

Adequacy of Provisions and Reserves and Robustness of Budget

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

This report: undertakes a full analysis of Reserves and Provisions; provides an assurance on the adequacy of reserves and provisions; and gives an assurance on the robustness of the budget.

2 Recommendations

The Committee is asked:

- a) To recommend to the Fire Authority:
 - i) The reserves and provisions, as set out in the appendix; and
 - ii) The Treasurer's assurances covering the robustness of the 2011/12 budget and adequacy of the reserves and provisions; and
- b) To note the material uncertainties from 2013/14 onwards.

3 Background

The Finance Officer is required, under section 25 of the Local Government Act 2003, to report on the robustness of estimates and adequacy of reserves.

This is also linked to the requirement of the Prudential Code that authorities should have full regard to affordability, when making recommendations about future capital programmes.

In our case the issue of the reserves and capital is closely linked, because of the intention to maximise the funding of the “Shrewsbury Capital Project” from the Un-Earmarked Capital Reserve and to use capital reserves to minimise the cost of future years’ capital programmes.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a Guidance Note on Local Authority reserves and balances (LAAP Bulletin 55), which is reflected in this report. The Bulletin states that it is contrary to the freedoms of local authorities for an external body to impose general minimum or maximum levels of reserves, as there is a broad range, within which authorities might reasonably operate. The Bulletin does say that reserves should be not only adequate but also necessary. It also reminds authorities of the power of Government to set a minimum level of reserves, and that Government has undertaken not to impose such a level, unless an authority does not act prudently, ignores advice, and is heading for serious financial difficulty.

4 Major Risks and Uncertainties

The basic check, made each budget round, is to ensure that all major risks identified in the risk register are taken into account. These are:

- i Retained Firefighters’ Pension 2000 to 2006 and Terms of Employment issues;
- ii Firelink / Firecontrol and the implications for current IT and communication services;
- iii Implications of the current financial situation, particularly the review of central government funding of local authorities; and
- iv Linked to iii above, the risk of being capped, to be superseded by tests of excessiveness and the risk of triggering local referenda.

These risks are addressed in this report together with the overall adequacy of each reserve and the robustness of the budget.

5 General Reserve

The General Reserve was the first established by the Authority in 2004, with the purposes of, firstly, providing a working balance to cushion the impact of uneven cash flows, thereby avoiding unnecessary temporary borrowing, and, secondly, cushioning the impact of unexpected events or emergencies.

The balance is expected to be £536,000 at 1 April 2011. The basis for this, before inflation proofing, is set out in the appendix to Report 5f to the Strategy and Resources Committee 24 November 2010 – now encompassed in the “Green Book” to the Authority in December 2010.

The balance of the reserve is made up of a number of relatively small risks, although it is clear that the consequences of the cancellation of the national Firecontrol project have now to be dealt with.

Given that this specific risk is being dealt with as part of the budget process, that the reserve is still needed in aggregate for cash flow and contingency purposes, and that £525,000 would be about 2.5% of budget, it is recommended that the reserve remain at that level, subject to regular review and to repricing.

6 Extreme Weather Reserve

The Extreme Weather Reserve is expected to total £303,000 at 1 April 2011. If it does, then it will not yet have been used to pay for budget overspends arising from demands on the Service from extreme weather. These would arise primarily on the Retained Service or charging for Firelink usage.

Last year the Fire Authority decided to maintain the reserve at current levels. There has not been any call on the reserve this year; however, given the long-term nature of the risk, it is recommended that the reserve is left unchanged.

