



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

REVIEW OF RESERVES AND WORKING BALANCES

Report of the Chief Fire Officer

Date: 28 February 2014

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 2014/15 financial year and beyond.

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1. BACKGROUND

- 1.1 Members will be aware that the Fire and 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 Chartered Institute of Public Finance and Accountancy (CIPFA) publishes guidance on the matter and sets out a number of specific risk areas that financial officers need to consider when setting the levels of balances.
- 1.3 As in previous years, a risk based approach has been taken to determine a reasonable level of balances. In accordance with this risk based approach, the level of balances required for 2014/2015 is £4.2m.

2. REPORT

GENERAL RESERVES

- 2.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 2.2 There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
 - i) The balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992).
 - ii) Treasurers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales).
 - iii) Legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer / proper officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972).
 - iv) The requirements of the Prudential Code.
 - v) Auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

- 2.3. Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.
- 2.4. CIPFA does not prescribe a formula for calculating a minimum level of reserves. Local authorities, on the advice of their chief finance officers, should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.
- 2.5. A full review of the risk assessment applicable to balances has recently been carried out by the Authority's Risk Manager and Principal Accountant and the result of this risk assessment is given at Appendix A. This enables Members to see the key risks to which the Service is exposed and their estimated possible financial impacts.
- 2.6. 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.
- 2.7. 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 historic experience and professional judgment. 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.
- 2.8. The approach also considers the extent to which financial risks can be transferred to the private sector by way of insurances, thus creating a balance between insured and self-financed risk. Where insurances are in place, the risk value reflects the level of deductible within the insurance policy.
- 2.9. 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

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

- 2.10. 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. The frequency of risk occurrence has also been reviewed in the light of another year of experience.
- 2.11. The updated risk assessment shows that an appropriate level of working balances is £4.2m – Members will note that the overall risk value has increased since last year and this is mainly due to the risks described in paragraphs 2.13.1, 2.14.1 and 2.14.2 below.
- 2.12. One risk has been removed: “Loss of income from services to trading Company”. Now that the trading company is in its fourth year of operation this is no longer considered to be a risk due to proper financial planning and regular budget monitoring of both the trading company (NFRS(T) Limited) and the Authority, which allows for timely resolution of problems
- 2.13. Two new risks have been added:
 - “Redundancies due to current and on-going financial constraints, if savings cannot be found from elsewhere”. The one-off cost of redundancy payments etc. is too high to be budgeted for in the revenue budget and would need to come from reserves. The risk frequency is set as “1” as it is considered very likely that redundancies will need to be made in the next few years.
 - “Unanticipated loss of short term income i.e. from precept, non-domestic rates or government grant”. It is felt that the timing of the budget process and information flows from billing authorities and Central Government may not allow sufficient time to plan for changes and reserves may be required for one year to cushion the effect.
- 2.14. Several risks have been amended: in most cases the risk frequency has been reduced as recent experience shows that there have been no cases of the particular risk materialising. Additionally, the following are brought to the attention of Members:
 - “Local/National Industrial Dispute”. The risk value has been increased from £150k to £250k, in the light of the latest cost estimate of the current dispute which, at the time of writing this report, is on-going.
 - “Unforeseen general change in legislation” now also includes “Major Incident Reviews” in the heading. This refers to amended CFOA and other guidance following serious incidents which may require immediate implementation of new ways of working at an increased cost not budgeted for. The risk value has been increased from £50k to £100k to reflect the potential cost of having to re-train the whole operational workforce in a particular area of expertise.

- 2.15. The projected level of balances by 31 March 2014 is of the order of £5.8m which is higher than the £4.2m required, the excess being in the region of £1.6m. The budget report (elsewhere on this agenda) shows that a significant level of budget savings will need to be found in order to set a balanced budget in 2015/16 and it is felt that it would be prudent to retain this excess sum within reserves to allow, if necessary, for a contribution from reserves to support the budget in 2015/16 whilst longer term budget savings are in the process of implementation.
- 2.16. It is appropriate to assure Members in this report that the level of balances to be held by the Authority will be sufficient to cover the risk based liabilities which may arise and the Treasurer will report on this as part of his duties under Section 25 of the Local Government Act 2003.

