

## 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.

#### 3 Background

The Authority's provisions, reserves and funds at 1 April 2009 were as follows:

<b>Provisions</b>	<b>£000</b>
Equipment Replacement	71
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	71
<b>Reserves</b>	
General Reserve	510
Efficiency Reserve	100
Retained Service	99
Extreme Weather	295
Pension Liabilities and Other Staff Issues	761
Capital – earmarked	404
– un-earmarked	1,497
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	3,666
<b>General Fund</b>	53
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<b>Total</b>	<b>3,790</b>

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-protected, 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 £ 95,000 in April 2009 and £85,000 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 £510,000, 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 £510,000 represents just below 2.5% of gross expenditure.

The major current uncertainty is 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 the current budget will contain proposals to deal with potential information technology costs.

## 6 Earmarked Reserves

### a) Efficiency

There is budgeted expenditure of up to £100,000 for investment in efficiencies as part of developing the St Michael's Street project. 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) Retained Service

Funding was set aside to ensure that the planned investment in the Retained Service was completed on time and within the originally scheduled increase in net budgets. The balance represents the final year's funding and is budgeted to be released this year, thereby exhausting the reserve.

### 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 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.

### d) 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 £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.

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 costs between 2000 and 2006 and the previous provision held in the General Reserve was transferred to this reserve (£270,000). No further progress has been made nationally to resolve the position and it is recommended that the reserve be maintained with an addition for inflation.

**e) 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:

	<b>2009/10</b>	<b>Estimates</b>	<b>2011/12</b>
	<b>£000</b>	<b>2010/11</b>	<b>£ 000</b>
		<b>£000</b>	
Balance 1 April	404	297	62
Expenditure	-244	-430	-350
Income			
- Contributions	131	192	234
- One-off receipts			52
- Re-pricing	6	3	2
Balance 31 March	<u>297</u>	<u>62</u>	<u>-</u>

It should be noted that expenditure and contributions will need to be changed to reflect decisions on the currently approved capital budgets for 2010/11 onwards. However there is a risk that a temporary contribution of £52,000 may be required in 2011/12 to maintain the solvency of the reserve. This will be revisited once the capital programme has been updated.

**f) 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:

	<b>Reserve</b>
	<b>£000</b>
<b>Balance 1 April 2009</b>	1,497
<b>2009/10</b>	
Agreed contribution	58
Budget surplus	193
Capital payments	-298
<b>2010/11</b>	
Budget deficit	-182
Capital payments	-899
<b>Closing balance</b>	<b>369</b>

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	298	602	-	900
2010/11	899	691	1,500	3,090
<b>Total</b>	<b>1,197</b>	<b>1,293</b>	<b>1,500</b>	<b>3,990</b>

It also assumes that the surplus and deficits expected in 2009/11 will occur and will be reflected in this reserve.

## 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 small balance in the General Fund was left subject to a report to the Fire Authority in October.

## 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 2008/09

## 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	