7 Pensions and other Staff Issues

This reserve is expected to total £1,180,000 at April 2011, which is made up of:

- i **Sickness Retirements**
Lump sum contributions are required to the Pensions account and an annual total of 3 is provided for in the revenue account. Any more would have to be met from this reserve. One extra retirement would cost about £130,000.
- ii **Other staff costs**
Such as injury awards, and other costs, which are not covered by the employee's pension contribution, and, therefore, not chargeable to the Pensions account
- iii **Retained Firefighter pensions and conditions of employment costs** for the period between April 2000 and March 2006 (to date as regards conditions)
Costs could amount to £980,000, based on the numbers of staff employed during the period and those already in pension scheme membership and a number of assumptions about how and when payments will become due. The level of uncertainty, both of higher costs, and, on the other hand, Government assistance remains significant. The amount set aside in the reserve appears, however, to be a reasonable response to dealing with the problem. A National Joint Council circular (NJC 1/11) was received on 11 January to say that formal agreement is imminent and that settlement can be expected this year. The costs shown in the Appendix are estimated to fall partly in 2010/11 and partly next year.
- iv **One-off or irregular staff costs**
which it would be in-appropriate to provide an annual budget

- v **Any local implications of developments elsewhere in the Fire Service**, such as equality issues
- vi **Arrears of pay** etc.

Given the high level of uncertainty on a number of these issues, it is recommended that this reserve is left unchanged.

8 Capital Reserve - Earmarked

This reserve is intended to fund minor and/or recurring capital schemes, thereby avoiding borrowing costs. Where an asset has a defined life and will need replacing, contributions are made over its life from the revenue account. The reserve will require a transfer of £110,000 from the Un-earmarked Reserve next year, when outgoings are temporarily expected to exceed receipts.

9 Capital Reserve - Un-earmarked

This reserve is intended to fund the St. Michael's Street capital scheme and, if possible, be used to reduce debt charges on future major capital projects. £135,000 of revenue expenditure to cover temporary arrangements, such as rent, has been transferred out of the reserve, leaving £3,855,000 of the £3,990,000 St. Michael's Street scheme costs to be met from capital. The phasing of expenditure on the capital scheme itself has been revised, as set out below.

	2009/10 £000	2010/11 £000	2011/12 £000	Total £000
Expenditure	124.0	2,065.9	1,665.1	3,855.0
Funding:				
Grant	103.0	691.0		794.0
Reserve - Un-earmarked Capital	21.0	1,044.0		1,065.0
Borrowing		330.9	1,665.1	1,996.0
Total Funding	124.0	2,065.9	1,665.1	3,855.0

The Un-earmarked Capital Reserve is currently expected to total £1.437m, after funding the St. Michael's St. Scheme. This could fund any excess cost revealed, whilst the scheme is in progress, or be used to replace borrowing on this or other schemes.

10 Efficiency Reserve

This reserve is earmarked for investing in efficiencies and has been further earmarked for seeking efficiencies from the St. Michael's Street project. The reserve is currently expected to be used for this purpose and to be exhausted by 31 March 2011. Consideration might be given, when closing the 2010/11 accounts, to setting aside some money to invest in future efficiencies.

11 General Fund

The General Fund is not a reserve but the amount by which revenue income exceeds expenditure. The Fire Authority attempts to redistribute any such balance through the budget process, rather than hold tax payers' funds unnecessarily. The fund has been fully used to meet the expenditure approved by the Fire Authority in June this year.

12 Adequacy of Reserves

The reserves have not been unexpectedly reduced from last year, when an assurance was given of their adequacy. The major uncertainties of last year do, however, continue, except that there is a much clearer picture of the implications of the St. Michael's Street capital project and the Firecontrol / Firelink project. In light of this and the analysis set out above, a continued assurance can be given that every effort has been made to ensure that reserves are adequate. A full statement of reserves is set out in the appendix to this report

13 Robustness of Estimates

Given that reserves are adequate, I believe the budget is robust for 2011/12 in respect of the process to minimise errors and omissions, the level set aside for future pay and price increases, and the realism and deliverability of the reductions approved as part of the Public Value process. The method for identifying additional spending pressures, both through the Public Value and budget processes, is comprehensive.

A major unknown in the past has been the threat of capping, which is to be replaced by the new process of government defined excessiveness and referenda. At a zero increase the precept level would clearly not be within the Government's definition of an excessive increase and, indeed, will qualify for the precept freeze grant.

