

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	DSFRA/09/5
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (BUDGET MEETING)
DATE OF MEETING	16 FEBRUARY 2009
SUBJECT OF REPORT	STATEMENT ON THE ROBUSTNESS OF THE BUDGET ESTIMATES AND ADEQUACY OF THE DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY'S LEVELS OF RESERVES
LEAD OFFICER	Treasurer
RECOMMENDATIONS	<i>That the report be noted.</i>
EXECUTIVE SUMMARY	This report informs the Authority of the Treasurer's views on the robustness of the budget estimates for 2009/2010 and the adequacy of the level of reserves.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	A. Budget Setting 2009/2010 – Assessment of budgets subject to volatile changes.
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

- 1.1 It is a legal requirement under Section 25 of the Local Government Act 2003, that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions.

2. THE ROBUSTNESS OF THE 2009/2010 BUDGET OPTIONS

- 2.1 Within the main budget report (report DSFRA/09/xx) considered elsewhere on the agenda, are included four options (Options A to D) of revenue budget and council tax levels for 2009/2010. Paragraph 7 of that report provides an assessment for each option, including;
- proposals for budget reductions for each option;
 - a risk assessment for each of those reductions, and
 - a forecast of the impact to budget setting for the following two financial years; 2010/2011 and 2011/2012.
- 2.2 It is important to emphasise that the recent grant settlement is now a three-year settlement. Whilst it is still only a requirement, at this time, that decisions on the level of budget and council tax are only required for the forthcoming financial year, those decisions are informed by the impact to years 2010/2011 and 2011/2012. With this in mind, it is my view that decisions relating to the setting of the levels of revenue budget and council tax for 2009/2010, are taken in the context of medium term financial planning, rather than just 2009/2010
- 2.3 The preparation process for the 2009/2010 budget has included an assessment of the risks associated with each budget head. It should be remembered that these assessments are being made for a period up to the 31st March 2010, in which time certain budget lines will be subject to external pressures that may be difficult for the Fire and Rescue Authority to control. Retained Pay costs, for example, are in part, dependent on the number of call outs during the year. Other budgets, such as fuel are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in the appendix to this report, along with details of the action taken to mitigate each of these identified risks.

3. THE ADEQUACY OF THE LEVEL OF RESERVES

- 3.1 It should be noted that 2009/2010 is only the sixth year that Combined Fire and Rescue Authorities have had the legal power to hold reserves. This new power emanates from the legislative change from 2004/2005 that gave Combined Fire and Rescue Authorities major precepting status. This being the case a strategy was adopted, by the then Devon FRA, to build Reserve levels up over a period of time, as the only funding available to build up the Reserve balance to recommended levels was to make contributions from the Revenue budget.
- 3.2 The current level of General Reserve balances for the authority is £4.291 million. This represents 6.1% of the revenue budget. The last financial year 2007/2008 was the first time that the Authority (and Devon FRA before 1 April 2007) have been able to build Reserve balances to a position of being in excess of 5% of the revenue budget, this being the minimum level of reserves recommended by the Audit Commission.

- 3.3 In terms of the level of General Reserve for next year, this will be dependent on the revenue outturn position for the current financial year and the extent to which reserves may be required in the remainder of the current financial year, and during 2010/2011. The latest budget monitoring report, considered at the meeting of the Resources Committee held on the 4 February 2009, indicates that spending against the current year's revenue budget will be £0.665 million less than budget. If this position proves to be correct, then this amount would be available to be transferred to the General Reserve at the year-end. This would increase the level of Reserves to as at 1st April 2009 to approximately £5 million, representing 6.9% of the 2009/2010 revenue budget.
- 3.4 Whilst this represents an improved position from recent years, a level of 6.9% of the revenue budget is low when compared to the national average of 13.5% for all Fire and Rescue Authorities, upper quartile of 15.0% and lower quartile of 8.0%. Consequently, even at 6.9% this Authority's reserve level would still be the fourth lowest of all combined fire and rescue authorities in the country, positioning this Authority at 29 out of 33.
- 3.5 It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in the last two years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. In terms of a strategy for Reserve balances, the Authority at its budget meeting last year resolved to adopt an "in principle" strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment (Minute DSFRA/80 refers). This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.
- 3.6 The deterioration of the banking system and the potential loss of local authority investments from the Icelandic banks provide a stark reminder of why reserve balances are needed. While this Authority is not directly impacted by the Icelandic bank situation (as these banks are not included on the list of financial institutions the Authority invests with), it was exposed by the problems of Northern Rock at the time that that bank was in trouble during 2007.
- 3.7 As a consequence of the Icelandic bank position the Chartered Institute of Public Finance and Accountancy (CIPFA) immediately introduced a new Local Authority Accounting Principle in November 2008 (LAAP 77) bulletin to provide further guidance to local authority chief finance officers on the establishment and maintenance of local authority reserves and balances, which should be followed as a matter of course. Whilst this bulletin 'stopped short' of advising of a minimum level of reserves, it acted as a further reminder that it is for the authority, on the advice of the chief finance officer, to make their own judgements on such matters based upon local circumstances
- 3.8 The impact of flooding and the problems experienced by the global financial markets are just two examples, highlighted within the bulletin, of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

