

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, and consider the widening of its use;
- b) Review the level of the General Reserve as the current budget position becomes clearer;
- c) Re-price the General, Earmarked Capital, Information and Communications Technology (ICT), and Pension Liabilities and Other Staff Issues Reserves; and
- d) Confirm the other earmarked reserves at their current levels, subject to reviewing the issues raised on pensions, ICT improvements and unforeseen capital schemes.

3 Background

The Authority's provisions, reserves and funds at 1 April 2011 were as follows:

| | |
|--|---------------------|
| Provisions | £000 |
| Equipment Replacement | 64 |
| | <hr/> |
| | 64 |
| Reserves | |
| General Reserve | 539 |
| Efficiency Reserve | 60 |
| Extreme Weather | 312 |
| Pension Liabilities and Other Staff Issues | 1,256 |
| Capital – earmarked | 527 |
| – un-earmarked | 988 |
| | <hr/> |
| | 3,682 |
| | <hr/> |
| General Fund | 2,212 |
| Total | <u>5,894</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 may be of even greater benefit in future years in terms of smoothing revenue expenditure. It is recommended that the provision is maintained, and that consideration is given to widening the areas for which it is used.

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 £523,000, 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 £539,000 represents just below 2.6% of gross expenditure.

The major, current uncertainties are the costs of establishing a link with Hereford and Worcester Fire and Rescue Service for joint mobilising, and whether grant will be forthcoming from Communities and Local Government (CLG) to fund necessary works; and the issues with pay and price inflation going forward, although this risk should be minimised with realistic provision in the revenue budget.

6 Earmarked Reserves

a) Efficiency and Growth

It is likely that some, though not all, of the balance on this reserve will be 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.

In addition, as we move into more difficult revenue budget conditions Members may wish to consider building up a growth reserve to replace the £50,000 annual growth item in the revenue budget.

b) Extreme Weather/ Extreme Operational Conditions Reserve

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, and some reductions have been made in the retained budgets as part of the Public Value process.

A review of the retained budgets is currently being undertaken, and, if it is recommended that the revenue provision is reduced, it may be prudent to increase this reserve to provide for any unanticipated future activity.

‘Extreme Operational Conditions’ reserve may better describe the conditions under which the reserve may be called upon.

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.

At present, the notional provision by the Government Actuary for sickness pensions nationally would be greater than our present revenue budget, i.e. reflecting our anticipated better-than-average performance at managing ill-health retirements. This requires caution however the number of ill-health retirements has not yet exceeded three in any year since 2006/07 and the level of revenue budget provision is reviewed elsewhere in these budget papers. Subject to that review, which is likely to reduce the annual revenue budget, it is recommended that the reserve is retained.

In 2009/10 it was decided to broaden the scope of the reserve to include any potential liabilities arising from the outstanding issue of retained firefighter pension and other costs between 2000 and 2006 and a further £700,000 was added to the reserve for this purpose when the Accounts for 2009/10 were closed. **The position regarding these potential liabilities is still unclear**, and it is recommended that the reserve be maintained with an addition for inflation.

There may be a need to provide an additional sum to cover future implications of changes to the Firefighters' Pension schemes and this will be kept under review.

A balance of £100,000 has been 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.

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

| | 2011/12 | 2012/13 | 2013/14 |
|--------------------|----------------|----------------|----------------|
| | £000 | £000 | £ 000 |
| Balance 1 April | 527 | 450 | 330 |
| Expenditure | -964 | -355 | -50 |
| Income | | | |
| - Contributions | 242 | 207 | 200 |
| - One-off receipts | 620 | 0 | |
| - Re-pricing | 25 | 28 | 30 |
| Balance 31 March | <u>450</u> | <u>330</u> | <u>510</u> |

It should be noted that expenditure and contributions will need to be changed to reflect decisions on the currently approved capital budgets for 2012/13 onwards.

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.

