

## Adequacy of Provisions and Reserves and Robustness of Budget

### Report of the Treasurer

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

### 1 Purpose of Report

The report:-

- i undertakes the full analysis of Reserves and Provisions as agreed by the Fire Authority in December 2008;
- ii examines reserves to see if funds could be transferred to the capital reserve;
- iii provides an assurance on the adequacy of reserves and provisions; and
- iv gives an assurance on the robustness of the budget.

### 2 Recommendations

The Committee is asked to recommend to the Fire Authority:-

- i The reserves and provisions as set out in the appendix;
- ii The Treasurer's assurances covering the robustness of the 2009/10 budget and adequacy of the reserves and provisions; and
- iii Note the material uncertainties from 2011/12 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 Capital Reserve.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has recently issued a Guidance Note on Local Authority reserves and balances – (LAAP Bulletin 55) and this 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.

This report concentrates on the three biggest reserves other than the capital reserve. However a full statement of the provisions and reserves is set out in the appendix to the report.

#### **4 General Reserve**

The General Reserve was the first established by the Authority in 1998, with the purposes of firstly providing a working balance to cushion the impact of uneven cash flows thereby avoiding unnecessary temporary borrowing, and secondly cushioning the impact of unexpected events or emergencies.

The balance was expected to be £718,000 at 1 April 2009. The basis for this is set out in the appendix to Report 6g to the Strategy and Resources Committee 13 November 2008 – now encompassed in the “Green Book” to the Authority in December 2008.

From that appendix, after excluding £270,000 already switched to the Pensions / Staff Issues Reserve, the main element is £208,000 for inflation assumptions. Given the realistic provision for pay and prices made for 2009/10, it is recommended that this amount be switched to the Capital Reserve.

The balance of the reserve is made up of a number of relatively small risks. Given that the reserve is still needed in aggregate for cash flow and contingency purposes and at £510,000 would be about 2.5% of budget, it is recommended that the reserve remain at that level, subject to review and to repricing.

#### **5 Extreme Weather Reserve**

The Extreme Weather Reserve is expected to total £295,000 at 1 April 2009. If it does, then it will not yet have been used to pay for budget overspends arising from demands on the Service from Extreme Weather. These would arise primarily on the Retained Service.

This is surprising as attempts were made to fix the annual budget at an average yearly cost. It follows therefore that each year since it was set up “weather” has either been at or below average, or else other factors, such as reduced call-outs, have been driving down costs.

Until the situation is clearer, the recommendation must be to maintain the reserve at £295,000, and review the impact of the £100,000 efficiency reduction in call-outs in 2009/10, before taking further action.

## **6 Pensions and other Staff Issues**

This recently renamed reserve is expected to total £731,000 at 1 April 2009. This is made up of:-

- i Sickness Retirements  
Lump sum contributions are required to the Pensions account and an annual total of 3 is provided for in the revenue account. Any more would have to be met from this reserve. One extra retirement would cost about £130,000.
- ii Other staff costs such as injury awards which are not covered by the employee’s pension contribution, and therefore not chargeable to the Pensions account.
- iii Retained Firefighter pensions costs for the period between April 2000 and March 2006. As previously reported costs could amount to £350,000, for those staff already known to be interested in pension scheme membership. The level of uncertainty both of higher costs, and on the other hand government assistance is significant.
- iv Any net staffing consequences from the Regional Control Centre – currently thought to be unlikely.
- v Any local implications of developments elsewhere in the fire service such as equality issues
- vi Arrears of pay etc.

Given the high level of uncertainty on a number of these issues it is recommended that this reserve is left unchanged until the outcome of the Retained Service Pensions negotiations is known.

## **7 Adequacy of Reserves**

The reserves have not been reduced from last year when an assurance was given of their adequacy. The major uncertainties of last year do however continue, except that there is a much clearer picture of the implications of the St Michael’s Street capital project. For these reasons a continued assurance can be made.

## **8 Robustness of Estimates**

Given that reserves are adequate, I believe the budget is robust for 2009/10 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 efficiencies. The process for identifying additional spending pressures both through the Integrated Risk Management Planning (IRMP) and the budget process is comprehensive.

