

WILTSHIRE & SWINDON FIRE AUTHORITY

REPORT REFERENCE NO.	7
MEETING	Wiltshire and Swindon Fire Authority
MEETING DATE	11 December 2014
SUBJECT OF REPORT	General Balances and Earmarked Reserves
LEAD OFFICER	Phil Chow, Brigade Manager – Governance & Assurance
RECOMMENDATIONS	<p>Members are asked to:-</p> <ul style="list-style-type: none"> • NOTE the level of general balances and earmarked reserves; and, • APPROVE the policy of maintaining a minimal level of risk assessed general balances at £1.5m, to be reviewed annually.
EXECUTIVE SUMMARY	<p>Wiltshire and Swindon Fire Authority became a precepting authority in April 2004 and since that time the Authority has maintained a general reserve to help deal with unexpected contingencies that cannot be managed within the annual revenue budget and to provide a working balance to help manage cashflow fluctuations arising from the normal business activities of the Authority. The Chief Finance Officer has carried out a risk assessment of the level of reserves for Wiltshire FRS, linked to the corporate risk register, which is subject to external scrutiny by our external auditors. Members are asked to review general balances and risk assessment with a view to establishing a new policy as recommended above.</p> <p>In addition to general balances, the Authority also hold usable earmarked reserves which have been established for specific purposes to meet expected future liabilities. These are detailed below.</p>
APPENDICES	Appendix A – General Reserves Risk Assessment

Introduction

- 1 Statutory provision is made under Section 31A and 42A of the Local Government Finance Act 1992 which requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 2 These requirements are reinforced by Section 114 of the Local Government Finance Act 1988, as amended, which requires the Chief Finance Officer to report to the Authority if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular year.
- 3 Whilst it is primarily the responsibility of the Authority and its Chief Finance Officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even where as part of their wider role have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for authorities in general.

Role of the Chief Finance Officer

- 4 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Finance Officer to advise the Authority about the level of reserves that they should hold and ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 5 The Authority should establish reserves including the level of the reserves based on the advice of the Chief Finance Officer and make their own judgements on such matters taking into account all the relevant local circumstances.

General Reserves

- 6 The Wiltshire and Swindon Fire Authority became a precepting authority in April 2004 and since that time the Authority has maintained a general reserve to help deal with unexpected contingencies that cannot be managed within the annual revenue budget and to provide a working balance to help manage cashflow fluctuations arising from the normal business activities of the Authority. The Chief Finance Officer has carried out a risk assessment of the level of reserves for Wiltshire FRS, linked to the corporate risk register, which is subject to external scrutiny by our external auditors. Appendix A shows the risk assessed level of reserves for Wiltshire FRS.
- 7 A similar exercise was also carried out for Dorset FRS and a combined risk assessment carried out should the combination proceed between Dorset Fire Authority and the Wiltshire and Swindon Fire Authority. A review was undertaken by our Internal Auditor (Swindon Borough Council) and the Auditor found that the process used to identify proposed general reserve balances was robust and that the calculation of the general reserves figure for a combined Authority, and the individual risk assessments, had followed the key principles in CIPFA's "Local Authority Reserves and Balances" guidance, issued in July 2014.
- 8 Wiltshire FRS current policy on general balances is to maintain between £0.6m and £1.5m. That said, as at April 1st 2014 general balances stand at £2.087m, exceeding the authority current policy levels. Members are asked to consider the risk assessment and are recommended to establish a minimum level of general reserves at £1.5m.

Earmarked (Usable) Reserves

- 9 In addition to general balances, the Authority hold usable earmarked reserves, i.e. reserves created for specific purposes distinguishable from non-usable or unusable reserves which arise out of the interaction of legislation and proper accounting practice to store revaluation gains or as adjustment accounts to reconcile requirements driven by reporting standards to statutory requirements. These unusable reserves are not resource backed and cannot be used for any purpose other than their intended accounting requirement.
- 10 Usable earmarked reserves as at 1 April 2014 are currently held (see table below) to meet expected future liabilities.
- 11 Included in the usable earmarked reserves are unused grants, that is, under the introduction of International Financial Reporting Standards regime, grant income received but not spent is now classified in an unused grants reserve and is available (set aside) to provide financing to meet the requirements or conditions of the grants.
- 12 For all other usable earmarked reserves, under the Code of Practice and the statutory reporting regime there is a clear requirement for clear, transparent reporting arrangements for reserves therefore in addition to the financial reporting requirements required under the Code, it is recommended that for each of the earmarked reserves there are clear protocols setting out:-
- the reason for/purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for reserve management and control; and,
 - a process and timescale for review of the reserve to ensure continued relevance and adequacy.
- 13 In summary, earmarked reserves held as at 1 April 2014 and projected balances as at the end of 2014/15 are:

Earmarked Reserve	Actual Balance 1st Apr 14 £m	Planned Use 2014/15 £m	Projected Balance 31st Mar 15 £m
Hydrants	0.119		0.119
Ill-Health Retirement	0.620	-0.059	0.561
Insurance	0.050		0.050
Part Time Workers(pensions)	1.000		1.000
Transformation Improvement	1.511		1.511
Training	0.035		0.035
Equipment	0.200	0.100	0.300
Community Safety Innovation	0.050		0.050
Planning Gain(Capital)	0.022		0.022
Combined Control (Contingency)	0.500		0.500
Business Rates Funding Adjustment	0.100		0.100
Car Scheme Liability	0.049		0.049
Unused Grants	1.711	-0.412	1.299
Total Earmarked Reserves	5.967		5.596

- 14 Hydrants Reserve: This reserve was established to meet the on going costs of hydrant installations chargeable from the utility companies following new installations of new

hydrants on new developments. Liabilities, which are the responsibility of the Fire Service, are often charged several years after hydrants have been installed. This reserve represents the estimated liability which will eventually or likely to be charged.

