

TAYSIDE FIRE AND RESCUE BOARD**REPORT BY THE CHIEF FIRE OFFICER AND TREASURER****11 MAY 2009**

RESERVES STRATEGY**Abstract**

This Report recommends a strategy for managing the Board's reserves.

1 RECOMMENDATIONS

It is recommended that the Board approves:

- (i) the proposals to earmark General Fund balances set out in the Report.
- (ii) the proposed approach to managing uncommitted General Fund balances set out in the Report.

2 BACKGROUND

In accordance with the existing statutory and regulatory framework the Treasurer as Responsible Financial Officer (or "Proper Officer") is responsible for advising the Board on the level of reserves it should hold. This Report is intended to fulfil that remit. CIPFA Local Authority Advisory Panel Bulletin 77 published in November 2008 provides guidance on the establishment and maintenance of reserves and balances and has informed the preparation of this Report.

In determining medium term financial plans and preparing budgets the Board needs to consider the establishment and maintenance of reserves in accordance with its statutory powers. Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- A means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

Fire and Rescue Boards are permitted by statute to make a contribution to reserves in-year of an amount not greater than 3% of the budgeted net revenue expenditure for that year and, retain a maximum cumulative uncommitted balance within their General Reserve of 5% of the budgeted net revenue expenditure for that year. This excludes the earmarked pensions reserve.

The projected outturn position as at 31 March 2009 for the General Reserve will now be considered and recommendations made regarding future strategy.

3 EARMARKED AND GENERAL RESERVE BALANCES

A report submitted to this meeting details the projected outturn for 2008/09.

This indicates a projected uncommitted General Reserve balance of £1,084,000 and an earmarked balance for pensions commutations of £284,000 as at 31 March 2009.

The Board is asked to endorse each of the proposals to earmark reserves before agreeing to an appropriate approach to determining the level of uncommitted reserves held on the General Fund. Each of these proposals is, therefore, dealt with in more detail below.

3.1 Earmarked Balance for Pensions Commutations

£284,000 is contained within the overall Reserves to pay the pension commutations of officers who have been eligible to retire in the past but have chosen not to. This has, in effect been “set aside” or committed, to eliminate the strain on the revenue budget in the year in which they choose to retire. This is consistent with the historic treatment of these liabilities within Tayside Fire and Rescue and is common practice throughout all of the fire and rescue services nationally. It is recommended that management of the pensions reserve continue in this manner.

3.2 Earmarked Balance for Support for the Revenue Budget

The Board approved a contribution from the General Reserve in setting the 2009/10 Revenue Budget. This requires to be taken into account when calculating the total uncommitted Reserve balance. This contribution amounted to £20,000.

4 MANAGING UNCOMMITTED GENERAL RESERVE BALANCES

In order to assess the adequacy of unallocated or uncommitted General Reserves it is necessary to take account of the strategic, operational and financial risks facing the authority.

4.1 Single Status Job Evaluation & Appeals/Equal Pay Claims

The proposed new pay and grading structure is now known and the resulting associated costs have been included in the support staff costs including on-costs. As a result of the implementation of the Single Status agreement there are a number of appeals to be heard which could have a potential affect on the staff costs budget. The Single Status agreement was introduced and agreed as a means of addressing Equal Pay issues, however it does not preclude any equal pay claims being taken against the organisation. No provision has been made for the settlement of equal pay claims or the backdated element of any successful Single Status appeals, and it is envisaged that these would be required to be settled from the Board’s uncommitted reserves.

The Single Status appeals process is currently ongoing and the actual costs of successful appeals cannot be determined until the outcome of this process has been costed. However, any successful appeals as a result of this process will be backdated to 1 August 2008 which was the date that the Single Status agreement was implemented.

4.2 Level of Retained Firefighter Activity

A natural disaster such as woodland fire or flooding can result in the costs relating to retained firefighters escalating beyond the provision made in the revenue budget which is based on historical trends.

Additional costs, if they were significant would require to be paid from the Board's uncommitted reserve.

4.3 Transfers Out

Due to the nature of the firefighters pension scheme, no provision is made for payments of pensions in respect of personnel transferring out of Tayside Fire and Rescue. Depending on seniority and length of service this could be a considerable value. Based on historical data, a transfer value for a senior member of staff could cost in excess of £400,000. Again any significant value would be required to be paid from the Board's uncommitted reserves. It should be noted that this is a short term issue and should be mitigated by changes to the the Firefighters Pension Scheme in 2010/11.

4.4 Accrued Holiday Pay

As a result of the application of the International Financial Reporting Standards (IFRS) there will be a requirement in the future to accrue outstanding holiday pay for all employees. At the moment it is hoped that statutory guidance will be issued which will mitigate the impact of the change on the Board's financial position, however, at the time of this Report no guidance has been issued, and there remains a risk that the impact of the change will require to be financed from the uncommitted reserve balance.

