

TYNE AND WEAR FIRE AND RESCUE AUTHORITY**MEETING: 13TH JUNE 2011**

REVENUE BUDGET OUTTURN 2010/2011 AND REVENUE BUDGET FIRST REVIEW 2011/2012

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1. INTRODUCTION

- 1.1 The Authority's Statement of Accounts for 2010/2011 is currently being prepared and will be presented to the Authority's Governance Committee on 18th July, 2011.
- 1.2 Whilst preparation of the Statement of Accounts is ongoing, and the final outturn position may be subject to change, this report advises Members of the Revenue Budget Outturn position for 2010/2011 as it currently stands, outlining the main areas of variance and any related proposed actions. It is proposed that the Finance Officer, in consultation with the Chief Fire Officer and the Chairman of the Authority, be given delegated authority to take any additional final account decisions beyond those included in this report. If any material changes occur to the position now outlined, these will be reported to the Authority.

2. REVENUE OUTTURN 2010/2011

- 2.1 A summarised Revenue Budget Outturn is shown at Appendix A. This Outturn statement shows spend against both the original and revised budget. A small number of issues have still to be resolved, and it is possible that the Outturn position will change as the Statement of Accounts is progressed, though any changes are unlikely to have a material impact on the Authority's position.
- 2.2 It should be noted that the Outturn statement does not include provision for charges associated with compliance with the International Accounting Standard IAS 19 (formerly FRS 17), which deals with accounting for pensions, and which has an overall neutral effect on the financial position of the Fire Authority, in accordance with the Statement of Recommended Practice. Adjustments relating to charges associated with compliance with IAS 19 will be reflected in the Authority's Statement of Accounts.

Outturn Position

- 2.3 The Third Review, reported to Members in January 2011, identified a neutral position. At the same time, the report identified a provision for the purchase of vehicles due to the outcome of recent option appraisals where the best value option was to purchase outright. This also provides additional flexibility when profiling replacement vehicles in the future.
- 2.4 The Revenue Budget Outturn for 2010/2011 shows a net under spend of £0.199 million (an increase of £0.199 million from the Third Review) This net underspend reflects the following:
- underspendings on various budget headings, detailed at paragraph 2.5;
 - the proposed transfers to earmarked reserves, detailed at paragraphs 2.8 to 2.12;
 - the proposed carry forward of delegated budget surpluses, detailed at paragraph 2.8.

Main Variances

- 2.5 The main areas of variance from the Third Review are detailed below. Where relevant, this includes a brief assessment of any ongoing impact into 2011/2012. A full base budget review will be undertaken when setting the 2012/2013 budget later in this financial year, and this will take full account of the variances identified below.
- Employee Costs (£685,000 underspend) – the main area of underspend is a freeze on filling vacancies in response to the Spending Review 2010 and the Provisional Local Government Finance Settlement 2011/2012. There has also been an increase in the number of retirements and the effect of managing some of the changes to operational staffing requirements has also contributed to the underspend.
 - Firefighter Ill Health Retirements (£83,000 underspend) – as reported at Third Review, there had been no Ill Health retirements to date in 2010/2011. This position has not changed at the year end.
 - Premises (£105,000 underspend) – the main area of underspend relates to utility costs where, given the significant volatility in market prices in recent years, the Authority had taken a prudent approach to the expected level of price increases when setting the budget for 2010/2011. The price increase was less than anticipated and energy efficiency measures have also contributed to the level of underspend.

