

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE &amp; RESCUE AUTHORITY</b>	
date	<b>14 JANUARY 2005</b>	agenda item number

### **JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE TREASURER OF THE FIRE & RESCUE AUTHORITY**

#### **RESERVES AND BALANCES**

##### **1 PURPOSE OF THE REPORT**

The purpose of this report is to seek the approval of Members to the levels of working and other balances sufficient to meet the needs of the Fire Authority during the 2005/6 financial year and beyond.

##### **2 BACKGROUND**

Members will be aware that the Fire Authority holds a level of working and other balances and reserves to meet specific risks and liabilities arising from operations and activity. To this end a report was brought to the Fire Authority in December 2003 setting out the level of balances required and the way in which these were to be accumulated. The levels of balances approved at that meeting were based on a risk assessment and this has now been reviewed in the light of current circumstances to ensure that the assumptions made in 2003 are still valid.

##### **3 RISK BASED APPROACH**

- 3.1 It is always difficult to estimate the level at which reserves and balances should be maintained. A general "rule of thumb" however, is that a figure of 5% of annual revenue budgets would be sufficient. On current budgets this would suggest a figure of £2m.
- 3.2 This would represent an increase in balances over 2004/5 levels of £200,000 which would require further justification for two reasons :
  - i) There has been no call of any significance on balances in 2004/5 and so there are no "top up" payments required.
  - ii) If increases in balances are not fully justified they serve to create sums of money for which no service is delivered but Council Tax is still levied.
- 3.3 It has been decided therefore to review the risk assessment carried out in 2003/4 to enable Members to clearly see the risks that the Service is exposed to and give some confidence in the levels of budget cover available.
- 3.4 This approach examines each of the risk exposures and considers both the impact on the Service and the likelihood of occurrence. A risk score has been allocated to each risk which is then ranked from 1 (the lowest factor) to 5 (the highest). This is done for both likelihood and impact in order to give an overall risk factor. It should

be noted that the underlying assumption is that not all these risks will occur simultaneously.

- 3.5 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 of both insured and self financed risk.
- 3.6 Residual risk is the extent to which the Authority remains exposed to risks which are neither insured nor provided for within balances and reserves. The level of acceptable residual risk is usually referred to as the "Risk Appetite" of the Service. It is considered that the Authority would be best advised to adopt a fairly low risk appetite at present.
- 3.7 The full results of the risk evaluation exercise are given as Appendix A to this report and show that the overall levels of risk have not increased since 2004/5 and therefore the level of reserves and balances should be maintained at £1.8m.
- 3.8 The Authority already has plans in place for the creation of these reserves and balances which both ensure the risk exposures are minimised and that there is a more gradual effect on Council Tax. In the budget consultation paper which is presented elsewhere on this agenda, Members will note that predicted underspendings in 2004/5 are to be added to the reserves, therefore further cushioning the amount that will need to be raised from local tax payers.

#### **4 FINANCIAL IMPLICATIONS**

The financial implications are set out in full within the body of the report.

#### **5 PERSONNEL IMPLICATIONS**

There are no personnel implications arising from this report.

#### **6 RISK MANAGEMENT IMPLICATIONS**

The process of creating balances and reserves is a significant risk control measure for the Service. Without sufficient balances upon which to call in times of difficulty, the Service would be regarded as financially unstable.

#### **7 EQUAL OPPORTUNITIES IMPLICATIONS**

There are no equal opportunities implications arising from this report.

#### **8 RECOMMENDATIONS**

That the Authority approves the proposed level of balances and takes this into consideration as part of the 2005/6 budget process.

#### **9 BACKGROUND PAPERS FOR INSPECTION**

None.

Paul Woods  
**CHIEF FIRE OFFICER**

Alan Sumbly  
**TREASURER TO THE FIRE & RESCUE AUTHORITY**

APPENDIX A

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value	Reserves	Revenue
Legal	Sex or Race discrimination case	Reputational Damage. Potential Costs of up to £250,000	5	5	Policies, Training, Procedures, Monitoring	N	25 1 in 5yrs	50,000	50,000	0
	Negligent Fire Safety Work	Litigation	2	5	Training	Y	10 1 in 5yrs	2,000		2,000
	Asbestos Claims and Exposures	Litigation	4	3	Operating Procedures	Y	12 1 in 5yrs	2,000		2,000
	Personal Injury to Staff	Litigation	5	3	H&S interventions	Y	15 4 p.a	40,000		40,000
	Attacks on Staff	Absence, Litigation	4	3	SOPs, working practices	Y	12 1 in 5yrs	2,000		2,000
	Stress Claims	Possible ET	4	4	Support Systems	Y	16 1 in 2yrs	5,000		5,000
	Re-ignition or other negligence	Reputational	3	5	Operating Procedures	Y	15 1 in 5yrs	2,000		2,000
Pay Budgets	Hot Summers	Increased Retained Call Outs	2	5	None	N	10 over 5 yrs	100,000	100,000	0
	Senior Staff Transfers	Transfer Values	5	5	None	N	25 one p.a	300,000	300,000	0
	Inadequate Pension Provision	Increased Retirements	4	4	Establish Provisions	N	16 over 5yrs	800,000	500,000	300,000