4.5 Capacity to Achieve a Surplus

In determining the Board's reserves strategy it should be understood that there are significant constraints on the Board's capacity to achieve surpluses on it's revenue account in the future. These constraints arise from the generally tight budgetary environment anticipated over the medium term. It would, therefore, be prudent to maintain reserve balances at a level that reflects the uncertain times ahead.

4.6 Political, Economic and Social Risks

At present, the UK economy is experiencing a period of recession which will have an impact upon the Board.

Where possible, forecasts of cost increases and loss of income have been incorporated in the Revenue Budget for 2009/10. Inevitably, however, there remains some uncertainty in respect of the spectrum of activity undertaken by the Board and the wide ranging impact of the economic recession

The changing political landscape nationally also has a significant impact on the Board's financial planning process. There has been no settlement announcement for 2010/11, and beyond, and the Board faces considerable uncertainty about the level of funding it will receive in future years from the constituent Councils. It is probable that the amount received will be less than that assumed when setting the provisional budget for 2010/11 in February 2008. This remains the biggest single risk which the Board will face with regard to its financial position in the medium term. There is a strong likelihood that the Board will require to have the financial resources to manage a transitional period during which it will face the impact of significant efficiency savings and cuts to funding.

In addition to the risks arising from the uncertainties over external influences such as inflation and interest rates, the reserves strategy needs to take account of risks inherent in managing other influences on service delivery. Although the Revenue Budget for 2009/10 makes allowance for the anticipated costs of service delivery there are inevitably uncertainties inherent in budget preparation. These include legislative and

national policy influences; the ability to deliver on proposed savings and efficiencies; the possibility of unbudgeted retirement costs and many others. It is anticipated that Tayside Fire and Rescue will be asked to contain these types of unbudgeted cost pressures wherever possible, but there may be occasions where this is not possible and the Board's reserves have to be utilised.

4.7 Severe Weather and Flooding

The Board has extensive experience of flood events in recent years and the potential for incurring unbudgeted costs as a result of these is significant.

The Board's practice in respect of unbudgeted severe weather costs in recent years has been to fund them through savings against other budgets as well as reserves. It is anticipated that alternative savings would be sought where possible in the event of severe weather. Notwithstanding this, the probability and potential financial impact of severe weather is such that this risk must be a consideration in developing a reserves strategy.

4.8 Proposed Level of Uncommitted General Fund Reserves

Taking account of all of the above factors it is recommended that, in the medium term, the Board's reserves should be kept at a balance as close to the statutory threshold of 5% of the Board's net revenue expenditure as possible. Based on the Net Revenue Budget for 2009/10 of approximately £29 million this would imply a maximum level of approximately £1.45 million for 2009/10.

A comparison with the forecast position set out at 3.2 above indicates that the Board's projected uncommitted reserves were approximately £1.08million at 31st March 2009 or approximately 3.7% of the Net Provisional Revenue Budget for 2009/10.

Details of the estimated Reserve balances for the medium term are as follows:

	2008/09	2009/10	2010/11
	£'000	£'000	£'000
General Fund Balance Brought Forward	1,836	1,368	1,064
Projected / Budgeted Deficit for Year	(188)	(20)	0
Projected Pension Commutation Paid from Earmarked Balance	(280)	(284)	0
General Fund Balance Carried Forward	1,368	1,064	1,064
Pension Commutation Balance Remaining in General Fund	(284)	0	0
Projected Uncommitted Year End Balance	1,084	1,064	1,064
Projected Uncommitted Balance as a % of Revenue Budget	3.7%	3.6%	3.6%

The above table assumes that there will be a break even situation on the Revenue Account over the next two years. It is therefore, recommended that, in order to maintain the General Reserve balance at as close as possible to the maximum 5% of the Net Revenue Budget, if any surpluses are achieved in the medium term, they be added to the General Reserve to provide for future budget constraints and elements which have been

detailed earlier in this Report. In the event that any use of General Fund reserves is made, this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of reserves.

5 CONSULTATION

The Clerk has been consulted in the preparation of this Report

6 FINANCIAL IMPLICATIONS

There are no financial implications arising directly from the proposals in this Report.

7 CONCLUSION

This Report makes recommendations in respect of managing the Board's reserves.

- (i) The proposals for earmarking General Reserve balances are outlined in section 3 above. In financial terms the most significant of these relate to the use of the Board's Reserves to continue to be earmarked for payment of pensions commutations.
- (ii) After taking account of the proposals for earmarking balances and based on an assessment of financial risks over the medium term, it is recommended that the Board maintain a level of uncommitted General Fund reserves as close to 5% of the Net Revenue Budget as is possible, and, that any surpluses achieved be placed in the uncommitted reserves. In the event that any use of General Reserve is made in determining future Revenue Budget this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent on the continuing use of reserves.

S Hunter
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Background Papers

No background papers, as defined in section 50d of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

Fire and Rescue Headquarters
DUNDEE

