



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

PROVISIONAL OUT-TURN FOR 2011/2012

Joint Report of the Treasurer and Chief Fire Officer

Agenda Item No:

Date: 29 June 2012

Purpose of Report:

To report to Members on the latest estimate of the financial performance of the Service in the year 2011/12, analysing significant variances against the original budget. The Statement of Accounts for 2011/12 will show the final position and will be reported to Members in September 2012.

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1. BACKGROUND

- 1.1. The Authority's Statement of Accounts is produced annually and is a comprehensive statement of the Authority's financial position and financial transactions in the reported year. The un-audited Statement of Accounts for the financial year 2011/2012 is required to be completed and then authorised for issue to the external auditor before 30 June 2012 by the Treasurer to the Fire Authority.
- 1.2. The audit of the Statement of Accounts is due to take place in July 2012, and the audited Statement of Accounts and the external auditor's Annual Governance Report will be presented to Members of the Fire Authority on 21 September 2012.
- 1.3. The purpose of this report is to give Members an overview of the Authority's financial performance in 2011/12 prior to the full report in September. At the time of writing this report, detailed work on the closure of accounts was still in progress so the figures reported herein are estimated but unlikely to significantly change.

2. REPORT

EXECUTIVE SUMMARY

- 2.1 Members will be aware that 2011/2012 has been a very challenging year financially, with not only reductions in grant for 2011/2012 but also further grant reductions expected in subsequent years.
- 2.2 In response to these required budget reductions a series of initiatives have been implemented to reduce costs going forward, avoid compulsory redundancies and place the authority in a strong position financially despite the tightening fiscal environment.
- 2.3 The approved Revenue Budget for 2011/2012 was £46.407m although reports to Finance and Resources Committee throughout the year have predicted savings against this figure as the management initiatives referred to above began to have an impact. The Authority has actually managed to underspend this budget by some £1.598m, spending £44.809m in 2011/2012.
- 2.4 This figure represents a saving of just over 3.4% on the original budget but is significant when seen against the figures of budget requirements for 2012/2013 and 2013/2014 of £44.678m and £43.774m respectively. This clearly shows that the Authority is well on target to achieve the necessary savings in costs going forward.
- 2.5 More importantly these savings have been achieved without impacting on the operational service and it is pleasing to report that managers and staff have

worked together to implement changes earlier than expected and achieve the longer term financial objectives of the Authority.

- 2.6 The details of the variances and how these savings have been achieved is set out in the sections below.

REVENUE BUDGET

- 2.7. As set out above the approved revenue budget for 2011/2012 was £46,407k. The provisional outturn is £44,809k, which is an underspend of £1,598k or 3.4% against the budget.
- 2.8. Members will be aware that during the year the Authority faced significant changes arising from the Fire Cover Review and the Service restructure. These changes affected employees and for the whole of the year a recruitment freeze was imposed, to ensure that the Service could migrate to a smaller staff establishment level whilst minimising redundancies and to provide redeployment opportunities to employees affected by the changes (some vacant posts were covered by temporary agency staff). This situation affected pay budgets directly, but also had an impact on employee-related budgets such as training, uniforms and travel expenses.
- 2.9. During the year, employees focussed hard on finding efficiencies and reducing non-pay expenditure in anticipation of further reductions in the budget in future years. As a result, a number of non-pay budgets have also underspent in the year. Significant variances to the budget are explained in more detail in the following paragraphs.
- 2.10. The forecasted outturn underspend as at 31 January 2012, which was reported to members of the Finance and Resources Committee, was £3,057k. This has significantly reduced such that the position at 31 March 2012 is a provisional underspend of £1,598k. The most significant reasons for the movement of £1,459k between the two dates are as follows:
- a) The anticipated transfer from reserves to fund capital expenditure has not been made. Instead, the bulk of this expenditure has been funded from revenue underspends and government grant -£1,368k(paragraph 2.39);
 - b) the charge for the costs in respect of a high court ruling – accounting treatment recently agreed with external auditors -£330k (paragraph 2.35);
 - c) the provision set aside to pay compensation arising from the “prevention of less favourable treatment for part time workers case” to Retained Duty System employees has increased by £148k. The requirement for this change was clarified after the end of the financial year(paragraph 2.16);
 - d) the buy-out of the Aerial Ladder Platform lease fell into the 2012/13 financial year instead of 2011/12 £143k (paragraph 2.24);

