

# Adequacy of Provisions and Reserves and Robustness of Budget

## Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007.

### 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 2012/13 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**

As part of the budget setting process, a review of reserves ensures that all major risks identified in the risk register are taken into account.

These are:

- a) Retained Firefighters’ Pension 2000 to 2006 and Terms of Employment issues;
- b) Firelink / Fire Control and 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 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 £539,000, represents just below 2.6% 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 7f to the Strategy and Resources Committee 18 November 2011 (also contained in the 'Green Book' to the Fire Authority in December 2011).

The major current uncertainties are the costs of establishing a link with Hereford and Worcester Fire and Rescue Service for joint mobilising, and whether grant will be forthcoming from Communities and Local Government to fund necessary works; and the issues with pay and price inflation going forward, although this risk should be minimised with realistic provision in the revenue budget.

## **6 Extreme Operational Conditions Reserve (Formerly Extreme Weather Reserve)**

This reserve currently stands at £312,000, and has not been called upon to deal with extraordinary conditions during the year. Some 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 to provide for any unanticipated future activity.

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

This reserve is expected to total £1,357,000 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 is now being formalised, and transfers out of this reserve to cover this compensation were made to the revenue account at the end of 2010/11.

## **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 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.

### **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.

The phasing of expenditure on the St Michael's Street scheme has been revised, as set out below:

	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>Total £000</b>
Expenditure	124	2,078	1,654	3,856
Funding:				
Grant	103	691	515	1,309
Reserve - Un-earmarked Capital	21	1,044	285	1,350
Borrowing (potential)		343	854	1,197
Total Funding	124	2,078	1,654	3,856

The Un-earmarked Capital Reserve is currently expected to total £2.18m at 1 April 2012.

This surplus could be used to negate the need for borrowing on this scheme, or to help phase budget reductions. Officers will make recommendations to the Fire Authority as plans progress.

## **10 Efficiency Reserve**

This reserve is earmarked for investing in efficiencies, including efficiencies from the St. Michael's Street project. The reserve has been used for this purpose and there is likely to be a small balance remaining at the end of the year. Consideration might be given, when closing the 2011/12 accounts, to setting aside some money to invest in 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.

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 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.

## **13 Adequacy of Reserves**

The reserves have not been unexpectedly reduced from last year, when an assurance was given of their adequacy. 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.

## **14 Robustness of Estimates**

Given that reserves are adequate, I believe the budget is robust for 2012/13 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 councils that choose to refuse council tax freeze grant in 2012/13 and set a precept of more than 3.5%, and for those fire authorities that set a precept of more than 4%. Current planning for the 2012/13 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 the grant settlement from 2013/14 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 two years 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.

## **15 Financial Implications**

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

## **16 Legal Comment**

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

## **17 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.

## **18 Appendices**

There are no appendices attached to this report.

## **19 Background Papers**

There are no background papers associated with this report.