- 15 Ill –Health Retirement Reserve: This reserve was established to meet any future costs of ill-health retirements due to injury at work. This reserve was established when the responsibility for pensions transferred to DCLG when the 2006 pension scheme changes came into effect, requiring the one-off costs of any future ill-health retirements to be met by the Service.
- 16 Insurance Reserve: This reserve was established to cover an excess charge of £50,000 should the service have a major insurance claim.
- 17 Part-Time Workers(Pensions) Reserve: This reserve was established to cover future pension liabilities following the settlement of an employment tribunal claim whereby on-call firefighters were awarded the same benefits as wholetime firefighters. This is currently being resolved and the reserve is expected to be used in 2015/16. It is not yet known whether the £1m reserve will be sufficient to cover all claims, however should this be the case, costs in excess of £1m will have to be met from general reserves and balances.
- 18 Transformation Improvement Reserve: This reserve was established from previous years' underspendings to cover the costs of transformational improvement that will be required due to reduced government funding and unfavourable financial settlements throughout the Comprehensive Spending Review 2010 (SCR2010) and the Spending Round 2013 (SR2013) periods.
- 19 Training Reserve: Essential training is provided to all staff. This reserve was established to meet the costs of further education and development where this leads to recognised qualifications and to lessen the impact of timing of external training provision as often courses span more than one year.
- 20 Equipment Reserve: On a cyclical basis, 7-10 years, there are major equipment refresh requirements. To soften the impact in one year (i.e. when the refresh is required) prudent budget provision is made for a £0.100m contribution to the equipment reserve, allowing the Service to spread the costs of major equipment purchases over many years. Examples of this include the major refresh of Breathing Apparatus (BA) equipment and Personal Protective Equipment (PPE).
- 21 Community Safety Innovation Reserve: Bids can be made for additional funds in year which are innovative and have a community safety theme at the heart of the bid. These are for one-off projects, not for 'business as usual' activities, but are linked into the community safety and community engagement programmes and strategies.
- 22 Planning Gain (Capital) Reserve: Funds collected from Wiltshire Council and Swindon Borough Council under Section 106 arrangements are held for future capital development in the respective areas. Balances are held until such time capital programmes are implemented in accordance with the section 106 requirements.
- 23 Combined Control Contingency Reserve: A contingency fund was established in 2013/14 to offset the costs of implementing the Joint Command and Control Centre Project, i.e. integrating Wiltshire FRS and Dorset FRS Control functions at Potterne HQ.
- 24 Business Rates Funding Adjustments Reserve: The Business Rates Retention Scheme was introduced in 2014/15, where Business Rates receipts received annually by the billing authorities, Wiltshire Council and Swindon Borough Council, are

proportionally allocated to all major precepting authorities as part of their core funding. Owing to the volatility surrounding the amount, the timing and the uncertainty of the receipts, an initial reserve was established at £0.100m to guard against the risks of insufficient funding in year for the financing of the current years and future years budgets.

- 25 Car Scheme Liability: The introduction of the provided cars primarily for Flexi Duty Officers over the last few years has resulted in additional tax liabilities which the Service is currently resolving. This reserve was established to meet the costs of this and it is anticipated that the liabilities will be cleared later this year or in the early part of 2015/16.

Statement of Accounts

- 26 As part of the statutory accounting requirements, details are reported each year in the audited Statement of Accounts approved by the Finance Review and Audit Committee in September each year, for the previous year, on the position of reserves and associated movements, not just for the useable general and earmarked reserves, but also the unusable reserves.

Policy Implications

- 27 Members are asked to establish the policy of maintaining a minimal level of risk assessed general balances at £1.5m, to be reviewed annually.

Risks

- 28 Maintaining a level of risk assessed general balances will not only provide a cushion against unexpected financial and significant future budget pressures but will provide some assurance on the longer term sustainability of the service. There are risks that should the level of general balanced be reduced significantly not only would there be concerns from our external auditors about going concern, there would be a significant reduction in the Services flexibility or ability to provide adequate and effective services to the communities in which we serve.

HR, Equality and Diversity Implications

- 29 None as a direct result of this report.

Environmental Implications

- 30 None as a direct result of this report.

Financial and Legal Implications

- 31 None, other than those identified in the main body of the report.

Combination Implications

- 32 None, other than those identified in the man body of the report.

Recommendations

33 Members are asked to:-

- NOTE the level of general balances and earmarked reserves, and
- APPROVE the policy of maintaining a minimal level of risk assessed general balances at £1.5m, to be reviewed annually.

Phil Chow

Brigade Manager –
Governance & Assurance

Unpublished documents used in the preparation of this report:

None

Author:

Phil Chow, tel. 01380 731150, e-mail phil.chow@wiltsfire.gov.uk

Media enquiries concerning this report should be made to:

Phil Chow, tel. 01380 731150, e-mail phil.chow@wiltsfire.gov.uk