



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

REVIEW OF RESERVES AND WORKING BALANCES

Joint Report of the Interim Treasurer to the Fire Authority
and Chief Fire Officer

Date: 16 February 2018

Purpose of Report:

To seek the approval of the Nottinghamshire and City of Nottingham Fire and Rescue Authority to the minimum level of working balances sufficient to meet the needs of the Authority during the 2018/19 financial year and beyond.

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1. BACKGROUND

- 1.1 The Fire and Rescue Authority holds a level of working balances to meet specific risks and potential liabilities of a strategic, operational and financial nature.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes guidance on the matter of financial reserves 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 2018/19 is £4,300,650. The main reasons for the change since 2017/18 are explained in paragraphs 2.13 and 2.14.

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 (sections 31a and 42a of the Local Government Finance Act 1992).
 - ii) The Treasurers' duty to report on the robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.
 - iii) The 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) External auditors will confirm that there are no material uncertainties about an Authority's ability to continue operating, given its financial position.

- 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 financial 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 CIPFA sets out that reserves can be held for three main purposes:
- 2.5.1 A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - 2.5.2 A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
 - 2.5.3 A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but legally remain part of the General Fund.
- 2.6 The annual review of the risk assessment applicable to reserves and balances has recently been carried out by the Authority's Risk Manager and Head of Finance. Further scrutiny was provided by the Chair of the Finance and Resources Committee as part of the budget process. The resulting risk assessment is provided at Appendix A. This enables Members to see the key risks to which the Service is exposed and their estimated possible financial impacts.
- 2.7 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.
- 2.8 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.

- 2.9 The approach also considers the extent to which financial risks can be transferred 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.
- 2.10 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 equates to the “risk appetite” of the Service and the estimated minimum level of balances reflects this risk appetite.
- 2.11 The risk assessment review identified some changes in risks, mainly in terms of 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.
- 2.12 The updated risk assessment shows that an appropriate level of general reserves and working balances is £4.3m. This risk value has decreased since last year by £0.1m. This reflects some new risks and significant changes in some existing risks.
- 2.13 The new risks that have been identified are:
 - 2.13.1 The risk of pay awards being agreed at a higher rate than the 2% budgeted for. This affects both firefighters and support staff. An additional 2% has been included in the risk value with a risk factor of 0.5. this will add an additional £320k to the minimum level of the general reserve.
 - 2.13.2 In recent years, several errors have been identified in the historic calculation or accounting treatment of firefighter’s pensions. This is largely due to the number of schemes and highly complex nature of the firefighter pension schemes. These errors have resulted in some significant additional costs to the authority. In previous years, these costs have been met either from revenue or from an earmarked reserve. With revenue budgets now much tighter and the earmarked reserve being fully utilised, it is necessary to meet potential future costs from the general reserve. Whilst it is hoped that with much improved administration of the scheme and better advice from the Local Government Association the risk of future errors being identified should reduce, potential costs could still be incurred. A £500k risk has been added with a risk factor of 0.5. This will add £250k to the minimum reserve requirements.
- 2.14 The risks which have significantly changed are:

- 2.14.1 The risk value of discrimination cases has reduced from £500k to £250k as this is the maximum considered likely. The Authority has an extensive set of procedures in place to minimise this risk.
- 2.14.2 The risk value of a breach of security fine has been increased from £80k to £150k to reflect the increased in the value of fines that can be issued under the new General Data Protection Regulation - GDPR.
- 2.14.3 The risk value for the failure of a counterparty to purchase a fixed asset for sale has been reduced from £2.5m to £575k. This reflects the authority's position that only £575k of capital receipts are anticipated as part of the capital programme during the next 3 years.
- 2.15 There are a number of other risks where minor amendments have been made to reflect changes in either risk value or in expected likelihood or impact in the light of another year's experience.
- 2.16 As set out in paragraph 2.4, the risk assessment which determines what the minimum level of reserves should be is carried out using the professional judgement of the Officers involved in the process. As well as the Risk Manager and the Head of Finance, the process involves consulting other Managers with particular areas of expertise in order to determine any new risks and to identify appropriate levels of risk value and risk frequency. This detailed review of risks inevitably results in fluctuations in the resulting minimum level.
- 2.17 Previous year's minimum levels of General Reserves have remained between £3.8m and £4.4m as detailed below:

Year	Minimum General Fund Reserve level £'m
2018/19	4.3
2017/18	4.4
2016/17	3.8
2015/16	4.0
2014/15	4.2

- 2.18 The Finance and Resources Committee regularly receives risk management reports, which show that corporate risks are regularly reviewed by Officers and that controls are in place to manage those risks. Even so paragraphs 2.13 and 2.14 above demonstrate that risk values can and do change, and the strategic risk register includes external risks which could impact on the Authority in the future.
- 2.19 The projected level of general fund reserves at 31 March 2018 is of the order of £7.3m. The budget report also this agenda shows that significant pressure remains to achieve budget reductions over the next three years and that a contribution from reserves of £1.4m will be required to balance the budget in 2018/19, taking general fund reserves to £5.8m, which is only £1.5m above the minimum level advised in this report.