3.9 Given the current economic climate and the increased risk to the Service budget from the impact of the economic downturn, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through the downturn period. It should also be emphasised that the extent to which Reserve balances are utilised in 2009/2010, would mean that a strategy, to deliver efficiency savings in 2010/2011 and beyond, would need to be developed in order to fund that amount for the long term. This is because contributions from Reserves can only be used once and do not provide a long term solution to the funding long term commitments.

4. CONCLUSION

4.1 It is considered that each of the four budget proposals are deliverable and that their implementation will not increase the Authority's risk exposure to an unacceptable level. The estimated level of reserves of £5m is judged to be adequate to meet all reasonable forecasts of future liabilities.

KEVIN WOODWARD
Treasurer

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY

BUDGET SETTING 2009/2010 - ASSESSMENT OF BUDGETS SUBJECT TO VOLATILE
CHANGES

Budget Head	DRAFT BUDGET 2009/2010 £000	RISK AND IMPACT	MITIGATION
Retained Pay Costs	12,276	Many of the costs associated with retained pay are directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict with certainty. Abnormally high or low levels of calls could result in significant variations against budget provision.	In establishing a General Reserve for 2009/2010, allowance has been made for a potential overspend on this budget. The amount is largely based upon the required local contribution to the costs of a major incident covered under the 'Bellwin' Scheme. This risk will also be mitigated by the phased introduction of the new duty system for retained staff.
Service Control Costs	1,883	In light of the recent announcement from the CLG to delay the implementation of the South West Regional Control Centre until 2010, the Service will continue to fund the pay costs of the existing two control rooms in Devon and Somerset for the whole of the 2009/2010 financial year. No provision has been made for any transition costs, however, on the basis that these costs will be fully met from New Burdens grant from the CLG. In addition, no provision has been made for any refresh of existing control systems, in the event that the implementation of the regional control centre is delayed any further.	An earmarked Reserve of £0.185m has been established to provide some financial contingency relating to transitional costs associated with the implementation of the regional control centre (RCC), and the Firelink project, particularly the need to keep existing control rooms operational until cutover to the RCC.

Budget Head	DRAFT BUDGET 2009/2010 £000	RISK AND IMPACT	MITIGATION
Firefighter' s Pensions Scheme	1,959	<p>Whilst the recent change in the funding arrangements for the firefighters pension scheme has removed much of the volatility from the previous pay-as-you-go arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.</p> <p>In addition, guidance is still awaited relating to the outcome of the Part-Time Workers (less than favourable working conditions) tribunal, which during 2008 ruled in favour of retained firefighters in so much as they should enjoy similar pension and sickness benefits as wholtime firefighters. Given the significant number of retained firefighters employed by the Service, and the fact that this ruling will be backdated, potentially to the year 2000, this ruling could have a significant impact on the Service budget.</p>	<p>In establishing a General Reserve for 2009/2010 an allowance has been made for a potential overspend on this budget. The figure is based upon a further two ill health retirements during the year; over and above the number budgeted for.</p> <p>The Service budget for 2009/2010 has made some allowance for the impact of the ruling from the Part Time Workers tribunal, but until more definitive guidance is released, expected to be during the spring of 2009, the full extent of the impact to the Service budget cannot be quantified.</p>
Insurance Costs	750	<p>The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.</p>	<p>In establishing a General Reserve for 2009/2010, allowance has been made for a potential overspend on this budget. The amount is largely based upon the occurrence of one aerial platform appliance being totally written-off.</p>

Budget Head	DRAFT BUDGET 2009/2010 £000	RISK AND IMPACT	MITIGATION
Income	(1,024)	<p>Whilst the authority has only limited ability to generate income, the extent to which income budgets are achievable will be dependent on the full impact of the economic downturn.</p> <p>The delivery of income targets from external training activities and investment income, in particular, could be at risk.</p>	<p>Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible. In addition, the assessment of the level of general reserve for 2009/2010 has made some allowance for a reduction in income.</p>
Capital Programme	8,738	<p>Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.</p>	<p>Capital projects are subject to risk management processes that quantify risks and identify appropriate management action.</p> <p>Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.</p>