

TYNE AND WEAR FIRE AND RESCUE AUTHORITY**MEETING: 11TH JUNE 2012**

REVENUE BUDGET OUTTURN 2011/2012 AND REVENUE BUDGET FIRST REVIEW 2012/2013

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1. INTRODUCTION

- 1.1 The Authority's Statement of Accounts for 2011/2012 is currently being prepared and will be presented to the Authority's Governance Committee on 25th June 2012.
- 1.2 As 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 2011/2012 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 accounts decisions beyond those included in this report. If any material changes occur to the current position, these will be reported to the Authority.

2. REVENUE OUTTURN 2011/2012

- 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 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. This 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 2012, 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 total net revenue expenditure for 2011/2012 was £56.125m compared with an original budget of £56.132m. The underspend of £7,000, which has been added to the General Reserve, 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 are detailed below. Where relevant, this includes a brief assessment of any ongoing impact into 2012/2013. A full base budget review will be undertaken when setting the 2013/2014 budget later in this financial year, and this will take full account of the variances identified.
- Employee Costs (£1,147,000 underspend) – there has been a greater staff turnover than anticipated and an increase in the number of retirements during the year. Combined with the effect of managing some of the changes to operational staffing requirements at this stage and the recruitment freeze, the Authority has underspent on total employee costs. This action will also help address the anticipated harsher government grant funding reductions that lie ahead for the Authority.
 - Firefighter Ill Health Retirements (£80,000 underspend) – as reported at Third Review, there has been one ill health retirement in 2011/2012. This position remains the same at the end of the financial year.
 - Premises (£20,000 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 2011/2012. The price increase was less than anticipated, resulting in an underspend. Energy efficiency measures in place within the Authority have also contributed to budget savings.

- Transport (£437,000 underspend) – the Authority carries out a full option appraisal when deciding how to finance assets purchased through the Vehicle Replacement Programme. As a result of this, in 2011/2012, a number of vehicles that had been anticipated to be leased were purchased, resulting in an underspend on the leasing budget. The impact of this underspend will be ongoing into 2012/2013, as noted in the 2012/2013 Revenue Budget First Review, at paragraph 3.2.
- Contingency (£317,000 underspend) – amounts set aside for contingencies were not required.
- Fees and Charges (£73,000 over recovery) – as reported at the Third Review the Authority had anticipated a higher demand for training provision from external bodies than anticipated. This has materialised resulting in an over recovery of income from its conferencing and training facilities.
- Capital Financing (£492,000 planned overspend) – after taking into account reported slippage of £439,202, capital financing has been increased to facilitate the purchase of a number of vehicles. Consequently a provision of £492,000 has been set aside to contribute to the anticipated purchase of these vehicles. This will result in future revenue savings through reduced leasing payments.
- Reserve Transfers (£1,162,000 underspend) – usage of reserves has been less than anticipated as the Authority has effectively managed the revenue budget during the year.

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. A statement showing the movement on earmarked reserves is provided at Appendix B.

Budget Carry Forward Reserve

- 2.9 The main movement in the Earmarked Reserves is on the Budget Carry Forward Reserve. Net movement in 2011/2012 is £809,660, detailed below:
- Drawdown of £553,917 in respect of 2010/2011 capital slippage used to fund the capital schemes that continued in to 2011/2012;
 - Carry forward of capital slippage of £439,202 in respect of projects financed through a revenue contribution to capital that have slipped in to 2012/2013;
 - Drawdown of £92,327 funding to match against revenue expenditure

slipped from 2010/2011;

- Carry forward of a number of underspends on delegated budgets totalling £65,000 to fund revenue priorities identified in 2011/2012;
- Carry forward of £130,465 from underspends on budgets to contribute towards Development Costs as part of the Control Project;
- Carry forward of £157,548 New Risks Grant Income and £172,407 LA Reward Grant; and
- Carry forward of £491,282 in respect of vehicles purchased from revenue in 2011/12.

Other Proposed Transfers to Reserves

- 2.10 The Authority proposes to appropriate £200,000 from the underspend to the Contingency Planning Reserve to continue to ensure the communities of Tyne and Wear are protected in the event of a major industrial dispute.
- 2.11 At the end of 2010/2011, an Organisational Change Reserve of £600,000 was set up to support an Organisational Change Review within the Authority. So far the associated costs have been managed from revenue and the balance remains at £600,000. It is proposed to appropriate a further £500,000 from the underspend to allow the Authority to continue to operate effectively in the future amid significant grant reductions.
- 2.12 The Authority proposes to set up a new earmarked reserve of £700,000, named Medium Term Planning Reserve. This will allow the Authority to plan for the impact of government reductions in funding, due to localisation of the business rates retention system and the impact on precepting authorities of localisation of the council tax benefit scheme.