- Transport (£108,000 underspend) – the Authority carries out a full option appraisal when deciding how to finance assets purchased through the Vehicle Replacement Programme. In 2010/2011, a number of vehicles that had been anticipated to be leased were purchased following an options appraisal exercise which identified this was the best value option for the Authority. This has resulted in an underspend on the leasing budget. The impact of this underspend will be ongoing into 2011/2012, as noted in the 2011/2012 Revenue Budget First Review, at paragraph 3.2.
- Supplies (£153,000 underspend) – the Authority had set aside budget to fund special one off items including the purchase of winter tyres and Personal Protection equipment. These purchases have been able to be managed from within Budget Managers delegated budgets resulting in an underspend.
- Insurances (£40,000 underspend) – supported by the lead authority, the Authority has been successful in recent years in reducing its risk and exposure to insurance claims. As a result, the cost of insurances during 2010/2011 was lower than the budget. The budget for 2011/2012 was set taking account of a reduction in insurance costs.
- Capital Financing (£2,101,000 planned overspend) – After taking into account reported slippage of £429,000, capital financing has been increased to facilitate the planned purchase of a number of vehicles including 9 fire tenders and an Aerial Ladder Platform. Consequently a provision of £1,491,000 had been set aside from the previous revenue reviews in order to contribute to the anticipated purchase of these vehicles. This has resulted in ongoing revenue savings through reduced leasing payment in year and for future years.
- Interest Payable (£136,000 underspend) – all borrowings are undertaken on the authority's behalf by the lead authority, and following a restructuring of its debt portfolio, the lead authority delivered lower borrowing costs than originally anticipated.
- Fees and Charges (£108,000 over recovery) – as reported at the Second Review the Authority had anticipated an under recovery of income from its conferencing and training facilities due to the economic difficulties felt by many organisations. This under recovery however has not materialised and income levels have matched the targets originally set.
- Grants (£68,000 over recovery) – the Authority's amount of New Dimension Grant received was greater than originally anticipated due to additional funds being awarded for training for Urban Search and Rescue and Detection, Identification and Monitoring of unknown substances.

- Other Variances (£214,000 underspend) – a number of minor variances have arisen during the year including a small underspend on the Carbon Management Plan due to delays in the implementation of the project.

Vehicle Purchases

- 2.7 As reported in the Capital Programme Outturn report on this agenda following the completion of an option appraisal, Vehicles have been purchased totalling £2,390,000. The cost of the vehicles has been met by an increased Revenue Contribution to Capital.

Earmarked Reserves

- 2.8 Earmarked reserves are funds that are set aside to meet costs of specific purposes in future financial years. Such reserves ensure that the Authority can adopt and operate a more flexible approach to budget management and meet cost pressures of committed and known future service costs.

Budget Carry Forward Reserve

- 2.9 A statement showing the movement on earmarked reserves is provided at Appendix B, for information. The main movement is in relation to the Budget Carry Forward Reserve, where funding has been drawn down during 2010/2011 to match against expenditure slipped from 2009/2010.
- 2.10 In addition, it is proposed to fund the slippage of specific items of revenue expenditure from 2010/2011 into 2011/2012, by transferring £608,000 into this reserve, as follows:
- £554,000 in respect of Revenue Contributions to Capital Outlay, and;
 - £54,000 in respect of delegated budgets.

Paragraph 2.5 Capital Financing also includes slippage on the Capital Programme of £429,000, and it is proposed to transfer this amount to the Budget Carry Forward Reserve to ensure that these costs are funded in 2011/2012.

There have been a range of under spends on delegated budgets, as outlined at paragraph 2.5. Following a thorough review, the Chief Fire Officer has identified key priorities, totalling £197,000, within this underspend that still need to be delivered during 2011/2012, and it is proposed to transfer this sum to the Budget Carry Forward Reserve, in order to meet these costs which include:

- ICT software assurance (£92,000);
- Protective clothing (£100,000), and;
- Sunderland North Station Feasibility Study (£5,000)

Other Proposed Transfers to Reserves

Organisational Change Reserve

- 2.11 In order for the Authority to operate effectively in the future and taking into account the likely significant grant reductions an Organisational Change Review is to be carried out by the Authority in 2011/2012. It is proposed to set aside £600,000 to fund the costs of the organisational implications which this initiative will entail.

3. REVENUE BUDGET 2011/2012

- 3.1 Regular monitoring of the budget continues to take place and, whilst the full impact of the Outturn on last year's budget and current spending against budgets is still being evaluated, some initial commentary is included at paragraph 2.5 above.

