



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

WORKING BALANCES

Report of the Chief Fire Officer

Agenda Item No:

Date: 19 February 2010

Purpose of Report:

To seek the approval of the Nottinghamshire and City of Nottingham Fire and Rescue Authority to the levels of working balances sufficient to meet the needs of the Authority during the 2010/11 financial year and beyond.

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1. BACKGROUND

- 1.1 Members will be aware that the Fire & Rescue Authority holds a level of working balances to meet specific risks and liabilities arising from operations and activity.
- 1.2 It is always difficult to estimate the level at which reserves and balances should be maintained, however a general “rule of thumb” is that a figure of 5% of annual revenue budgets would usually be sufficient. A budget for 2010/11 is submitted to Members for approval elsewhere on this agenda. If approved, then 5% of that budget would equate to around £2.4m.
- 1.3 As in previous years, a risk based approach has been taken to determine a reasonable level of balances, rather than the 5% estimate. Based on a risk approach, the level of balances required for the current financial year was judged to be £3.3m, as reported to Members in February 2009.

2. REPORT

- 2.1 A full review of the risk assessment has recently been carried out jointly by the Authority’s Risk Manager and Principal Accountant. Managers across the Service were involved in the review and the result is attached at Appendix B. This enables Members to clearly see the risks to which the Service is exposed and give some confidence in the levels of budget cover available.
- 2.2 There are three main categories of risk shown in the assessment: the risk of legal action being taken against the Authority, resulting in a financial loss; the risk of financial loss arising specifically from financial activities; operational risks which could lead to financial loss. Where risks have been identified, control measures are in place to minimise either the likelihood or the impact of the risk and these are shown in Appendix B.
- 2.3 The approach has examined each of the risk exposures and considered both the possible financial impact on the Service and the likelihood of occurrence. A risk factor has been allocated to each risk reflecting the likely frequency of occurrence of the risk based on history and professional judgement. It should be noted that the underlying assumption is that not all of these risk events will occur simultaneously and, to reflect this, the potential value of each financial impact is multiplied by its risk factor.
- 2.4 The approach also considers the extent to which these financial risks can be transferred to the private sector by way of insurances, thus creating a balance between insured and self financed risk.
- 2.5 Residual risk is the extent to which the Authority remains exposed to risks which are neither insured nor provided for within revenue budgets or balances. The level of acceptable residual risk is usually referred to as the “risk appetite” of the Service. The Authority has already determined that it

wishes to adopt a low risk appetite and therefore the estimated levels of balances reflect this position.

- 2.6 The risk assessment review identified some changes in risks, both in terms of additional risks identified and the increase (or sometimes decrease) in the potential costs of existing risks.
- 2.7 The updated risk assessment shows that an appropriate level of working balances would be £3.6m.
- 2.8 The actual level of balances as at 31 March 2009 was £3.5m. During the current financial year, the revenue budget is underspending and the reasons for this have been reported to the Finance and Resources Committee. In January 2010 that Committee approved some additional expenditure in the year and the creation of earmarked reserves, both designed to contain budget aspirations within an acceptable council tax level. Despite this, there is still likely to be an underspend to be transferred to the general reserve at year end, which will increase the level of the reserve beyond £3.5m.
- 2.9 It is proposed that the current level of general reserves be increased by £100k at the end of 2009/10 to bring it up to the £3.6m established as a requirement by the risk assessment.

3. FINANCIAL IMPLICATIONS

- 3.1 The maintenance of adequate working balances is a legal requirement under S27 Local Government Act 2003, and the Authority's Treasurer is charged with determining the adequacy of those balances or as they are described in the Act, the "Controlled Reserve".
- 3.2 The risk assessment demonstrates that the level of balances should be in the order of £3.6m. The current level of balances, at £3.5m, should therefore be increased by a transfer to reserves of at least £100k at the end of the current financial year. This £100k can be found from the current year's projected underspend on the revenue budget.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no personnel implications arising from this report.

5. EQUALITY IMPACT ASSESSMENT

An equality impact assessment has been undertaken and concludes that save for those items which relate specifically to the risks of non-compliance with legislation relating to equalities there are no further implications. The Equality Impact Assessment is given as Appendix A to this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. CRIME AND DISORDER IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The risk management implications are set out in full in the report and in Appendix B.

9. RECOMMENDATIONS

- 9.1 That Members note the results of the review of risks shown at Appendix B.
- 9.2 That Members approve the proposed level of reserves of £3.6m
- 9.3 That Members approve the transfer to the general reserve of £100k at 31 March 2010

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER

INITIAL EQUALITY IMPACT ASSESSMENT

Appendix A

Section	Manager	Date of Assessment	New or Existing
Finance	Sue Cornish	19 January 2010	Existing- Revision
Name of Report to be assessed		Working Balances	
1. Briefly describe the aims, objectives and purpose of the report.		To set the level of Working Balances for 2010/11 and beyond	
2. Who is intended to benefit from this report and what are the outcomes?		The Authority as a whole by virtue of providing reserve sums that can meet unexpected "one off" expenditure within certain criteria.	
3. Who are the main stakeholders in relation to the report?		The Authority, The Treasurer,	
4. Who implements and who is responsible for the report?		Head of Finance and Resources	

5. Please identify the differential impact in the terms of the six strands below. Please tick yes if you have identified any differential impacts. Please state evidence of negative or positive impacts below.

