

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 5

29 July 2011

Final Accounts 2010/11

Report of the Treasurer and Chief Officer

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1 Summary

- 1.1 Recognising the difficult financial position, the Authority's strategy was to try to deliver a significant underspend in 2010/11. This has been achieved. Expenditure was £3.2m below the revised budget. Of this, £400,000 relates to new accounting arrangements for the treatment of grant income. It means that £2.8m is available for the Authority to add to reserves (£1m was previously identified in the 3rd quarter budget monitoring report). The additional underspending has been achieved across most expenditure heads including retained firefighters pay, IT and communications, operational equipment, bank interest and the contingency.
- 1.2 This level of underspending puts the Authority in a better financial position in the current year (2011/12) and will ease the problem of dealing with government grant reductions in subsequent years. This is explained in the medium-term strategy report also on the Committee's agenda.

2 Recommendations

- 2.1 That the carry forward of specific underspending set out in paragraph 7.4 of this report be approved.
- 2.2 That the accounts for 2010/11 be approved including the use of reserves set out in paragraph 7.8 of this report.
- 2.3 That capital payments for the year be financed as set out in paragraph 4.6 of this report.
- 2.4 That the minor variation to the capital programme detailed in paragraph 4.2 of this report be approved.
- 2.5 That it be recommended to the Authority that the annual treasury outturn report set out in appendix 3 of this report be approved.

3 Revenue Expenditure

- 3.1 The significant variations leading to the net underspend position are summarised in the following table and set out in more detail in the following paragraphs. Appendix 1 sets out the details of the other variances.

| | Original Budget £000 | Revised budget £000 | Outturn £000 | Variance £000 |
|---|----------------------------|---------------------------|-----------------|------------------|
| Retained firefighters pay and allowances | 6,298 | 6,679 | 6,398 | -281 |
| Training expenses | 943 | 928 | 820 | -108 |
| Operational equipment | 683 | 843 | 635 | -208 |
| IT and Communications | 3,236 | 4,217 | 4,016 | -201 |
| Contingency | 250 | 250 | 0 | -250 |
| Interest payable on bank balance and external loans | 505 | 592 | 382 | -210 |
| Income | (1,470) | (2,505) | (3,050) | -545 |
| Reduction in provisions for uninsured claims and part time workers compensation payments | 0 | 0 | -131 | -131 |
| Other (detailed in Appendix 1) | | | | -319 |
| Previously reported underspend | | | | -974 |
| Net underspend | | | | <hr/> -3,227 |

Retained firefighters pay and allowances (-£281,000, -4.2%)

- 3.2 Operational activity at the beginning of the year suggested that the budget might overspend by about £250,000. However, activity reduced in the latter part of the year resulting in an underspend. The number of incidents attended was 15,191 against a revised estimate of 16,000.

Training expenses (-£108,000, -4.2%)

- 3.3 There was a significant reduction in the use of external venues for training; and, reduced spending on professional training courses.

Operational equipment (-£208,000, -24.6%)

- 3.4 The purchase of rope packs for 'safe working at height' has been delayed pending a review of the most suitable equipment. Also, the purchase of breathing apparatus test rigs and software has been delayed owing to equipment not being available from the manufacturer. Other planned items have cost less than originally estimated or have been cancelled because of changes in replacement needs. It is recommended that the underspend is carried forward and used to fund the essential replacement of breathing apparatus.(see also, paragraph 7.4)

Information and Communications Technology (-£201,000, -4.8%)

- 3.5 When the budget was prepared for 'FireWatch' the programme was still at the early stages of scoping and the timing of payments was uncertain. In the event, expenditure was less than forecast.. A progress report on 'FireWatch' is also on the Committee's agenda. Also, the implementation of the fleet management information system ('Tranman') has been slower than expected. Requests to carry forward the underspend on both projects have been made (see paragraph 7.4).
- 3.6 The overall ICT underspend was partly offset by the provision of enhancements to community risk management information applications.

Contingency (-£250,000,-100%)

- 3.7 The contingency was set up to cover any potential extra, unplanned, costs for schemes such as 'FireLink' (the national radio communications system). In the event, no call was made on the contingency in 2010/11.

Interest payable on external loans (-£210,000. -35.5%)

- 3.8 This underspend resulted from of a combination of: a higher underspend than predicted and, taking out fewer loans from the Public Works Loan Board (PWLB) than had been assumed in the revised budget. The latter is partly the result of making maximum use of available reserves before resorting borrowing, but also the change in future years from Government supported borrowing to grant.