- e) ICT underspends were £98k higher than previously reported (paragraph 2.32);
- f) Operational equipment underspent by £93k which had not been previously reported (paragraph 2.27);

The full extent of these underspends and savings is shown in the following table with detailed explanations in the following paragraphs.

	Annual Budget 2011/12	Provisional Actual 2011/12	Provisional Variance 2011/12
	£000's	£000's	£000's
Employees	34,761	33,639	(1,122)
Premises	2,541	2,426	(115)
Transport	2,336	1,936	(400)
Supplies & Services	4,834	3,448	(1,386)
Third Party Payments	191	379	188
Support Services	211	543	332
Income and use of reserves	(3,665)	(1,670)	1,995
Capital Financing	5,198	4,108	(1,090)
Total	46,407	44,809	(1,598)

EMPLOYEES

- 2.11. **Wholetime Operational Pay:** (annual budget £23,524k, which has been reduced by a virement of £200k for backlog maintenance approved by Finance and Resources Committee on 9 December 2011). The provisional outturn underspend is £868k. The budgeted establishment is 559 posts, and by the end of the year only 522 posts were occupied, with overtime being used to maintain front line services. This represents over 50% of the total underspend and arises as a result of deliberate management action to leave vacancies unfilled and reduce any requirement for redundancies
- 2.12. **Non-Uniformed Pay:** (annual budget £5,265k). The provisional outturn underspend is £161k, with a number of vacancies arising in the year some of which were covered by temporary staff. The number of established posts is 166 FTE, and at the end of the year, only 155 FTE were filled with the balance being supported from time to time by agency staff.
- 2.13. **Retained Pay:** (annual budget £3,335k). The provisional outturn underspend is £82k. Activity levels were slightly lower than in the previous year, but there are two main reasons for the underspend. Firstly, the cost of retained pay is volatile and the budget has been maintained at a prudent level over the past few years. A review of the required level for the retained pay budget will be carried out during the next budget process. Secondly, the provision for paying compensation arising from the "prevention of less favourable treatment for part time workers case" to Retained Duty System employees has increased by £148k as a result of more employees being identified for a compensation payment and as a result of the compensation amount being increased following the HMRC ruling that the payment will be subject to taxation.

- 2.14. Cooks Pay: (part year budget £60k). The provisional outturn overspend is £69k because posts were dis-established in November 2011, which was later than originally planned.
- 2.15. Training: (annual budget £528k). The provisional outturn underspend is £131k. This underspend has arisen because training courses planned for 2011/12 were not all taken up by staff, and devolved training budgets were not fully utilised by departments. A major factor causing the training underspend will have been the level of vacancies within the staff establishment.
- 2.16. Pensions and Redundancy: (annual budget £699k). The provisional outturn overspend is £138k, which has mainly arisen from the redundancies of cooks and Retained Duty Staff (RDS) from RDS sections closed by the Fire Cover Review. These redundancy costs were not budgeted for, but funding was set aside as an earmarked reserve to cover the one-off costs arising from the Fire Cover Review and the Service restructure. This earmarked reserve has not been used in the year because the revenue budget underspend is sufficient to contain the redundancy costs in 2011/12. The earmarked reserve will however be required in 2012/13 to fund the remaining redundancies already approved.

