Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
12 November 2015

Provisions, Reserves and Funds

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011, 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 asked to recommend 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
Reserves	
General Reserve	577
Extreme Weather / Operational Conditions	334
Pension Liabilities and Other Staff Issues	1,755
Capital – Earmarked	4,673
– Un-earmarked	1,810
Information and Communications Technology Reserve	1,183
Income Volatility Reserve	1,137
Service Transformation Programme Staff Reserve	712
Service Delivery Reserve	236
Operational Equipment Reserve	105
Training Reserve	255
Building Maintenance Reserve	408
Reserves Total	**13,185**
Equipment Replacement Provision	**112**

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;
- Ensure that all provisions and reserves are inflation-proofed, i.e. earn interest, if appropriate; and
- 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. Using capital reserves to fund the refurbishment of the site has led to a reduction in the revenue budget of over £250,000 over a four-year period. 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

An example of this is the ICT reserve, which contained revenue grant, paid to the Authority to fund Control Room collaboration work with Hereford and Worcester Fire Authority.

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

The Fire Authority is focussed on the deficits that it may face towards the end of the planning period, and officers are reviewing all aspects of the revenue budget in order to meet these deficits. 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, currently funded from the revenue budget. 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.

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 Equipment Replacement Provision

The equipment replacement fund has been used to smooth out expenditure on items of operational equipment, receives annual contributions for their replacement over their expected life, and replaces them, when necessary. The provision has continued to prove useful in dealing with the ongoing replacement of equipment, preventing peaks of expenditure in the revenue account.

Following the audit by Grant Thornton of the 2014/15 Statement of Accounts, it has been determined that this provision should be reclassified as a reserve, although its use will continue. It is proposed that the balance in the provision is transferred to the Equipment Replacement Reserve, and contributions will be made from the reserve to the revenue account on request by officers.

6 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.

7 Earmarked Reserves

Extreme Incidents Reserve

The balance on this reserve represents the monies saved in previous years against the budget provision for an average year. Some reductions have been made to the retained budgets over the past four years as part of the Public Value review. As a result, it is important that this reserve remains intact to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

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 will be 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.

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 are no longer made, and the revenue budget has been reduced accordingly.

Capital - Un-Earmarked

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 to fund any major improvements at the Telford site.

ICT Reserve

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

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.

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.

Service Delivery Reserve

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

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.

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.

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.

8 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 2015 was £1,033,000 and the Fire Authority agreed to add £45,000 to various budgets in the current year to meet previously approved expenditure that had slipped into, or was needed in, 2015/16. The balance of the General Fund has been allocated to existing reserves, following an assessment of need.

9 Financial Implications

The financial implications are as outlined in the report.

10 Legal Comment

There are no direct legal implications arising from this report.

11 Appendix

Build-Up of General Reserve 2015/16

12 Background Papers

There are no background papers associated with this report.

Appendix to report on
Provisions, Reserves and Funds
Shropshire and Wrekin Fire and Rescue Authority
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Build-Up of General Reserve 2015/16

Risks as categorised by CIPFA	Absolute level £'000	Probability %	Current Provision £'000	Comments
Financial Risks				
• Cash flow	60	10	6	Risk from timing of cash receipts
• Loss of grants or other external funding	190	35	67	Covers any unexpected loss of income in year
• Changes to national purchasing	126	50	63	Current contracts may be unviable
• Financial control	280	10	28	Reflects risk of overspend through weak internal control
Operational Risks				
• Vehicle Accident	230	20	46	Covers one appliance at £230k – gap between lease termination and insurance receipt
• Communications and mobilising	370	10	37	Risk around sustainability of current mobilising systems
• Technical issues	108	50	54	Principally IT or telecoms problems
• Uninsurable health & safety risks	140	10	14	Identified from risk register
• Industrial action	110	50	55	
• Specific risks	124	50	62	One-off, technical matters affecting service delivery
• Fines from uninsurable offences	110	10	11	Deals with potential costs following offences
• Other uninsurable risks			111	Currently unknown risks, which are uninsurable
Strategic Risks				
• Other demands, including new legislation	60	10	6	Deals with issues, such as unexpected costs arising from changes in public sector
• Fines from Corporate Manslaughter	170	10	17	Based on a fine imposed on an Authority – may not be an appetite for penalising taxpayers
Total			**577**	

Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
12 November 2015

2016/17 and Later Years Revenue and Capital Budgets

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011, 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 the planning assumptions recommended by the Strategic Planning Working Group, and seeks the Committee's approval for this outline to be recommended to the Fire Authority in December 2015.

