

## Provisions, Reserves and Funds

### Report of the Treasurer

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#### 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) Continue the Equipment Replacement Provision;
- b) Review the level of the General Reserve;
- c) Re-price the General, Earmarked and Unearmarked Capital, Extreme Operational Conditions, Information and Communications Technology (ICT), and Pension Liabilities and Other Staff Issues Reserves; and
- d) Confirm the earmarked reserves at their current levels.

#### 3 Background

The Authority's provisions, reserves and funds at 1 April 2012 were as follows:

<b>Provisions</b>	<b>£000</b>
Equipment Replacement	35
	<u>35</u>
<b>Reserves</b>	
General Reserve	552
Efficiency Reserve	14
Extreme Weather	320
Pension Liabilities and Other Staff Issues	1,389
Capital – earmarked	587
– un-earmarked	2,185
	<u>5,047</u>
<b>General Fund</b>	<u>1,411</u>
<b>Total</b>	<u><b>6,458</b></u>

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 provision has continued to prove useful in dealing with the ongoing replacement of equipment, and has been used extensively over the last year, preventing peaks of expenditure in the revenue account. As the 2011/12 accounts were closed, an additional contribution of £30,000 was made to the provision, to ensure its continued use in 2012/13.

## **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 £552,000, 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 £552,000 represents just below 2.7% of gross expenditure.

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 £1.80m from Department of Communities and Local Government (DCLG). However, risk and uncertainty remains around communications, and, in particular, the sustainability of mobilising systems.

## 6 Earmarked Reserves

### a) Efficiency and Growth

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 reserve from any future net savings, to be prudent in servicing future efficiencies.

### b) Extreme Weather / Extreme Operational Conditions Reserve

The balance on this reserve represents the monies saved in previous years against the budget provision for an average year.

Some reductions have been made to the retained budgets over the past three years as part of the Public Value review. As a result, it is important that this reserve remains intact and inflation proofed to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

### 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.

The scope of this reserve was widened to include the potential liabilities arising from the Part-Time Workers employment tribunal. Compensation payable to retained firefighters for terms and conditions has been met from the reserve; the issue around pension contributions that may be payable for the period 2000 to 2006 has yet to be resolved. The reserve should be inflation proofed in readiness for the outcome of this issue.

A balance of £100,000 was added to the reserve in 2011/12 to meet any one-off transitional costs of staff changes that may arise from Public Value proposals.

Another small element of this reserve is to provide for staff issues relating to equality and diversity. Provision has been made for expenditure for reasonable adjustments and mediation, in order that these issues are not budgeted for on an annual basis.

### 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 is no known 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 be funded from borrowing. This funding approach was approved by the Fire Authority in April 2012.

The current position is as follows:

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>	<b>£ 000</b>
Balance 1 April	588	1,294	1,983
Expenditure	-473	-200	-910
Income			
- Contributions	107	100	117
- One-off receipts	1,044	759	987
- Re-pricing	28	30	33
Balance 31 March	1,294	1,983	2,210

**e) Capital - 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. 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.

Currently the position is expected to be as follows:

	<b>Reserve</b>
	<b>£000</b>
<b>Balance 1 April 2012</b>	<b>2,185</b>
<b>2012/13</b>	
Agreed contribution	-
One-off contributions	-
Capital payments	- 420
Payment to earmarked reserve	-
Inflation proofing	28
<b>31 March 2013</b>	<b>1,793</b>
<b>2013/14</b>	
Agreed contribution	-
Capital payments	-
Inflation proofing	30
<b>31 March 2014</b>	<b>1,823</b>

**f) 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.

## **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 2012 was £1,411,000 and the Fire Authority agreed to add £148,000 to various budgets in the current year to meet previously approved expenditure that had slipped into, or was needed in, 2012/13.

Two new reserves were created as the 2011/12 accounts were closed and the balance of 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.

### **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.

## **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 2012/13

## **12 Background Papers**

There are no background papers associated with this report.

### Build-up of General Reserve 2012/13

	Risks as categorised by CIPFA	Absolute Level £ 000	Probability %	Current Provision £ 000	Comment
1	Cash Flow	50	10	5	<i>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.</i>
2	Inflation Assumptions	426	-	-	<i>No risk, if realistic provision is made in the revenue budget.</i>
5	Other Demands, including New Legislation	50	10	5	<i>Deals with issues, such as unexpected costs arising from changes as costs and responsibilities within the public sector are resolved.</i>
6	Communications / Mobilising system	360	10	36	<i>Risk around the sustainability of our current mobilising systems.</i>
7	Specific Risks	120	50	60	<i>Deals with one-off technical matters threatening service delivery.</i>
8	Ongoing Risks i Vehicle Accident ii Ill Health and Injury iii Industrial Action iv Technical Problems v Uninsurable Risks	210 110 108 222	20 - 50 50 50	42 - 55 54 111	<i>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 data protection.</i>
9	Loss of Grants, Receipts or Other External Funding	191	35	67	<i>Grants should become part of revenue budget processes each year, as they are likely to be absorbed into Revenue Support Grant. This covers any unexpected loss of income mid-year.</i>
11	Changes to National Purchasing	122	50	61	<i>Could mean current contracts unviable.</i>
12	Financial Control	270	10	27	<i>Reflects likely risk of overspends through weak systems of control.</i>
13	Uninsurable Health and Safety Risks	126	10	13	<i>Identified from the risk register.</i>
14	Fines from Corporate Manslaughter Legislation	160	10	16	<i>Based originally on a £160,000 fine imposed on an Authority. Not a high amount, as courts may not want to penalise local taxpayers.</i>
	<b>General Reserve</b>	<b>2,515</b>		<b>552</b>	