

report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY	
date	24 February 2006	agenda item number

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

LEVEL OF BALANCES

1 PURPOSE OF REPORT

The purpose of this report is to seek the approval of Members to the level of balances sufficient to meet the needs of the Fire & Rescue Authority during the 2006/07 financial year and beyond.

2 BACKGROUND

- 2.1 Members will be aware that the Authority holds a level of working and other balances to meet specific risks and liabilities arising from operations and other activity.
- 2.2 It is always difficult to estimate the level at which balances should be maintained, however the Audit Commission advise that a figure of 5% of annual revenue budgets would be sufficient. On current budgets this would suggest a figure of £2m.
- 2.3 Rather than accept this as the appropriate figure, a risk based approach has been taken to determine a reasonable level of balances. Based on this approach, the level of balances was judged to be £1.75m, as reported to Members in December 2003. It was recognised that achieving this level immediately would require an unacceptable council tax increase, so a phased transition towards the final figure was proposed.
- 2.4 The risk assessment was reviewed and reported to Members in January 2005. The result of this review was a recommended level of balances of £1.8m.

3 RISK BASED APPROACH

- 3.1 The risk assessment carried out in 2004/05 has been reviewed and is attached at Appendix A to enable Members to see clearly the risks that the Authority is exposed to and give some confidence in the levels of budget cover available.
- 3.2 This approach examines each of the risk exposures and considers both the impact on the Authority 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.

- 3.3 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.
- 3.4 Residual risk is the extent to which the Authority remains exposed to risks which are neither insured nor provided for within balances. The level of acceptable residual risk is usually referred to as the "Risk Appetite" of the Authority. It is considered that the Authority would be best advised to adopt a fairly low risk appetite at present.
- 3.5 The full results of the risk evaluation review exercise show that there has been an increase in the overall risk value. There are changes in pension legislation, which transfer the risk of inadequate pension provision to the Office of the Deputy Prime Minister with effect from 1 April 2006. However, the liability for Ill Health retirements remains with the Authority, and additional balances need to be held to counteract the risk that the number of ill health retirements provided for within the Revenue Budget may be underestimated. There have been other, less significant amendments and increases in values to reflect rising costs. The overall result is that the recommended level of balances should be £1.97m.
- 3.6 The actual level of balances as at 31 March 2005 was £1.3m and is expected to rise to £1.7m at the end of 2005/06. However, some balances will be transferred to revenue in 2006/07 to fund one-off expenditure and cushion the effect of the unexpected reduction in Revenue Support Grant next year. The Authority plans to increase the level of balances in 2007/08 and 2008/09 and achieve the level of £2.0m by 31 March 2009. A review of the risk assessment will be carried out in the intervening years and Members will be requested to approve any adjustments to the target level of balances, if these occur as a result of the reviews. The pattern of contributions to and from balances over the period will be as shown in the following table.

Date	Narrative	Add £'s	Subtract £'s	Balance £'s
31/03/2005	Balance	0	0	1.3m
2005/2006	Contribution	0.3m	0	1.6m
2005/2006	Underspend	0.2m	0	1.8m
2006/2007	Transactions	0.1m	0.5m	1.4m
2007/2008	Contribution	0.3m	0	1.7m
2008/2009	Contribution	0.3m	0	2.0m

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 is a significant risk control measure for the Authority. Without sufficient balances upon which to call in times of difficulty the Authority would be regarded as financially unstable.

7 EQUALITY IMPACT ASSESSMENT

An initial impact assessment has revealed that there are no specific equality issues arising from this report.

8 RECOMMENDATIONS

That Members approve the proposed level of balances and take this into consideration as part of the 2006/07 budget process.

9 BACKGROUND PAPER FOR INSPECTION

None.

Paul Woods
CHIEF FIRE OFFICER

Alan Sumbly
TREASURER TO FIRE & RESCUE AUTHORITY

APPENDIX A

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Balances £	Revenue £
Legal	Sex, race or disability discrimination case	Reputational Damage. Potential Costs of up to £250,000	5	5	Policies, Training, Procedures, Monitoring, Equality Officer	N	25 2 in 5yrs	100,000	100,000	0
	Environmental protection case	Reputational Damage. Potential Costs of up to £250,000	3	5	Partnership with Environment Agency	N	15 1 in 5 yrs	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

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	Higher than expected pay awards	Large hit on pay contingency	4	5	Maintain adequate general contingency	N	20 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
	Ill Health Retirements	Underestimate number	3	5	Base estimate on experience	N	15	300,000	300,000	0
Property	Discovery of major structural problem	Unexpected costs, loss of use	3	3	Structural survey AMP	N	9 over 5 yrs	100,000	100,000	0
	Fire or other peril	Loss of use	2	2	Precautions	Y	4	0	0	0
	Theft of Assets	Disruption	5	3	Security procedures	Y	15 10 incidents	2,500	0	2,500
	Own Damage	Disruption	5	2	Risk Management	Y	10 1 incident	0	0	0
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

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	Major Vehicle Defect (fleet wide)	Loss of use, increased costs	2	5	None	N	10 1 in 5 yrs	20,000	20,000	0
	Increase in fuel prices	Increased Costs	4	3	None	N	12 general	10,000	10,000	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	100,000	100,000	
	Failure of Financial Systems	Threat to Service	2	4	Contingency Plans	N	8	0	0	0

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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	N	10	0	0	0
	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

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	Multiple large incidents	Drain on resources inability to respond	3	5	2.12 arrangements	N	15	15,000	15,000	0
Other	Loss of Trading income	Reduced income for service	3	3	Budget monitoring and forecasting	N	9 1 in 10 yrs	25,000	25,000	0
	Loss of sponsorship funding	Risk to service and reputation	4	2	Careful assessment of projects	N	8	25,000	25,000	0
	Loss of one or more key personnel	Disruption, temporary cover,	2	4	Documentation of key procedures and systems	N	8 1 in 5yrs	40,000	40,000	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	500,000	500,000	0
									1,970,000	