

**TAYSIDE FIRE AND RESCUE BOARD****REPORT BY THE CHIEF FIRE OFFICER AND TREASURER****1 FEBRUARY 2010**

---

**RESERVES STRATEGY****Abstract**

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

**1 RECOMMENDATION**

It is recommended that the Board approves 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.

The projected outturn position as at 31 March 2010 for the General Reserve will now be considered and recommendations made regarding future strategy.

### **3 EARMARKED AND GENERAL RESERVE BALANCES**

#### **3.1 General Reserve Balance**

A report submitted to this meeting details the projected outturn for 2009/10.

This indicates a projected uncommitted General Reserve balance of £898,517 as at 31 March 2010.

The Board is asked to note each of the issues relating to the management of the uncommitted general reserve balances which are detailed in Section 4 below.

#### **3.2 Earmarked Balance for Pensions Commutations**

This balance is no longer required to be held by the Board and will be transferred to the Scottish Government as at 1 April 2010. It is therefore recommended that no part of the General Reserve is earmarked for and purpose during 2009/10.

### **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 Board.

#### **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. As a result of the pensions legislation recently introduced, no transfer values are payable or receivable for transfers occurring between Scottish fire and rescue services, however, these continue to be applicable for transfers to and from services within England, Wales and Northern Ireland. 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.

#### **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 anticipated 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 its revenue account in the future. These constraints arise from the tight budgetary environment anticipated over the medium to long 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 2010/11. 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 future settlement announcements and the Board faces considerable uncertainty about the level of funding it will receive in future years from the constituent Councils. This remains the biggest single risk which the Board will face with regard to its financial position in the medium to long 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 2010/11 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 ill health 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 felt 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 2010/11 of approximately £24.8 million this would imply a maximum level of approximately £1.24 million for 2010/11.

A comparison with the forecast position set out at 3.1 above indicates that the Board's projected uncommitted reserves will be approximately £898,517 at 31 March 2010 or approximately 3.6% of the Net Provisional Revenue Budget for 2010/11.

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

	<b>2009/10</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
General Fund Balance Brought Forward	1,853	899
Projected / Budgeted Deficit for Year	(181)	0
Projected Pension Commutation Paid from Earmarked Balance	(773)	0
General Fund Balance Carried Forward Forward	899	899
Pension Commutation Balance Remaining in General Fund	0	0
Projected Uncommitted Year End Balance	899	899
Projected Uncommitted Balance as a % of Provisional 2010/11 Revenue Budget	3.6%	3.6%

The above table assumes that there will be a break even situation on the Revenue Account in 2010/11. 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 assist in the management of future budget constraints as 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.

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 General Reserve. In the event that any use of General Reserve is made in determining future Revenue Budgets 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  
Chief Fire Officer

J Symon  
Treasurer

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

