

**Hampshire Fire and Rescue Authority**

**Finance and General Purposes Committee**

**Item 5**

**31 July 2012**

**Final Accounts 2011/12**

**Report of the Treasurer and Chief Officer**

Contact: Rob Carr, Deputy Treasurer, 01962 847508

John Beckerleg, Director of Corporate Services, Tel: 02380 626833

**1 Summary**

- 1.1 Recognising the difficult financial position, the Authority's strategy was to make savings and deliver a significant underspend in 2011/12. This has been achieved. Expenditure was £4m below the revised budget. Of this, £2.1m relates to the accounting arrangements for the treatment of grant income. It means that £1.9m is available for the Authority to add to reserves. The additional underspending has been achieved across many expenditure heads including support staff pay, retained firefighters, operational equipment and printing and stationery. The underspend was offset by the need to increase provisions, in particular the provision for part-time workers.
- 1.2 This underspending will help the Authority to deal with government grant reductions in subsequent years.

**2 Recommendations**

- 2.1 That the carry forward of specific underspendings set out in paragraph 7.4 of this report be approved.
- 2.2 That the accounts for 2011/12 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 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 underspending 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
Support staff pay and allowances	10,279	9,759	9,624	-135
Retained firefighters pay and allowances	6,402	6,457	6,134	-323
Operational equipment	1,105	1,349	1,206	-143
Printing, stationery, publicity and promotions	297	285	143	-142
Hired and contracted services	647	802	486	-316
IT and communications	3,206	3,609	3,294	-315
Increase in provisions	0	0	496	+496
Other (detailed in Appendix 1)				-1,013
Net underspend				<hr/> 1,891

#### **Support staff pay (-£135,000, -1.4%)**

- 3.2 This underspend is mainly due to the recruitment freeze and uncertainty about when new posts would be filled.

#### **Retained firefighters pay and allowances (-£323,000, -5.0%)**

- 3.3 Operational activity was less than anticipated due to a continuing decline in the overall number of incidents and a relatively dry winter. The possibility of a spike in operational activity at some point is being planned for as continued low levels of activity cannot be guaranteed

### **Printing, stationery, publicity and promotions (-£142,000, -49.8%)**

- 3.4 Ceasing to produce and distribute the Exchange Magazine and a reduction in the number of copies of committee papers together with better control of costs have contributed to savings in these budgets. Some cost saving measures introduced include: centralised ordering at Service HQ resulting in fewer specialist orders and the use of more cost effective suppliers; increased use of electronic mailing and forms saving paper and postage; more double-sided printing; recycling of folders and saving stationery.

### **Hired and contracted services (-£316,000, -39.4%)**

- 3.5 This underspend is partly due to not holding Assessment Development Centres this year as a result of the recruitment freeze and partly due to environmental projects not being completed by the end of the financial year. A request to carry forward the unspent balance of the environmental budget is made below.

### **Operational equipment (-£143,000, -10.6%)**

- 3.6 The main reason for this underspend is that the demand for replacement stock items on vehicles and at stations reduced. In addition two projects; the installation of asset tracking equipment and the breathing apparatus upgrade were not completed by the end of the year. A request to carry forward £45,000 is being made to complete these two projects.

### **IT and Communications (-£315,000, -8.7%)**

- 3.7 Cost savings in hosting and software for the FireWatch project and slippage in completing SAP interfaces were the main reasons for this underspend. A request to carry forward the FireWatch underspending is being made.
- 3.8 Less than expected development work was required to complete the Fleet management system (Tranman) and vehicle fuel management system (Timeplan). As the existing Command and Control system is to be replaced in 2013 only essential maintenance has been undertaken and this has realised further savings.

### **Impact on future years**

- 3.9 The savings achieved in 2011/12 are part of the four year Financial Challenge programme. This programme is designed progressively to reduce spending to the level of funding from Government grant and council tax expected in 2014/15. The savings in 2011/12 are at or slightly above the target level.

- 3.10 The addition to reserves will either meet planned expenditure (such as the Networked Fire Control project) or help the Authority to meet future spending. This applies particularly to funding the capital programme in future years without the need to resort to borrowing.
- 3.11 The level of underspend is not permanent and will reduce because the annual grant from Government will reduce. However the opportunity is being taken to review all significant budget underspending to identify if permanent budget reductions can be made.

#### **4 Capital**

- 4.1 Capital payments during the year totalled £3.5m compared with the £4.5m forecast in February 2012. 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.

##### **Vehicle replacement programme**

- 4.2 The 2009/10 vehicles have all been delivered and are in service. There are just two CCTV cameras left to install on two frontline appliances and so £6,000 of the £15,000 underspend will slip into 2012/13.
- 4.3 The 2010/11 vehicles programme has been completed. A small underspend of £28,000 has been achieved.
- 4.4 Whilst there have been no changes to the planned purchases or overall cost of the 2011/12 vehicle replacement programme it has partly slipped. The main reason for incurring £863,000 less in 2011/12 (this will be incurred in 2012/13 instead) is the late approval of the combined purchase of the two aerial ladder platforms (bringing one forward from 2012/13 to get a better deal).

##### **Major building repairs(+£53,000)**

- 4.5 Expenditure totalling £50,000 that was planned for 2012/13 was brought forward into 2011/12 as it was financially advantageous to do so. Electrical works (which will see a payback in less than two years) mainly at HQ were carried out and the windows at Porchester Fire Station were replaced by the contractor working at Fareham. Therefore the schemes were completed at just £3,000 over the total approved value.

