

TYNE AND WEAR FIRE AND RESCUE AUTHORITY**MEETING: 14TH JUNE 2010**

REVENUE BUDGET OUTTURN 2009/2010 AND REVENUE BUDGET FIRST REVIEW 2010/2011

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1. INTRODUCTION

- 1.1 The Authority's Statement of Accounts for 2009/2010 is currently being prepared and will be presented to the Authority's Governance Committee on 28th June, 2009.
- 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 2009/2010 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 2009/2010

- 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 very 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 Financial Reporting Standard 17 (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 FRS 17 will be reflected in the Authority's Statement of Accounts.

Outturn Position

- 2.3 The Third Review, reported to Members in January 2010, identified a projected net underspend of £222,000. At the same time, the report identified a number of initiatives and priorities for reinvestment, including carbon reduction measures, equalities and diversity and the purchase of vehicles.
- 2.4 The Revenue Budget Outturn for 2009/2010 shows a net under spend of £1,764 (a reduction of £220,236 from the Third Review) after transfers have been made to and from earmarked reserves. 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 2010/2011. A full base budget review will be undertaken when setting the 2011/2012 budget later in this financial year, and this will take full account of the variances identified below.
- Employee Costs (£239,000 underspend) – salaries were underspent due to the staffing numbers being reduced since the 2009/2010 budget was set. The 2010/2011 employee budget has been set on the reduced staffing level basis and will be monitored closely throughout the year.
 - Firefighter Recruits Course (£177,000 underspend) - as reported at Third Review the 2009/2010 Revenue Budget included a budget provision to meet the cost of a firefighter recruits course. As anticipated the recruits course was not held resulting in an underspend.
 - Firefighter Ill Health Retirements (£82,000 underspend) – as reported at Third Review, there had been no Ill Health retirements to date in 2009/2010. This position did not change by the year end.
 - Premises (£157,000 underspend) – the main area of underspend relates to utility costs (£150,000) where, given the significant volatility in market prices in recent years, the Authority had taken a prudent approach when setting the budget for 2009/2010 and when monitoring this budget through the year. A full assessment of the impact of this underspend into 2010/2011 is to be undertaken.

- Transport (£214,000 underspend) – the Authority undertakes thorough options appraisal when deciding how to finance assets purchased through the Vehicle Replacement Programme. In 2009/2010, a number of vehicles that had been anticipated to be leased were bought outright following an options appraisal exercise which identified this method as providing the best value for money for the Authority. This has resulted in an underspend on the leasing budget. The impact of this underspend will be ongoing into 2010/2011, as noted in the 2010/2011 Revenue Budget First Review, at paragraph 3.3.
- Supplies (£249,000 underspend) – the main area of underspend relates to uniform provision (£120,000) as during 2009/2010 the Authority reviewed its uniform provision and issues of replacement clothing were managed as part of a replacement programme with existing stock levels being phased out. A reduced number of clothing items were issued in preparation for a new supplier contract coming into effect.

The 2010/2011 Revenue Budget was set taking account of efficiency savings delivered against a number of delegated budgets, and, at this stage, there is not anticipated to be a similar underspend in 2010/2011.

- Insurances (£18,000 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 2009/2010 was lower than the budget. The budget for 2010/2011 was set taking account of a reduction in insurance costs.
- Capital Financing (£2,173,000 overspend) – Capital financing has been increased to facilitate the outright purchase of 12 fire tenders. This has resulted in ongoing revenue savings against the leasing budget as reported in paragraph 3.3.
- Interest Payable (£98,000 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.
- Interest Received (£35,000 overspend) – updates have been provided throughout the year in relation to this area, however, the decrease in interest rates was more significant than previously anticipated, resulting in an overspend on this budget heading. The impact of the lower interest rates on the budget for 2010/2011 will be closely monitored, though lower interest rate assumptions were made in overall terms for 2010/2011.
- Fees and Charges (£131,000 underspend) – the Authority has exceeded its anticipated level of fees and charges during the year across a number of areas including the provision of commercial training.

- Other Variances (£82,000 underspend) – a number of minor variances have arisen during the year including a small underspend on the NEFRA PFI 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 £2,146,000. 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 2009/2010 to match against expenditure slipped from 2008/2009. Also, included in this movement is £541,000 which was originally set aside to fund pay protection is no longer required as these costs have been managed through in year revenue savings.
- 2.10 In addition, it is proposed to fund the slippage of specific items of revenue expenditure from 2009/2010 into 2010/2011, by transferring £795,000 into this reserve, as follows:
- £407,000 in respect of Revenue Contributions to Capital Outlay, and;
 - £388,000 in respect of delegated budgets.

Paragraph 2.5 identified slippage on the Capital Programme of £407,000, and it is proposed to transfer this amount to the Budget Carry Forward Reserve to ensure that these costs are funded in 2010/2011.

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 £388,000, within this underspend that still need to be delivered during 2010/2011, and it is proposed to transfer this sum to the Budget Carry Forward Reserve, in order to meet the costs in 2010/2011. The key priorities include:

- Learning and Development training delivery (£41,000);
- ICT software assurance (£161,000),
- Community safety equipment (£45,000), and;

- Protective clothing (£130,000)

Other Proposed Transfers to Reserves

Carbon Management Plan Reserve

- 2.11 The Authority is currently working in partnership with the Carbon Trust and other Fire and Rescue Authorities in the region to develop a Carbon reduction Plan. The implementation of this plan will necessitate some investment in order to make future savings both in carbon emissions and energy bills. As reported to members in the Third Revenue Review it is proposed that a earmarked reserve of £600,000 is established in order to facilitate this investment

Equalities and Diversity

- 2.12 As reported to members in the Third revenue Review, the Authority is in the process of reviewing a number of capital schemes to support its commitment to achieve higher equality and diversity ethnic recruitment targets. It is proposed that an earmarked reserve of £200,000 be established to contribute towards the future costs of these initiatives.