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	Higher than expected pay awards	Large hit on pay contingency	5	5	Maintain adequate general contingency	N	25 over time 2% error	400,000	400,000	0
	Flooding Risk	Increased Retained Call outs	2	5	None	N	10 over 5yrs	100,000	100,000	0
Property	Discovery of major structural problem	Unexpected costs, loss of use	4	3	Structural survey AMP	N	12 over 5 yrs	50,000	50,000	0
	Fire or other peril	Loss of use	2	2	Precautions	Y	4	0		0
	Theft of Assets	Disruption	5	3	Security procedures	Y	15 10 incidents	10,000		10,000
	Own Damage	Disruption	5	2	Risk Management	Y	10 1 incident	10,000		10,000
Transport	Accidental Damage	Loss of use	5	5	Training, Procedures	Y	25 30 incidents	30,000		30,000
	Serious Injury to public	Reputation, Cost, Staff Time	4	5	Training and Procedures	Y	20 1 in 5yrs	5,000	5,000	0
	Serious Injury to Staff	Cost, Staff time	4	5	Training and Procedures	Y	20 1 in 5yrs	5,000	5,000	0
	Major Vehicle Defect (fleet wide)	Loss of use, increased costs	2	5	None	N	10 1 in 5 yrs	20,000	20,000	0

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	Increase in fuel prices	Increased Costs	4	3	None	N	12 general	5,000	5,000	0
	Legislative Change	Vehicle Modifications required	1	4	Currency of staff	N	4 1 in 10yrs	4,000	4,000	0
Equipment & PPE	Change in legislation	May require wholesale change in equipment	1	5	Usually not without notice	N	5 1 in 5yrs	10,000	10,000	0
	Major Defect	Increased Costs	2	5	Inspection routines	N	10 1 in 5yrs	10,000	10,000	0
Financial	Major Fraud	Cost	1	2	Internal Control	Y	2	0	0	0
	Significant Increase in interest rates	Increased Costs	4	3	None	N	12 1 in 10yrs	5,000	5,000	
	Failure of Major Borrower	Significant Cash Loss	2	5	Borrower Selection	N	10 1 in 10yrs	10,000	10,000	
	Failure of Financial Systems	Threat to Service	2	4	Contingency Plans	N	8	0	0	0
Technological	Major WAN Failure affecting mobilisation	Loss of Use, potential life risk	3	5	Contingency plans, alternate methods	N	15	0	0	0
	Admin WAN Failure	Loss of use	3	3	Maintenance and Support	N	9 1 in 5 yrs	5,000		5,000
	Sabotage	Loss of use	2	5	Security measures	Y	10	0	0	0

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	Theft of Equipment	Loss of use/data	5	5	Security measures	Y	25 1 in 5yrs	5,000	5,000	0
	Breach of Security	Loss of confidential data	2	5	Security Measures	N	10 1 in 5yrs	5,000	5,000	0
	Radio System failure	Loss of Comms	4	5	Alternate procedures, phones etc.	N	20 1 in 10yrs	1,000	1,000	0
Physical	Major CBRN Incident	Drain on regional resources, inability to respond	2	5	Policies, agreements, national guidelines etc.	N	10 1 in 10 yrs	10,000	10,000	0
	Terrorist attack on Emergency Services	Major loss of function	2	5	Contingency plans	Y	10 1 in 10 yrs	0	0	0
	Natural Disaster	Drain on resources	1	5	2.12 arrangements	N	5 1 in 10 yrs	15,000	15,000	0
	Multiple large incidents	Drain on resources inability to respond	3	5	2.12 arrangements	N	15	0	0	0
Other	Loss of Trading income	Costs	3	3	Budget monitoring and forecasting	N	9 1 in 10 yrs	2,000	0	2,000
	Loss of sponsorship funding	Risk to service and reputation	4	2	Careful assessment of projects	N	8	0	0	0

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	Loss of one or more key personnel	Disruption, temporary cover,	2	4	Documentation of key procedures and systems	N	8 1 in 5yrs	25,000	25,000	0
	Major personal litigation	Disruption	3	3	H&S Procedures etc.	Y	9	0	0	0
	Change in legislation	Increased costs	4	4	None. Awareness	N	16 1 in 5yrs	10,000	10,000	0
	Industrial dispute. Local/ National	Potential loss of service	5	5	Maintain adequate contingency	N	25 1 in 5yrs	150,000	150,000	0
									1,795,000	