- 2.20 It is appropriate to advise Members in this report that the level of balances held by the Authority will be sufficient during 2018/19 to cover the risk based liabilities which may arise and the Interim Treasurer will report on this as part of her duties under Section 25 of the Local Government Act 2003. However, moving forward the strategy for meeting the budget deficit must be achieved in order that this assurance can be given in future years.

EARMARKED RESERVES

- 2.21 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.
- 2.22 A full review of earmarked reserves was undertaken as part of the 2018/19 budget process. 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 2017/18.
- 2.23 The projected level of available earmarked reserves after taking account of those already committed is £2.1m. Earmarked reserves and their forecast balances as at 31 March 2017 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 £4.3m.

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 initial equality impact assessment has not been prepared in relation to this matter.

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. COLLABORATION

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members:

- 10.1 Note the results of the review of risks shown at Appendix A.
- 10.2 Approve the proposed minimum level of working balances of £4.3m for 2018/19.

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

None.

Theresa Channell
INTERIM TREASURER TO THE FIRE AUTHORITY

John Buckley
CHIEF FIRE OFFICER

Risk Number	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	Reserve Required £	Revenue Budget £
1	Discrimination cases	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	250,000	0.25	62,500	0
2	Unfair Dismissal cases	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	16,000	0.2	3,200	0
3	Settlement Agreements / Termination settlements	Reputational damage; Legal costs, employment tribunal costs unbudgeted	Professional HR advice, policies, procedures, management training, legal advice	N	50,000	0.5	25,000	0
4	Case for damages brought against the Authority	Reputational damage; Legal costs, Damages unbudgeted	Policies, procedures, management training, legal advice, procurement advice	N	1,000,000	0.2	200,000	0
5	Appoint independent investigator at request of elected Members	Cost of paying investigators	Policies, procedures, management training, legal advice, procurement advice	N	30,000	0.25	7,500	0
6	Discretionary Compensation scheme		Professional HR advice, policies, procedures, management training, legal advice	N	60,000	0.3	18,000	0
7	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
8	Pay awards agreed at higher rate than budget	Additional costs		N	640,000	0.5	320,000	
9	Injury Compensation Scheme awards above level budgeted for	Additional costs	Policies and procedures, training etc to reduce likelihood of injury. Occupational Health devising new interventions to reduce risk.	N	7,000	1	7,000	0
10	Ill health retirements higher then number budgeted for	Additional costs	Professional HR advice, policies, procedures, management training, legal advice, (no earmarked reserve left)	N	183,000	0.3	54,900	0
11	Pension Ombudsman Rulings	Compensation award payment	Pension administration expertise bought in	N	5,000	0.5	2,500	0
12	Pension fund prior year accounting corrections	Additional costs	Systems now improved but some legacy issues still emerging.	N	500,000	0.5	250,000	0
13	Medical Appeals re FFPS	Cost of appeal process	IQMP policy and advice taken	N	8,000	1.5	12,000	0

Risk Number	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	Reserve Required £	Revenue Budget £
14	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. Potential ministerial intervention and ensuing reputational damage.	Maintain adequate contingency cover. Contingency arrangements well tested during 2013-2015 industrial action.	N	495,000	1	495,000	0
15	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
16	Negligent fire safety work	Litigation	Training, procedures, effective SLA's with an appropriate allocation of liabilities	Y	10,000	0.1	1,000	0
17	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	204,000	0.5	102,000	0
18	Change in legislation / regulations	Loss of use; cost of modifications and replacements	Continuous review process	N	100,000	0.1	10,000	0
19	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
20	Risk to health, safety & welfare of employees	Litigation; legal costs & staff absence	Operating procedures; training; written safety policy; risk assessments	Y	15,000	3	45,000	0
21	HSE Interventions	Cost of remedial measures; cost of fine; fees for HSE intervention, indirect costs of covering internal resources used to investigate the issue etc.	Operating procedures; training; written safety policy; risk assessments	N	315,000	0.1	31,500	0
22	Reignition or other negligence	Reputational, financial	Operating procedures	Y	10,500	1	10,500	0
23	Breach of security	Loss of confidential data; Information Commission fines	Security measures	N	150,000	0.125	18,750	0
24	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	500,000	1	500,000	0
25	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	N	600,000	0.1	60,000	0