Currently the position is expected to be as follows:

| | Reserve |
|------------------------------|----------------|
| | £000 |
| Balance 1 April 2011 | 988 |
| 2011/12 | |
| Agreed contribution | 536 |
| One-off contributions | 1,076 |
| Capital payments | -285 |
| Payment to earmarked reserve | -170 |
| Inflation Proofing | 35 |
| 31 March 2012 | 2,180 |
| 2012/13 | |
| Agreed contribution | 578 |
| Capital payments | - |
| Inflation Proofing | 40 |
| 31 March 2013 | 2,798 |

The table on the previous page assumes the following cost and funding of the St. Michael's Street Scheme:

| | Reserve | Grant | Loan | Total Payments |
|--------------|----------------|--------------|-------------|---------------------------|
| | £000 | £000 | £000 | £000 |
| 2009/10 | 21 | 103 | | 124 |
| 2010/11 | 1,044 | 691 | 343 | 2078 |
| 2011/12 | 285 | 515 | 854 | 1,654 |
| Total | 1,350 | 1,309 | 1197 | 3,856 |

The surplus on the capital reserve could be used to reduce the borrowing on the St Michael's Street or other capital schemes, or to help phase budget reductions. Officers will make recommendations regarding this later in the year.

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 position on the reserve to date is as follows:

| | £'000 |
|--|--------------|
| Balance at 1 April 2011 | 500 |
| Link to Shirehall (Agreed by Fire Authority 27 April 2011) | -31 |
| Set up costs – Wide Area Network (Agreed by Fire Authority 15 June 2011) | -149 |
| Lift and shift of mobilising system (Agreed by Fire Authority 15 June 2011) | -50 |
| Local Area Network (Agreed through urgency procedures) | -110 |
| Balance | 160 |

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 2011 was £2,212,000 and the Fire Authority agreed to add £371,000 to various budgets in the current year to meet previously approved expenditure that had slipped into, or was needed in, 2011/12.

The balance of £1,841,000 was transferred to reserves as follows:

| | |
|-----------------------------|-------------------|
| ICT Reserve | £500,000 |
| Capital Earmarked Reserve | £450,000 |
| Capital Unearmarked Reserve | £791,000 |
| Pensions Reserve | £100,000 |
| Total | £1,841,000 |

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 2011/12

12 Background Papers

There are no background papers associated with this report.

Build-up of General Reserve 2011/12

| | Risks as categorised by CIPFA | Absolute Level £ 000 | Probability % | Current Provision £ 000 | Comment |
|----|--|-------------------------|------------------|----------------------------|---|
| 1 | Cash Flow | 50 | 10 | 5 | 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. |
| 2 | Inflation Assumptions | 426 | - | - | No risk if realistic provision is made in the revenue budget. |
| 5 | Other demands including new legislation | 50 | 10 | 5 | Deals with issues such as unexpected costs arising from changes as costs and responsibilities within the public sector are resolved. |
| 6 | Firelink / RCC | 345 | 10 | 35 | Risk exists that we would have insufficient grant from CLG to fund link to H&W. FireLink /Airwave issues are covered in the revenue budget |
| 7 | Specific Risks | 118 | 50 | 59 | Deals with one-off technical matters threatening service delivery. |
| 8 | Ongoing Risks | | | | |
| | i Vehicle Accident | 205 | 20 | 41 | Would deal with one major appliance at £200,000. Would cover any gap between early termination of a lease and any insurance receipt. |
| | ii Ill health and injury | 108 | 50 | 54 | Dealt with by pensions earmarked reserve provision |
| | iii Industrial Action | 106 | 50 | 53 | Based on known experience |
| | iv Technical Problems | 216 | 50 | 108 | Principally IT or telecoms problems |
| | v Uninsurable Risks | | | | Would cover such issues as data protection |
| 9 | Loss of Grants, receipts or other external Funding | 187 | 35 | 65 | Grants should become part of revenue budget processes each year as they are likely to be absorbed into RSG. This covers any unexpected loss of income mid-year. |
| 11 | Changes to National Purchasing | 120 | 50 | 60 | Could mean current contracts unviable |
| 12 | Financial Control | 250 | 10 | 25 | Reflects likely risk of overspends through weak systems of control |
| 13 | Uninsurable health and Safety Risks | 126 | 10 | 13 | Identified from the risk register. |
| 14 | Fines from Corporate Manslaughter Legislation | 160 | 10 | 16 | Based originally on a £150,000 fine imposed on an Authority. Not a high amount, as courts may not want to penalise local taxpayers. |
| | General Reserve | 2,467 | | 539 | |