PREMISES

- 2.17. Rents: (annual budget £104k). The provisional outturn underspend is £42k. This relates to the recharges from the City Council in respect of Central Fire Station. The 2010/2011 annual charge was received after the year end and was lower than budgeted for, and this saving has impacted upon this year's position.
- 2.18. Energy: (annual budget £408k). The provisional outturn underspend is £101k. This is largely in respect of gas. It is thought that some savings are starting to accrue from the energy efficient measures incorporated into refurbishments, however most of this underspend is due to the budget being based on previous expenditure levels which were based on estimated meter readings. The implementation of automatic meter readers has resulted in more accurate and regular readings.
- 2.19. Rates: (annual budget £618k). The provisional outturn overspend is £37k. This is mainly due to a combination of price increases higher than budgeted - £25k and a rating revaluation of Tuxford fire station, which was recently refurbished - £9k.

TRANSPORT

- 2.20. Direct Transport Costs: (annual budget £1,225k). The provisional outturn underspend is £97k. The fleet maintenance contract was re-tendered and awarded with effect from July 2011 and this has resulted in a part year saving of £76k. The fleet modifications budget has underspent by £73k – this budget has been affected by the delay in implementing the Fire Cover Review.

Finally, although it was thought that fuel costs could be contained within the budget, prices have risen so much this year that the final overspend is £49k.

- 2.21. Leases - transport: (annual budget £331k). The provisional outturn underspend is £138k. All operating leases have reached the end of their primary periods and replacement assets were financed from revenue in 2011/12. However, Finance and Resources Committee approved the early replacement of two of the Aerial Ladder Appliances in October 2010 and it had been expected that the buy-out of one of these finance leases would be before the end of March. However, the transaction took place after the year end, resulting in the underspend.
- 2.22. Staff Travelling Allowances: (annual budget £505k). The provisional outturn underspend is £99k. Two issues have impacted on this budget – firstly the high number of staff vacancies has directly reduced the cost of travelling on behalf of the service as the movements of firefighters between stations to maintain the crewing levels has reduced. There has been a reduction in leased car mileage due to uncertainty around officer establishments and potential changes to the car leasing scheme.
- 2.23. Transport Insurance: (annual budget £237k). The provisional outturn underspend is £66k. This is due to the re-tendered contract that was awarded this financial year which was more competitive.

SUPPLIES AND SERVICES

- 2.24. Operational Equipment, Furniture and Materials: (annual budget £953k). The provisional outturn underspend is £241k. The Fire Prevention department continues to be significantly under established, which meant that some planned expenditure did not occur, resulting in an underspend of £71k. Operational equipment has underspent by £93k and this area has seen significant improvements in budgetary control arising from the new finance and procurement system. Hydrant maintenance has underspent by £50k – this is a volatile budget which is difficult to predict as expenditure is driven by the requirements of Severn Trent Water. Training / teaching equipment has been directly impacted by the number of staff vacancies and consequent underspend on training - the underspend at year end is £24k.
- 2.25. Catering: (annual budget £55k). The provisional outturn overspend is £17k. This overspend has resulted in two areas: firstly there has been £7k of expenditure on repairs to and replacement of minor catering equipment, for which there is no budget, and secondly the budget for emergency catering on the fireground (£14k) was not sufficient to contain the total expenditure on food and water (£23k). Both of these areas will need to be addressed in the next budget round.
- 2.26. Clothes Uniforms and Laundry: (annual budget £282k). The provisional outturn underspend is £119k, caused mainly by personal protective equipment, which is another example of a budget which has been directly affected by the high number of vacancies within the wholetime establishment. In addition Members will be aware that most of the personal protective

equipment in use is relatively new and therefore demand for replacement has not been high.