Risk Number	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	Reserve Required £	Revenue Budget £
26	Theft / fire / damage to assets excess payments exceed budgets			Y	5000	0.5	2,500	
27	Serious injury to public	Reputation, cost, staff time	Training and procedures	Y	10,500	0.1	1,050	0
28	Damage to vehicle	Loss of use; cost of repair; replacement vehicle hire; lease extensions	Road Risk Group - review of road risk; training; inclusion of vehicle safety options	Y	50,000	1	50,000	35,000
29	Appliance written off in an accident	Loss of use; insurance receipt may not cover cost of replacement	Road Risk Group - review of road risk; training; inclusion of vehicle safety options	Y	120,000	0.5	60,000	0
30	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
31	Major vehicle defect (affecting part of fleet)	Loss of use; cost of rectifying defect if beyond warranty	Mutual assistance, robust and routine fleet inspections	N	150,000	0.2	30,000	0
32	Unforeseen increase in fuel prices	Increased costs	None	N	70,000	1	70,000	0
33	Increased risk of overspending budgets due to elimination of contingency budgets and budget assumptions based on greater risk appetite	Overspend against revenue budget in year which will have effect of reducing general reserves by the amount of the overspend	Focus on realistic assumptions, rather than risky assumptions. Close monitoring of budget throughout year to allow corrective action to be taken	N	419,900	0.5	209,950	0
34	Major operational equipment defect	Loss of use; cost of modifications and replacements	Inspection routines	N	100,000	0.2	20,000	0
35	Major fraud	Financial loss	Internal control	Y	5,000	0.1	500	0
36	Higher than expected pay awards	Large hit on pay contingency	Maintain adequate general contingency	N	309,000	1	309,000	0
37	Significant change in interest rates	Increased costs / loss of income rates	Prudential code and treasury management indicators	N	120,000	0.2	24,000	0
38	Unforeseen price increases due to currency exchange fluctuation	Increased costs / potential for reduced competition	May not be possible to avoid through contract obligations	N	600,000	0.5	300,000	0
39	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	140,000	0.5	70,000	0

Risk Number	Risk Description	Risk Effect	Control Measures	Insurable	Risk Value £	Risk Factor Reflecting Frequency	Reserve Required £	Revenue Budget £
40	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	0.2	400,000	0
41	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	575,000	0.167	96,025	0
42	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	420,750	0.5	210,375	0
43	Major CBRN / terrorist incident	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	82,000	0.1	8,200	0
44	Natural disasters	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	82,000	0.5	41,000	0
45	Multiple large incidents	Reduction in capability to respond	Multi-agency plans; New Dimensions equipment; BCM plans; Response degradation policy; Mutual Aid	N	82,000	0.3	24,600	0
46	Hot or dry summers	Increased retained call-outs	None	N	220,000	0.33	72,600	0
	TOTALS				11,149,650		4,300,650	35,000

Minimum level of General Reserves 2018/19

4,300,650

Earmarked Reserves

APPENDIX B

Reserve	Opening Balance 1/4/2017 £	Movement During 2017/18 £	Committed Future Years £	Estimated Balance 31/03/2018 £
FUNDED BY GRANTS				
Fire Investigation	-119,978	21,747	20,000	-78,231
Safe as Houses - Smoke Alarms	-21,661		7,290	-14,371
Community Safety - Innovation Fund	-200,594	0	108,205	-92,389
Resilience Crewing and Training	-451,740	94,257	66,600	-290,883
Thoresby Estate Charitable Trust	-3,011	205	0	-2,807
National Resilience	1			1
LPSA Reward Grant	-173,952	47,750	20,000	-106,202
Public Health England - Safe and Well	-10,000	10,515	5,000	5,515
				0
Sub total	-980,936	174,474	227,095	-579,367
CREATED FROM REVENUE				
Tri Service Control Phase 2	-362,938	95,260	36,000	-231,678
ICT Sharepoint Internet/Intranet	-97,086	65,927	0	-31,159
Fire Cadets Project	-22,648	0	0	-22,648
ESN RAP Work	-891,974	23,709	828,515	-39,750
Backlog Buildings Maintenance	-95,000	0	95,000	0
Pensions Ill Health	-309,322	309,322	0	0
On Fire Fund - Fire Safety	-86,749	7,719	0	-79,030
Capital Reserve	-1,114,276	200,000	0	-914,276
Operational Equipment	-10,000	0	0	-10,000
ICT Systems - Emergency Services Mobile Comms	-15,506			-15,506
Agresso Development	-63,359	510	20,000	-42,849
Organisation Transition - one off costs	-348,513	6,498	221,001	-121,014
Swan Project - Ashfield	-217			-217
Taxation Compliance	-10,000			-10,000
HEP B - Vaccinations	-22,000	994		-21,006
Communications Development - ESN	-251,863	211,784	47,561	7,482
Retained Policy Change	-212,000	0	212,000	0
Sub Total	-3,913,451	921,723	1,460,077	-1,531,652
				0
Total Earmarked Reserves	-4,894,387	1,096,197	1,687,172	-2,111,018
				0
General Reserve	-7,836,422	544,000	0	-7,292,422
				0
Total	-12,730,809	1,640,197	1,687,172	-9,403,440