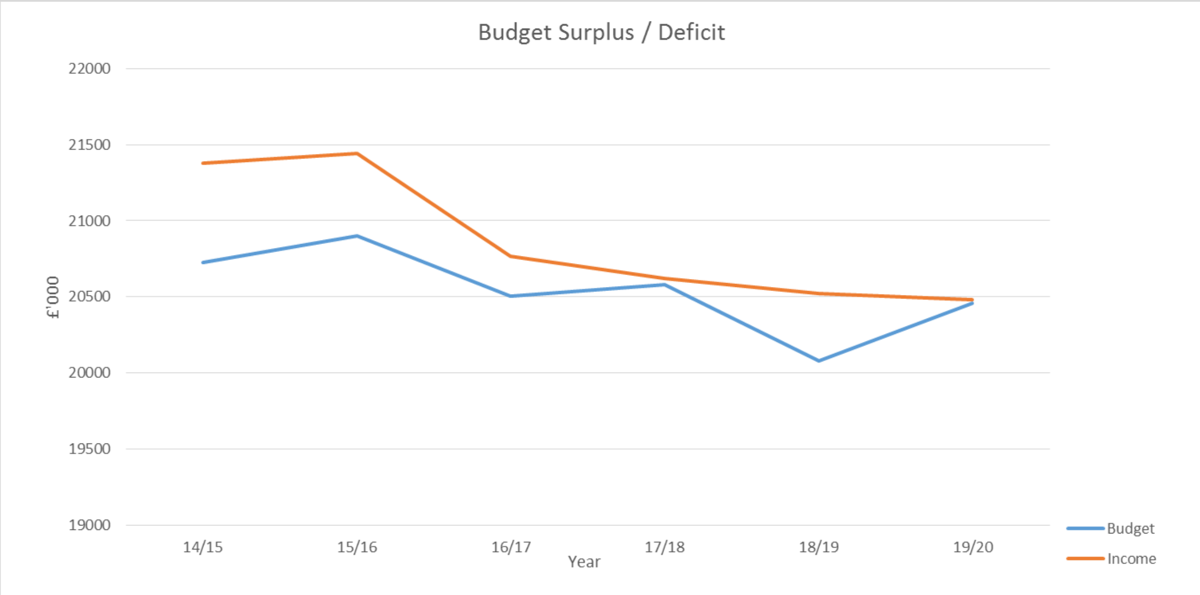
2 Recommendations

The Committee is asked to recommend that the Fire Authority:

a) Notes 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) Approves the use of revenue balances to fund the capital programme, which will be confirmed at the Committee's February 2016 meeting, 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 16 December 2015.

3 Background

At its meeting in February 2015, the Fire Authority approved a revenue budget of £20.441m for 2015/16, which included a budgeted surplus of £542,000. Revenue budgets to 2019/20 were also projected, along with assumed grant and precept income, which are shown on the following page.



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

- Precept increase of 2% from 2014/15 onwards
- Pay award of 1% to 2016/17, and 2% thereafter
- Revenue Support Grant reduced by 8% from 2015/16 onwards
- Council tax base growth increased from 0.4% to 0.8%
- Council tax freeze grant for 2011/12 in base from 2016/17
- Formula grant for 2014/15 and 2015/16 from Settlement in December 2013
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government

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.

4 Stage One – Base Budget Review and Committed Changes

As the first step in the budget setting process, revenue budgets have been reviewed; this has taken into account both changes that have been made to date to the 2015/16 revenue budget, and anticipated changes for 2016/17 and future years.

The Authority's prudent approach to pay awards and inflation has meant that, as in previous years, the current contingency for pay and prices can be reduced. This follows pay awards, which have been lower than budgeted in previous years.

The reduction in the contingency for 2015/16 can be used to offset increases to employers' National Insurance contributions, which will be incurred as a result of the introduction of a single tier state pension on 1 April 2016.

The pay and price contingency will also be used to fund increases in pension contributions, following valuations of the Local Government Pension Scheme and the four Firefighters' Pension Schemes.

As in previous years, capital schemes for 2016/17 and onwards can be funded from revenue contributions. Therefore capital grant that has been received from central government is maintained in the balance sheet for use in future financial years.

