

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 15TH JUNE 2009

REVENUE BUDGET OUTTURN 2008/2009 AND REVENUE BUDGET FIRST REVIEW 2009/2010

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1. INTRODUCTION

- 1.1 The Authority's Statement of Accounts for 2008/2009 is currently being prepared and will be presented to the Authority's Governance Committee on 29th 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 2008/2009 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 2008/2009

- 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 2009, identified a projected net underspend of £407,000. At the same time, the report identified a number of initiatives and priorities for reinvestment, including Software Assurance and the Integrated Clothing initiative.
- 2.4 The Revenue Budget Outturn for 2008/2009 shows a net underspending of £115,000 (a reduction of £292,000 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 2009/2010. A full base budget review will be undertaken when setting the 2010/2011 budget later in this financial year, and this will take full account of the variances identified below.
- Premises (£80,000 underspend) – the main area of underspend relates to utility costs (£70,000) where, given the significant volatility in market prices in recent years, the Authority had taken a prudent approach when setting the budget for 2008/2009 and when monitoring this budget through the year. A full assessment of the impact of this underspend into 2009/2010 is to be undertaken.
 - Transport (£110,000 underspend) – the Authority undertakes thorough options appraisal when deciding how to finance assets purchased through the Vehicle Replacement Programme. In 2008/2009, 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 2009/2010, as noted in the 2009/2010 Revenue Budget First Review, at paragraph 3.3.
 - Supplies (£290,000 underspend) – the Chief Fire Officer has reviewed this underspend, and identified priorities totalling £203,000 that still need to be delivered in 2009/2010, including in support of Community Safety initiatives. It is proposed that funding will be carried forward in the Budget Carry Forward Reserve to meet the costs in 2009/2010, as referred to at paragraph 2.8.

The 2009/2010 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 2009/2010.

- Insurances (£120,000 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 2008/2009 was lower than the budget. The budget for 2009/2010 was set taking account of a reduction in insurance costs.
- Capital Financing (£170,000 underspend) – the Capital Programme Outturn, reported elsewhere on this agenda, identified a net underspend of £168,748 arising from minor net underspends of £31,799, additions to the programme of £382,680 and net slippage from 2008/2009 to 2009/2010 of £519,629.
- Interest Payable (£90,000 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 (£90,000 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 2009/2010 will be closely monitored, though lower interest rate assumptions were made in overall terms for 2009/2010.
- Grants and Contributions (£130,000 underspend) – the authority has been successful in leveraging in contributions to fund Community Safety initiatives, such as Safetyworks, and the grants and contributions received have exceeded the budget for 2008/2009.
- Fees and Charges (£65,000 underspend) – the Authority has exceeded its anticipated level of fees and charges during the year across a number of areas.
- Other Variances (£56,000 underspend) – a number of minor variances have arisen during the year, including reduced support service costs following a review of service provision, and charging arrangements by the lead authority.

Earmarked Reserves

- 2.6 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

- 2.7 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 2008/2009 to match against expenditure slipped from 2007/2008.
- 2.8 In addition, it is proposed to fund the slippage of specific items of revenue expenditure from 2008/2009 into 2009/2010, by transferring £723,000 into this reserve, as follows:
- £520,000 in respect of Revenue Contributions to Capital Outlay, and;
 - £203,000 in respect of delegated budgets.

Paragraph 2.5 identified slippage on the Capital Programme of £520,000, and it is proposed to transfer this amount to the Budget Carry Forward Reserve to ensure that these costs are funded in 2009/2010.

There have been a range of underspends on delegated budgets, as outlined at paragraph 2.5. Following a thorough review, the Chief Fire Officer has identified key priorities, totalling £203,000, within this underspend that still need to be delivered during 2009/2010, and it is proposed to transfer this sum to the Budget Carry Forward Reserve, in order to meet the costs in 2009/2010. The key priorities include:

- Learning and Development training delivery (£65,000);
- ICT Network support costs (£50,000), and;
- SafetyWorks community safety equipment (£45,000).

Other Proposed Transfers to Reserves**Community Safety Reserve**

- 2.9 The Authority originally established a Community Safety Reserve of £250,000 in June 2007 in order to fund the delivery of additional community safety initiatives. As Members will already be aware, these have proven to be a significant success in the attempt to improve performance in relation to reducing accidental dwelling fires (and injuries) and promoting fire safety awareness in key targeted areas. As such, it is proposed to deliver Operation Early Warning 4 during 2009/2010, whereby properties in targeted, high-risk areas throughout the Tyne and Wear region will be provided with a Home Fire Risk Assessment (HFRA), fitted with a smoke detector and, where appropriate, issued with a deep fat fryer.

- 2.10 It is, therefore, proposed to transfer £250,000 into the Community Safety Reserve to fund the cost of Operation Early Warning 4 during 2009/2010.

Software Assurance

- 2.11 As reported to Members at the Second Revenue Review, the Authority has a number of software licences that are due for renewal in 2009/2010, and it is proposed to create a reserve to meet the cost of these, estimated at £240,000. The software assurance is provided on a three-yearly basis and, if approved, this will ensure that the Authority's requirements in this area are satisfied until the end of the 2011/2012 financial year.

Integrated Clothing Project

- 2.12 Members will be aware that the Authority will be revising its contract for non-operational clothing and uniforms and that the Authority remains committed to ensuring that its 'branding' and 'identity' remains strong. It is proposed to establish a reserve of £100,000, as the provision of replacement uniforms is rolled out through 2009/2010.

