



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

WORKING BALANCES

Report of the Chief Fire Officer

Agenda Item No:

Date: 22 February 2008

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 2008/09 financial year and beyond.

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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 a general “rule of thumb” is that a figure of 5% of annual revenue budgets would usually be sufficient. On current budgets this would suggest a figure of £2.2m.
- 1.3 As in previous years, a risk based approach has been taken to determine a reasonable level of balances. Based on this approach, the level of balances required was judged to be £2.0m, as reported to Members in January 2007.

2. REPORT

RISK BASED APPROACH

- 2.1 A review of the risk assessment carried out in 2006/07 has been carried out jointly by the Authority’s Risk Manager and Principal Accountant and is attached at Appendix B. 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 This approach has examined each of the risk exposures and considered 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 score. It should be noted that the underlying assumption is that not all of these risk events will occur simultaneously.
- 2.3 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 between insured and self financed risk.
- 2.4 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 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.
- 2.5 The full results of the risk evaluation review exercise show that there have been some changes in risks, both in terms of additional risks identified and the increased potential costs of existing risks.
- 2.6 The risk assessment shows that an appropriate level of working balances will be £2.6m.

- 2.7 The actual level of balances as at 31 March 2007 was £2.64m, with £50,000 earmarked to support the 2007/8 revenue budget. The financial performance of the Authority during 2007/8 shows that this support for the budget is not required, which means that there will be no requirement to increase or decrease the levels of balances in 2008/9.

SIGNIFICANT CHANGES FROM THE 2006/7 RISK ASSESSMENT

- 2.8 Overall the value of risk exposure has been increased by £651,000, made up as follows:

Risk	Value 2006/7 £'s	Value 2007/8 £'s	Diff £'s
Increased retained call outs during spate conditions	50,000	150,000	100,000
Structural problems with property	150,000	200,000	50,000
Public liability claims	5,000	20,000	15,000
Employers liability claims	5,000	20,000	15,000
Major vehicle defect	20,000	50,000	30,000
Fuel crises	10,000	20,000	10,000
Legislative change affecting vehicles	4,000	5,000	1,000
Legislative change around PPE/equipment	10,000	50,000	40,000
CBRN incident	10,000	50,000	40,000
Flood and other risk reaching Belwin ceiling for outside assistance	0	250,000	250,000
Premature vehicle write off	0	100,000	100,000
			651,000

- 2.9 The increasing frequency of spate conditions and the increasing costs that are incurred have caused this risk to increase in value. Cost estimates can be more accurate given recent experience of flooding incidents.
- 2.10 The Authority's property portfolio is ageing and is of typical "Clasp" type design. Whilst there is a programme of refurbishment/rebuilding, it is possible that a generalised structural fault may be identified and require rectification outside of this programme. The increase in the cost of this risk takes the increasing age of the properties as well as rising construction costs.
- 2.11 Both items of public liability and employer liabilities reflect the rising incidence of claims generally and the new values represent the uninsured loss element of two claims per annum on average.
- 2.12 It is unlikely that a major defect will be discovered with the Authority's vehicles, however as the vehicle fleet includes a range of manufacturers such

an event is possible. The cost of this risk reflects that which could not be contained within the usual maintenance budgets.

- 2.13 Fuel costs continue to be a concern for the revenue budget generally, however should there be a major protest over fuel prices resulting in the significant disruption of supply, it will be necessary to put emergency arrangements in place.
- 2.14 Both items relating to legislative change are “back stop” amounts to deal with the possibility of early replacement or modification of equipment or vehicles as a result of changes in legislation from UK or Europe. Such changes would normally be signaled quite early.
- 2.15 Whilst the likelihood of a major CBRN incident is not considered to have increased, the original cost estimates of such a response were considered to be low. This risk is based on the assumption of a one in ten years probability.
- 2.16 As well as responding in general to flood risk with the Authority’s own resources and making an appropriate risk assessment relating to additional costs it is also necessary to consider the effect of deploying resources from other Fire and Rescue Services, sometimes for long periods, for which the Authority will receive a charge. The Belwin scheme, operated by Government, will mitigate some of this risk however it is important that an adequate provision is made.
- 2.17 Vehicles are insured on much the same basis as an individual might insure a car. An insurer will only pay out by way of claim, their assessed value of the vehicle at the time of the accident. In terms of fire appliances this can leave a significant shortfall between the insurance settlement and the amount required to settle a leasing contract. If the vehicle is owned by the Authority, the situation can be worsened by the requirement to not only replace an old vehicle with a new one but also make alternative arrangements for availability. This is even more apparent where the appliance concerned is a high rise or other specialist vehicle. Events at Buncefield show this to be a genuine concern.

