

## 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 recommended to propose to the Fire Authority that it:

- a) Review and confirm the current position of reserves and provisions;
- b) Review the level of the General Reserve, and
- c) Re-price the reserves and provisions currently held.

### 3 Background

The Authority's provisions, reserves and funds at 1 April 2013 were as follows:

<b>Provisions</b>	<b>£000</b>
Equipment Replacement	41
<b>Total</b>	<b>41</b>

<b>Reserves</b>	
General Reserve	566
Efficiency Reserve	0
Extreme Weather / Operational Conditions	328
Pension Liabilities and Other Staff Issues	1,424
Capital – earmarked	1,562
– un-earmarked	1,002
ICT Reserve	998
Income Volatility Reserve	1,015
Service Transformation Programme Staff Reserve	258
Service Delivery Reserve	232
General Fund	1,506
<b>Total</b>	<b>8,891</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;
- 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 Equipment Replacement Provision**

The equipment replacement fund smoothes 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, and has been used extensively over the last year, preventing peaks of expenditure in the revenue account. As the 2012/13 accounts were closed, an additional contribution of £59,000 was made to the provision, to ensure its continued use in 2013/14.

#### **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 £566,000, details of which are set out in the appendix to this report.

The level of value of the risks should be re-priced to match inflation (although at current rates this is likely to be small) and the probabilities reviewed. The total reserve of £566,000 represents just below 2.7% of gross expenditure.

The major uncertainties around the costs of establishing a link with Hereford and Worcester Fire and Rescue Service for joint mobilising have been alleviated by the receipt of capital and revenue grant totalling £1.80m from Department of Communities and Local Government (DCLG). However, risk and uncertainty remains around communications, and, in particular, the sustainability of mobilising systems.

#### **6 Earmarked Reserves**

##### **a) Efficiency and Growth**

This reserve is now empty, the balance having been used to fund initiatives relating to the Headquarters move, which are expected to result in future efficiencies.

**b) Extreme Weather / Extreme Operational Conditions 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 three years as part of the Public Value review. As a result, it is important that this reserve remains intact and inflation proofed to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

**c) 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 above the past average of three each year, provided for in the revenue budget. The reserve also meets other costs, which are not met by the Pensions Account, such as injury benefits.

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; the issue around pension contributions that may be payable for the period 2000 to 2006 has yet to be resolved. The reserve should be inflation proofed in readiness for the outcome of this issue.

A balance of £100,000 was added to the reserve in 2011/12 to meet any one-off transitional costs of staff changes that may arise from Public Value proposals.

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.

**d) Capital - Earmarked**

The objective of this reserve is to fund small and recurring items of capital, and receive contributions over their life, 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.

In addition, amounts were added following the close of 2010/11, to cover major building schemes, which have been identified but not yet developed.

Further contributions will be made to this reserve from 2012/13 onwards to fund capital schemes that were previously to be funded from borrowing. This funding approach was approved by the Fire Authority in April 2012.

The current position is as follows:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>	<b>£ 000</b>
Balance 1 April	1,562	1,339	1,324
Expenditure	-1,511	-928	-890
Income			
- Contributions	168	154	162
- One-off receipts	1,090	729	0
- Re-pricing	30	30	30
Balance 31 March	1,339	1,324	626

#### e) Capital - Un-Earmarked

The objective of this reserve was to build up funding from revenue savings that could then be used to maximise revenue funding of the St Michael's Street capital scheme. The objective is to minimise borrowing and, therefore, committed debt charges in future years. Now that this scheme has been completed, this reserve will be used to fund other major projects.

Currently the position is expected to be as follows:

	<b>Reserve</b>
	<b>£000</b>
<b>Balance 1 April 2013</b>	<b>1,002</b>
<b>2013/14</b>	
Inflation proofing	30
<b>31 March 2014</b>	<b>1,032</b>
<b>2014/15</b>	
Inflation proofing	30
<b>31 March 2014</b>	<b>1,062</b>

#### f) ICT Reserve

The Fire Authority agreed to set up this reserve from funds available on closing the 2010/11 accounts, to ensure that ICT improvements and resilience issues were managed and funded in a clear and consistent manner.