Leasing Charges

- 3.2 An underspend of £552,000 was recorded in 2010/2011 following slippage within the Vehicle Replacement Programme and from the purchase of vehicles that had originally been deemed to be financed through lease arrangements. The ongoing impact of this position has been assessed, and an anticipated saving of approximately £165,000 will arise in 2011/2012, the balance of the 2010/2011 underspend having already been reflected in the 2011/2012 Original Budget when this was approved in February 2011.

Earmarked Reserves

- 3.3 The position with regard to the use of earmarked reserves during 2011/2012 will be reported to Members throughout the year.

4. GENERAL BALANCES

- 4.1 Appendix C shows the movement of balances within 2010/2011 and the estimated balance as at 31st March 2011, taking account of the provisional Outturn position. This statement also includes an update on the estimated level of balances at 31st March 2012.
- 4.2 Based on the financial risk profile of the Authority, it has been reported previously that it is considered appropriate to retain uncommitted general balances of around 5% of the revenue budget, which for 2011/2012 equates to approximately £2.968 million. The level of uncommitted balances as at 31st March 2011 is £3.336 million, and takes into account increased uncertainty in respect of future reduced grant settlements and is considered appropriate in this context.

5. RECOMMENDATIONS

5.1 Members are requested to:-

- note the Revenue Budget Outturn for 2010/2011, detailed at paragraph 2.4;
- note the sums earmarked within the Budget Carry Forward Reserve and the proposed transfers to other earmarked reserves at paragraphs 2.8 to 2.10 and at Appendix B;
- note the position with regard to the Revenue Budget for 2011/2012 detailed at section 3;
- note the Balances position detailed at paragraph 4.2 and at Appendix C;
- give delegated authority to the Finance Officer, in consultation with the Chief Fire Officer and the Chairman of the Authority to take any additional final accounts decisions in order to maximise the financial position of the Authority.

OUTTURN STATEMENT - 2010/2011

Appendix A

	2010/2011 Original Estimate £000	2010/2011 Revised Estimate £000	2010/2011 Actual Outturn £000	2009/2010 Actual Outturn £000
Fire Fighting and Rescue Operations	57,189	52,810	51,689	55,245
Fire Service Emergency Planning	0	0	(52)	4
Corporate and Democratic Core	346	346	303	317
Non Distributed Costs	579	579	575	500
Net Cost of Services	58,114	53,735	52,515	56,066
(Gain) / loss on Disposal	0	0	3,010	98
Cleaning DSO	0	0	(16)	(4)
Interest Payable	811	2,884	2,786	522
Contingencies	661	0	0	0
Interest on Balances	(120)	(120)	(111)	(112)
Pension Interest Cost and Expected Return on Pension Assets	0	0	0	0
Net Operating Expenditure	59,466	56,499	58,184	56,570
Capital Financing:				
Reversal of Capital Charges and Impairments	(1,800)	(2,351)	(2,425)	(1,961)
Minimum Revenue Provision	706	1,255	1,312	737
Revenue Contribution to Capital Outlay	1,448	3,440	3,871	4,683
Reversal of Loss on Disposal of Fixed Assets	0	0	(3,010)	(98)
	59,820	58,843	57,932	59,931
Contribution to Capital Reserves	0	0	0	(27)
Contribution to FRS 17 Pension Reserve	0	0	0	0
Contribution to / (from) Earmarked Reserves	(455)	(1,094)	(774)	(2,508)
Proposed Transfer to Earmarked Reserves	0	1,616	2,008	1,316
	59,365	59,365	59,166	58,712
Revenue Support Grant, Non Domestic Rates, Collection Fund and Precepts	(59,365)	(59,365)	(59,365)	(58,714)
	0	0	(199)	(2)
EPU/COMAH/DSO (Increase)/Reduction to Balances	0	0	(67)	0
General Fund Balance Brought Forward	(3,070)	(3,070)	(3,070)	(3,068)
General Fund Balance Carried Forward	(3,070)	(3,070)	(3,336)	(3,070)