Grant income (-£401,000)

- 3.9 This year is the first year that the Authority's accounts have been prepared under International Financial Reporting Standards. These have been followed to prepare the Statement of Accounts which will be presented to the Governance Committee in September. However, there is one element that requires Members' approval. It concerns in-year revenue grants received by Authority, that have not been spent within the same year. In the past these would have been simply accounted for as 'a receipt in advance' and carried forward into the new year. The new accounting standards require Members to approve that this income be added to a specific reserve for use in a future year (likely to be the following year). A recommendation to this effect is included in paragraph 7.8 dealing with the treatment of reserves.

Other income (-£144,000, -10.5%)

- 3.10 Overall, income was higher than expected. The main sources included: animal rescue training, Urban Search and Rescue (USAR) activities, canine services, the major 'Orion' exercise, Marine Incident Response Group (MIRG), legal enforcement awards and rent income.

Impact on future years

- 3.11 The majority of the underspends were one off and are cannot be expected to occur in future years. The exception will be staff turnover savings from posts held vacant pending the implementation of the Staff Review. These early savings will contribute to achieving the Staff Review savings target which is explained more fully in the Medium Term Financial Strategy report also on the Committee's agenda.

4 Capital

- 4.1 Capital payments during the year totalled £7.3m compared with the £7.1m forecast in February 2011. Full details are given on a scheme-by-scheme basis in Appendix 2. Any changes required to the budgets are addressed in the budget monitoring report. Significant variations are summarised in the following paragraphs.

Winchester Fire Station (+£59,000)

- 4.2 The new Winchester Fire Station became operational in February 2011. This scheme was completed on time and within the original budget. This apparent overspend is the result of additional environmental works costing £90,000 which has been fully funded from grant. An increase in the value of the scheme of £90,000 is required and Members' approval is sought. The then apparent underspend is required in 2011/12 to pay for part of the contractors retention payment.

Vehicle replacement programme

- 4.3 The 2008/09 vehicles have all been delivered and are in service. There was a small underspend of £3,000 at the end of the year.
- 4.4 The 2009/10 vehicles are nearly complete. All the support vehicles, one of the refurbished schools' education vans and the 'First Response Vehicle' (FRV) are in service. One of the schools' education vehicles has been delayed and slipped to the current year. The two schools' education vehicles will have cost an additional £20,000 due to an enhanced specification. However, there is a £60,000 saving on the frontline pumping appliances mainly resulting from fitting-out the vehicles in-house.
- 4.5 The 2010/11 vehicles are progressing well and ahead of what was assumed when the payments profile was prepared.

Major building repairs(+£143,000)

- 4.6 The provision for major building repairs spanning the three financial years has been overspent by £143,000. This is as result of a combination of essential additional works (including asbestos removal), work being started and completed earlier than anticipated. In some cases it was timely and prudent to use a contractor - already on site - to undertake additional related improvement works. This overspend will be addressed by reducing expenditure on building repairs in 2011/12 and 2012/13. To offset the cashflow implication some of the initial design work for Basingstoke fire station was deferred. These details are set out in the monitoring report also on this agenda.

Financing

- 4.6 Capital payments can be financed from the following sources:

| | £'000 |
|--------------------------|--------------|
| Supported borrowing | 2,419 |
| Unsupported borrowing | 156 |
| Capital contributions | 41 |
| Capital grants | 1,376 |
| Capital receipts | 1,294 |
| Revenue contributions | 798 |
| Capital payments reserve | 1,171 |
| Total | <u>7,255</u> |

- 4.7 The Authority received £1,359,000 in capital grants in 2010/11. The main grant was £1,215,000 from the department for Communities and Local Government (CLG) for 'capital priorities'. By using: grants, the capital payments reserve', and capital receipts - the amount of unsupported borrowing has been kept to a minimum.
- 4.8 The Authority received an allocation of £1,863,000 for supported borrowing for 2010/11. As at 1 April 2010 the available balance of supported borrowing was £556,000. As payments financed through borrowing were £2,575,000 there was a balance of £156,000 unsupported borrowing as at 31 March 2011.

5 Treasury Management

- 5.1 The treasury management strategy approved by the Authority in February 2010 was followed throughout the year. All the limits and boundaries set were fully complied with.
- 5.2 The year end report is set out as Appendix 3 for Members' approval.

6 Provisions (-£131,000)

- 6.1 An assessment of the uninsured losses provision has been undertaken and, as a result, it has been reduced by £35,000.
- 6.2 Last year a provision for compensation payments was established to deal with the potential implications of the 'Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000'. It is now apparent that these payments will not be subject to employers' contributions for national insurance and income tax. The provision can therefore be reduced by £96,000.