- 2.27. Printing, Stationery, Office Expenses: (annual budget £144k). The provisional outturn underspend is £41k. This underspend has arisen for two key reasons: firstly the re-tendering of the stationery contract which resulted in a saving and secondly the efforts being made throughout the Service to reduce costs.
- 2.28 Other Services: (annual budget £697k). The provisional outturn underspend is £102k. General insurances underspent by £50k, which was less than had been reported during the year because an additional provision of £40k was set aside to cover ongoing claims. The underlying underspend is due to the retendering exercise for insurance. The budget for cross border charges was set as an expenditure budget of £19k, however the Service received a net income for mutual assistance, resulting in an underspend of £19k. This budget is difficult to predict and can vary from year to year. Marketing and publicity has underspent by £25k – this is partly due to the recruitment freeze, which removed the requirement for a campaign to recruit firefighters, and also due to the early realisation of savings, which have been taken from the 2012/13 budget.
- 2.29 Communications and Computing: (annual budget £1,896k). The provisional outturn underspend is £413k. The contracts for computer software maintenance and non-contracted services have been either reviewed or renegotiated for 2012/13 and this has resulted in an underspend of £177k on computing contracts and ICT non-contracted services and £62k on communications contracts. In addition Firelink charges have underspent by £110k, because the budget assumed a higher level of cost than has actually been incurred. The budget for public consultation has underspent by £49k.
- 2.30 Employee-related Expenses: (annual budget £100k). The provisional outturn underspend is £34k. This mainly relates to subsistence which has been impacted by the high level of staff vacancies, but also by efforts to reduce costs. This budget can be reallocated next year to the catering budgets referred to in paragraph 2.25 above.
- 2.31 Other Expenses: (annual budget £731k). The provisional outturn underspend is £494k and is made up broadly as follows:
- i) The Regional Management Board annual budget was £134k and, although the RMB was disbanded at the start of the year, the budget was left in place until replacement arrangements had been agreed. The annual RMB budget has been reallocated to other budget heads in 2012/13 and a net saving has been taken. However in 2011/12, the cost of replacement arrangements has been absorbed into underspends elsewhere leaving the surplus RMB budget as an underspend of £106k.
 - ii) A risk based budgeting contingency of £197k was created from anticipated savings from other budgets. It was created for budget holders to call on if their budgets are adversely affected by events

which are outside of their control. There have not been any applications to use this contingency this year, creating an underspend of £197k. This budget has been scaled back in 2012/2013

- iii) A generic savings budget of £131k relates to savings identified in 2010/11 and 2011/12 and removed from budgets to a separate area—these budgets have been removed for 2012/13 but are an underspend in 2011/12.
- iv) The contribution to partnership working budget has also underspent by £60k. This is an area which was indirectly impacted by vacancies in the establishment as outlined in paragraph 2.8 – the resources were not available to progress work on commissioning partner organisations.

THIRD PARTY PAYMENTS AND SUPPORT SERVICES

2.32 Legal Services : (annual legal fees budget £147k). The provisional outturn is £335k, £209k of which relates to the legal costs of the Dunkirk case. In addition a charge of £330k has been made to the revenue account in compliance with a High Court order in respect of this case. This amount will be recovered from the capital receipt when the property is sold.

INCOME

2.33 Government Grants - Revenue: The provisional outturn surplus is £349k and this has arisen due to grants being received in the year relating to operational activity which were not anticipated at budget time. These totalled £221k and will be spent in 2012/13, with the grant income used to create earmarked reserves at 31 March 2012. In addition, the DCLG grant for FireLink charges was higher than budgeted for.

2.34 Interest receivable: (annual budget -£50k). The provisional outturn surplus is £113k. Interest received has exceeded the budget mainly due to the revenue budget underspend and cash-backed reserves which have been invested.

2.35 Other Income: (annual budget -£404k). The provisional outturn surplus is £129k. This has mainly arisen in three areas: the Princes Trust programme received more income than budgeted for, an excess of £78k over budget. Some of this was used to meet costs arising from the programme, but at the year end the total net surplus for the Princes Trust scheme was £59k and this sum has been transferred to the Princes Trust earmarked reserve. Fee income for medicals performed by the Occupational Health service exceeded the budget by £17k and recovered costs, which are not budgeted for as they are uncertain, totalled £8k.

