures to change, especially if there are any associated revenue consequences, such as running costs of property or systems.

### **Prudential Guidelines**

In addition to the merits of the individual schemes within the final capital programme presented in February, the Authority will need to evaluate the programme in the light of Prudential and Treasury Management Guidelines. Compliance with these indicators will demonstrate the affordability, sustainability and prudence of the proposed programme of schemes.

## Future Capital Schemes

The forward capital programme is being thoroughly reviewed by officers and any future requests for schemes will be considered as part of the ongoing strategic planning process. Projects for consideration will be tested to ensure that, as far as possible, they are both realistically costed and resourced; will start when scheduled; and that, where possible, they have long-term revenue saving potential.

Please see recommendation c).

## 7 Revised Budget Summary

The changes to revenue expenditure, covered in the previous sections, can be summarised as follows:

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Previous Year's Budget	20,604	21,014	21,429	21,788
Committed Change	31	35	-28	-4
Pay and Prices	379	380	387	395
	<b>21,014</b>	<b>21,429</b>	<b>21,788</b>	<b>22,179</b>

## 8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2022/23. Financial planning will forecast the position of the revenue budget to 2022/23, but with emphasis on the medium term, i.e. 2018/19 to 2020/21. Members have reviewed and endorsed this approach through approval of the Medium Term Financial Plan in October 2018.

Work undertaken to date indicates that the Authority's budget planning strategy is on target, although changes detailed above regarding the Fire pension scheme revaluations will require careful consideration.

Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves. After the four year finance settlement, there is no basis upon which to estimate the Authority's funding, therefore the assumptions made are indicative.

Forecasts for the longer term are provided within the table on page 7 as an indication of the financial position, based on a number of uncertain assumptions. Officers and Members should note this longer-term position and have plans and options available to meet a range of possible outcomes. The Authority's Integrated Risk Management Planning 2020 projects have ensured that the Service has plans in place to reshape service delivery into 2020/21 and beyond the current planning period.

## **9 Financial Implications**

The financial implications are as outlined in the main body of the report.

## **10 Legal Comment**

There are no direct legal implications arising from this report.

## **11 Initial Impact Assessment**

An Initial Impact Assessment has been completed for this report.

## **12 Appendices**

There are no appendices attached to this report.

## **13 Background Papers**

There are no background papers associated with this report.

# Provisions, Reserves and Funds

## Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915, or Joanne Coadey, Head of Finance, on 01743 260215.

## 1 Purpose of Report

This report sets out the issues, which the Fire Authority will need to consider as part of its annual review of provisions, reserves and funds.

## 2 Recommendations

The Committee is recommended to propose to the Fire Authority that it:

- a) Confirm the current position of reserves and provisions; and
- b) Review the level of the General Reserve.

## 3 Background

The current position on the Authority's provisions, reserves and funds is as follows:

	£000
<b>Reserves</b>	
General Reserve	577
Extreme Weather / Operational Conditions	334
Pension Liabilities and Other Staff Issues	930
Capital – Earmarked	4,851
– Major Projects	6,464
Information and Communications Technology Reserve	1,083
Income Volatility Reserve	237
Service Transformation Programme Staff Reserve	250
Service Delivery Reserve	236
Operational Equipment Reserve	359
Training Reserve	255
Building Maintenance Reserve	408
<b>Reserves Total</b>	<b>15,984</b>

The Authority's policy is to:

- Make provision for known and quantifiable future expenditure;
- Establish reserves for specific known and potentially significant future expenditure, which cannot be precisely quantified or scheduled;
- Establish a general reserve for known risks, which cannot be easily quantified or scheduled but could be pooled;
- Review the provisions and reserves during the budget process (the purpose of this report) and on closing the accounts;
- Consider the opportunity cost of holding reserves and balances against the opportunity cost of either lower tax demands or alternative service delivery, and consequently also hold no monies in the General Fund, unless agreed to enhance future budgets.

