

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 provisions and general reserve;
- b) Review the level of the capital reserve as the current budget position becomes clearer;
- c) Confirm the other earmarked reserves; and
- d) Consider how to use the general fund later in the process with one possible use being to deal with the FiReControl / FireLink transition.

3 Background

The Authority's provisions, reserves and funds at 1 April 2007 were as follows:

Provisions	£000
Equipment Replacement	87
Continuing Professional Development Payments	19
	<hr/>
	106
Reserves	
General Reserve	955
Efficiency Reserve	105
Retained Service	190
Transitional Funding	101
Extreme Weather	285
Pensions	445



Capital	822
	<hr/>
	2,903
	<hr/>
General Fund	352
	<hr/>
Total	3,361

Of these, £352,000 in the General Fund has been released to add to the 2007/08 budget, partly to enable expenditure, which had slipped from 2006/07, to take place and partly to enhance the budget for Community Fire Safety.

This leaves £3.009m 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 and on closing the accounts;
- Ensure that all provisions and reserves are inflation-protected, i.e. earn interest; and
- Consider the opportunity cost of holding reserves and balances against the opportunity cost of either lower tax demands or alternative service delivery.

4 Provisions

a) 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 £85,000 in April 2008 and £89,000 in April 2009. 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.

b) Continuing Professional Development Payments

This represents monies unspent in 2006/07 as Long Service Increments (LSI) were phased out. It will be needed to offset the cost of phasing out LSI and of Continuing Professional Development (CPD) payments, which have been introduced in their place.



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 £955,000, 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. Two new risks, 13 and 14, have been added after reviewing the risk register on closing the accounts. A new risk, that of unsuccessful court action under the Regulatory Reform Order, has been identified. However, the amount of £10,000 could be accommodated within existing totals. The total reserve of £955,000 represents just under 5% of gross expenditure, i.e. in line with general Audit Commission guidelines.

The two areas of major current uncertainty 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 remains no clear calculation of the size of the risk:

- Who would retrospectively wish to contribute to the old style scheme?
- How many years would a retrospective award cover?
- Would Government support or borrowing approval be available?

Without more clarity, it is recommended that the current level of risk and potential commitment within the reserve is maintained. The other risk is the cost of Firelink/FireControl transition. At present some risk of maintaining current systems is covered (net £31,000) but there may be further problems, and there may be a case for setting aside a specific reserve 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 if new efficiency targets (thought to be 1.6% per year) are confirmed. 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.



c) Transitional Funding

The remaining balance is being used in 2007/08 to offset the grant being clawed back by the Government to pay for modernisation monies previously given to Fire Authorities. The grant from 2008/09 onwards will not be reduced, although the issue may be obscured by the changes to the new, three-year settlement.

d) Extreme Weather

The balance represents the monies saved in previous years against the budget provision for an average year. This year, extreme weather costs to date will be offset by a Bellwin Claim, and out-of-area costs are also being recovered.

e) 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. It is too early to decide whether our performance can lead this reserve to be revised. 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 before reducing this reserve.

f) 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 present position is as follows:

	Actual		Estimates			
	2006/07		2007/08		2008/09	2009/10
	£000		£000		£000	£ 000
Balance 1 April	675		822		436	299
Expenditure	109	-	520	-	290	455
Income						
- Contributions	16		97		139	204
- One-off receipts	212		13		-	-
- Interest	28		24		14	8
Balance 31 March	<u>822</u>		<u>436</u>		<u>299</u>	<u>56</u>

From this it can be seen that, if all eligible capital expenditure in 2008/09 (£290,000) is funded from the reserve; a closing balance next year of £299,000 can be expected. The total contributions made to replace assets brought through the reserve up to the end of 2008/09



will be £252,000. Allowing for some inflation, the reserve is, therefore, broadly in balance, i.e. with likely funds available largely earmarked to replace capital assets.

In 2009/10, there is a potential £455,000 of capital payments that would be funded from the reserve. If this took place, the whole of the reserve, plus the new contributions in 2009/10 would nearly all be needed to fund the £455,000.

In 2010/11, there is a total of £514,000 of schemes that could be funded from the reserve, but the reserve will only be able to cover £264,000 of them (see paragraph 6 of paper 5d). £250,000 would then be funded by prudential borrowing.

This is therefore, one reserve, action on which might best be considered once full details of the Government's finance settlements are known. The issue is covered in more detail in the report on Capital Programmes.

7 Reserves established in 2007/08

The Authority has established a reserve of £180,000 to deal with 2009 – Staff Turnover. This paper does not re-examine this reserve which was agreed in October.

8 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 2007 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 2008, and the Authority will need to decide how best to deploy the resources as the overall budget situation becomes clearer.

9 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.

10 Appendix

Build-Up of General Reserve 2007/08



11 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 2007/08

	Risks as categorised by CIPFA	Absolute Level £ 000	Probability %	Current Provision £ 000	Comment
1	Cash Flow	50	10	5	No reason to change
2	Inflation Assumptions	402	50	201	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	310	10	31	Delay could mean IT upgrades
7	Specific Risks	112	50	56	Based on specific known experience – e.g. I.C.H.S
8	Ongoing Risks i Vehicle Accident ii Ill health and injury iii Industrial Action iv Technical Problems v Uninsurable Risks	195 - 100 98 200	20 - 50 50 50	39 - 50 49 100	Would deal with one major appliance at £180,000 Dealt with by pensions earmarked reserve provision Based on known experience Principally IT or telecoms problems Would cover such issues as anti-discriminatory legislation and data protection
9	Loss of Grants	112	50	56	Loss of New Dimension, RMB, New Burdens
10	New Legislation	1,305	20	261	Specifically Retained Service Pensions prior to April 2006
11	Centralised Purchasing	104	50	52	Could mean current contracts unviable
12	Financial Control	230	10	23	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	150	10	15	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.
	General Reserve	3,543		955	