2.36 Other Grants, Reimbursements and Contributions: (annual budget -£3,480k). The provisional outturn is £2,586k less than budgeted because a transfer from reserves is not required. The approved budget for 2011/12 included a budget of £2,628k for revenue funding of capital expenditure. This was to be

financed by a matching contribution from general reserves to balance the overall net budget.

During the year, the amount of capital grant received from DCLG was more than anticipated at budget time and the capital programme in total underspent. As a result, the amount of revenue contribution required to fund capital is now only £1,368k and there is no need to finance this by way of a contribution from general reserves.

Secondment income has also exceeded the budget by £148k, but this is offset by expenditure within the pay budgets.

CAPITAL FINANCING

2.37 Capital Financing: (annual budget £5,199k). The provisional outturn underspend is £1,090k. Overall capital financing budgets with the exception of revenue contributions to fund capital expenditure (i.e. minimum revenue provision, interest payments, leasing charges and lease extension fees) underspent by £79k against an overall budget of £2,842k mainly due to an underspend in the previous year's capital programme (some of these budgets are within Transport). The main reason for the underspend in this area is the revenue contributions to fund capital expenditure budget which underspent by £1,146k due to the reasons set out in paragraph 2.36 above.

RESERVES

2.38. At 31 March 2011, general reserves stood at £5,524k and earmarked reserves totalled £4,172k. The provisional revenue outturn underspend of £1,582k will increase general reserves and give a new total of £7,106k as at 31 March 2012.

2.39. Members will be aware that the use of general reserves to finance further revenue contributions to fund capital expenditure is budgeted for in future years.

2.40. During the year, £410k of revenue expenditure was financed by earmarked reserves, new reserves were created to enable grant funding received in the year to be carried forward – total value £255k and adjustments were made to increase or write back existing reserves resulting in a £255k net reduction in reserves. At 31 March 2012, earmarked reserves stand at £3,761k.

2.41. The following table shows the impact on general reserves in relation to the future budget plans presented to Members in February 2012.

GENERAL RESERVES PROJECTIONS	<u>2012/13</u> <u>£000's</u>	<u>2013/14</u> <u>£000's</u>	<u>2014/15</u> <u>£000's</u>
General reserves opening balance	7,106	5,922	4,541
Additions to general reserves	1,816	619	0
Contributions from general reserves	-3,000	-2,000	-41
General reserves closing balance	5,922	4,541	4,500

- 2.42. When the annual budget was prepared an indicative figure of £8m was used for reserves however this was only a broad illustrative estimate and £7.106 is the provisional figure used in the accounts. This variation does not have any significant impact on the previously approved 3 year financial strategy.

CAPITAL BUDGET

- 2.43. The approved capital programme for 2011/12 totalled £2,804k. Slippage brought forward from 2010/11 totalled £1,545k giving a total capital programme of £4,349k for the year. In January 2012, it was reported to the Finance and Resources Committee that the forecast outturn for the capital programme was £2,846k. The provisional outturn is £2,879k, which is an underspend of £1,470k against the total programme.
- 2.44. A capital grant of £1,486k was received from DCLG during the year and this has been used to partially finance the capital programme. The remaining capital expenditure of £1,393k will be partially financed by capital receipts from the sale of vehicles in 2010/11 (£25k) with the remainder financed by a revenue contribution (£1,368k).
- 2.45. The revenue contribution to finance the capital programme was budgeted to be £2,514k and was to be funded by a contribution from the general reserve. The capital programme underspend however, has resulted in the full amount of revenue contribution not being required. The impact of this on the revenue budget is explained in paragraph 2.36. No borrowing has been taken in the year and the decision has been made not to lease any of the assets purchased in the year because all 2011/12 capital expenditure will be financed out-right, with no on-going revenue impact.