3. FINANCIAL IMPLICATIONS

- 3.1 The maintenance of adequate working balances is a legal requirement under S27 Local Government Act 2003, and the Authority Treasurer is charged with determining the adequacy of those balances or as they are described in the Act, the “Controlled Reserve”.
- 3.2 There are no immediate effects on the revenue budget of the levels of working balances being held, save for the opportunity cost of not being able to use those resources elsewhere. The Authority has built up these balances over time and has no requirement to use revenue resources to maintain them, thus the opportunity for these sums to be used for other than “one off” purposes does not arise.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no personnel implications arising from this report.

5. EQUALITY IMPACT ASSESSMENT

An equality impact assessment has been undertaken and concludes that save for those items which relate specifically to the risks of non-compliance with legislation relating to equalities there are no further implications. The Equality Impact Assessment is given as Appendix A to this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. RISK MANAGEMENT IMPLICATIONS

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

8. RECOMMENDATIONS

That Members approve the level of working balances to be maintained at the current level of £2.64m.

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

None.

Frank Swann
CHIEF FIRE OFFICER

INITIAL EQUALITY IMPACT ASSESSMENT

Appendix A

Section	Manager	Date of Assessment	New or Existing
Finance	Neil Timms	15 January 2008	Existing- Revision
Name of Report to be assessed		Working Balances	
1. Briefly describe the aims, objectives and purpose of the report.		To set the level of Working Balances for 2008/9 and beyond	
2. Who is intended to benefit from this report and what are the outcomes?		The Authority as a whole by virtue of providing reserve sums that can meet unexpected "one off" expenditure within certain criteria.	
3. Who are the main stakeholders in relation to the report?		The Authority, The Treasurer,	
4. Who implements and who is responsible for the report?		Head of Finance and Resources	

5. Please identify the differential impact in the terms of the six strands below. Please tick yes if you have identified any differential impacts. Please state evidence of negative or positive impacts below.

<i>STRAND</i>	Y	N	<i>NEGATIVE IMPACT</i>	<i>POSITIVE IMPACT</i>
Race		N		
Gender		N		
Disability		N		
Religion or Belief		N		
Sexuality		N		
Age		N		

6. Can this adverse impact be justified on the grounds of promoting equality of opportunity for one group?	Y	N	7. Should the policy/service proceed to a full impact assessment?	Y	N
		N			N

I am satisfied that this policy has been successfully impact assessed. I understand the impact assessment of this policy is a statutory obligation and that, as owners of this policy, we take responsibility for the completion and quality of this process.

Signed (completing person).....Neil Timms.....

Date 15/1/2008.....

APPENDIX B

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	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	150,000	150,000	0

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	Revenue £
	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	3	5	None	N	15 over 5yrs	100,000	100,000	0
	Flooding Risk	Having to call in other Brigades	2	5	Belwin will cut in above 0.2% of Revenue Budget (£880,000)	N	1 in 4	880,000	250,000	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	200,000	200,000	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
	Serious Injury to Public	Reputation, Cost, Staff Time	4	5	Training and Procedures	Y	20 1 in 5yrs	20,000	20,000	0

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	Revenue £
Transport	Accidental Damage	Loss of use	5	5	Training, Procedures	Y	25 30 incidents	30,000		30,000
	Appliance written off in accident	Insurance receipt won't cover outstanding lease payments	4	3	Training, Procedures	N	12 1 in 2 years	100,000	100,000	
	Serious Injury to Staff	Cost, Staff time	4	5	Training and Procedures	Y	20 1 in 5yrs	20,000	20,000	0
	Major Vehicle Defect (fleet wide)	Loss of use, increased costs	2	5	None	N	10 1 in 5 yrs	50,000	50,000	0
	Increase in fuel prices	Increased Costs	4	3	None	N	12 General	20,000	20,000	0
	Legislative Change	Vehicle Modifications required	1	4	Currency of staff	N	4 1 in 10yrs	5,000	5,000	0
Equipment & PPE	Change in legislation	May require wholesale change in equipment	1	5	Usually not without notice	N	5 1 in 5yrs	50,000	50,000	0
	Major Defect	Increased Costs	2	5	Inspection routines	N	10 1 in 5yrs	10,000	10,000	0

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	Revenue £
Financial	Major Fraud	Cost	1	2	Internal Control	Y	2	0	0	
	Significant Increase in interest rates	Increased Costs	4	3	None	N	12 1 in 10yrs	5,000	5,000	
	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	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 10 yrs	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	50,000	50,000	0

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	Revenue £
	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	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
									2,621,000	