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
2015/16 Budget	**20,899**	**20,899**	**20,899**	**20,899**	**20,899**
Committed Changes					
Leasing	-85	-85	-85	-85	-85
National Insurance changes	270	270	270	270	270
Fire pension changes	90	90	90	90	90
To be funded from base	-360	-360	-360	-360	-360
Pay contingency	-	-200	-200	-200	-200
Capital charges	-50	-50	-50	-50	-50
S31 grant reversal	55	55	55	55	55
Base Budget Review					
Retained duty system:					
Retaining fee	-30	-30	-30	-30	-30
Drills	-30	-30	-30	-30	-30
Turnouts	-50	-50	-50	-50	-50
Additional hours	50	50	50	50	50
Attendance	-30	-30	-30	-30	-30
Sick pay and modified duties	90	90	90	90	90
Business rates	-40	-40	-40	-40	-40
Revenue contribution to capital	-1,590	-1,590	-1,590	-1,590	-1,590
	1,025	875	475	475	-
Total	**20,214**	**19,864**	**19,464**	**19,464**	**18,989**
Total movement in base budget	**-685**	**-1,035**	**-1,435**	**-1,435**	**-1,910**

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 (2015/16) 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

During 2014/15, officers reviewed the assumptions on future pay and price contingencies, and held estimates for 2015/16 and 2016/17 at 1%. However, an increase to 2% was assumed for each year thereafter, to reflect possible improvements in the economic outlook.

The Chancellor in his July 2015 budget announced that public sector pay awards would be held at 1%; therefore pay contingency has been adjusted accordingly.

In terms of prices, non-pay increases have again been provided for at 2.5%. Although inflation levels are currently lower, increases on some elements of service expenditure are higher than inflation, and so it is felt that this a realistic provision for the budget as a whole.

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**
2016/17	1.0	138	2.5	82
2017/18	1.0	141	2.5	84
2018/19	1.0	142	2.5	86
2019/20	1.0	143	2.5	88
2020/21	1.0	145	2.5	91

Please see recommendation b).

6 Stage Three – Capital Programme 2016/17 to 2020/21

The Authority has already agreed capital programmes for 2015/16 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 2016/17

The schemes under consideration include appliances and operational equipment, and are currently being reviewed by officers. It is, however, proposed that the capital programme in the planning period set out above will be funded by revenue balances, Earmarked Capital Reserve, or government grant. Therefore, there are no revenue consequences associated with the funding of the programme.

The capital schemes to be funded from revenue balances are shown in the table on page 4; these are based on the programme presented to the Committee in February 2015, and this will be finalised and presented to the February 2016 meeting of the Committee.

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 2016/17. 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.

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:

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Previous Year's Budget	20,899	20,434	20,309	20,137	20,368
Committed Change	-685	-350	-400	-	-475
Pay and Prices	220	225	228	231	236
2015/16 and later Capital Programme	-	-	-	-	-
	20,434	**20,309**	**20,137**	**20,368**	**20,129**

8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2020/21. Financial planning will forecast the position of the revenue budget to 2020/21, but with emphasis on the medium term, i.e. 2016/17 to 2018/19.

Work undertaken to date indicates that the Authority's budget planning strategy is on target, following the Public Value process, which reduced the revenue budget by around £3million. Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves. Resources continue to be allocated to the Service Transformation Programme, to enable essential improvement schemes to be completed.

Forecasts for the longer term are provided within the table above 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. With further reductions in grant expected over the next five years, and inflationary pressures on existing expenditure, Members should consider how an increasing revenue budget will be funded from reducing income. The Authority's Integrated Risk Management Planning 2020 consultation process has ensured that the Service has plans in place to reshape service delivery into 2019/20 and beyond the current planning period.

On 5 October 2015, the Chancellor announced that by the end of this parliament, local authorities will retain 100% of business rates.

The key headlines at this time are:

- By 2020 authorities will retain 100% of business rates;
- Revenue Support Grant will be phased out, and existing specific grants and potential funding for new initiatives will be rolled into fully retained business rates;

- There will still be some redistribution between authorities at the start of the scheme;
- Once established, authorities will keep real growth in revenues; and
- There will still be some protection, i.e. from appeals or sharp falls in rates.

The implications of funding for fire authorities is not yet clear, although it could be assumed that, as 1% of business rate is currently received, this may increase to 2% under the new system. However, powers within the two constituent authorities to reduce the rates multiplier may impact on Fire Service resources.

Autumn Statement

The Chancellor has announced the publication of a joint Autumn Statement and Spending Review on 25 November. It is already clear that, with the protection of government departments, such as Health, Education and Defence, other departments will be expected to make substantial savings in the coming years.

Once settlements have been made available to individual authorities, officers will be in a position to present medium and long-term funding options to the Authority. This will be superseded by a meeting of the Strategic Planning Working Group, where planning assumptions can be agreed.

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.