

## Adequacy of Provisions and Reserves and Robustness of Budget

### 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 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 report; and
  - ii) The Treasurer's assurances covering the robustness of the 2013/14 budget and adequacy of the reserves and provisions;and
- b) To note the material uncertainties from 2014/15 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.

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**

As part of the budget setting process, a review of reserves ensures that all identified foreseeable major risks and uncertainties are taken into account.

These are:

- a) Retained Firefighters' Pension 2000 to 2006 and Terms of Employment issues;
- b) The implications for current IT and communication services;
- c) Sustainability of the current IT infrastructure, and support for replacement of new systems;
- d) Implications of the current financial situation, particularly the review of central government funding of local authorities; and
- e) Linked to (d) above, the risk of being capped, to be superseded by tests of excessiveness and the risk of triggering local referenda.

These risks and uncertainties 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 established by the Authority in 2004, to mitigate the potential impacts of uneven cash flows and unexpected events and emergencies.

The current total of the reserve, at £552,000, represents just below 2.7% of gross expenditure. The value of the risks and their associated likelihood of occurrence will be reviewed, and the reserve will be repriced.

The basis for the reserve is set out in the appendix to Report 7e to the Strategy and Resources Committee 15 November 2012 (also contained in the 'Green Book' to the Fire Authority in December 2012).

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 £1.8m, from the Department of Communities and Local Government (DCLG). However, risk and uncertainty remains around communications, particularly the sustainability, and desirability, of continuing with national communications systems.

## **6 Extreme Operational Conditions Reserve**

This reserve currently stands at £320,000. Further reductions have been made to the retained budgets as part of the Public Value process, and, therefore it may be prudent to consider increasing this reserve slightly to provide for any unanticipated future activity, particularly with the increasing response to flooding and other spate conditions.

## **7 Pensions and Other Staff Issues**

This reserve totalled £1,389,000 at April 2012, and consists of:

### **Sickness retirements**

Lump sum contributions are required to the Pensions account and an annual total of three is provided for in the revenue account. Any retirements over this budgeted level would have to be met from this reserve, with each costing about £130,000.

### **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

**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. Although there is still a level of uncertainty around payment of pension contributions, compensation for terms and conditions has now been paid to eligible employees.

**One-off or irregular staff costs and local implications of developments elsewhere in the Fire Service, such as equality issues**

In addition, an amount has been added to the reserve to cover any one-off transitional costs of staff changes that may arise from Public Value and 20:20 proposals.

Given the continued uncertainty on some issues, it is recommended that this reserve is left unchanged.

## **8 Capital Reserve – 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 seems no 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 have been funded from borrowing. This funding approach was approved by the Fire Authority in April 2012.

## **9 Capital Reserve – 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 and other major capital projects. The objective is to minimise borrowing and, therefore, committed debt charges in future years.

Following completion of this scheme, this reserve will be used to fund other major projects.

The Un-earmarked Capital Reserve is currently expected to total £1.8m at 1 April 2013.

## **10 Efficiency Reserve**

Most of the balance on this reserve has been used to fund initiatives relating to the Headquarters move, which are expected to result in future efficiencies. There may be merit in topping up the balance on the reserve from any future net savings, to be prudent in servicing future efficiencies.

## **11 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 £966,000 at the beginning of 2012/13 includes £800,000 Control revenue grant from DCLG, which will be released over the next two years.

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.

## 12 New Reserves

Two new reserves were created as the 2011/12 accounts were closed and the balance on the General Fund of £1,263,000 was allocated to these reserves.

### **Service Transformation Programme Staff Reserve (£300,000)**

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. This reserve will also be used for staff elements of the 20:20 plan where necessary.

### **Income Volatility Reserve (£963,000)**

There are a number of changes being introduced in 2013/14, which will affect the way in which the Fire Authority is funded, and the levels of funding that will be achieved. This reserve has been put in place to deal with unexpected detrimental changes, as these changes are established, particularly changes to Business rates and any benefits changes that may have an impact on the Authority.

## 13 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.

## 14 Adequacy of Reserves

The reserves have not been unexpectedly reduced from last year, when an assurance was given of their adequacy; in fact new reserves have been created as new risks have been identified. Officers continue to give due consideration to existing risks to the Fire Authority, when reviewing levels of reserves, and a continued assurance can be given that every effort has been made to ensure that reserves are adequate.

## 15 Robustness of Estimates

Given that reserves are adequate, I believe the budget is robust for 2013/14 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.

The threat of capping has now been replaced by a new process of government defined excessiveness and referenda.

The Local Government Minister has announced that a referendum will be triggered for those authorities that choose to refuse council tax freeze grant in 2013/14 and set a precept of more than 2.0%. Current planning for the 2013/14 budget is within the threshold indicated by the Minister.

### **Future Years**

Although the assurances required under statute are for the coming year only, there must be concern over continuing grant settlements from 2014/15 onward, and there are a number of issues, over which the Fire Authority has little control, such as pay and price changes, and the level of grant reductions over the final year of the Spending Review. Therefore, financial modelling will continue to exemplify the possible scenarios faced by the Fire Authority over the coming months and years.

## **16 Financial Implications**

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

## **17 Legal Comment**

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

## **18 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.

## **19 Appendices**

There are no appendices attached to this report.

## **20 Background Papers**

There are no background papers associated with this report.