

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY</b>	
date	<b>23 JULY 2004</b>	agenda item number

### REPORT OF THE TREASURER

#### FINAL ACCOUNTS 2003/2004

#### 1 PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to seek the approval of Members to the adoption of the final accounts for the Nottinghamshire and City of Nottingham Fire Authority for the year ended 2003/2004 in accordance with the legal requirement that these be formally adopted by 31 August 2004.

#### 2 BACKGROUND

- 2.1 The annual audit of accounts carried out by PriceWaterhouseCoopers is now substantially complete such that no further adjustments of any material nature are anticipated. The Auditors cannot complete their audit until these accounts have been formally adopted by the Fire Authority and therefore their Management Letter and formal report on the accounts will be delivered some time after this meeting.
- 2.2 As the auditors have substantially completed their audit it has been possible for any adjustments suggested by them to be incorporated within the accounts that are presented. It is always possible for the Authority not to make certain adjustments to the accounts but then this would need to be reported in a Statement of Auditing Standards 610 report by the Auditors. It is considered that the Authority should always seek to meet the highest professional standards in its financial reporting and therefore all adjustments suggested by the Auditors have been made. It is therefore anticipated that a positive SAS610 report will be received in due course.

#### 3. THE ACCOUNTS

The Revenue Account for 2003/4, after all year end accounting adjustments shows a surplus of expenditure over income of some £252,000 which is a variance of 0.73% on the original budget of £34.753m.

However the overall funding available to the Authority during 2003/4 was made up of both the annual budget and balances carried forward from the previous year which gives a total of available funds of:

	£000's
Original Budget	34,753
Brought Forward Balances	<u>272</u>
Total Available Funding	<u>35,025</u>

The Authority having spent, or reserved for earmarked projects, the sum of £35,005m gives rise to an overall Revenue Reserve (or surplus) of £20,000 which is shown on the Balance Sheet.

This sum represents the total of the Authority's underspendings against planned budgets for 2003/4 and can be divided into two areas of activity:

	£000's
Pensions	97
General Budgets	<u>(117)</u>
	(20)

As Members will be aware the Fire Fighters pension scheme is an unfunded "pay as you go" scheme and as such has no investment fund from which its liabilities can be met. All income and expenditure on pensions therefore has to be met from the Authority's revenue resources in the current year. Such transactions include pensions paid to retired employees, contributions made by scheme members, transfer values for employees who move between fire authorities and lump sum commutations paid to employees retiring during the year.

Fire fighters may retire voluntarily at different times, depending on their rank, and also have a compulsory retirement age (again dependent on rank). This extended "window of time" within which fire fighters may retire causes significant volatility within the Pensions budget. The Authority has a number of fire fighters who could have retired during 2003/4 but have delayed their retirement. These staff may choose to retire in 2004/5, when the final settlement of the pay award is known, and therefore it is considered prudent to reserve for this in the accounts. An earmarked reserve of £727,000 has therefore been created specifically to pay the lump sum commutations of these staff. This has resulted in an overspending on Pensions however this properly reflects the Authority's obligations to make these payments.

3.7 The underspend of £117,000 on general budget heads again needs to be viewed against the budget excluding pensions of some £29.738m i.e. a 0.39% variance. However there are variances within this overall figure, which require further explanation.

#### **4. SIGNIFICANT VARIANCES**

4.1 Within the £117,000 underspending there are a number of significant under and overspendings, which have been examined further.

4.2 Wholetime pay has overspent by £67,000 against its budget of £16.393m, a variance of 0.4% which, of itself, is fairly insignificant and is due largely to the financial effect of having an Assistant Chief Fire Officer away from the Brigade on a training course for most of the year with consequent Acting-Up allowances being paid.

4.3 Fire Control has overspent by £69,000, which is fairly significant when set against the total budget of £814,000 (8.5%). There have been particular difficulties within Fire Control due to staff sickness and other absences, which have required high levels of Acting-Up and overtime payments. These difficulties have been reported throughout the year as part of the regular monitoring process and have now been resolved.

- 4.4 The overspending of £59,000 on Administrative pay is also linked to the problems in Fire Control in that staff have been transferred to Fire Control from Administration to fill temporary vacancies. This has meant in turn that there have been high numbers of temporary agency staff covering Administration, which results in higher than normal staffing costs.
- 4.5 Staff training has again shown an underspending of some £100,000 largely because the increased training requirements around IPDS have failed to be delivered from the IPDS hub and Central Government. This is an area of particular concern as it is anticipated that when these do eventually emerge there may be a backlog of training requirements which will need to be met, over and above those anticipated in the 2004/5 budget.
- 4.6 Premises is showing a large underspend of some £138,000, which is virtually all due to refunds of business rates following recent rating appeals. These refunds went back over a number of years and therefore have created a genuine in year underspending.
- 4.7 There has been overspending of £128,000 on Operational Equipment but the majority of this relates to a decision that was taken to delay the replacement of Personal Protective Equipment (PPE) until the outcomes of the integrated clothing project (ICP), being led by London, are known. In order to ensure the continued safety of employees the Brigade has chosen to have all the existing PPE checked by the manufacturers and repaired and/or replaced as necessary whilst waiting for the outcomes of the ICP. This has been a fairly long process, which is now completed and a significant amount of old PPE needed to be replaced and repaired, hence the majority of the overspending. An underspending of £70,000 on PPE within those budgets allocated to Fire Stations largely offsets the balance and reflects these costs being drawn in to the centre.
- 4.8 Overspending of some £154,000 have been reported on the generalised heading of Other Supplies and Services. Again this had been noted previously and reported to the Fire Authority as being due primarily to increases in insurance premiums and difficulties with the telecommunications budgets.
- 4.9 The area of Capital Financing is where the largest of the underspendings have occurred. This is due to the leasing of vehicles being delayed whilst the full implications of the Local Risk Management Plan and the impact of the FSEC model are fully assessed. This has resulted in a saving on lease rentals of some £373,000 and a decision was taken in consultation with the Chairman to use this budget to finance capital directly rather than raising loans, which would subsequently need to be repaid. This will have a positive impact on the 2004/5 budget and the base budget for future years.
- 4.10 Trading income has again shown a surplus beyond expectations particularly in the area of Fire Extinguisher Maintenance.
- 4.11 The Authority as part of its insurance arrangements carries insurance excesses on all its policies and had originally provided £100,000 for these uninsured losses. However closer examination of outstanding claims following the end of the financial year indicates that a lower figure of approximately £75,000 should be provided.

