

## Provisions, Reserves and Funds

### Report of the Treasurer

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

### 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) Confirm the existing policy and continue the Equipment Replacement Provision;
- b) Review the level of the General Reserve as the current budget position becomes clearer;
- c) Re-price the General, Earmarked Capital, and Pension Liabilities and Other Staff Issues Reserves; and
- d) Confirm the other earmarked reserves at their current levels, subject to reviewing the issues raised on pensions and un-foreseen capital schemes.

### 3 Background

The Authority's provisions, reserves and funds at 1 April 2010 were as follows:

<b>Provisions</b>	<b>£000</b>
Equipment Replacement	45
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	45
<b>Reserves</b>	
General Reserve	523
Efficiency Reserve	60
Extreme Weather	303
Pension Liabilities and Other Staff Issues	1,480
Capital – earmarked	378
– un-earmarked	1,733
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	4,477

**General Fund  
Total**

511  
5,033

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 Provisions**

### **Equipment Replacement**

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 balance was budgeted to be £65,000 in April 2010, i.e. it has been slightly more reduced than expected. The provision has proved useful in dealing with the ongoing replacement of equipment, particularly relating to leases, and it is recommended that the provision is maintained.

## **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 £523,000, 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 £523,000 represents just below 2.5% of gross expenditure.

The major current uncertainties are the transition to Firelink/Regional Fire Control. At present some risk of maintaining current systems is covered (net £32,000) but there may be staff related issues, which will be kept under review to see if there is a case for setting aside reserves for this major one-off risk. In addition there is a major risk associated with pay and price inflation going forward. Future plans are based on relatively modest increases and there may be a case for re-introducing an element to cover unexpectedly high

increases, at least for the year in which they occur.

## **6 Earmarked Reserves**

### **a) Efficiency**

There is budgeted expenditure of up to £60,000 for investment in efficiencies. This would potentially exhaust the reserve and there might be merit in topping it up from any net future savings, especially if finding future efficiency targets requires up-front funding.

### **b) Extreme Weather**

The balance represents the monies saved in previous years against the budget provision for an average year. Recent experience indicates that the revenue provision for call-outs and additional hours may be too high, i.e. the average annual cost has dropped. This may be due to Community Fire Safety driven efficiencies, or better weather etc. It was decided, therefore, that this reserve is frozen and the revenue budget was revised downward. There seems no reason to change the policy of holding the reserve at its current level.

### **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.

At present the notional provision by the Government Actuary for sickness pensions nationally would be greater than our present revenue budget, i.e. reflecting our anticipated better-than-average performance at managing ill-health retirements. This does, however, argue for caution but the number of ill-health retirements has not yet exceeded three in any year since 2006/07 and the level of revenue budget provision is reviewed elsewhere in these budget papers. Subject to that review which is likely to reduce the annual revenue budget it is recommended that the reserve is retained

Last year it was decided to broaden the scope of the reserve to include any potential liabilities arising from the outstanding issue of retained firefighter pension and other costs between 2000 and 2006 and a further £700,000 was added to the reserve for this purpose when the Accounts for 2009/10 were closed. No further progress has been made nationally to finalise the position and it is recommended that the reserve be maintained with an addition for inflation.

There may be a need to provide an additional sum to cover future implications of changes to the Firefighters' Pension schemes. and this will be kept under review.

#### 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 seems no reason to change this approach, although a review may be required, if savings are needed in future years.

The position, before amendments to the capital programme are made, is as follows:

	2010/11	2011/12	2012/13
	£000	£000	£ 000
Balance 1 April	378	18	3
Expenditure	-578	-395	-105
Income			
- Contributions	195	245	210
- One-off receipts		110	
- Re-pricing	23	25	28
Balance 31 March	<u>18</u>	<u>3</u>	<u>136</u>

It should be noted that expenditure and contributions will need to be changed to reflect decisions on the currently approved capital budgets for 2011/12 onwards. There is a risk that a temporary contribution may be required in later years to maintain the solvency of the reserve. This will be revisited once the capital programme has been updated.

