



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority

# WORKING BALANCES

Report of the Chief Fire Officer

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**Agenda Item No:**

**Date:** 25 February 2011

**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 2011/12 financial year and beyond.

## CONTACT OFFICER

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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 the Audit Commission generally take the view that balances should not normally fall below 5% of the annual revenue budget. A budget for 2011/12 is submitted to Members for approval elsewhere on this agenda. If approved, then 5% of that budget would equate to around £2.3m.
- 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 £3.6m, as reported to Members in February 2010.

## **2. REPORT**

- 2.1 A full review of the risk assessment has recently been carried out by the Authority's Risk Manager based on the extensive work carried out in 2010. The result of this risk assessment is given at Appendix A. 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 and 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 also shown in Appendix A.
- 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 £3.4m which is slightly less than in 2010/2011 and reflects a number of improvements in risk control measures as well as some reductions in external risk factors.
- 2.8 The actual level of balances as at 31 March 2010 was £4.364m as shown in the final accounts. This included the £3.6m of planned balances and the effect of in year underspendings. During the current financial year, the revenue budget is planned to underspend and the reasons for this have been reported to the Finance and Resources Committee. It has been the adopted strategy of the Authority to generate underspendings wherever possible to temporarily boost balances to enable a measured approach to be taken towards budget reductions.
- 2.9 This planned approach could add a further £2m to balances by the end of 2010/2011 and therefore the budget proposals being considered by the Fire Authority assume that £4m of this reserve will be used to support the capital programme and thus reduce the long term impact of capital financing.
- 2.10 One off items within the proposed 2011/2012 – 2014/2015 budget will recover the level of balances to the required level of £3.4m.

### **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 £3.4m. The current level of balances, at £4.364m, can be reduced to £3.4m during the 2011 -2015 budget period.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no personnel implications arising from this report.

**5. EQUALITY IMPACT ASSESSMENT**

There is no requirement for an equalities impact assessment of 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 A.

**9. RECOMMENDATIONS**

9.1 That Members note the results of the review of risks shown at Appendix A.

9.2 That Members approve the proposed level of balances of £3.4m

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

None.

Frank Swann  
**CHIEF FIRE OFFICER**

### Risk Assessment for the Purpose of Determining Working Balances Requirement 2011/12

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Discrimination cases	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	350,000	1	350,000	0
Unfair Dismissal cases	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	125,000	1	125,000	0
Compromise Agreements / Termination settlements	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	20,000	2	40,000	0
Discretionary Compensation scheme		Professional HR advice, policies, procedures, management training, legal advice	N	120,000	0.2	24,000	0
Equal pay claims	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice, equal pay audit	N	70,000	0.1	7,000	0
Injury Compensation Scheme awards above level budgeted for	Additional costs	Policies and procedures, training etc to reduce likelihood of injury	N	50,000	2	100,000	0
Ill health retirements higher then number budgeted for	Additional costs	Professional HR advice, policies, procedures, management training, legal advice, earmarked reserve (but will require top up)	N	30,000	3	90,000	0
Loss of one or more key personnel	Disruption, temporary cover	Documentation of key procedures and systems; succession planning	N	40,000	0.5	20,000	0

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	0.5	75,000	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	0.1	10,000	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	0.1	5,000	0
Risk to health, safety & welfare of employees	Litigation; legal costs & staff absence	Operating procedures; training; written safety policy; risk assessments	Y	10,000	3	30,000	0
HSE Enforcement Notices	Cost of remedial measures; cost of fine	Operating procedures; training; written safety policy; risk assessments	N	20,000	0.3	6,000	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	1	5,000	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	0.01	10,000	0
Fire, flood or other peril	Loss of use; cost of repair; impairment to operational effectiveness	Continuity plans, repair and refurbishment programme	Y	500	0.2	100	0
Theft of assets	Disruption	Safety procedures	Y	500	2	1,000	0

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Own damage	Disruption	Risk management	Y	500	6	3,000	0
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	800,000	0.1	80,000	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, risk analysis of investment options and counterparties	N	2,000,000	0.1	200,000	0

<b>Risk Description</b>	<b>Risk Effect</b>	<b>Control Measures</b>	<b>Insurable</b>	<b>Risk Value</b>	<b>Risk Factor Reflecting Frequency</b>	<b>Reserve Required</b>	<b>Revenue Budget</b>
Business failure of counterparty purchasing fixed asset for sale	Loss of capital receipt to be used to finance capital programme, or contribute towards required savings – financial loss	Legal advice for major contracts and due diligence including risk analysis of prospective purchasers	N	3,000,000	0.5	1,500,000	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	0.2	19,000	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
<b>TOTALS</b>				<b>9,345,500</b>		<b>3,415,600</b>	<b>81,000</b>