

## 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:

- a) Confirm the existing policy and Equipment Replacement Provision;
- b) Review the level of the capital reserve as the current budget position becomes clearer;
- c) Switch part of the General Reserve to a renamed Pensions Reserve; and
- d) Confirm the other earmarked reserves.

#### 3 Background

The Authority's provisions, reserves and funds at 1 April 2008 were as follows:

<b>Provisions</b>	<b>£000</b>
Equipment Replacement	92
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	92
<b>Reserves</b>	
General Reserve	988
Efficiency Reserve	109
Retained Service	197
Extreme Weather	295
Pensions	461
Capital	1,005
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	3,147
<b>General Fund</b>	775
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<b>Total</b>	<b>3,922</b>

Of these, £775,000 in the General Fund has been released to add to the 2008/09 budget, partly to enable expenditure, which had slipped from 2007/08, to take place and partly to meet staff turnover issues resulting from retirement.

This leaves £3.147m of reserves and provisions.

The Authority's policy is to:

- Make provision for known and quantifiable future expenditure;
- Establish reserves for known future expenditure, which cannot be precisely quantified or scheduled;
- Establish a general reserve for known risks, which cannot be easily quantified or scheduled;
- 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 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 is budgeted to be £95,000 in April 2009 and £99,000 in April 2010. 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 £988,000, details of which are set out in the appendix.

The level of value of the risks has been repriced to match inflation, and the probabilities reviewed. The total reserve of £988,000 represents just under 5% of gross expenditure, i.e. in line with general Audit Commission guidelines.

The two areas of major current uncertainty that were again highlighted on closing the accounts and producing the Medium Term Financial Plan (MTFP) are the questions of Retained Service Pensions prior to April 2006 (risk 10) and the transition to Firelink/Regional FireControl. In the case of the former, there is little firm progress, as current negotiations are still taking place, and no outcome is expected before December 2008 at the earliest. There is a prospect that eligible years between 2000 and 2006 could be bought by employees, triggering an employer contribution of about £350,000. Without more clarity, it is recommended that the current level of risk and potential commitment within the reserve is increased to £350,000 and the existing £270,000 in the General Reserve switched to the Pensions Reserve. The other risk is the cost of Firelink/FireControl transition. At present some risk of maintaining current systems is covered (net £32,000) but there may be staff related issue, which will be kept under review to see if there is a case for setting aside reserves for this major one-off risk.

## 6 Earmarked Reserves

### a) Efficiency

There is a budgeted expenditure of £50,000 for investment in consulting advice on the future of the St Michael's Street site. This would still leave about half of the fund, and it would be useful to retain this for future initiatives, especially given the challenging new efficiency targets. The reserve has been effectively maintained by funding efficiency investments from net savings in yearly budgets.

### b) Retained Service

These funds were set aside to ensure that the planned investment in the Retained Service can be completed within the scheduled increases in net budgets. This reserve should, therefore, continue and be released as planned, being exhausted during 2009/10.

### c) 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 is recommended that this reserve is now frozen and the revenue budget reviewed.

### d) Pensions

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 £375,000 each year. Our present revenue budget is £223,000, 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. Given the uncertainties referred to above for retained pensions and the Regional Control Centre it is recommended that the scope of this reserve be broadened to cover such risks and indeed other staff related matters. It is also recommended that appropriate funds are transferred in from the General Reserve. Finally it is recommended that the Reserve be renamed the "Pensions and Other Staff Matters' Reserve".

**e) Capital**

The objective of this reserve, set up at the end of 2005/06, is to fund small and recurring items of capital, and receive contributions over their life, thereby ensuring their eventual replacement from the reserve. It is also a possible source for funding peaks in capital expenditure, such as may be needed for dealing with the Brigade site in St Michael's Street.

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

	<b>Actual</b>		<b>Estimates</b>			
	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>		
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£ 000</b>		
Balance 1 April	822	1,005	899	703		
Expenditure	251 -	516 -	540 -	214 -		
Income						
- Contributions	63	139	204	277		
- One-off receipts	333	231	100	152 -		
- Interest	38	40	40	40		
Balance 31 March	<u>1,005</u>	<u>899</u>	<u>703</u>	<u>654</u>		

The following points should be noted:-

- i expenditure and contributions will need to be changed to reflect decisions on the current approved capital budgets;
- ii one-off receipts reflect the current budget surpluses (and in 2010/11, deficit) which again will change when the rest of the revenue budget is amended;

However the balance at 31 March 2011 is currently predicted to be in surplus by £654,000. Further work will be needed to test how much of this is available after funding routine future capital expenditure. However there is every prospect of a sizeable proportion being available to fund the £3.5m gross investment in the Shrewsbury Integrated Risk Management Planning project.

## 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). All of the General Fund at 31 March 2008 has been committed to expenditure this year.

From monitoring reports to date, there looks to be a potential balance in this fund at 31 March 2009, and the Authority will need to confirm that this be added to the capital reserve as the overall budget situation becomes clearer.

## 8 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.

## 9 Appendix

Build-Up of General Reserve 2008/09

## 10 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 2008/09**

	<b>Risks as categorised by CIPFA</b>	<b>Absolute Level</b>	<b>Probability</b>	<b>Current Provision</b>	<b>Comment</b>
		<b>£ 000</b>	<b>%</b>	<b>£ 000</b>	
1	Cash Flow	50	10	5	No reason to change
2	Inflation Assumptions	416	50	208	Adequate given realistic assumptions. Covers "rank to role" and other pay issues
3	Capital Receipts	-	-	-	Currently not an issue
4	Severe weather and other demand pressure	-	-	-	Severe weather dealt with. No significant other pressures
5	Other demands	50	10	5	Deals with issues such as Regional Fire Control. Should be quantifiable in good time to provide a formal budget.
6	Firelink / RCC	320	10	32	Delay could mean IT upgrades
7	Specific Risks	116	50	58	Based on specific known experience – e.g. I.C.H.S
8	Ongoing Risks				
	i Vehicle Accident	200	20	40	Would deal with one major appliance at £180,000
	ii Ill health and injury	-	-	-	Dealt with by pensions earmarked reserve provision
	iii Industrial Action	104	50	52	Based on known experience
	iv Technical Problems	102	50	51	Principally IT or telecoms problems
	v Uninsurable Risks	206	50	103	Would cover such issues as anti-discriminatory legislation and data protection
9	Loss of Grants	116	50	58	Loss of New Dimension, RMB, New Burdens
10	New Legislation	1,350	20	270	Specifically Retained Service Pensions prior to April 2006
11	Centralised Purchasing	108	50	54	Could mean current contracts unviable
12	Financial Control	240	10	24	Reflects likely risk of overspends through weak systems of control
13	Uninsurable health and Safety Risks	125	10	12	Identified from the risk register on closing the accounts. Really an additional aspect of 8v above
14	Fines resulting from Corporate Manslaughter Legislation	160	10	16	Based on the £150,000 fine imposed on an Authority recently. Not a high risk but amount based on the belief that fines would be limited by the effect they would have penalizing local taxpayers.
	<b>General Reserve</b>	<b>3,663</b>		<b>988</b>	