3. REVENUE BUDGET 2010/2011

- 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 provided at paragraph 2.5 above.

2010 Pay Award

- 3.2 National negotiations are still ongoing in relation to settling the 2010 pay award for both operational and non-operational staff, and a further update will be provided at the Second Revenue Review.

Leasing Charges

- 3.3 An underspend of £402,000 was recorded in 2009/2010 following slippage within the Vehicle Replacement Programme and outright purchase of vehicles that had originally been predicted to be financed through lease arrangements. The ongoing impact of this has been assessed, and it is anticipated that an underspend of approximately £256,000 will arise in 2010/2011, the balance of the 2009/2010 underspend having already been reflected in the 2010/2011 Original Budget when this was approved in February 2010.

Earmarked Reserves

- 3.4 The position with regard to the use of earmarked reserves during 2010/2011 will be reported to Members throughout the year.

Creating the Safest Community

4. GENERAL BALANCES

- 4.1 Appendix C shows the movement of balances within 2009/2010 and the estimated balance as at 31st March 2010, taking account of the provisional Outturn position. This statement also includes an update on the estimated level of balances at 31st March 2011.
- 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 2010/2011 equates to approximately £2.982 million. The level of uncommitted balances as at 31st March 2010 is £3.069 million, which is considered appropriate in this context.

5. RECOMMENDATIONS

- 5.1 Members are requested to:-
- note the Revenue Budget Outturn for 2009/2010, 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 2.12 and at Appendix B;
 - note the position with regard to the Revenue Budget for 2010/2011 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 - 2009/2010
Appendix A

	2009/2010 Original Estimate £000	2009/2010 Revised Estimate £000	2009/2010 Actual Outturn £000	2008/2009 Actual Outturn £000
Fire Fighting and Rescue Operations	56,144	56,396	55,245	57,807
Fire Service Emergency Planning	0	0	4	(5)
Corporate and Democratic Core	342	342	317	316
Non Distributed Costs	556	556	500	477
Net Cost of Services	57,042	57,294	56,066	58,595
Gain / loss on Disposal	0	0	98	0
Cleaning DSO	0	0	(4)	(17)
Interest Payable	811	620	522	777
Contingencies	938	0	0	0
Interest on Balances	(447)	(147)	(112)	(1,161)
Pension Interest Cost and Expected Return on Pension Assets	0	0	0	0
Net Operating Expenditure	58,344	57,767	56,570	58,194
Capital Financing:				
Reversal of Capital Charges and Impairments	(1,467)	(1,965)	(1,965)	(3,970)
Government Grants Deferred Amortisation	0	0	4	0
Minimum Revenue Provision	736	736	737	767
Revenue Contribution to Capital Outlay	1,910	2,510	4,683	1,848
Reversal of Loss on Disposal of Fixed Assets	0	0	(98)	0
	59,523	59,048	59,931	56,839
Contribution to Capital Reserves	0	(27)	(27)	178
Contribution to FRS 17 Pension Reserve	0	0	0	0
Contribution to / (from) Earmarked Reserves	(809)	(1,329)	(2,508)	(379)
Proposed Transfer to Earmarked Reserves	0	800	1,316	1,321
	58,714	58,492	58,712	57,959
Revenue Support Grant, Non Domestic Rates, Collection Fund and Precepts	(58,714)	(58,714)	(58,714)	(58,073)
(Increase)/Reduction to Balances	0	(222)	(2)	(114)
General Fund Balance Brought Forward	(2,299)	(2,299)	(2,299)	(2,185)
General Fund Balance Carried Forward	(2,299)	(2,521)	(2,301)	(2,299)

Appendix B

Statement of Major Reserves and Provisions – Movement during 2009/2010

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.09)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.10)
	£'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>	686	0	21	707
<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>	47	(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>	4,961	(167)	0	4,794

PREVENTING PROTECTING RESPONDING

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.09)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.10)
	£'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>	2,548	(2,159)	406	795
<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>	452	(178)	89	363
<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 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.</p>	350	0	0	350

PREVENTING PROTECTING RESPONDING

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.09)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.10)
	£'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>	0	0	600	600
<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>	0	0	200	200
<p>Insurance Provision</p> <p>The provision covers certain insurance risks up to agreed limits.</p>	278	0	160	438

Statement of General Balances

	£'000
Balance as at 1st April 2009	3,068
First Review 2009/2010:	
- Underspend on Leasing Budget	50
Second Review 2009/2010:	
- Underspend on Employee budget	1,080
- Underspend on Leasing budget	77
- Overspend on Income Budget	(300)
Third Review 2009/2010:	
- Underspend on Employee budget	150
- Underspend on Debt Charges	200
- Underspend on Leasing Budget	65
- Estimated provision for Carbon Reduction Measures	(600)
- Estimated provision for Equality and Diversity	(200)
- Estimated provision for purchase of vehicles	(300)
Outturn Position 2009/2010:	
-Variation reported at Outturn	(221)
Estimated Balance as at 31st March 2010	3,069
First Review 2010/2011:	
- Underspend on Leasing budget	256
Estimated Balance as at 31st March 2011	3,325

