

# Assurance Statement on the Robustness of Budget and Adequacy of Financial Reserves

## Report of the Treasurer

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

### 1 Purpose of Report

This report addresses the requirement that the Treasurer gives a positive assurance about the robustness of the 2007/08 budget and the adequacy of financial reserves.

### 2 Recommendations

The Committee is recommended to:

- a) Accept that the budget proposed to the Authority is robust;
- b) Agree the reserves and provisions, set out in the Appendix; and
- c) Accept the Treasurer's assurance that these reserves and provisions are adequate.

### 3 Background

The Treasurer is required by the Local Government Act 2003 to give positive assurances that the budget is robust and that financial reserves are adequate.

The main consideration has always been in respect of capping, which, if applied, would seriously compromise the budget and services. The Fire Authority has no intention of levying a precept increase of 5% or greater in 2007/08. Given the stated objective of the Government to consider capping as 5%, this will not, therefore, be a threat to the budget in 2007/08.



## 4 Overall Robustness

The main threats to robustness are:

- i **Errors and omissions**  
These have been minimised by referring back to budgets in the current year, through the base budget review and regular monitoring.
- ii **Failure to budget adequately for pay and price changes**  
The Fire Authority has always made a realistic estimate for inflation.
- iii **Inclusion of reductions that cannot be delivered**  
All reductions are realistic and deliverable.
- iv **Additional spending pressures to deliver the service**  
These have been identified and included in the items for growth to be considered by the Fire Authority.

The proposed budget is, therefore, in my view robust and deliverable.

## 5 Reserves and Provisions

Linked to the robustness of the budget are the reserves and provisions created to protect the Service should unforeseen circumstances arise, or unseen spending pressures affect future years.

Firstly, the Fire Authority has established “provisions” to meet known future spending pressures. These are:

- i **Equipment Replacement**  
This meets the cost of replacement equipment, which occurs unevenly, but receives equal annual contributions from the revenue account over the life of the equipment.
- ii **Other Provisions**  
Although not currently established, it would be prudent to set aside the expected underspends on Long Service Increments (LSI) in order to meet the costs of Continuing Professional Development (CPD), which, although not yet agreed, will be back-dated to October 2006 (£9,000).

It would also be prudent to set aside the savings in the retained service, in 2006/07 to meet the planned increase in 2008/09 as retained service recruitment gets back to projected levels (£190,000).

Although strictly a “reserve”, the Fire Authority also has a balance of £101,000 available to offset loss of grant in 2007/08 as the Government recovers its transitional funding of modernisation.



Secondly there are a number of reserves, which have been earmarked to meet specific spending needs in future years. These include:

**iii Efficiency Reserve**

This was created to enable one-off investment in initiatives to increase the efficiency and effectiveness of the Service. An existing commitment is to invest in property advice to deal with the relocation of Brigade Headquarters at St Michael's Street.

**iv Capital Reserve**

This fund was set up to meet small or short-lived capital investments. It is funded by contributions from the revenue account to replace the assets so funded at the end of their life. It would also be available to meet unusually high levels of investment in later years, e.g. St Michael's Street relocation costs.

Both of these reserves have specific purposes, but contain balances, which could, in an emergency, be used to increase the financial standing of the Fire Authority.

Thirdly, there are those reserves which are specifically established to meet unexpected, financial demands. These include:

**v Extreme Weather Reserve**

To meet abnormal calls on the retained service

**vi Pensions Reserve**

To meet abnormal increases in charges to the Pension Account for sickness or to meet injury awards etc.

**vii General Reserve**

This is to meet all of the other potential issues that might occur, but for which it would not be practical to raise the precept. These are well documented and reviewed as part of the December budget reports. Latest developments do raise concerns about whether CPD payments can be matched to LSI savings beyond 2006/07 (see 5ii above) and this is covered specifically in the Budget Update report. Also to be resolved are the assumptions that the take-up of the new pension scheme will be in line with estimates (the answer will not be known until late February). It is considered that these risks can be covered by the current reserves for inflation and pensions respectively.

Finally, therefore, I consider that the level of financial reserves is adequate to meet potential pressures in 2007/08.

The appendix sets out the financial position on provisions and reserves in 2007/08 and later years.



## 6 Financial Implications

The financial implications are as set out in the report.

## 7 Legal Comment

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

## 8 Appendix

Budget for Provisions and Reserves

## 9 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		Initial Equality Impact Assessment Form completed	✓



## Budget for Provisions and Reserves

	<b>2007/08</b> <b>£ 000</b>	<b>2008/09</b> <b>£ 000</b>	<b>2009/10</b> <b>£ 000</b>	
<b>i Equipment Replacement Provision</b>				
Balance 1 April	107	113	125	
Expenditure	15 -	10 -	10 -	
Income - Receipts	18	18	20	
- Interest	3	4	4	
Balance 31 March	<u>113</u>	<u>125</u>	<u>139</u>	
<b>ii LSI/CPD Payments Provision</b>				
Balance 1 April	9			
Expenditure	9 -			
Income - Receipts	-			
- Interest	-			
Balance 31 March	<u>-</u>			
<b>ii(a) Retained Review Project</b>				
Balance 1 April	190 *	195	100	
Expenditure	-	98 -	101 -	
Income – Interest	5	3	1	
Balance 31 March	<u>195</u>	<u>100</u>	<u>-</u>	
* Subject to approval from 2006/07 savings and efficiencies				
<b>ii(b) Transitional Funding Reserve</b>				
Balance 1 April	101			
Expenditure	101 -			
Income – Interest	-			
Balance 31 March	<u>-</u>			
<b>ii Efficiency Reserve</b>				
Balance 1 April	95	48		
Expenditure	50 -	50 -		
Income - Interest	3	2		
Balance 31 March	<u>48</u>	<u>-</u>		
<b>iii Capital Reserve</b>				
Balance 1 April	387	159	3	
Expenditure	320 -	290 -	-	**
Income - Contributions	85	127	127	**
- Interest	7	7	2	
Balance 31 March	<u>159</u>	<u>3</u>	<u>132</u>	

\*\* Expenditure and contributions will be adjusted if additional incomes are approved from 2006/07 net savings and efficiencies



iv	Extreme Weather Reserve			
	Balance 1 April	400	412	424
	Expenditure	-	-	-
	Income - Interest	12	12	13
	Balance 31 March	<u>412</u>	<u>424</u>	<u>437</u>
v	Pensions Reserve			
	Balance 1 April	273	281	289
	Expenditure	-	-	-
	Income - Interest	8	8	9
	Balance 31 March	<u>281</u>	<u>289</u>	<u>298</u>
vi	General Reserve			
	Balance 1 April	899	926	953
	Expenditure	-	-	-
	Income - Interest	27	27	28
	Balance 31 March	<u>926</u>	<u>953</u>	<u>981</u>