7 Reserves and general balance

- 7.1 It would be prudent to use the overall underspending of £3.2m to enhance the Authority's reserves. The following allocations are recommended for the Committee's approval.

General balance (+£500,000)

- 7.2 The assessment of financial risk carried out when the 2011/12 budget was prepared recommended the general balance be increased to £2.5m, and the first £500,000 of any underspending in 2010/11 be used to achieve this.

Revenue grants unapplied reserve (+£401,000)

- 7.3 As set out above (paragraph 3.9), it is now a requirement for Members to approve the carry forward of unspent revenue grants. They mainly relate to Urban Search and Rescue and a flood rescue grant.

Earmarked underspendings reserve

- 7.4 Several requests for carrying forward underspendings have been made. These total £637,000 and Members are asked to approve the following:

£000

Expenditure planned for 2010/11 that will be incurred in 2011/12:

| | |
|---|-----|
| Gym equipment on stations delayed following evaluation of trial. Results showed more modern equipment was required. | 31 |
| Gender conference deferred from 2010/11 | 20 |
| HR systems training deferred from 2010/11 | 3 |
| Volunteers project – start delayed | 5 |
| Youth engagement activities delayed | 11 |
| Fleet Maintenance Centre – installation of MOT equipment delayed so that impact on under floor heating system could be assessed | 45 |
| Fleet management system – implementation delayed (see paragraph 3.5) | 60 |
| FireWatch system – implementation delayed (see paragraph 3.5) | 194 |

New expenditure in 2011/12:

| | |
|---|------------------|
| Unallocated efficiency savings and unplanned income from legal enforcement awards to establish an environmental improvements budget for small works and ‘quick wins’. | 57 |
| Provision to commence (earlier than originally anticipated) the urgent roll out of replacement breathing apparatus and associated communications equipment. | 208 |
| Equipment for new Road Safety Centre | 3 |
| Total | <hr/> 637 |

Grant reduction reserve (+£500,000)

- 7.5 The costs of the voluntary redundancy scheme will be funded from this reserve. The maximum expected cost of the scheme is £1.9m. It is recommended that a further £500,000 be added to the £607,000 provision previously planned to be set aside from 2010/11 savings. The reserve will stand at £1,447,000 as at 31 March 2011. In addition, it is planned to contribute £440,000 from savings in 2011/12. This would bring this reserve up to the ideal level.

Capital payments reserve (+£1,188,000)

- 7.6 Against the background of the likely pressure on capital funding in future years and to assist with the Authority's ability to finance major schemes such as the replacement fire station building at Basingstoke, it is recommended that the balance of the underspending be added to this reserve. The report on the medium-term financial strategy (also on this agenda) sets out the approach to developing the capital programme and capital financing required.

Improvement and Sustainability Reserve

- 7.7 Due to the overall level of underspending it has not been necessary to use any of this reserve in 2010/11. This balance of £2.3m is considered adequate and no further additions are recommended. It is expected that there will be significant calls on this reserve as the Authority seeks to progress its efficiency strategy and seeks to implement its Carbon Management plan. The progress report on 'reducing energy costs and our impact on the environment' also on the agenda sets out some proposals for invest to save programmes in the short- and medium-term.

Reserves and general balance summary

- 7.8 The movements in these reserves and the general balance, including the proposed adjustments to reserves can be summarised as follows:

| Reserve | Balance at 01 April 2010 | Used during the year | Planned Addition | Further Addition | Balance at 31 March 2011 |
|---|---|-------------------------------------|-----------------------------|-----------------------------|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Capital payments | 926 | -1,171 | 245 | 1,188 | 1,188 |
| Improvement and sustainability | 2,295 | 0 | 0 | 0 | 2,295 |
| Earmarked underspendings | 441 | -441 | 0 | 637 | 637 |
| Grant reduction | 340 | 0 | 607 | 500 | 1,447 |
| Revenue grants | 0 | 0 | | 402 | 402 |
| Total reserves | 4,002 | -1,612 | 852 | 2,727 | 5,969 |
| General balance | 2,000 | 0 | 0 | 500 | 2,500 |
| Total reserves and general balance | 6,002 | -1,612 | 852 | 3,227 | 8,469 |

8 Financial Management Strategy

- 8.1 The Authority has made good progress against the Financial Management Strategy. Full details of the progress are set out in Appendix 4.

9 People impact assessment

- 9.1 The proposals within this paper are not assessed to be discriminatory and are considered compatible with the provisions of the European Convention on Human Rights, the Human Rights Act 1988 and the Race Relations (Amendment Act 2000).

Section 100 D – Local Government Act 1972 – background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report.

None identified

NB the list excludes published works and documents which disclose exempt or confidential information as defined in the Act.

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