Appendix B

Statement of Major Reserves and Provisions – Movement during 2010/2011

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.10)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.11)
	£'000	£'000	£'000	£'000
<p>Insurance Reserve</p> <p>Reserve held to protect the Authority from unexpected volatility from changes in legislation that could be retrospective, unknown exposures that may arise in the future, and to cover a possible shortfall in the eventual settlement against MMI.</p>	707	0	180	887
<p>Development Reserve</p> <p>Reserve created to fund medium term and long term capital and revenue developments.</p>	14,703	0	0	14,703
<p>Early Retirements Reserve</p> <p>Reserve to cover future compensatory added years payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue implications.</p>	44	(3)	0	44
<p>PFI Smoothing Reserve</p> <p>Reserve established to smooth the impact of the PFI scheme on the Authority's revenue budget over the 25 year life-span of the scheme.</p>	4,794	(167)	0	4,794

PREVENTING PROTECTING RESPONDING

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.10)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.11)
	£'000	£'000	£'000	£'000
<p>Contingency Planning Reserve</p> <p>Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.</p>	2,250	0	0	2,250
<p>Budget Carry Forward Reserve</p> <p>Established to fund the slippage of specific items of revenue expenditure.</p>	795	(598)	608	805
<p>New Dimensions Reserve</p> <p>Reserve to be used in future years to provide for any adverse effect of potential changes in grant arrangements and to provide resources to support delivery of the Urban Search and Rescue response.</p>	363	(66)	85	382
<p>Community Safety Reserve</p> <p>Reserve to deliver community safety initiatives in future years.</p>	250	0	0	250
<p>Civil Emergency Reserve</p> <p>Reserve to enable the Authority to respond to a catastrophic event, locally or nationally.</p>	200	0	0	200
<p>Regional Control Centre (RCC) Reserve</p> <p>Reserve was originally set up to provide a means of offsetting any costs associated with the RCC. The RCC project has been scrapped but the reserve is still required to facilitate the future delivery of the Mobilising function as the current Mobilising system needs to be replaced.</p>	350	0	0	350

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.10)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.11)
	£'000	£'000	£'000	£'000
<p>Carbon Management Plan Reserve</p> <p>Reserve established to implement Carbon Reduction Plan developed in partnership with the Carbon Trust and Fire and Rescue Authorities. This investment will make future savings in both carbon emissions and energy bills</p>	600	(45)	0	555
<p>Equality and Diversity Reserve</p> <p>Reserve established to enable the evaluation of a number of capital schemes to support the Authorities commitment to achieve higher equality and diversity ethnic recruitment targets</p>	200	(99)	0	101
<p>Organisational Change Reserve</p> <p>Reserve covers expected costs following a review of the organisational changes required for the Authority to operate more effectively.</p>	0	0	600	600
<p>Insurance Provision</p> <p>The provision covers certain insurance risks up to agreed limits.</p>	438	(264)	0	174

Statement of General Balances

	£'000
Balance as at 1st April 2010	3,070
First Review 2010/2011:	
- Underspend on Leasing Budget	256
Second Review 2010/2011:	
- Underspend on Employee Budget	861
- Underspend on Premises Budget	60
- Underspend on Supplies and Services Budget	39
- Underspend on Leasing Budget	124
- Overspend on RCCO Budget	(5)
- Under recovery of Income Budget	(108)
- Estimated Provision for purchase of vehicles	(1,227)
Third Review 2010/2011:	
- Underspend on Debt Charges	200
- Underspend on Supplies and Services Budget	15
- Underspend on Leasing Budget	64
- Underspend on RCCO Budget	110
- Transfer to Earmarked Reserves	(125)
- Estimated Provision for purchase of vehicles	(264)
Outturn Position 2010/2011:	
-Variation reported at Outturn	199
- Other Delegated Surpluses (EPU, COMAH, DSO)	67
Estimated Balance as at 31st March 2011	3,336
First Review 2011/2012:	
- Underspend on Leasing budget	165
Estimated Balance as at 31st March 2012	3,501