<i>STRAND</i>	Y	N	<i>NEGATIVE IMPACT</i>	<i>POSITIVE IMPACT</i>
Race		N		
Gender		N		
Disability		N		
Religion or Belief		N		
Sexuality		N		
Age		N		

6. Can this adverse impact be justified on the grounds of promoting equality of opportunity for one group?	Y	N	7. Should the policy/service proceed to a full impact assessment?	Y	N
		N			N

I am satisfied that this policy has been successfully impact assessed. I understand the impact assessment of this policy is a statutory obligation and that, as owners of this policy, we take responsibility for the completion and quality of this process.

Signed (completing person).....Sue Cornish.....

Date 19/01/2010.....

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Local/national industrial dispute	Potential loss of service; risk of non compliance with statutory duties and ensuing legal case / fines; selective industrial action may not result in sufficient underspend to cover additional costs	Maintain adequate contingency	N	150,000	0.2	30,000	0
Non compliance with environmental legislation - support for legal proceedings	Cost of responding to enforcement action	Acquisition of permits / licences; planned drainage works; site risk profiles	P	70,000	0.5	35,000	0
Negligent fire safety work	Litigation	Training, procedures	Y	10,000	0.1	1,000	0
Change in legislation / regulations	Loss of use; cost of modifications and replacements	Continuous review process	N	100,000	0.5	50,000	0
Legislative change	Loss of use; cost of modifications; training requirements; training vehicle	Media and supply communication detailing legislative change	N	50,000	0.1	5,000	0
General change in legislation	Increased costs of working	Awareness	N	50,000	0.2	10,000	0
Risk to health, safety & welfare of employees	Litigation; legal costs & staff absence	Operating procedures; training; written safety policy; risk assessments	Y	10,000	4	30,000	10,000
HSE Enforcement Notices	Cost of remedial measures; cost of fine	Operating procedures; training; written safety policy; risk assessments	N	20,000	0.2	4,000	0
Reignition or other negligence	Reputational, financial	Operating procedures	Y	10,000	1	10,000	0
Breach of security	Loss of confidential data; Information Commission fines	Security measures	N	5,000	0.5	2,500	0
Discovery of major property structural problem that restricts / prevents use of all or part of building(s)	Loss of use; cost of repair; impairment to operational effectiveness	Continuity plans, repair and refurbishment programme	P	1,000,000	0.07	70,000	0
Fire, flood or other peril	Loss of use; cost of repair; impairment to operational effectiveness	Continuity plans, repair and refurbishment programme	Y	250	0.2	0	50
Theft of assets	Disruption	Safety procedures	Y	250	2	0	500

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Own damage	Disruption	Risk management	Y	250	6	0	1,500
Serious injury to public	Reputation, cost, staff time	Training and procedures	Y	10,000	0.1	1,000	0
Damage to vehicle	Loss of use; cost of repair; replacement vehicle hire; lease extensions	Road Transport Group - review of road risk; training; inclusion of vehicle safety options	Y	1,000	81	0	81,000
Increasing number of fleet accidents / damages	Loss of use; cost of repair; replacement vehicle hire; lease extensions	Road Transport Group - review of road risk; training; inclusion of vehicle safety options	Y	1,000	10	10,000	0
Appliance written off in an accident	Loss of use; insurance receipt may not cover outstanding lease payments	Road Transport Group - review of road risk; training; inclusion of vehicle safety options	Y	100,000	0.2	20,000	0
Multiple appliances written off in major incident (maximum 2 appliances)	Loss of use; insurance receipt may not cover outstanding lease payments; appliance degradation enacted; impact on service delivery; impact on appliance replacement programme	Training and procedures; appliance degradation procedure	Y	200,000	0.1	20,000	0
Major vehicle defect (affecting part of fleet)	Loss of use; cost of rectifying defect if beyond warranty	None	N	60,000	0.1	6,000	0
Unforeseen increase in fuel prices	Increased costs	None	N	70,000	1	70,000	0
Major defect	Loss of use; cost of modifications and replacements	Inspection routines	N	10,000	0.1	1,000	0
Major fraud	Financial loss	Internal control	Y	5,000	0.2	1,000	0
Higher than expected pay awards	Large hit on pay contingency	Maintain adequate general contingency	N	900,000	0.5	450,000	0
Significant change in interest rates	Increased costs / loss of income	Prudential code and treasury management indicators	N	120,000	1	120,000	0
Adverse exchange rate changes	Increased costs where contracts in foreign currency	Most contracts in sterling	N	150,000	1	150,000	0
Business failure of bank or investment counterparty	Loss of working capital or investment funds up to £2m	Treasury management strategy	N	2,000,000	0.25	500,000	0

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Business failure of counterparty purchasing fixed asset for sale	Loss of capital receipt to be used to finance capital programme – financial loss	Legal advice for major contracts and due diligence	N	4,000,000	0.25	1,000,000	0
Major CBRN / terrorist incident	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	95,000	0.1	9,500	0
Natural disasters	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	95,000	0.2	19,000	0
Multiple large incidents	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	95,000	1	95,000	0
Hot summers	Increased retained call-outs	None	N	150,000	0.33	49,500	0
Loss of trading income	Reduced income for service	Budget monitoring and forecasting	N	85,000	1	85,000	0
Loss of sponsorship funding	Loss of income	Member of staff responsible for attracting income to Service	N	17,000	1	17,000	0
TOTALS				10,444,750		3,610,500	93,050