The major unknown would be the threat of capping. At an increase of 3.9%, the precept level itself should be within the Government's definition of an excessive increase. The capping rules may change but the test for net revenue expenditure increase, 2.9%, is well within the precept increase, and even the net budget requirement (i.e. revenue expenditure after additions or reductions in reserves) is 4.0%.

## **9 Future Years**

Although the assurances required under statutes are for the coming year only, there is a reasonable degree of comfort that the 2010/11 government grant has been confirmed.

There must however be concern over the next three years grant settlement from 2011/12 onward; prospects for inflation up or down; Council Tax base; as well as the greater uncertainties of budgets generally over that time.

It will therefore be important to use the current lead-in period to monitor such budget issues carefully and to reflect planning in the Medium Term Financial Plan (MTFP) to ensure service and financial stability.

## **10 Financial Implications**

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

## **11 Legal Comment**

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

## **12 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.

## 13 Appendix

Schedule of Reserves, Provisions and General Fund

## 14 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	*

## Schedule of Reserves, Provisions and General Fund

		<b>Budget for the year 2009/10 £ 000</b>
<b>1. Equipment Replacement Provision</b>		
<b>a) Reason / Purpose</b>	1 April	95
To smooth out revenue expenditure each year on the replacement of items of operational equipment.	Additions	30
	Withdrawals	-40
	31 March	85
<b>b) How and When Used</b>		
The provision purchases items of equipment and receives equal annual instalments from the revenue account over the life of that equipment. Interest is also added on balances to ensure inflation proofing.		
<b>c) Procedures for Management and Control</b>		
The expected expenditure and contributions is approved by the Authority as part of the annual budget process and controlled as any other revenue budget.		
<b>d) Process and timescale for Review</b>		
The provision is reviewed each year as part of the budget setting process, again during the closing of the accounts, and in addition if budget variations are required during the year.		
<b>2. General Reserve</b>		
<b>a) Reason / Purpose</b>	1 April	510
To provide a cash reserve to avoid unnecessary short-term borrowing. Also to meet known risks which are difficult to quantify or to predict when they will occur.	Additions	10
	Withdrawals	-
	31 March	520
<b>b) How and When Used</b>		
The General Reserve would be used to finance a one-off expenditure occurring during a year on one of the scheduled risks anticipated. The General Reserve is funded from the revenues of the Authority both to meet risks and to cover inflation.		
<b>c) Procedures for Management and Control</b>		
Risk are listed and amended with changes to the Risk Register. Each is quantified and probabilities ascribed to their occurring. The resulting total is then available to meet an individual risk identified (or unknown) occurring, subject to formal approval by the Authority.		
<b>d) Process and Timescale for Review</b>		
Review takes place as part of the annual budget setting process and on closing the accounts. The Risk Management Group also considers changes in risk throughout the year and proposes changes to the Authority as necessary.		

**Budget for the  
year 2009/10  
£ 000**

**3. Efficiency Reserve**

**a) Reason / Purpose**

The purpose is to invest in one-off initiatives intended to deliver efficiency savings or practices in subsequent years.

1 April	60
Additions	-
Withdrawals	-
31 March	60

**b) How and When Used**

The Authority approves in advance contributions from the reserve for specific efficiency proposals. Income from revenues of the Authority is earmarked as part of the review process.

**c) Procedures for Management and Control**

Proposals require specific Authority approval as part of the budget process.

**d) Process and Timescale for Review**

Review takes place as part of the annual budget setting process and on closing the accounts.

**4. Retained Service Reserve**

**a) Reason / Purpose**

The purpose is to smooth out the programmed investment of about £100,000 a year in the Retained Service.

1 April	102
Additions	-
Withdrawals	-102
31 March	-

**b) How and When Used**

The reserve was created from budgeted income that became available from earlier years slippage within the programme. These funds are being released in order to fund the programme as it re-establishes its planned timescale i.e. completion by March 2010.

**c) Procedure for Management and Control**

The Authority has agreed the total release of the monies by March 2010

**d) Process and Timescale for Review**

It is envisaged that the fund will be finished in 2009/10. However this will be verified as part of the 2010/11 budget setting process.