##### **Basingstoke Fire Station (- £64,000)**

- 4.6 The expenditure pattern on this scheme is different to that assumed when the payments profile was compiled. The expenditure will be incurred in 2012/13.

## **Winchester Fire Station (-£111,000)**

- 4.7 The work to finalise the final account for the construction of Winchester Fire Station is nearing completion but final settlement has not been agreed. Therefore the underspending shown will be needed to contribute to the final costs. A report will be presented the Committee in due course.

### **Financing**

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

	<b>£'000</b>
Capital grants	2,083
SALIX loan	29
Capital receipts	813
Revenue contributions	530
Total	<u>3,455</u>

- 4.9 The Authority received £2,083,000 in the form of a capital grant in 2011/12 from the Department for Communities and Local Government (CLG) for 'capital priorities'.
- 4.10 The Authority received an interest free loan for £28,500 from SALIX for environmental improvements at Winchester Fire Station. SALIX is an independent not for profit company funded by the Department for Energy and Climate Change.
- 4.11 By using the capital grant, revenue contributions and capital receipts the Authority has not had to use any unsupported borrowing.

## **5 Treasury Management**

- 5.1 The treasury management strategy approved by the Authority in February 2011 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 (+£496,000)**

### **Uninsured losses provision (+£62,000)**

- 6.1 An assessment of the uninsured losses provision has been undertaken and, as a result, it has been increased by £62,000.

### **Part Time Workers provision (+£280,000)**

- 6.2 National agreement was reached in relation to an equal treatment claim by part time workers. The agreement was based on the payments being made to individuals without any deduction for tax and national insurance. As reported to the last meeting of the Human Resources Committee, Her Majesty's Revenue and Customs (HMRC) has since ruled that the payments should have tax and national insurance deducted from them. The previous provision of £389,000 has therefore been increased by £280,000. The individuals will receive the payments on a gross basis to cover their tax and national insurance deductions, with some payments being made in July.

### **Provision for tax liabilities (+£154,000)**

- 6.3 A provision for various potential tax liabilities has been established. These relate to: possible payments due to the HMRC in respect of pensions for a small number of staff who have retired from the Service and subsequently been re-employed by the Service; and the consequences of a review being undertaken of certain employee benefits for which there may be a tax liability.

## **7 Reserves and general balance**

- 7.1 The Authority has already agreed the principle that any further underspend should be added to the capital payments reserve. The following allocations are recommended for the Committee's approval.

### **Revenue grants unapplied reserve (+£2,141,000)**

- 7.2 This relates to revenue grants that have been received in the year and previous years but which have not yet been spent. The new accounting standards, under which the accounts were first prepared last year, require Members to approve adding this income 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 2.2 dealing with the treatment of reserves.
- 7.3 The largest of these was for £1.7m for the Networked Fire Control Services Partnership.

### **Earmarked underspendings reserve (+£587,000)**

- 7.4 Several requests for carrying forward underspendings have been made. These total £587,000 and Members are asked to approve the following:

£000

**Expenditure planned for 2011/12 that will be incurred in 2012/13:**

Replacement of IT training equipment on stations. This slipped due to software incompatibility which led to delays in setting the specification for the equipment. 30

Operational equipment slippage – The breathing apparatus upgrade project has some outstanding modifications to be completed and the procurement of asset tracking equipment requires part of the FireWatch project to be completed before it can happen. 45

FireWatch – there was some slippage in completing the interfaces of this system with the financial system – the underspend is required to complete the project as planned. 176

Environment budget –work did not progress as quickly as originally planned due to capacity issues. The carryforward is required partly for training and consultancy in connection with the Environmental Management system and partly for outstanding minor environment projects 97

**New expenditure in 2012/13:**

Continuous improvement – training on and implementation of continuous improvement projects to improve internal processes and reduce bureaucracy 160

Retained management system – This relates to an extension of the licence for the current firefighters availability system and associated text messaging costs. This system will cease when FireWatch is fully operational. 74

Other small projects totalling 5

Total 

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587

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**Grant reduction reserve (-£76,000)**

- 7.5 This reserve is available to finance the costs of the voluntary redundancy scheme. The balance in this reserve after the planned contribution of £440,000 is sufficient to pay for the maximum expected cost. Exit package costs incurred in the year total £76,000 and it is recommended that this reserve be used to finance these costs.

### **Improvement and Sustainability Reserve (+£558,000)**

- 7.6 It is recommended that, in accordance with the Finance and General Purposes Committee decision in April 2012, a contribution of £558,000 be made to this reserve to meet the estimated joint working set up costs. No further additions are required to this reserve.

### **Capital payments reserve (+£747,000)**

- 7.7 It is recommended that the balance of the underspending is added to the capital payments reserve. This is in line with the Authority's decisions at the budget meeting in February 2012. As reported then, given the number of unknown factors in connection with capital financing it was felt to be prudent to bolster this reserve as far as possible,

### **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:

<b>Reserve</b>	<b>Balance at 1 April 2011</b>	<b>Used during the year</b>	<b>Planned Addition</b>	<b>Further Addition</b>	<b>Balance at 31 March 2012</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Capital payments	1,188	0	5,073	747	7,008
Improvement and sustainability	2,295	0	0	558	2,853
Earmarked underspendings	637	-637	0	587	587
Grant reduction	1,447	-76	440	0	1,811
Revenue grants	402	-402	0	2,141	2,141
Total reserves	5,969	-1,115	5,513	4,033	14,400
General balance	2,500	0	0	0	2,500
Total reserves and general balance	8,469	-1,115	5,513	4,033	16,900

## **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 in this report are considered compatible with the provisions of the equality and human rights legislation.

### **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.