EARMARKED RESERVES

- 2.15 In addition to general reserves the Authority holds a number of earmarked reserves which are funds put aside to meet future items of expenditure. They may also have arisen from grants or donations which have been received in anticipation of activities to be undertaken at a future date and therefore held on the balance sheet as earmarked reserves.
- 2.16 A full review of earmarked reserves was undertaken last year, with the results reported to the Fire Authority in February 2013. As part of the Authority's final accounts closedown process, all earmarked reserves will once again be reviewed by budget managers and Finance staff and the final earmarked reserves will be reported to Members within the Authority's Statement of Accounts 2013/14.
- 2.17 The total value of earmarked reserves at 31 March 2013 was £4,564k. During the period up to the end of January 2014 approximately £470k of these reserves had been spent. Earmarked reserves and their forecast balances as at 31 March 2014 are shown in Appendix B.

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 £4.2m.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no implications for Human Resources or Learning and Development arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report relates entirely to accounting matters.

6. CRIME AND DISORDER IMPLICATIONS

There are crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The legal implications and requirements are set out in full within the report.

8. RISK MANAGEMENT IMPLICATIONS

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

9. RECOMMENDATIONS

It is recommended that:

- 9.1 Members note the results of the review of risks shown at Appendix A;
- 9.2 Members approve the proposed minimum level of balances of £4.2m.

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

None.

Frank Swann
CHIEF FIRE OFFICER

WORKING BALANCES RISK ASSESSMENT
APPENDIX A

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	1,300,000	0.25	325,000	0
Unfair Dismissal cases	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	84,000	0.5	42,000	0
Compromise Agreements / Termination settlements	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	100,000	1.5	150,000	0
Case for damages brought against the Authority	Reputational damage; Legal costs, Damages unbudgeted	Policies, procedures, management training, legal advice, procurement advice	?	1,000,000	0.3	300,000	0
Appoint independent investigator at request of elected Members	Cost of paying investigators	Policies, procedures, management training, legal advice, procurement advice	N	30,000	1	30,000	0
Discretionary Compensation scheme		Professional HR advice, policies, procedures, management training, legal advice	N	120,000	0.5	60,000	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	4	200,000	0
Emergency reputation management following any of the above risks	Additional costs	Policies, procedures, management training, legal advice, procurement advice	N	20,000	0.2	4,000	0

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Ill health retirements higher than number budgeted for	Additional costs	Professional HR advice, policies, procedures, management training, legal advice, earmarked reserve (but will require top up)	N	30,000	1	30,000	0
Loss of one or more key personnel	Disruption, temporary cover	Documentation of key procedures and systems; succession planning	N	40,000	1	40,000	0
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	250,000	1	250,000	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	N	70,000	0.25	17,500	0
Negligent fire safety work	Litigation	Training, procedures, effective SLA's with an appropriate allocation of liabilities	Y	10,000	0.2	2,000	0
Increase in numbers of vulnerable people due to economic climate	Loss of council tax precept income, additional cost of fire prevention activity	No controls in place	N	200,000	0.5	100,000	0
Change in legislation / regulations	Loss of use; cost of modifications and replacements	Continuous review process	N	100,000	0.1	10,000	0
Unforeseen general change in legislation / Major Incident Reviews	Increased costs of working due to doing more or doing things differently & costs of training	Awareness	N	100,000	0.2	20,000	0
Risk to health, safety & welfare of employees	Litigation; legal costs & staff absence	Operating procedures; training; written safety policy; risk assessments	Y	10,000	1	10,000	0
HSE Enforcement Notices	Cost of remedial measures; cost of fine	Operating procedures; training; written safety policy; risk assessments	N	20,000	0.1	2,000	0

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
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	100,000	0.3	30,000	0
Redundancies due to current and on-going financial constraints, if savings cannot be found from elsewhere	One-off cost of redundancy payment and potential pension strain is too high a cost to budget for within the revenue budget	Business case and payback period	N	600,000	1	600,000	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	250	0.2	50	0
Theft of assets	Disruption	Safety procedures	Y	250	2	500	0
Own damage	Disruption	Risk management	Y	250	1	250	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	100	100,000	35,000
Appliance written off in an accident	Loss of use; insurance receipt may not cover cost of replacement	Road Transport Group - review of road risk; training; inclusion of vehicle safety options	Y	100,000	0.5	50,000	0

