

5. Provisional Financial Results 2011-12

Purpose of report

1. To brief the Policy and Resources Committee on provisional financial results for the year ended 31 March 2012.
-

Recommendations

The Chief Fire Officer and Treasurer recommend that the Committee:

- i) Notes the provisional financial results for 2011-12;***
- ii) Recommends that the Authority approves the re-phasing of capital budgets from 2011-12 to 2012-13;***
- iii) Recommends that the Authority approve the use of revenue resources as suggested in the Report; and***
- iv) Notes that the Audit Committee will consider the annual Statement of Accounts in detail.***

Introduction and Background

2. Detailed budget monitoring reports have been presented to the Committee throughout the year, and Members will be aware that officers have been very active in seeking to minimise expenditure in anticipation of the very tight financial settlement.
3. The detailed Statement of Accounts will be presented to the Audit Committee for detailed scrutiny in due course, but the provisional results (subject to Audit) are provided here.

Use of Revenue Resources

4. The approved budget for 2011-12 was £31.195m, to which additional expenditure of £0.071m (funded from the Development Reserve) was authorised bringing the total budget to £31.266m.
5. The makeup and funding of the budget is shown overleaf:

	£m
Net Expenditure on Services	32.961
Less : Special Grants	<u>(1.695)</u>
	31.266
Less: Use of Development Reserve	<u>(0.071)</u>
	31.195

	£m	%
Council Tax	20.789	67%
Business Rates	7.949	25%
Revenue Support Grant	<u>2.457</u>	<u>8%</u>
	31.195	100%

6. Since the third quarter's projection of a £0.586m underspend, reported to this Committee in January, budget-holders have continued to minimise expenditure and the out-turn position, detailed in Appendix 1 shows a significant further underspending.
7. It should also be noted that the Service was controlling expenditure to ensure that the new fire control system could be funded if government had not awarded the expected £1.8m in grant.
8. For information the Appendix also allows for transfer to earmarked reserves where underspending is due to timing differences. These are :
 - a. £0.015m in respect of YFA and small external grants received
 - b. £0.098m in respect of Training delivery
 - c. £0.047m in respect of staff eligibility for re-location cost re-imbursement
 - d. £0.050m in respect of DEFRA grant for boats
 - e. £0.120m in respect of Fire Control Resilience Grant awarded late in 2011/12; this was always intended to offset future running costs
9. The net underspending of £0.826m represents 2.6% of the budget, but should be considered as part of the Service preparation for the implications of the significant budget gaps contained in the Medium Term Financial Strategy 2012-13 to 2014-15.
10. Since agreeing this position a number of other factors have emerged, which significantly reduces this overspend.
11. Members will recall that at the end of 2010/11 monies were set aside to meet the costs of settling the national claim of unfair treatment of RDS staff. A sum of £0.209m was provided to meet the agreed compensation settlement which was due to be imminently paid. There have been severe delays to this payment and it appears that the NJC were working on an incorrect assumption about the tax

and NI treatment of this payment. As a consequence it is now necessary to set aside further sums to meet the new liability. An additional sum of £0.100m is required.

12. Members will also be aware that the 2012/13 budget made provision for significant redundancy cost. Accounting convention requires that some of these costs, totalling £0.191m are required to be charged to the 2011/12 accounts. Although this will release an equivalent resource in 2012/13.
13. The RDS compensation referred to above is only one of two parts to this issue. The second relates to the un-lawful exclusion of RDS firefighters from the Firefighters pension scheme before 2006. Over the last two years little detail has been provided on this, but it is beginning to emerge that considerable costs may fall on the Fire and Rescue Authority. Although £0.167m has been set aside to meet these costs, the Treasurer considers it prudent to increase this reserve in the short term and it is suggested that an additional £0.255m be transferred to this reserve.
14. The net effect of these factors are shown in the table below:

	£m
Underlying under spending	(0.826)
RDS compensation (Tax/NI)	0.100
Redundancy Costs	0.191
Transfer to Pension Reserve	0.255
Balance to transfer to General Reserves	(0.280)

15. As the Out-turn is still provisional and subject to Audit it is suggested that any variation is made in this Pension Reserve figure.
16. On the 22 May 2012 the FRA agreed to pursue settlement of a legal claim against the Authority and any costs would need to be met from general reserves, when they arise.

