

## 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 appendix to the report; and
  - ii) The Treasurer's assurances covering the robustness of the 2014/15 budget and adequacy of the reserves and provisions; and
- b) To note the material uncertainties from 2015/16 onwards.

### 3 Background

The Chief 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.

## 5 Overview of the Reserves Strategy

The Fire Authority has set out its financial strategy to 2019/20 in its Medium Term Financial Plan, and its reserves policy is an integral part of this Plan. 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. By using capital reserves to fund the refurbishment of the site, this has led to a reduction in the revenue budget of over £250,000 over a four-year period. The Capital reserves and the 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 contributions that have been made to the Pensions Reserve to fund backdated pension contributions following the Part-Time Workers employment tribunal. Payment will be made following modifications to firefighters' pension schemes, expected in the next financial year.

In addition, the ICT reserve contains £670m, which is revenue grant, paid to the Authority to fund Control Room collaboration work with Hereford and Worcester Fire Authority but the funds have been received from government. This is also expected to be spent in the next financial year.

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

The Fire Authority is focussed on the deficits that it will face by 2019/20, 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 may be used to fund transfers into the Pension Account, when operational staff retire on ill-health grounds, currently funded from the revenue budget. This would result 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 the expected budget deficit modelled to 2019/20, and safeguard the service delivered to the people of Shropshire.

## **6 Reserves and Provisions held by the Authority**

A schedule of the reserves and provisions currently held by the Authority is attached as an appendix to this report. This schedule states the purpose of each reserve, and also refers to possible uses of the funds over the planning period, reflecting the risks and uncertainties mentioned in the report.

## **7 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 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.

## **8 Robustness of Estimates**

Given that reserves are adequate, I believe that the budget is robust for 2014/15 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.

## **Future Years**

Although the assurances required under statute are for the coming year only, there must be concern over continuing grant settlements from 2015/16 onward, and there are a number of issues, over which the 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 Authority over the coming months and years.

## **9 Financial Implications**

The financial implications are outlined within this report.

## **10 Legal Comment**

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

## **11 Initial Impact Assessment**

An Initial Impact Assessment form has been completed.

## **12 Appendix**

Analysis of Reserves and Provisions

## **13 Background Papers**

There are no background papers associated with this report.

## Analysis of Reserves and Provisions

Reserve / Provision	Purpose	Balance at 1 April 2013 £'000	Possible use in planning period?	Amount to be released in planning period? £'000
<b>Equipment replacement provision</b>	Smooths out revenue expenditure – the provision funds replacement equipment and contributions are made back into the provision from revenue budget	100	Will continue to be used and topped up over planning period – unlikely to be depleted by 2019/20 May lead to reduction in revenue budget in future years	
<b>Pension liabilities reserve</b>	To meet one-off contributions required into Pensions Account for ill-health retirements Will also cover pension liabilities arising from the Part-Time Workers Tribunal (PTW) £100k added for any one-off transitional costs that may arise from Public Value proposals	1,424	Pension costs from PTW tribunal may equate to around £400k Ill-health charges from revenue budget into Pensions Account could be funded from here in their entirety: 1 per year would cost £720k by 2019/20 2 per year would cost £1.44m by 2019/20 Contributions would be made back into the reserve from the revenue budget	1,120
<b>Earmarked capital reserve</b>	Used to fund small and recurring items of capital thus avoiding increased borrowing costs on the revenue budget Contributions are currently made back into the reserve from the revenue budget. These may cease as part of the 2020 process In order to avoid debt charges beyond 2019/20 we need to confirm the capital programme and ensure that we have these costs covered in the reserve	1,562	£3.28m to be spent on schemes over the planning period but there will be large contributions back into the reserve from surplus in the early years. Reserve likely to stand still between now and 2019/20 – but further schemes to be added to the capital programme Reserve will need to be maintained to cover replacement assets beyond the planning period	

<b>Reserve / Provision</b>	<b>Purpose</b>	<b>Balance at 1 April 2013 £'000</b>	<b>Possible use in planning period?</b>	<b>Amount to be released in planning period? £'000</b>
<b>Unearmarked capital reserve</b>	Reserve has been built up from revenue savings and was used to fund the HQ project, avoiding borrowing into the long term Will now be used to fund other major projects	1,002	Issues being considered as part of 2020 scenario planning: Relocation of fire stations to ensure optimum fire cover, including establishment costs for a retained duty system station Accommodation associated with changes to crewing systems on wholetime stations	
<b>ICT reserve</b>	Set up to ensure that ICT improvements and resilience issues are managed and funded in a clear and consistent manner	1,198	£676k is DCLG grant for Hereford & Worcester collaboration – should be used by the end of 2014	676
<b>Income volatility reserve</b>	Set up to smooth any volatility or fluctuations in funding received against estimates in the Medium Term Corporate Plan	1,015	May be used to close early deficits anticipated in the planning period	850
<b>Extreme weather and operational incidents reserve</b>	Set up to deal with incidents resulting from extreme weather conditions or operational scenarios, which cost over and above normal retained budget levels	328	Holding this reserve will facilitate further reductions in the revenue budget, thereby reducing deficit in the later years of the planning period This reserve will be used for extreme incidents, meaning that a lower level of average activity can be budgeted for	
<b>Service Transformation Programme staff reserve</b>	Set up to cover secondments and appointment of staff to work on projects within the Service Transformation Programme	408	This reserve should be depleted by 2019/20 as the Programme projects are completed	408

<b>Reserve / Provision</b>	<b>Purpose</b>	<b>Balance at 1 April 2013 £'000</b>	<b>Possible use in planning period?</b>	<b>Amount to be released in planning period? £'000</b>
<b>Service delivery reserve</b>	Set up to fund initiatives in service delivery and prevention	232	This reserve should be depleted by 2019/20 – the majority of the reserve is New Dimension grant, being used to fund a Training Instructor post	232
<b>Training Reserve</b>	Set up to fund one-off training and development costs incurred due to changes in the management structure over the next few years Will relieve pressure on the revenue budget	250	The reserve may be 50% used by the end of the planning period May be topped up with savings from the training revenue budgets	125
<b>New operational equipment reserve</b>	Set up to support revenue budgets in this area Large items of expenditure or new items of equipment could be funded from this reserve	300	Likely that reserve is topped up from savings from revenue budgets No reason for the reserve to be fully depleted by 2019/20 More likely to lead to cut in revenue budget	
<b>Buildings maintenance reserve</b>	Set up to support revenue budget Planned or preventative maintenance could be funded from revenue, with exceptional or unexpected repairs funded from the reserve	400	Likely that reserve is topped up from savings from revenue budgets No reason for the reserve to be fully depleted by 19/20 More likely to lead to cut in revenue budget	
<b>General reserve</b>	A reserve to meet risks known to the Authority, which may or may not happen. Probability of occurrence is calculated and these costs provided for pro rata	566	This reserve will be used if and when risks occur, and reassessed to reflect any new risks identified	
<b>Total</b>		8,785 : 41% of revenue budget)		3,411 (remaining reserves of £5,374k are 25% of revenue budget)