## **5. POLICY AND PRESENTATION**

- 5.1 A fundamental change in the Accounting Policies of the Authority has been required by Financial Reporting Standard 17 (FRS17) "Retirement Benefits" which requires Local Authorities to change the way that they account for pension costs. Rather than showing only the costs of employer contributions and the pensions deficit Authorities are now required to show the full costs of pensions provision on their balance sheets. This means in effect that provision has to be made for all future liabilities at the time they are "earned by employees" and not at the time they become due.
- 5.2 In order to make these changes, the accounts for 2003/4 have needed to be prepared on a different basis and proper account taken of these pension liabilities. In order to make these accounts comparable with the prior year it has also been necessary to restate the 2002/3 accounts. A full explanation of the effects of the application of FRS17 can be found in the appropriate note to the accounts.
- 5.3 Members will be aware that the Authority provided a contingency sum of £300,000 within the 2003/4 budget to cover the anticipated costs of the replacement of Fire Kit and PPE during the year. The Authority is participating in a national project for the procurement of PPE and other uniform along with London and 38 other Fire Authorities. This is a major procurement project, which will need funding in 2004/5 and is expected to deliver exceptional value for money. It is considered prudent to create an earmarked reserve for this expenditure to occur in 2004/5 and therefore an appropriate reserve amount is shown on the balance sheet.
- 5.4 As mentioned earlier in this report an earmarked reserve of £727,000 has been created to recognise the liability to pay pension lump sums to retiring personnel.
- 5.5 It is clear from budget performance during the year that a number of areas require a more detailed review. With this in mind a Base Budget Review process has been commenced with a number of objectives in mind:
- a) To place departmental and station budgets on a more firm footing by seeking to even out any anomalies which appear to exist within and between existing budgets.
  - b) To fully incorporate the implications of the Local Risk Management Plan within base budgets.
  - c) To seek economies and efficiencies within the existing base budget to support future service aspirations.
- 5.6 These Accounts, which are presented in full as an Appendix, again show a strong financial position for the Authority for 2003/4.

## **6. POST BALANCE SHEET EVENTS**

- 6.1 Members will be aware that the Fire Authority has been nominated for capping for 2005/6 by the Office of the Deputy Prime Minister (ODPM). Although an appeal was lodged, and representations made to the Minister by the Chairman and Senior Officers, this appeal has been unsuccessful. The Authority has been notified formally that it has been nominated for

capping in 2005/6 and a notional budget has been set for 2004/5, by the ODPM.

6.2 The amount set as the notional sum is £38.986m some £205,000 less than the budget actually set for 2004/5. What this means in effect is that any budget increase in 2005/6 will be measured against this notional sum rather than the actual 2004/5 budget. Management are already planning for this situation in order that the Fire Authority can continue to develop the service and remain financially stable.

6.3 The Authority has been given a period of 28 days in which to make a further appeal against this decision but such an appeal can only be against the amount of the notional budget and not the process of capping itself. Given that there is little new evidence that can be presented to ministers and that the capping notional value is so close to the original budget Members may feel that any such appeal would be fruitless.

## **7 FINANCIAL IMPLICATIONS**

7.1 The financial implications are set out in full in the body of the report, however it is recommended that the surplus of £20,000 on the Revenue Account is carried forward to 2004/5 and added to the General Reserve.

## **8 PERSONNEL IMPLICATIONS**

8.1 There are no specific personnel implications arising from this report

## **9 EQUAL OPPORTUNITIES IMPLICATIONS**

9.1 There are no equal opportunities implications in this report

## **10 RISK MANAGEMENT IMPLICATIONS**

10.1 The production of annual accounts, and their subsequent independent audit, provides a major risk control measure for the Authority and not only provides assurance to the Authority but also to other stakeholders.

## **11 RECOMMENDATIONS**

11.1 That Members approve the Statement of Accounts for 2003/2004 as presented.

11.2 That Members approve the carry forward of £20,000 into 2004/5 on the basis set out in the Financial Implications paragraph 6.1.

11.3 That Members decide whether or not to make a further appeal against the final capping decision taken by Central Government.

## **12 BACKGROUND PAPERS FOR INSPECTION**

None

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