Use of Capital Resources

17. As Members will be aware a distinction is made between:
 - Capital Strategy – representing the overall funding provided within the budget.
 - Capital Budget – representing the amount which has been authorised to be spent.
18. The Capital Strategy is split into 3 main blocks:
 - Vehicle renewal.
 - Major Building Works.

- Minor Schemes – for which detailed allocation is made by the service Senior Management Board (SMB).

19. The Capital Strategy for 2012-13 was approved as below:

	£m
2011/12 Capital Strategy	4.420
Re-phasing from 2010/11	4.895
Fire control Project	2.287
Training Facilities	0.276
	11.878
Leasing Provision	0.481
Capital Strategy	12.359
Major Buildings - not yet allocated	(3.334)
Minor Schemes - not yet allocated	(0.306)
Capital Budget	8.719

20. Appendix 2 gives a scheme by scheme analysis of expenditure, and of the £8.719m capital budget £2.679m (31%) has been expended, giving an underspend of £6.040m. This is largely due to allocation for major schemes (i.e. buildings and fire control) not being fully phased at the time of approval.
21. The re-phasing of these schemes was partly covered in the Medium Term Financial Plan approved by the FRA in February 2012 and it is proposed to adjust this re-phasing in the light of 2011/12 out-turn.
22. It is also proposed to re-phase the budget for the minor schemes, and to carry forward the un-allocated Buildings and Minor Works allocations. It should be noted that the Minor Works allocation was held to ensure that the new fire control system could be funded if government had not awarded the expected £1.8m in grant.
23. The proposed position is summarised in the table below:

	Total Variance £m	MTFP £m	Proposed Rephasing £m
Major Buildings	(4.148)	3.820	(0.328)
Fire Control	(1.453)	0.355	(1.098)
	(5.601)	4.175	(1.426)
Vehicles	(0.237)		(0.237)
Minor Schemes	(0.202)		(0.202)
	(6.040)	4.175	(1.865)
Major Buildings - not yet allocated	(3.334)		(3.334)
Minor Schemes - not yet allocated	(0.306)		(0.306)
	(9.680)	4.175	(5.505)

24. This will not have a detrimental effect on the future revenue budget, as provision for financing costs has been made assuming the capital expenditure had been made in 2011/12.

25. It should be noted that although the FRA has given specific approvals for the individual major building schemes, these have not been detailed in the report as they may compromise the FRA position when negotiating construction contracts.

Role of the Audit Committee

26. As a result of major changes to the accounting arrangements; in 2010/11 the Audit Committee will not be asked to approve the Statement of Accounts until the Audit is completed in September.
27. The Accounts will be prepared in accordance with IFRS and will show the true economic cost of providing the service. This will differ significantly from the position shown by this report, which is prepared on the statutory basis on which the budget, grant and precept are prepared, and to which Members are accountable for managing.
28. This is because there are some significant items:
- Those which are required to be charged by statute, but are not permitted under IFRS.
 - Those which are required to be charged under IFRS but not allowed by statute.
29. The Statement of Accounts will reconcile these differences and the Audit Committee will scrutinise this reconciliation as well as the Accounts themselves.

Financial Considerations

Consideration	Yes/No	Reference in Report i.e. paragraph no.
There are financial issues that require consideration	Yes	Statutory review of financial position

Legal Considerations

Consideration	Yes/No	Reference in Report i.e. paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	See Financials above

Additional Considerations

30. The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e. paragraph no.
Resources (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
Strategic Policy Links (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
Risk Management / Health & Safety (e.g. risk management and control measures, risk register score).	No	
Consultation with Representative Bodies	No	

Supporting Information

Appendix 1 – Revenue Budget

Appendix 2 –Capital Budget

Background papers - none

Contact Officer

Martin Reohorn – Director of Finance and Assets

01905 368205

Email: mreohorn@hwfire.org.uk