Future Years

Although the assurances required under statute are for the coming year only, there must be concern over the grant settlement from 2013/14 onward, particularly the outcome of the funding system review; prospects for inflation up or down; Council Tax base changes; as well as the greater uncertainties of budgets generally over that time.

It will, therefore, be important to use the next two years to monitor such budget matters carefully and to review service consequences in the Service and Medium Term Financial Plan (MTFP). This will be needed to ensure that the Authority can take part robustly in consultation with government to ensure as far as possible service and financial stability from 2013/14 onward.

14 Financial Implications

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

15 Legal Comment

The Treasurer is obliged to give the assurances set out in this report by the Local Government Act 2003.

16 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

17 Appendix

Schedule of Reserves, Provisions and General Fund

18 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Business Continuity Planning		Member Involvement	
Capacity		National Framework	
Civil Contingencies Act		Operational Assurance	
Efficiency Savings		Public Value	
Environmental		Retained	
Financial	*	Risk and Insurance	
Fire Control/Fire Link	*	Staff	
Information Communications and Technology		Strategic Planning	*
Freedom of Information / Data Protection / Environmental Information			
Legal	*	Equality Impact Assessment	*

Schedule of Reserves, Provisions and General Fund

**Budget for the
year 2011/12
£ 000**

1. Equipment Replacement Provision

a) Reason / Purpose	1 April	22
To smooth out revenue expenditure each year on the replacement of items of operational equipment.	Additions	34
	Withdrawals	50
	Repricing	3
	31 March	9
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b) How and When Used		
The provision purchases items of equipment and receives equal annual instalments from the revenue account over the life of that equipment. Interest is also added on balances to ensure inflation proofing.		
c) Procedures for Management and Control		
The expected expenditure and contributions is approved by the Authority as part of the annual budget process and controlled as any other revenue budget.		
d) Process and timescale for Review		
The provision is reviewed each year as part of the budget setting process, again during the closing of the accounts, and in addition if budget variations are required during the year.		

2. General Reserve

a) Reason / Purpose	1 April	536
To provide a cash reserve to avoid unnecessary short-term borrowing. Also to meet known risks which are difficult to quantify or to predict when they will occur.	Additions	13
	Withdrawals	-
	31 March	549
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b) How and When Used		
The General Reserve would be used to finance a one-off expenditure occurring during a year on one of the scheduled risks anticipated. The General Reserve is funded from the revenues of the Authority both to meet risks and to cover inflation.		
c) Procedures for Management and Control		
Risk are listed and amended with changes to the Risk Register. Each is quantified and probabilities ascribed to their occurring. The resulting total is then available to meet an individual risk identified (or unknown) occurring, subject to formal approval by the Authority.		

**Budget for the
year 2011/12
£ 000**

d) Process and Timescale for Review

Review takes place as part of the annual budget setting process and on closing the accounts. The Risk Management Group also considers changes in risk throughout the year and proposes changes to the Authority as necessary.

3. Extreme Weather Reserve

a) Reason / Purpose

The purpose is to average out the revenue implications of hot summers, flooding or other weather events that impact on the retained service costs in particular.

1 April	303
Additions	-
Withdrawals	-
31 March	303

b) How and When Used

The revenue budget provides for an annual average cost. Underspends in any year are added to the reserve, overspends funded by the reserve.

c) Procedures for Management and Control

The Authority will approve additional revenue costs in the normal way on the basis of an assurance that they could be funded by the reserve and after any other funding – e.g. Bellwin claims had been identified.

d) Process and Timescale for Review

The reserve and associated budgets are reviewed as part of the annual budget setting process, and on closing the accounts.

4. Pensions and Other Staff Matters Reserve

a) Reason / Purpose

The reserve is to meet one-off staff related costs such as pension or equal pay/conditions retrospective liabilities, sickness pension costs above the average annual revenue budget provision, injury benefits and payments of arrears.