## **4 Establishment of Reserves**

The level of reserves that the Authority holds has been driven by the following principles:

### **To fund major projects, thereby avoiding debt charges into the long term**

The Authority has used reserves successfully in recent years to fund its capital programme, most notably the fire station, workshop and headquarters in Shrewsbury, and in future will be utilised for the major developments work planned at Telford. The Capital reserves and the Information and Communications Technology (ICT) reserve will continue to be used to fund the capital programme into the medium term, with any one-off savings identified used to replace funds.

### **To fund unexpected and undetermined expenditure that cannot be met by a reducing revenue budget**

The General Reserve will cover unexpected occurrences that the Authority would not wish to budget for on a regular basis; in addition, the ICT reserve would be used to cover additional costs that were not anticipated.

### **To support revenue expenditure and smooth out fluctuations in the revenue budget**

A number of reserves have been created to address and support some areas of the revenue budget, and reviews are currently being carried out to identify smarter use of the Authority's resources. Some examples are given below.

- The Pensions reserve will be used to fund transfers into the Pension Account, when operational staff retire on ill-health grounds. This has resulted in a significant reduction to pension revenue budgets.
- The New Equipment, Training, Building Maintenance and Extreme Incidents reserves have all been created to enable reductions to revenue budgets.



The assurance that reserves are available for unexpected and exceptional costs will allow officers to budget at lower activity levels with confidence. The Equipment reserve has been used successfully to cover additional requests that could not be covered with regular budgets.

These reserves will act as enablers to reduce the revenue budget, close any future budget deficit modelled in the planning period, and safeguard the service delivered to the people of Shropshire.

## **5 General Reserve**

The General Reserve meets known risks, which are difficult to quantify or schedule. The Authority does not wish to take tax revenue, which may never be needed, and, therefore, tries to attribute a weighting representing the likelihood of an individual risk happening. This has led to a provision of £577,000, details of which are set out in the appendix to this report. The total of the reserve represents around 2.8% of gross expenditure.

## **6 Earmarked Reserves**

### **a) Extreme Incidents Reserve**

This reserve is in place to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

### **b) Pension Liabilities and Other Staff Issues**

The purpose of this reserve is to meet one-off contributions, required by the Government, to the Pensions Account for sickness retirements. Until 2015/16, only ill health contributions over and above those budgeted in revenue were funded from the reserve. However, as part of the 2020 consultation outcomes, all ill health contributions are funded from the reserve, and the revenue account has been reduced accordingly.

The scope of this reserve was widened to include the potential liabilities arising from the part-time workers employment tribunal case; compensation payable to retained firefighters for terms and conditions has been met from the reserve.

Another small element of this reserve is to provide for staff issues relating to equality and diversity. Provision has been made for expenditure for reasonable adjustments and mediation, in order that these issues are not budgeted for on an annual basis.

The Authority has enjoyed very low levels of ill health retirements, although provision still has to be made for instances in future years. In addition the Modified Pension Scheme has now been introduced with no one off costs anticipated. It was considered prudent during the reserves review to reduce this reserve while still maintaining a buffer for future costs.

**c) Capital – Earmarked**

The objective of this reserve is to fund small and recurring items of capital, thereby ensuring their eventual replacement from the reserve. There is no known reason to change this approach, although a review may be required, if savings are needed in future years.

Until 2015/16, contributions were made back over the lives of any assets funded from the reserve; however as part of the 2020 consultation outcomes, these contributions were removed, and the revenue budget reduced accordingly.

**d) Capital – Major Projects**

The objective of this reserve was to build up funding from revenue savings that could then be used to maximise major capital schemes. The objective is to minimise borrowing and, therefore, committed debt charges in future years. This reserve will be used towards the funding of major improvements at the Telford site.

Following a review into the level of reserves held by the Authority, it was agreed that the net surplus of £1m would be contributed to this reserve.

**e) ICT Reserve**

This reserve is designed to ensure that ICT improvements and resilience issues are managed and funded in a clear and consistent manner.