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Multiple appliances written off in major incident (maximum 2 appliances)	Loss of use; insurance receipt may not cover cost of replacement; 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
Vehicle incident resulting in injury to public	Reputation, cost, staff time	Training and procedures	Y	250	1	250	0
Major vehicle defect (affecting part of fleet)	Loss of use; cost of rectifying defect if beyond warranty	None	N	75,000	0.2	15,000	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	100,000	0.5	50,000	0
Major fraud	Financial loss	Internal control	Y	5,000	0.1	500	0
Higher than expected pay awards	Large hit on pay contingency	Maintain adequate general contingency	N	658,000	1	658,000	0
Significant change in interest rates	Increased costs / loss of income	Prudential code and treasury management indicators	N	120,000	1	120,000	0
Unforeseen indirect impacts of changes to pension regulations	Potential additional NI costs, potential increased membership so employers' superannuation costs etc.	Monitor ongoing consultations etc and budget for likely impacts as soon as clear	N	100,000	0.3	30,000	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

Risk Description	Risk Effect	Control Measures	Insurable	Risk Value	Risk Factor Reflecting Frequency	Reserve Required	Revenue Budget
Failure of counterparty to purchase 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	2,000,000	0.2	400,000	0
Unanticipated loss of short term income i.e. from precept, non domestic rates or government grant	Timings of budget process may not allow sufficient time to plan for such changes	Network of Chief Financial Officers keep abreast of developments.	N	200,000	0.5	100,000	0
Major CBRN / terrorist incident	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	87,000	0.1	8,700	0
Natural disasters	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	87,000	0.5	43,500	0
Multiple large incidents	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	87,000	0.3	26,100	0
Hot or dry summers	Increased retained call-outs	None	N	150,000	0.33	49,500	0
TOTALS				11,365,000		4,192,850	35,000

EARMARKED RESERVES**APPENDIX B**

Reserve	Balance 31 March 2013 £	Estimated Spend Against Reserve in 2013/14 £	Estimated Balance 31 March 2014 £
FUNDED BY GRANTS			
LPSA Reward Grant	395,123		395,123
Fire Setters	13,000		13,000
Fire Investigation	153,578	-3,200	150,378
Safe as Houses - Smoke Alarms	21,661		21,661
Community Safety - Innovation Fund	203,694		203,694
Resilience Crewing and Training	256,323	-36,000	220,323
Thoresby Estate Charitable Trust	4,893		4,893
Area 4 Committee	900		900
Donations for North Group Community Safety	355		355
Vodafone Donation	1,214	-1,200	14
Enhanced Command Support	140,156		140,156
Safe as Houses - Safety Equipment	3,003		3,003
New Burdens Fire Control Grant	5,476		5,476
Community Safety within Bassetlaw	6,000		6,000
Enhanced Logistical Support DCLG	41,576	-16,000	25,576
Precept Support Fund	27,000		27,000
	<hr/> 1,273,952	<hr/> -56,400	<hr/> 1,217,552
CREATED FROM REVENUE			
Pensions Ill Health	80,000		80,000
On Fire Fund - Fire Safety	139,825	-14,000	125,825
Princes Trust	59,653		59,653
Fire Control Transition	860,598	-288,000	572,598
Agresso Development	29,553		29,553
Training BCM & Values	11,144	-8,200	2,944
ICT Sharepoint Internet/Intranet	97,086		97,086
Operational Equipment	41,734		41,734
Capital Reserve	1,856,523	-98,000	1,758,523
Organisation Transition - one off costs	107,489		107,489
Swan Project – Ashfield	4,532	-4,300	232
FEU Conference	1,689	-1,600	89
	<hr/> 3,289,826	<hr/> -414,100	<hr/> 2,875,726
TOTAL	<hr/> 4,563,778	<hr/> -470,500	<hr/> 4,093,278