TRANSPORT

- 2.46. The Transport capital programme covered the purchase of pumping appliances, special appliances and light vehicles. In total, the Transport programme was £2,274k for the year, with a provisional outturn of £1,817k – an underspend of £457k to be slipped into 2012/13 (comprising £353k for appliances / special appliances and £104k for light vehicles).
- 2.47. During the year, 6 pumping appliances were built and, at year end, were awaiting equipment to be installed before becoming operational vehicles. Of the special appliances, 2 specialist rescue units were delivered in the year and expected to be operational early in 2012/13. The building of 2 rapid response unit vehicles was in progress at the year end. The replacement of light vehicles was postponed whilst the Fire Cover Review outcomes were being determined, and will recommence in 2012/13.

PROPERTY

- 2.48. The Property capital programme mainly covered the refurbishment of Blidworth Fire Station, the payment of costs relating to the almost completed rebuild of Carlton Fire Station, a general Station refurbishment budget as well as some minor works. The approved Property programme was £727k for the

year and an additional £530k was approved by Members during the year to implement a sustainable energy project at some properties. The provisional outturn is £804k – an underspend of £453k. This underspend would have been £646k, however is offset by an overspend of £193k on the project to refurbish Tuxford Fire Station, and the reasons for this were reported to Finance and Resources Committee on 30 March 2012. There has been slippage of £490k on the Blidworth Fire Station project and £162k on the sustainable energy project, which will require funds to be carried forward into 2012/13. Progress on both of these projects and the reasons for delays have been reported to the Finance and Resources Committee during the year.

- 2.49. During the year, the projects at Tuxford and Carlton Fire Stations were completed, as were most of the installations of photo-voltaic cell panels at various properties within the Service. There are further works to be completed in 2012/13 for the sustainable energy project. The procurement element of the Blidworth Fire Station refurbishment project commenced, as did the planning for the conversion of Edwinstowe Fire Station to accommodate wholetime crews. These two projects continue in 2012/13.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

- 2.50. The ICT capital programme mainly covered significant projects such as the replacement HR system, the business process automation project, the regional finance system, CFRMIS improvements and upgrades and the upgrade to Office 2010. In addition the programme contained budgets for on-going replacement of equipment and for equipment arising from business expansion. In total, the ICT programme was £818k for the year, with a provisional outturn of £258k – an underspend of £560k to be slipped into 2012/13 (comprising £170k for business process automation, £14k for mobile computing, £206k for the replacement HR system, £150k for the upgrade to Office 2010 and £20k for the CFRMIS project).
- 2.51. During the year, the business continuity / disaster recovery and the regional finance system projects were completed, as was the upgrade to Office 2010. The expenditure on this latter project falls into 2012/13 because it is a payment in advance for software licences. Both the CFRMIS project and the replacement HR system project were started in the year although not completed. The business process automation project is now to be linked to the Tri-Service Control project and will start in 2012/13.

3. FINANCIAL IMPLICATIONS

The financial implications are set out within the main body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

A high proportion of the underspend in the year can be attributed either directly or indirectly to the management of the establishment arising from implementation of

the Fire Cover Review and the organisational restructure. The implications for human resources have been reported during the year to the Human Resources Committee.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report summarises only the financial impact of activities undertaken in 2011/12. Equality impacts arising from new policies implemented in the year will have been identified in other reports.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

There are no risk management implications which arise specifically from this report, however the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. Throughout the year, finance department staff work collaboratively with budget holders towards keeping expenditure within budget and improving financial performance and reporting to Finance and Resources Committee at regular intervals.

9. RECOMMENDATIONS

It is recommended that Members:

- 9.1 Note the contents of this report.
- 9.2 Approve the total capital slippage of £1,669k to be carried forward to 2012/13, as detailed in paragraphs 2.46, 2.48 and 2.50.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None

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