3. REVENUE BUDGET 2009/2010

- 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.

2009 Pay Award

- 3.2 National negotiations are still ongoing in relation to settling the 2009 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 £110,000 was recorded in 2008/2009 following the 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 £50,000 will arise in 2009/2010, the balance of the 2008/2009 underspend having already been reflected in the 2009/2010 Original Budget when this was approved in February 2009.

Earmarked Reserves

- 3.4 The position with regard to the use of earmarked reserves during 2009/2010 will be reported to Members throughout the year.

4. GENERAL BALANCES

- 4.1 Appendix C shows the movement of balances within 2008/2009 and the estimated balance as at 31st March 2009, taking account of the provisional Outturn position. This statement also includes an update on the estimated level of balances at 31st March 2010.
- 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 2009/2010 equates to approximately £2.9 million. The level of uncommitted balances as at 31st March 2009 is £3.045 million, which is considered appropriate in this context.

5. RECOMMENDATIONS

- 5.1 Members are requested to:-
- note the Revenue Budget Outturn for 2008/2009, 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 2009/2010 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 - 2008/2009
Appendix A

	2008/2009 Original Estimate £000	2008/2009 Revised Estimate £000	2008/2009 Actual Outturn £000	2007/2008 Actual Outturn £000
Fire Fighting and Rescue Operations	56,349	58,554	57,788	55,304
Fire Service Emergency Planning	0	0	(5)	(3)
Corporate and Democratic Core	349	330	316	304
Non Distributed Costs	537	537	477	378
Net Cost of Services	57,235	59,421	58,576	55,983
Gain / loss on Disposal	(5)	0	0	160
Cleaning DSO	0	0	(17)	(14)
Interest Payable	864	864	777	906
Contingencies	851	0	0	0
Interest on Balances	(1,550)	(1,250)	(1,161)	(1,764)
Pension Interest Cost and Expected Return on Pension Assets	0	0	0	0
Net Operating Expenditure	57,395	59,035	58,175	55,271
Capital Financing:				
Reversal of Capital Charges and Impairments	(1,390)	(3,970)	(3,970)	(1,990)
Minimum Revenue Provision	767	767	767	772
Revenue Contribution to Capital Outlay	2,802	2,017	1,848	1,064
Reversal of Loss on Disposal of Fixed Assets	0	0	0	(160)
	59,574	57,849	56,820	54,957
Contribution to Capital Reserves	0	178	178	63
Contribution to FRS 17 Pension Reserve	0	0	0	0
Contribution to / (from) Earmarked Reserves	(1,501)	(361)	(361)	2,086
Proposed Transfer to Earmarked Reserves	0	0	1,321	0
	58,073	57,666	57,958	57,106
Revenue Support Grant, Non Domestic Rates, Collection Fund and Precepts	(58,073)	(58,073)	(58,073)	(56,549)
(Increase)/Reduction to Balances	0	(407)	(115)	557
General Fund Balance Brought Forward	(2,930)	(2,930)	(2,930)	(3,487)
General Fund Balance Carried Forward	(2,930)	(3,337)	(3,045)	(2,930)

Appendix B

Statement of Major Reserves and Provisions – Movement during 2008/2009

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.08)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.09)
	£'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 against MMI.	760	(74)	0	686
Development Reserve Reserve created to fund medium term and long term capital and revenue developments.	14,535	0	168	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.	50	(3)	0	47
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.	4,791	0	170	4,961

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.08)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.09)
	£'000	£'000	£'000	£'000
Contingency Planning Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	2,250	0	0	2,250
Budget Carry Forward Reserve Established to fund the slippage of specific items of revenue expenditure.	1,933	(1,923)	2,538	2,548
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.	355	0	97	452
Community Safety Reserve Reserve to deliver community safety initiatives in future years.	250	(250)	250	250
Innovation Fund Reserve Reserve to provide funding to develop a range of fire prevention initiatives in future years.	30	(30)	0	0
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

Title and Purpose of Earmarked Reserve	Opening Balance (1.4.08)	Transfers from Reserve / Provision	Transfers to Reserve / Provision	Closing Balance (31.3.09)
	£'000	£'000	£'000	£'000
Insurance Provision	302	(24)	0	278
The provision covers certain insurance risks up to agreed limits.				
PFI Utilities Provision	391	(391)	0	0
Provision to provide for the cost arising from a review of utility charges (due to the PFI contractor) at PFI sites.				

Statement of General Balances

	£'000
Balance as at 1st April 2008	2,930
First Review 2008/2009:	
- Review of Service Establishment	186
- Transfer to Development Reserve	(186)
Second Review 2008/2009:	
- Underspend on Employee budget	320
- Underspend on Leasing budget	100
- Underspend on Revenue Contribution to Capital	424
- Transfer to Earmarked Reserves	(424)
Third Review 2008/2009:	
- Underspend on Employee budget	10
- Underspend on Safety Works	177
- Underspend on Supplies and Services	230
- Underspend on Revenue Contribution to Capital	389
- Transfer to Earmarked Reserves	(519)
- Shortfall on Investment Income	(300)
Outturn Position 2008/2009:	
-Variation reported at Outturn	(292)
Estimated Balance as at 31st March 2009	3,045
First Review 2009/2010:	
- Underspend on Leasing budget	50
Estimated Balance as at 31st March 2010	3,095