**f) Service Transformation Programme Staff Reserve**

The Service Transformation Programme is a high-level programme of activities, which will be completed to ensure that the Service is best placed to meet the challenges it is likely to face over the coming years.

Funding for projects identified as part of the Programme have been taken into account in the revenue budget and the capital programme. This reserve was set up to cover the staff elements of the projects.

**g) Income Volatility Reserve**

This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Medium Term Corporate Plan.

The reserve has not been called upon to smooth fluctuations in budget setting since its inception, therefore it was felt prudent to divert funds to the Major Projects Capital Reserve.

**h) Service Delivery Reserve**

This reserve was set up to fund initiatives in service delivery and prevention, to avoid irregular movement in the revenue budget.

**i) Training Reserve**

There have been, and will continue to be, changes in the management structure of the Service, which will inevitably require additional training and development of staff over the next three years and beyond.

This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.

**j) New Operational Equipment**

This reserve has been established to help provide some stability in the revenue budget in this area. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established. In the meantime, officers can continue to analyse and manage revenue expenditure, leading to realistic budget setting in future years. The Equipment reserve has been used successfully to cover additional requests that could not be covered with regular budgets.

**k) Building Maintenance**

The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan, and also covers unexpected reactive maintenance. It is proposed that the revenue budget is used for regular planned maintenance of buildings, and that a reserve is created to deal with exceptional, unexpected repairs, that do not require a regular revenue budget.

## **7 General Fund**

The General Fund is simply the net balance of over and underspendings during the year. The Authority's policy is not to accumulate funds year on year (and obviously to deal with any potential overspend). The balance in the General Fund at 1 April 2018 was £528,000 and the Fire Authority agreed to hold £150,000 back; £80,000 for one off costs associated with the Human Resources, Payroll and Finance systems implementations, and £70,000 for potential legal costs relating to the challenge of the transfer of governance to the Police and Crime Commissioner. The balance of the General Fund has been allocated to the Major Projects Capital Reserve, following a request to the Authority at its June meeting.

## **8 Financial Implications**

The financial implications are as outlined in the report.

## **9 Legal Comment**

There are no direct legal implications arising from this report.

## **10 Initial Impact Assessment**

An Initial Impact Assessment has been completed for this report.

## **11 Appendix**

Build-Up of General Reserve 2018/19

## 12 Background Papers

There are no background papers associated with this report.

## Build-up of General Reserve 2018/19

Risks as categorised by CIPFA	Absolute level £'000	Probability %	Current Provision £'000	Comments
<b>Financial Risks:</b> <ul style="list-style-type: none"> <li>Cash flow</li> <li>Loss of grants or other external funding</li> <li>Changes to national purchasing</li> <li>Financial control</li> </ul>	60 190 126 280	10 35 50 10	6 67 63 28	Risk from timing of cash receipts Covers any unexpected loss of income in year Current contracts may be inviable Reflects risk of overspend through weak internal control
<b>Operational Risks:</b> <ul style="list-style-type: none"> <li>Vehicle Accident</li> <li>Communications and mobilising</li> <li>Technical issues</li> <li>Uninsurable health &amp; safety risks</li> <li>Industrial action</li> <li>Specific risks</li> <li>Fines from uninsurable offences</li> <li>Other uninsurable risks</li> </ul>	230 370 108 140 110 124 110	20 10 50 10 50 50 10	46 37 54 14 55 62 11 111	Covers one appliance at £230k – gap between lease termination and insurance receipt Risk around sustainability of current mobilising systems Principally IT or telecoms problems Identified from risk register  One off technical matters affecting service delivery Deals with potential costs following offences Currently unknown risks which are uninsurable
<b>Strategic Risks:</b> <ul style="list-style-type: none"> <li>Other demands, including new legislation</li> <li>Fines from Corporate Manslaughter</li> </ul>	60 170	10 10	6 17	Deals with issues such as unexpected costs arising from changes in public sector Based on a fine imposed on an Authority – may not be an appetite for penalising taxpayers
<b>Total</b>			<b>577</b>	