1 April	1,180
Additions	-
Withdrawals	-680
31 March	500

b) How and When Used

The Authority would approve any additional budget costs on the assurance they could be met from the reserve. The reserve would receive annual inflation proofing contributions.

c) Procedures for Management and Control

The specific risks covered are regularly monitored and reports taken to the Authority of any variations in the reserve that might be required.

**Budget for the
year 2011/12
£ 000**

d) Process and Timescale for Review

Review is part of the annual budget setting process, and again on closing the accounts. Risk Management Group also regularly reviews these risks because of their high significance in service and financial terms.

5. Capital Reserve- Earmarked

a) Reason / Purpose

The Capital Reserve meets the cost of small and recurring items of capital and receives contributions from the revenue account to provide for replacement of recurring items. The reserve is also intended to maximise self-funding of the Shrewsbury HQ replacement / refurbishment scheme in order to minimise prudential borrowing.

1 April	18
Additions	245
Transfer	110
Withdrawals	-395
Repricing	25
31 March	3

b) How and When Used

As part of the annual Capital budget, the Authority decides which schemes are likely to need replacement, and are small enough or of relatively short life to warrant self-funding. If the fund can meet these costs it is then replenished over the life of the asset where replacement is expected. Contributions ensure that replacement provision is inflation proofed. The Shrewsbury HQ Project will be considered specifically during 2009/10.

c) Procedures for Management and Control

The Capital Programme, its funding (including from this reserve) and revenue implications are considered and approved as part of the budget setting process in the context of the Prudential Code and Guidelines.

d) Process and Timescale for Review

The reserve is reviewed during the annual budget process, on closing the accounts and in the light of continuous budget monitoring of the capital programme.

6. Capital Reserve- Un-earmarked

a) Reason / Purpose

The purpose is to fund major capital schemes and minimise borrowing costs.

1 April	993
Transfer	-110
Additions	519
Repricing	35
Withdrawals	-
31 March	1,437

b) How and When Used

The reserve is created from savings and efficiencies that become available from revenue budgets. These funds are used to finance the St. Michael's St. scheme.

c) Procedure for Management and Control

The Authority approves the release of the reserve to match expenditure on the project taking into account grant and other funding sources.

d) Process and Timescale for Review

It is envisaged that the fund will be finished in 2011/12. However this will depend on the cost and phasing of the St. Michael's St. scheme. Any surplus funds would be available to meet the cost of future major projects.

7. Efficiency Reserve

a) Reason / Purpose

The purpose is to invest in one-off initiatives intended to deliver efficiency savings or practices in subsequent years.

1 April	-
Additions	-
Withdrawals	-
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31 March	-
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b) How and When Used

The Authority approves in advance contributions from the reserve for specific efficiency proposals. Income from revenues of the Authority is earmarked as part of the review process.

c) Procedures for Management and Control

Proposals require specific Authority approval as part of the budget process.

d) Process and Timescale for Review

Review takes place as part of the annual budget setting process and on closing the accounts.

8. General Fund

a) Reason / Purpose

The General Fund is the balance of income over expenditure required to fund expenditure that has slipped into the following year or is approved to be added to the next year's budget by the Authority.

1 April	-
Additions	-
Withdrawals	-
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31 March	-
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b) How and When Used

The budgets financed by the General Fund are enhanced in the new year, and the balance at 1 April is therefore wholly used during the year.

c) Procedure for Management and Control

The General Fund can only be used on the specific approval of the Authority.

d) Process and Timescale for Review

Budgets financed from the General Fund are automatically enhanced at the beginning of the year by the Finance Section, and then monitored as part of normal budget monitoring.

Note

- 1 All Provisions and Reserves are specifically monitored by officers monthly. Outcomes are then reported to the Strategy and Resources Committee and approvals where necessary are sought at the next Fire Authority meeting.
- 2 More detail on Provisions and Reserves is contained in the Authority's annual Statement of Accounts particularly in the "Statement of Accounting Policies"