

Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority



COMBINED FIRE AUTHORITY

13 FEBRUARY 2018

BUDGET 2018/19 REPORT UNDER SECTION 25 OF LOCAL GOVERNMENT ACT 2003

REPORT OF TREASURER

Purpose of Report

1. The purpose of this report is to provide Members with information on the robustness of the estimates and the adequacy of reserves, so that Members have authoritative advice available when they make their budget decisions.

Background

2. Fire and Rescue Authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on the service.
3. The decision on the level of the council tax is taken before the year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
 - a) making prudent allowance in the estimates for each of the services, and;
 - b) ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
4. Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer reports to the Authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that members will have authoritative advice available to them when they make their decisions.

Section 25 also requires members to have regard to the report in making their decisions.

Robustness of Estimates

5. The budget process has involved members and staff in a thorough examination of the budget now recommended to the Authority.
6. The proposals for savings identified for 2018/19 have been reviewed and reported to the Finance and General Purposes Committee. Based on the Committee's recommendation to the Authority, a decision has been taken to incorporate these areas into the budget for 2018/19.
7. In coming to the decision to include the savings in the budget, risks have also been identified. It is anticipated that these risks can be managed using contingencies and, if necessary, reserves.
8. The budget has been the subject of extensive consultation and challenge. Community representatives and the representatives of the National Non-Domestic Rate Payers have had the opportunity to comment on the budget and the proposals.
9. In my view, the robustness of the estimates has been ensured by the budget process, which has enabled all practical steps to be taken to identify and make provision for the Authority's commitments in 2018/19.
10. It should be noted that plans for 2019/20, 2020/21 and 2021/22 are based on a range of assumptions. Estimates for these years are therefore less robust at this stage.

Adequacy of Reserves

11. The CIPFA Local Authority Accounting Panel (LAAP) has issued a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 55) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's 2003 Statement on the Role of the Finance Director in Local Government. It would be best practice to follow this guidance.
12. The guidance however, states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the budget. Each local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.
13. The revised draft Fire and Rescue National Framework for England document, makes specific reference to reserves and requires fire and rescue authorities (FRA's) to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's medium term financial plan. In light of the requirements set out in the document a review of the reserves currently held by the Authority has been carried out and it is proposed that the general reserve is reduced from the current level of 10% of budget to 5%. A general reserve of 5% of budget is considered to be adequate taking account of the risks associated with the medium term financial plan and the Authority's track record of delivering efficiency savings and sound budget management.

14. The revised reserves policy is that the Authority will:
 - Set aside sufficient sums in earmarked reserves as it considers prudent to do so. The Treasurer will be authorised to establish such reserves as required and to review them for adequacy and purpose on a regular basis.
 - Aim to maintain a general reserve of 5% of net expenditure, currently £1.424m.
15. In coming to a view on the adequacy of reserves, account needs to be taken of the risks facing the Authority. The Annual Governance Statement, within the Authority's Statement of Accounts, gives assurance in relation to the organisation's arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.
16. The risk management process has identified a number of key risks which could impact on the Authority's resources. These risks which are outlined in the Authority's Medium Term Financial Plan are likely to impact in the short to medium term.
17. The setting of the level of reserves is an important decision, not only in the budget for 2018/19, but also in the formulation of the Medium Term Financial Plan.
18. In my view, if the Authority were to accept the Finance and General Purposes Committee's recommendations regarding the level of council tax, savings and capital expenditure then the level of risks identified in the budget process, alongside the Authority's financial management arrangements, suggest that the level of reserves is adequate.

Recommendation

19. Members are **recommended** to have regard to this report when approving the budget and the level of council tax for 2018/19.