

NOTE OF THE TREASURER

PROVISIONS, EARMARKED RESERVES AND GENERAL RESERVE

1 Purpose of Note

This note reviews the levels of Provisions and Reserves within the current policies of the Fire Authority and makes recommendations on changes for consideration during the budget process.

2 Recommendations

The Group is recommended to consider the proposals set out in paragraph 5, the summary of this note.

3 Provisions

At present, the Fire Authority only has the one provision - for equipment replacement (£107,000). At present the balance of about £100,000 appears likely to be maintained. There will be a requirement to provide for Continuing Professional Development costs from October 2006, but it is recommended that this is considered when closing the 2006/07 accounts.

4 Specific Reserves

i Efficiency (£95,000)

£95,000 is expected to remain in this reserve at 1 April 2007. Although there are no current potential calls on this, other than the proposed investment in a capital consultancy and a possible investment in a Guaranteed Indemnity Mutual for Insurance Cover, it is recommended that this reserve remains unchanged.

ii Extreme Weather Reserve (£273,000)

The logic of basing this on an average year has not changed and, therefore, no change is recommended.



iii Transitional Funding Reserve (£101,000)

This reserve will be exhausted by March 2008, as it will have fulfilled its purpose of offsetting the reduction made to Grant in 2006/07 and 2007/08.

iv Pensions Reserve (£400,000)

It is too early to form a judgement as to whether the reserve is set at the right level to meet the demands of the new Pension Arrangements for funding firefighters' pensions. It is recommended that no change is made at present.

v Capital Reserve (£367,000)

The Capital Reserve is built up in order to finance capital investment directly, rather than raise loans. This avoids paying the "real" cost of interest, i.e. the premium above the cost of inflation, but importantly reduces the build up of unavoidable committed expenditure servicing loans in future years. The provision is likely to be £387,000 at 1 April 2007. This would reduce by £340,000, if all the potential schemes were funded from the reserve in 2007/08, i.e. become virtually exhausted. A further £795,000 of potential spending could be funded in 2008/09 and 2009/10, and it would, therefore, seem prudent to set aside any underspends in 2006/07 to enhance this reserve. The current net underspending in 2006/07 is estimated to be about £600,000.

vi General Reserve

The appendix to this report sets out the build up of the 2006/07 General Reserve. This should be reviewed in the light of the current Risk Register.

Currently £911,000 represents about a 5% reserve, i.e. broadly in line with Audit guidelines. It is, however, based on an analysis of risk recommended by CIPFA (the Chartered Institute of Public Finance and Accountancy), although this does depend on locally determined levels of probability. Objectively, both the provision for Efficiencies (£11,000) and the level of other provisions (£105,000) could be removed, offset by an allowance for inflation proofing provided by earning interest, say 3% or £24,000.

The Risk Register has been reviewed and most quantifiable risks have been taken into account. There are a number of open-ended risks such as:

- i Loss through fraud;
- ii Partnership working;
- iii Natural disasters including severe weather;
- iv Failure to control confidential information.

At this stage it is perhaps better value concentrating on control mechanisms rather than setting aside additional amounts of reserve, with no clear idea of whether they are excessive or inadequate, and to use the overall strength of reserves as a provision of last resort.

Two more quantifiable risks identified are:

- v Delays to the Fire Control/Fire Link Project could cost £300,000 in information technology upgrades; and



- vi Centralised purchasing could result in costs of £100,000, if current contracts become unviable.

It is suggested that a 10% or low weighting be given to the risk of problems with Fire Control/Fire Link, in line with item 5 in the Appendix, and a medium or 50% risk to costs arising from central purchasing.

5 Summary

It is recommended that for the time being:

- i Savings be added to the capital reserves to deliver the long-term financial and service policies of the Fire Authority;
- ii Other estimated reserves and provisions remain unchanged; and
- iii The General Reserve be amended as follows:

	£ 000
Current level	911
Less: Efficiencies	11 -
Impact of other funds	105 -
Add: Repricing	24
Firelink/Regional Control	30
Central Purchasing	50
	<u>899</u>

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



Build up of General Reserve 2006/07

	Risks as categorised by CIPFA	Absolute Level	Probability	Current Provision	Comment
		£ 000	%	£ 000	
1	Cash Flow	50	10	5	No reason to change
2	Inflation Assumptions	378	50	189	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	Efficiencies	110	10	11	Could be reduced as most efficiencies can be delivered
7	Specific Risks	104	50	52	Based on specific known experience – e.g. I.C.H.S
8	Ongoing Risks				
	i Vehicle Accident	185	20	37	Would deal with one major appliance at £180,000
	ii Ill health and injury	-	-	-	Dealt with by pensions earmarked reserve provision
	iii Industrial Action	94	50	47	Based on known experience
	iv Technical Problems	94	50	47	Principally IT or telecoms problems
	v Uninsurable Risks	188	50	94	Would cover such issues as anti-discriminatory legislation and data protection
9	Loss of Grants	104	50	52	Loss of New Dimension, RMB, New Burdens
10	New Legislation	1230	20	246	Specifically Retained Service Pensions prior to April 2006
11	Other Provisions	210	50	105	CIPFA advise covering any shortfall in earmarked reserves and provisions
12	Financial Control	210	10	21	Reflects likely risk of overspends through weak systems of control
	General Reserve	3007		911	