

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 issue of the robustness of the budget package, set out in the following report, and examines the adequacy of reserves and provisions.

2 Recommendations

The Committee is recommended to:

- a) Accept the Treasurer's assurance that the estimates made for budget calculation purposes are robust;
- b) Accept the Treasurer's assurance that the proposed financial reserves are adequate; and
- c) Note the risks that have been taken into account in making these assurances.

3 Background

The Local Government Act 2003 (Section 25) requires the Treasurer to make a report to the Authority, when it is considering its budget and Council Tax, dealing with the robustness of estimates and the adequacy of the reserves allowed for. Members are required to have regard to the report in making these decisions.



4 Robustness of Estimates

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 for 2008/09 is, therefore, in my view robust and deliverable.

The duty imposed by the 2003 Act refers to the precept year (2008/09). Clearly the same degree of assurance cannot be given for the following two years, as levels of uncertainty increase into the future. Nevertheless, I believe that the forecasts for the following two years are soundly based and provide a solid platform for forward planning now that Government grant has been established for those years.

5 Capping

The major uncertainty for any authority's budget is the Government's using its capping powers to restrict the estimated income from Council Tax. The Minister of Local Government wrote to Local Authority Leaders on 17 December 2007 and said:

- i "The Government expects the average council tax increase in England to be substantially below 5% in 2008/09";
- ii The Government "will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases";
- iii "No decisions have been taken on capping principles for 2008/09. It would be unwise for any authority to assume that capping principles set in previous years will be repeated. We intend to take decisions on principles after authorities have set their budgets, but we are prepared to announce the principles in advance if the circumstances suggest this is necessary".

This does inject a substantial potential threat to the robustness of any budget that is in danger of being capped. Although the Fire Authority's current precept is greater than the mean for Combined Fire Authorities, and the



increase in budget requirement is currently planned to be 5.1%, the increase in precept is 3.75% which should, by all reasonable criteria, be judged as substantially below 5%.

6 Adequacy of 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.

The reserves, provisions and funds were considered by the Committee on 15 November 2007 and reported to the Authority in December. The potential position over the next three years is set out in the appendix to this report.

There have been no significant changes to the need for, or levels of, provisions.

Regarding reserves, the main known risk is the outstanding Employment Tribunal consideration of retained firefighters' pensions prior to 1 April 2006. No further information is available, so the current calculation is maintained

The position on the transition to the Regional Control Centre / FireLink scheme is still uncertain. No further information is available since this was last considered and, although the position needs monitoring, any problems should not directly impact the 2008/09 budget.

A new risk has been identified, that is the undertaking of the St Michaels' Street project. This has brought the scheme, estimated at £3.5 million, wholly into the three-year budget period. The Authority's current policy is, however, to enhance the capital reserve, where possible, to reduce prudential borrowing and / or meet unexpected capital costs. The Authority is also planning on making provision of £200,000 each year to meet as yet unidentified service pressures, some of which might arise as a result of the St Michaels' Street project.

Apart from this, the position on reserves remains unchanged since November, and an assurance can, therefore, be given that both provisions and reserves are adequate to meet identified risks to the budget in 2008/09.

7 Financial Implications

The financial implications are as outlined in the main body of the report.

8 Legal Comment

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



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 Appendices

Budget for Reserves and Provisions

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	*



Budget for Provisions and Reserves

	2008/09 £000	2009/10 £000	2010/11 £000
Provisions			
1 Equipment Replacement Provision			
Balance 1 April	86	89	93
Expenditure	20 -	20 -	20 -
Income - Receipts	20	20	20
- Interest	3	4	5
Balance 31 March	89	93	98
Reserves - Earmarked			
2 Retained Review Project			
Balance 1 April	195	102	6
Expenditure	98 -	98 -	-
Income - Receipts	-	-	-
- Interest	5	2	-
Balance 31 March	102	6	6
3 Efficiency Reserve			
Balance 1 April	105	60	38
Expenditure	50 -	25 -	25 -
Income - Receipts	-	-	-
- Interest	5	3	1
Balance 31 March	60	38	14
4 Capital Reserve			
Balance 1 April (note ii)	681	780	528
Expenditure	280 -	540 -	464 -
Contributions	139	204	277
One-off receipts	226	64	210 -
Interest	14	20	10
Balance 31 March	780	528	141
5 Extreme Weather Reserve			
Balance 1 April	290	300	315
Expenditure (note iii)	-	-	-
Income - Interest	10	15	16
Balance 31 March	300	315	331



	2008/09 £000	2009/10 £000	2010/11 £000
6 Pensions Reserve			
Balance 1 April	460	483	507
Expenditure (note iii)	-	-	-
Income - Interest	23	24	25
Balance 31 March	<u>483</u>	<u>507</u>	<u>532</u>
7 Service Maintenance/Staff Turnover			
Balance 1 April	180		
Expenditure	185	-	
Interest	5		
Balance 31 March	<u>-</u>		
Reserve - General			
8 General Reserve			
Balance 1 April	1,002		
Expenditure (note iii)	-		
Income - Interest	50		
Balance 31 March	<u>1,052</u>		

Notes

- i Interest is earmarked to the reserves to maintain their value in real terms.
- ii The Authority's policy is to have a nil balance on its General Fund, and therefore the projected balance of £245,000 at 31 March is included in the Capital Reserve balance at 1 April 2008.
- iii Unless there are planned additions or reductions, it is assumed that there will be no call on reserves

