



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority

# WORKING BALANCES

Joint report of the Treasurer and Chief Fire Officer

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**Agenda Item No:**

**Date:** 20 February 2009

**Purpose of Report:**

To inform Members of the levels of working balances sufficient to meet the needs of the Authority during the 2009/10 financial year and beyond.

## CONTACT OFFICER

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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. A budget for 2009/10 is submitted to Members for approval elsewhere on this agenda. If approved, then 5% of that budget would equate to around £2.3m.
- 1.3 As in previous years, a risk based approach has been taken to determine a reasonable level of balances, rather than the 5% estimate. Based on a risk approach, the level of balances required for the current financial year was judged to be £2.6m, as reported to Members in February 2008.

## **2. REPORT**

### **RISK BASED APPROACH**

- 2.1 A review of the risk assessment has recently 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 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 wishes to adopt a low risk appetite and therefore the estimated levels of balances reflect this position.
- 2.5 The risk assessment review identified some changes in risks, both in terms of additional risks identified and the increased potential costs of existing risks.

- 2.6 The updated risk assessment shows that an appropriate level of working balances will be £3.3m.
- 2.7 The actual level of balances as at 31 March 2008 was £3.4m. The reason why this figure is higher than the level of balances shown to be required by last year's risk assessment review is because the 2007/08 budget was underspent, and the resulting surplus was added to working balances.

### **SIGNIFICANT CHANGES FROM THE 2007/08 RISK ASSESSMENT**

- 2.8 Overall the value of risk exposure has been increased by £665,000, made up as follows:

<b>Risk</b>	<b>Value 2008/09 £'s</b>	<b>Value 2009/10 £'s</b>	<b>Difference £'s</b>
Flooding risk – increased retained callouts	100,000	125,000	+25,000
Flood and other risk below Bellwin ceiling for outside assistance	250,000	40,000	-210,000
Structural problems with property	200,000	300,000	+100,000
Own damage to property	0	10,000	+10,000
Major vehicle defect	50,000	100,000	+50,000
Fuel resilience	20,000	70,000	+50,000
Legislative change requiring immediate expenditure	10,000	30,000	+20,000
Increased interest rates	5,000	50,000	+45,000
Adverse exchange rate fluctuations	0	150,000	+150,000
Bank or investment counterparty failure	0	200,000	+200,000
Higher than expected pay awards	500,000	650,000	+150,000
Increased costs relating to discrimination cases – amount revised to include costs as well as damages	100,000	175,000	+75,000
			<b>665,000</b>

- 2.9 The increasing frequency of spate conditions and the increasing costs that are incurred when deploying retained crews to incidents have caused this risk to increase in value. Cost estimates can be more accurate given recent experience of flooding incidents. However it is now assumed that the Bellwin scheme will cover any additional costs of using other Services to respond, above the Bellwin threshold, so the value of this risk has reduced.
- 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 reflects current experience of the costs of major refurbishment projects.

- 2.11 It has transpired that accidental damage to Service property by Service staff is uninsured, so this risk now needs to be provided for in balances.
- 2.12 It is unlikely that a major defect will be discovered with the Authority's vehicles, however as the Service is reducing the number of different types of appliances over time it is felt that the potential value of the risk could increase. The cost of this risk reflects that which could not be contained within the usual maintenance budgets.
- 2.13 The risk value of a possible fuel crisis reflects the actual impact on the revenue budget this year if the fuel price increases experienced earlier in the year had continued. 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 The risk of legislative change requiring expenditure covers 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, but it is felt that the risk value could be higher than the £10k previously assessed.
- 2.15 The global financial crisis has prompted the introduction of two new risks and has increased the value of the risk of interest rate changes. The new risks relate to adverse exchange rate fluctuations, which may already be a problem with the procurement of fire appliances from Europe, and the possibility of bank failure which has been experienced by other local authorities this year. There are control measures in place to reduce the risk of investing with banks which may fail, nevertheless it is felt that a risk remains in the current economic climate. The risk value of £200k is based on a 10% risk of losing £2m.
- 2.16 The risk value relating to pay awards has been updated to reflect an increasing pay budget and recent pay awards. It is based upon the possibility of a 2% error in estimates.
- 2.17 The potential costs associated with discrimination cases brought against the Authority have been increased to include legal costs as well as damages which could potentially be awarded against the Authority.

### **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 The risk assessment demonstrates that the level of balances should be in the order of £3.3m. The current level of balances, at £3.4m, is therefore deemed to be sufficient.

#### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development 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. LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

#### **8. RISK MANAGEMENT IMPLICATIONS**

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

#### **9. RECOMMENDATIONS**

That Members note that the Authority's current level of working balances is deemed sufficient to meet the risks and potential liabilities identified in the risk assessment.

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

None.

Peter Hurford  
TREASURER TO THE FIRE AUTHORITY

Frank Swann  
CHIEF FIRE OFFICER

## INITIAL EQUALITY IMPACT ASSESSMENT

Appendix A

<b>Section</b>	<b>Manager</b>	<b>Date of Assessment</b>	<b>New or Existing</b>
Finance	Neil Timms	23 January 2009	Existing- Revision
<b>Name of Report to be assessed</b>		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>	<b>Y</b>	<b>N</b>	<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?	<b>Y</b>	<b>N</b>	7. Should the policy/service proceed to a full impact assessment?	<b>Y</b>	<b>N</b>
		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 23/1/2009.....

**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 £350,000	5	5	Policies, Training, Procedures, Monitoring, Equality Officer	N	25 1 in 2yrs	175,000	175,000	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	5	5	Operating Procedures	Y	25 2 in 1yr	20,000		20,000
Pay Budgets	Hot Summers	Increased Retained Call Outs	2	5	None	N	10 1 in 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	2	5	Maintain adequate general contingency	N	10 over time 2% error	650,000	650,000	0
	Flooding Risk	Increased Retained Call outs	3	5	None	N	15 over 5yrs	125,000	125,000	0
	Flooding Risk	Having to call in other Brigades	2	5	Belwin will cut in above 0.2% of Revenue Budget (£93,000)	N	1 in 4	40,000	40,000	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	2	3	Structural survey AMP, planned rebuilds & refurbs	N	6 over 5 yrs	300,000	300,000	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	3	2	Risk Management	N	10 1 in 3 yrs	10,000	10,000	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	2	4	Training, Procedures	N	8 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	100,000	100,000	0
	Increase in fuel prices	Increased Costs	4	3	None	N	12 General	70,000	70,000	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 3yrs	50,000	50,000	
	Adverse exchange rate changes	Increased costs where contracts in foreign currency	1	4	Most contracts in sterling	N	4	150,000	150,000	0
	Failure of Financial Systems	Threat to Service	2	4	Contingency Plans	N	8	0	0	0
	Business failure of bank or investment counterparty	Loss of working capital or investment funds up to £2,000,000	1	5	Treasury Management Strategy	N	5 1 in 10 yrs	200,000	200,000	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

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	Revenue £
	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
	Terrorist attack on Emergency Services	Major loss of function	1	5	Contingency plans	Y	5 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	2	5	2.12 arrangements	N	10	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

Risk Category	Identified Hazard	Risk	Likelihood	Impact	Control Measure	Insurable	Risk Factor	Risk Value £	Reserves £	Revenue £
	Change in legislation	Increased costs	4	4	None. Awareness	N	16 1 in 5yrs	30,000	30,000	0
	Industrial dispute. Local/ National	Potential loss of service	5	5	Maintain adequate contingency	N	25 1 in 5yrs	500,000	500,000	0
								Total	3,286,000	