

## Provisions, Reserves and Funds

### Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915, or Joanne Coadey, Head of Finance, on 01743 260215.

### 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 current position of reserves and provisions; and
- b) Review the level of the General Reserve.

### 3 Background

The current position on the Authority's provisions, reserves and funds is as follows:

	<b>£000</b>
<b>Reserves</b>	
General Reserve	577
Extreme Weather / Operational Conditions	334
Pension Liabilities and Other Staff Issues	1,630
Capital – Earmarked	4,660
– Un-earmarked	4,438
Information and Communications Technology Reserve	1,083
Income Volatility Reserve	1,137
Service Transformation Programme Staff Reserve	313
Service Delivery Reserve	236
Operational Equipment Reserve	59
Training Reserve	255
Building Maintenance Reserve	408
<b>Reserves Total</b>	<b><u>15,130</u></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-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 Establishment of Reserves**

The level of reserves that the Authority holds has been driven by the following principles:

##### **To fund major projects, thereby avoiding debt charges into the long term**

The Authority has used reserves successfully in recent years to fund its capital programme, most notably the fire station, workshop and headquarters in Shrewsbury, and in future will be utilised for the major developments work planned at Telford. The Capital reserves and the Information and Communications Technology (ICT) reserve will continue to be used to fund the capital programme into the medium term, with any one-off savings identified used to replace funds.

##### **To fund unexpected and undetermined expenditure that cannot be met by a reducing revenue budget**

The General Reserve will cover unexpected occurrences that the Authority would not wish to budget for on a regular basis; in addition, the ICT reserve would be used to cover additional costs that were not anticipated. The Pensions reserve was also used in 2016/17 to cover some unexpected additional payments on injury allowances.

##### **To support revenue expenditure and smooth out fluctuations in the revenue budget**

A number of reserves have been created to address and support some areas of the revenue budget, and reviews are currently being carried out to identify smarter use of the Authority's resources. Some examples are given below.

- The Pensions reserve will be used to fund transfers into the Pension Account, when operational staff retire on ill-health grounds. This has resulted in a significant reduction to pension revenue budgets.

- The New Equipment, Training, Building Maintenance and Extreme Incidents reserves have all been created to enable reductions to revenue budgets.

The assurance that reserves are available for unexpected and exceptional costs will allow officers to budget at lower activity levels with confidence. The Equipment reserve was used successfully in 2016/17 to cover additional requests that could not be covered with regular budgets.

These reserves will act as enablers to reduce the revenue budget, close any future budget deficit modelled in the planning period, and safeguard the service delivered to the people of Shropshire.

## 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 £577,000, details of which are set out in the appendix to this report. The total of the reserve represents around 2.8% of gross expenditure.

## 6 Earmarked Reserves

### a) Extreme Incidents Reserve

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

This reserve is in place to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

### b) 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. Until 2015/16, only ill health contributions over and above those budgeted in revenue were funded from the reserve. However, as part of the 2020 consultation outcomes, all ill health contributions are funded from the reserve, and the revenue account has been reduced accordingly.

The scope of this reserve was widened to include the potential liabilities arising from the part-time workers employment tribunal case; compensation payable to retained firefighters for terms and conditions has been met from the reserve.

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.

**c) Capital – Earmarked**

The objective of this reserve is to fund small and recurring items of capital, 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.

Until 2015/16, contributions were made back over the lives of any assets funded from the reserve; however as part of the 2020 consultation outcomes, these contributions were removed, and the revenue budget reduced accordingly.

**d) Capital - Un-Earmarked**

The objective of this reserve was to build up funding from revenue savings that could then be used to maximise major capital schemes. The objective is to minimise borrowing and, therefore, committed debt charges in future years. This reserve will be used towards the funding of major improvements at the Telford site.

**e) ICT Reserve**

This reserve is designed to ensure that ICT improvements and resilience issues are managed and funded in a clear and consistent manner.

**f) Service Transformation Programme Staff Reserve**

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.

**g) Income Volatility Reserve**

This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Medium Term Corporate Plan.

**h) Service Delivery Reserve**

This reserve was set up to fund initiatives in service delivery and prevention, to avoid irregular movement in the revenue budget.

**i) Training Reserve**

There have been, and will continue to be, changes in the management structure of the Service, which will inevitably require additional training and development of staff over the next three years and beyond.

This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.

**j) New Operational Equipment**

This reserve has been established to help provide some stability in the revenue budget in this area. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established. In the meantime, officers can continue to analyse and manage revenue expenditure, leading to realistic budget setting in future years. The Equipment reserve was used successfully in 2016/17 to cover additional requests that could not be covered with regular budgets.

**k) Building Maintenance**

The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan, and also covers unexpected reactive maintenance. It is proposed that the revenue budget is used for regular planned maintenance of buildings, and that a reserve is created to deal with exceptional, unexpected repairs, that do not require a regular revenue budget.

## **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 2017 was £311,000 and the Fire Authority agreed to add £49,000 to various budgets in the current year to meet previously approved expenditure that had slipped into, or was needed in, 2017/18. The balance of the General Fund has been allocated to the Service Transformation Programme Staff Reserve, following a request to the Authority at its June meeting.

## **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 Initial Impact Assessment**

An Initial Impact Assessment has been completed for this report.

## **11 Appendix**

Build-Up of General Reserve 2017/18

## **12 Background Papers**

There are no background papers associated with this report.

## Build-up of General Reserve 2017/18

Risks as categorised by CIPFA	Absolute level £'000	Probability %	Current Provision £'000	Comments
<b>Financial Risks:</b>				
• Cash flow	60	10	6	Risk from timing of cash receipts
• Loss of grants or other external funding	190	35	67	Covers any unexpected loss of income in year
• Changes to national purchasing	126	50	63	Current contracts may be inviable
• Financial control	280	10	28	Reflects risk of overspend through weak internal control
<b>Operational Risks:</b>				
• Vehicle Accident	230	20	46	Covers one appliance at £230k – gap between lease termination and insurance receipt
• Communications and mobilising	370	10	37	Risk around sustainability of current mobilising systems
• Technical issues	108	50	54	Principally IT or telecoms problems
• Uninsurable health & safety risks	140	10	14	Identified from risk register
• Industrial action	110	50	55	
• Specific risks	124	50	62	One off technical matters affecting service delivery
• Fines from uninsurable offences	110	10	11	Deals with potential costs following offences
• Other uninsurable risks			111	Currently unknown risks which are uninsurable
<b>Strategic Risks:</b>				
• Other demands, including new legislation	60	10	6	Deals with issues such as unexpected costs arising from changes in public sector
• Fines from Corporate Manslaughter	170	10	17	Based on a fine imposed on an Authority – may not be an appetite for penalising taxpayers
<b>Total</b>			<b>577</b>	