3. REVENUE BUDGET 2012/2013

- 3.1 Regular monitoring of the budget continues to take place and the full impact of the 2011/2012 revenue budget outturn, alongside current spending against budgets will continue to be evaluated during the early part of 2012/2013.

Earmarked Reserves

- 3.2 The position with regard to the use of earmarked reserves during 2012/2013 will be reported to Members throughout the year.

4. GENERAL BALANCES

- 4.1 Appendix C shows the movement of balances within 2011/2012 and the estimated balance as at 31st March 2012, taking account of the provisional Outturn position. This statement also includes an update on the estimated level of balances at 31st March 2013.
- 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 2012/2013 equates

to approximately £2.968 million. The level of uncommitted balances as at 31st March 2012 is £3.206 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 2011/2012, 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 2.10 to 2.12 and at Appendix B;
- note the position with regard to the Revenue Budget for 2012/2013 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 - 2011/2012

Appendix A

	2011/2012 Revised Estimate £000	2011/2012 Actual Outturn £000	Variation £'000
Expenditure			
Employees	60,786	59,559	1,227
Premises	2,196	2,176	20
Transport	1,977	1,540	437
Supplies and Services	10,812	10,880	-68
Contingencies	317	0	317
Capital Financing	2,741	2,178	563
Reserve Transfers	-1,376	-214	-1,162
Gross Expenditure	77,453	76,119	1,334
Less Income	-21,321	-21,394	73
Net Expenditure	56,132	54,725	1,407
Transfers to			
Organisational Reserve		500	-500
Contingency Planning Reserve		200	-200
Medium Term Planning Reserve		700	-700
General Reserve		7	-7
BUDGET REQUIREMENT	56,132	56,132	0

Statement of Earmarked Reserves and Provisions

Title and Purpose of Earmarked Reserve / Provision	Opening Balance (1.4.11)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.12)
	£000	£000	£000	£000
Insurance Reserve 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 in respect of MMI.	887	0	203	1,090
Development Reserve Reserve created to fund medium term and long term capital and revenue developments.	14,703	0	0	14,703
Early Retirements Reserve Reserve to cover future compensatory added years payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue implications.	41	(3)	0	38
PFI Smoothing Reserve 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.	5,318	0	348	5,666
Contingency Planning Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	2,250	0	200	2,450
Budget Carry Forward Reserve Reserve established to fund the slippage of specific items of revenue expenditure.	805	(646)	1,456	1,615
New Dimensions Reserve 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.	382	0	92	474

PREVENTING PROTECTING RESPONDING

Title and Purpose of Earmarked Reserve / Provision	Opening Balance (1.4.11) £000	Transfers from Reserve / Provision £000	Transfers to Reserve / Provision £000	Closing Balance (31.3.12) £000
Community Safety Reserve Reserve to deliver community safety initiatives in future years.	250	0	0	250
Civil Emergency Reserve Reserve to enable the Authority to respond to a catastrophic event, locally or nationally.	200	0	0	200
Regional Control Centre (RCC) Reserve Reserve to provide a means of offsetting any costs associated with the RCC Project on the basis that the CLG position does not provide an absolute assurance to the Authority that all additional costs will be funded by CLG.	350	0	0	350
Carbon Management Plan Reserve Reserve to develop a Carbon Reduction Plan in order to make future savings in carbon emissions and energy bills.	555	(32)	0	523
Equality and Diversity Reserve Reserve to support the Authority's commitment to achieve higher equality and diversity recruitment targets.	101	0	0	101
Organisational Change Reserve Reserve covers expected costs following a review of the organisational changes required for the Authority to operate more effectively.	600	0	500	1,100
Medium Term Planning Reserve Reserve to plan for impact of prospective government funding reductions in respect of Localisation of Business Rates Retention and Localisation of Council Tax Benefit systems.	0	0	700	700
Insurance Provision The provision covers the value of known insurance risks.	174	0	37	211
Total	26,616	(681)	3,536	29,471

Statement of General Balances

	£'000
Balance as at 1st April 2011	3,336
First Review 2011/2012:	
- Underspend on Leasing Budget	165
Second Review 2011/2012:	
- Underspend on Employee Budget	1,170
- Underspend on Premises Budget	19
Third Review 2011/2012:	
- Underspend on RCCO Budget	197
- Estimated provision to support service pressures	(485)
- Estimated provision for purchase of vehicles	(869)
- Transfer to Earmarked Reserves	(197)
Outturn Position 2011/12:	
- Variation Reported at Outturn	7
- Other Delegated Surpluses (COMAH, DSO)	16
- Transfer of Emergency Planning Unit	(153)
Estimated Balance as at 31st March 2012	3,206
No planned usage in 2012/2013	0
Anticipated Balance as at 31st March 2013	3,206