The balance of £998,000 at the beginning of 2013/14 includes the balance of the £800,000 Control revenue grant from DCLG, which will be released as work on the Control project progresses. It is proposed that this reserve continues to be used for ICT improvements, and that the level of the reserve is reviewed at the close of the financial year.

#### **g) Service Transformation Programme Staff Reserve (£258,000)**

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.

#### **h) Income Volatility Reserve (£1,015,000)**

A number of changes were introduced in 2013/14, which affected the way in which the Fire Authority is funded, and the levels of funding that were achieved. This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Medium Term Corporate Plan.

#### **i) Service Delivery Reserve (£232,000)**

This reserve was established as the accounts were closed in 2012/13, and was set up to fund initiatives in service delivery and prevention.

### **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 2013 was £1,506,000 and the Fire Authority agreed to add £147,000 to various budgets in the current year to meet previously approved expenditure that had slipped into, or was needed in, 2013/14.

Three new reserves were created as the 2012/13 accounts were closed and part of the balance of the General Fund of £1,359,000 was allocated to these reserves, with the remainder being allocated to existing reserves and provisions.

#### **New Reserves**

##### **Training Reserve (£250,000)**

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. It is proposed that a reserve is created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.

##### **New Operational Equipment (£300,000)**

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 (£400,000)**

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.

#### **Contributions to existing reserves and provisions:**

ICT Reserve	£200,000
Service Transformation Programme (STP) Staff Reserve	£150,000
Equipment Replacement Provision	£59,000

## **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 Assessments has been completed for this report.

## **11 Appendix**

Build-Up of General Reserve 2013/14

## **12 Background Papers**

There are no background papers associated with this report.

## Build-up of General Reserve 2013/14

	Risks as categorised by CIPFA	Absolute Level £'000	Probability %	Current Provision £'000	Comment
1	Cash Flow	55	10	6	No significant change to risk or amount. The use of cash to delay borrowing raises risks slightly. Main problem has been timing of pension payments and top-up grant.
2	Inflation Assumptions	426	-	-	No risk, if realistic provision is made in the revenue budget
3	Other demands, including new legislation	55	10	6	Deals with issues, such as unexpected costs arising from changes as costs and responsibilities within the public sector are resolved.
4	Communications / mobilising system	370	10	37	Risk around the sustainability of our current mobilising systems
5	Specific Risks	125	50	62	Deals with one-off technical matters threatening service delivery
6	Ongoing Risks				
	i Vehicle Accident	230	20	46	Would deal with one major appliance at £200,000. Would cover any gap between early termination of a lease and any insurance receipt
	ii Ill health and injury	-	-	-	Dealt with by pensions earmarked reserve provision
	iii Industrial Action	110	50	55	Based on known experience
	iv Technical Problems	108	50	54	Principally IT or telecoms problems
	v Uninsurable Risks	222	50	111	Would cover such issues as data protection
7	Loss of grants, receipts or other external funding	191	35	67	Grants should become part of revenue budget processes each year, as they are likely to be absorbed into Revenue Support Grant. This covers any unexpected loss of income mid-year.
8	Changes to national purchasing	126	50	63	Could mean current contracts unviable

	<b>Risks as categorised by CIPFA</b>	<b>Absolute Level £'000</b>	<b>Probability %</b>	<b>Current Provision £'000</b>	<b>Comment</b>
12	Financial Control	280	10	28	Reflects likely risk of overspends through weak systems of control
13	Uninsurable health and safety risks	127	10	14	Identified from the risk register
14	Fines from Corporate Manslaughter Legislation	170	10	17	Based originally on a £170,000 fine imposed on an Authority. Not a high amount, as courts may not want to penalise local taxpayers
	<b>General Reserve</b>	<b>2,595</b>		<b>566</b>	