#### e) Capital - Un-Earmarked

The objective of this reserve is to build up funding from revenue savings that can then be used to maximise revenue funding of the St Michael's St. Capital scheme. The objective is to minimise borrowing and, therefore, committed debt charges in future years.

Currently the position is expected to be as follows:

	Reserve
	£000
<b>Balance 1 April 2010</b>	1,733
<b>2010/11</b>	
Agreed contribution	165
Transfer to revenue	-135
Capital payments	-1,044
Inflation Proofing	23
Budget surplus 2010/11	251
<b>2011/12</b>	
Transfer to earmarked reserve	-110
Capital payments	-
Inflation Proofing	35
<b>Closing balance</b>	918

The table above assumes the following cost and funding of the St. Michael's St. Scheme:

	<b>Reserve</b>	<b>Grant</b>	<b>Loan</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>Payments</b>
				<b>£000</b>
2009/10	21.0	103.0		124.0
2010/11	1,044.0	691.0	330.9	2,065.9
2011/12	-	-	1,665.1	1,665.1
<b>Total</b>	<b>1,065.0</b>	<b>794.0</b>	<b>1,996.0</b>	<b>3,855.0</b>

It also assumes that the surplus and deficits expected in 2011/12 and later years will not be added to or met from this reserve. Some of the balance currently estimated at £0.918m may be needed to hold as a reserve to fund capital schemes that prove unavoidable but which are currently not included in the capital programme (e.g. the need for some work at the Telford site or for IT investment or upgrade.) However the surplus could also be used to reduce the borrowing on the St Michael's St. or other capital schemes, or to help phase budget reductions.

## 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 was £511,000 and the Fire Authority agreed to add £346,000 to various budgets in the current year to meet previously approved expenditure that had slipped into or was needed in 2010/11. The balance of £165,000 was transferred to the Un-earmarked Capital Reserve.

## 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 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.

## 11 Appendix

Build-Up of General Reserve 2010/11

## 12 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.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	

### Build-up of General Reserve 2010/11

	Risks as categorised by CIPFA	Absolute Level £ 000	Probability %	Current Provision £ 000	Comment
1	Cash Flow	50	10	5	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..
5	Other demands including new legislation	50	10	5	Deals with issues such as unexpected costs arising from changes as costs and responsibilities within the public sector are resolved.
6	Firelink / RCC	330	10	33	Delays on resolving the position of RCC's mean this is a continuing risk. FireLink /Airwave issues are covered in the revenue budget
7	Specific Risks	118	50	59	Deals with one-off technical matters threatening service delivery.
8	Ongoing Risks i Vehicle Accident ii Ill health and injury iii Industrial Action iv Technical Problems v Uninsurable Risks	205 108 106 206	20 - 50 50	41 - 54 53 106	Would deal with one major appliance at £200,000. Would cover any gap between early termination of a lease and any insurance receipt. Dealt with by pensions earmarked reserve provision Based on known experience Principally IT or telecoms problems Would cover such issues as anti-discriminatory legislation and data protection
9	Loss of Grants, receipts or other external Funding	118	50	59	Grants should become part of revenue budget processes each year as they are likely to be absorbed into RSG. This covers any unexpected loss of income mid-year.
11	Changes to National Purchasing	110	50	55	Could mean current contracts unviable
12	Financial Control	250	10	25	Reflects likely risk of overspends through weak systems of control
13	Uninsurable health and Safety Risks	120	10	12	Identified from the risk register.
14	Fines from Corporate Manslaughter Legislation	160	10	16	Based originally on a £150,000 fine imposed on an Authority. Not a high amount as courts may not want to penalize local taxpayers.
	<b>General Reserve</b>	<b>2,357</b>		<b>523</b>	