**5. Extreme Weather Reserve**

**a) Reason / Purpose**

The purpose is to average out the revenue implications of hot summers, flooding or other weather events that impact on the retained service costs in particular.

1 April	295
Additions	-
Withdrawals	-
31 March	295

**b) How and When Used**

The revenue budget provides for an annual average cost. Underspends in any year are added to the reserve, overspends funded by the reserve.

- c) Procedures for Management and Control**  
The Authority will approve additional revenue costs in the normal way on the basis of an assurance that they could be funded by the reserve and after any other funding – e.g. Bellwin claims had been identified.
- d) Process and Timescale for Review**  
The reserve and associated budgets are reviewed as part of the annual budget setting process, and on closing the accounts.

**6. Pensions and Other Staff Matters Reserve**

- a) Reason / Purpose**
- |   |             |     |
|---|-------------|-----|
| The reserve is to meet one-off staff related costs such as pension or equal pay retrospective liabilities, sickness pension costs above the average annual revenue budget provision, injury benefits and payments of arrears. | 1 April     | 731 |
|   | Additions   | -   |
|   | Withdrawals | -   |
|   | 31 March    | 731 |
- b) How and When Used**  
The Authority would approve any additional budget costs on the assurance they could be met from the reserve. The reserve would receive annual inflation proofing contributions.
- c) Procedures for Management and Control**  
The specific risks covered are regularly monitored and reports taken to the Authority of any variations in the reserve that might be required.
- d) Process and Timescale for Review**  
Review is part of the annual budget setting process, and again on closing the accounts. Risk Management Group also regularly reviews these risks because of their high significance in service and financial terms.

**7. Capital Reserve**

- a) Reason / Purpose**
- |  |             |       |
|--|-------------|-------|
| The Capital Reserve meets the cost of small and recurring items of capital and receives contributions from the revenue account to provide for replacement of recurring items. The reserve is also intended to maximise self-funding of the Shrewsbury HQ replacement / refurbishment scheme in order to minimise prudential borrowing. | 1 April     | 1,582 |
|  | Additions   | 378   |
|  | Withdrawals | -885  |
|  | 31 March    | 1,075 |
- b) How and When Used**  
As part of the annual Capital budget, the Authority decides which schemes are likely to need replacement, and are small enough or of relatively short life to warrant self-funding. If the fund can meet these costs it is then replenished over the life of the asset where replacement is expected. Contributions ensure that replacement provision is inflation proofed. The Shrewsbury HQ Project will be considered specifically during 2009/10.



**Budget for the  
year 2009/10  
£ 000**

- c) Procedures for Management and Control**  
The Capital Programme, its funding (including from this reserve) and revenue implications are considered and approved as part of the budget setting process in the context of the Prudential Code and Guidelines.
- d) Process and Timescale for Review**  
The reserve is reviewed during the annual budget process, on closing the accounts and in the light of continuous budget monitoring of the capital programme.

**8. General Fund**

- |   |             |     |
|---|-------------|-----|
| <b>a) Reason / Purpose</b>  |             | 68  |
| The General Fund is the balance of income over expenditure required to fund expenditure that has slipped into the following year or is approved to be added to the next year's budget by the Authority. | 1 April     |     |
|   | Additions   | -   |
|   | Withdrawals | -68 |
|   | 31 March    | -   |
- b) How and When Used**  
The budgets financed by the General Fund are enhanced in the new year, and the balance at 1 April is therefore wholly used during the year.
- c) Procedure for Management and Control**  
The General Fund can only be used on the specific approval of the Authority.
- d) Process and Timescale for Review**  
Budgets financed from the General Fund are automatically enhanced at the beginning of the year by the Finance Section, and then monitored as part of normal budget monitoring.

**Note**

- 1 All Provisions and Reserves are specifically monitored by the Policy Group monthly. Outcomes are then reported to the Strategy and Resources Committee and approvals where necessary are sought at the next Fire Authority meeting.
- 2 More detail on Provisions and Reserves is contained in the Authority's annual Statement of Accounts particularly in the "Statement of Accounting Policies"