AGENDA ITEM:

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY MEETING**
DATE:	**24TH JUNE,2010**
REPORT NO.	**CFO/111/10**
REPORTING OFFICER:	**ASSISTANT CHIEF EXECUTIVE & TREASURER**
CONTACT OFFICER:	**KIERAN TIMMINS, EXTN. 4202**
OFFICERS CONSULTED:	
SUBJECT:	**REVENUE OUTTURN 2009-2010 & THE STATEMENT OF ACCOUNTS**

APPENDIX	**A**	**TITLE:**	**“REVENUE BUDGET TO ACTUAL ”**
APPENDIX	**B**	**TITLE:**	**“QUARTER 4 WRITE OFFS”**
APPENDIX	**C**	**TITLE:**	**“CAPITAL 2009/2010 OUTTURN”**
APPENDIX	**D**	**TITLE:**	**“CAPITAL 2010/2011 – 2014/2015 PROGRAMME”**
APPENDIX	**E**	**TITLE:**	**“EARMARKED RESERVES – PLANNED AND ACTUAL MOVEMENTS”**
APPENDIX	**F**	**TITLE:**	**“STATEMENT OF ACCOUNTS 2009 – 2010”**

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***A Glossary of Terms has been provided at the end of this report for your reference**

Purpose of Report

1. To inform Members of the final revenue outturn position for 2009/2010 and obtain approval for the 2009/2010 Statement of Accounts.

Recommendations

2. That Members:

   (a) note the outturn position for 2009/2010; and

   (b) approve the funding of the £1.339m capitalised HFSC installation costs from borrowing as part of a medium term financial strategy;

   (c) approve the reserves and Statement of Accounts for 2009/2010;

(d) note that the Chair of the Authority is required to sign the accounts on behalf of the Authority following approval by the Authority.

Executive Summary (if report 3 pages or more long)

The Authority after receiving an exceptionally poor Government grant settlement of only a 0.5% increase in 2009/10 (and 2010/11) established a robust budget to meet the resulting financial challenge. The 2009/10 budget:

- enabled the Service's response standards to be maintained at the existing high levels
- continued with the high levels of investment in community safety
- provided significant investment in its buildings, vehicles, equipment and staff
- kept council tax increases at below its target of 4%
- required the delivery of a savings plan of £3.872m in 2009/10 (rising to £4.597m by 2011/12.)

The scale of the financial challenge and modernisation required was large however the Authority has a strong record of delivering improved services within constrained budgets. That good progress continued in 2009/10, and the final financial position reflects that expected in the approved budget and financial reviews received in the year.

Revenue:

The approved revenue budget was £72.110m. The third quarter financial review report, CFO/012/10, identified a potential £0.250m saving and Members instructed Officers to try and maximise any savings in the year (having recognised the likely future financial challenges facing the public sector). After taking account of timing differences in expenditure, (where year-end reserves are required to fund project and grant funded initiatives covering more than 1 year), the final expenditure figure was £71.095m, which is a £1.015m or -1.4% below budget.

In addition Members recommended that over the course of the year the Assistant Chief Executive & Treasurer (ACE&T), should review the way the Service funds (capitalised) smoke alarm installation costs and alternatives to the assumed revenue funding mechanism would be considered. In light of the likely future poor position for public finances and to give the Authority maximum flexibility in managing changes to the Service the option to fund these costs through borrowing has been utilised. This is in line with the strategy adopted last year of building up reserves in order to provide a temporary buffer to balance future budgets. This action increased the net underspending in the year by a further £1.339m to £2.354m.

This report recommends utilising the full £2.354m underspending to build up the smoothing reserve as part of the overall financial strategy on balancing the budget over the short term.

The table below summarises the changes:

	£'m
Revenue Budget	72.110
Actual before year-end reserves	70.131
Year-end savings BEFORE required adjustments	-1.979
Year-End Earmarked Reserves	0.964
Revised underspend	-1.015
Fund capitalised alarm installation via borrowing	-1.339
Revised year-end saving	-2.354
Increase Smoothing Reserve	2.354
Adjusted Year-End Position	0.000

Capital

Total Capital investment for the year was £6.574m against the £8.792m budget, a variance of £2.218m. This can be explained by a re-phasing of scheme spend from 2009/10 into future years of £2.514m – the timing of expenditure on major projects can sometimes be difficult to predict - and a net overspend on some schemes in 2009/10 of £0.296m (the largest element of this was £0.339m due to the impact of the higher capitalised HFSC salary costs of £1.339m compared to the £1.000m planned. This was because of the very high number of HFSC's undertaken).

<u>Introduction & Background</u>

3. The Accounts and Audit Regulations 2003 require a local authority to have approved a Statement of Accounts within a set timescale at the end of a financial year (for 2009/2010 this is the 30th June) and to have published the statement also within a set time, (for 2009/2010 this is 30th September). The Statement of Accounts for 2009/2010 is submitted for the approval of the Authority, in compliance with the Regulations.

4. In accordance with the Accounts and Audit Regulations both the ACE&T and the Chairman of the meeting that approve the accounts, must sign and date the Statement of Accounts on behalf of the Authority. This reflects the increasing emphasis on corporate responsibility and governance following a number of major corporate failures.

5. Included in the Statement of Accounts document is the Annual Governance Statement (AGS). The AGS fulfils the statutory requirement to prepare a statement of internal control and provides a clear acknowledgement of the Authority's responsibility for internal control, and to provide an indication of the level of assurance that the system of internal control gives. The AGS was considered and approved by the Authority on 27th May 2009 (CFO/076/10).

6. The Statement of Accounts is subject to audit by the District Auditor and will be published when the Auditor's report has been received. The Audit of the Accounts will commence shortly. The statutory deadline for publication is 30th September 2010.

7. The Statement of Accounts (Appendix F) explains the financial position in detail and Members attention is drawn particularly to the Foreword of the Accounts where explanations of all variations and major issues are given.

8. To assist Members understanding of the financial outturn position an overview of the challenges and financial issues are summarised below:

<u>2009/2010 Budget - Background</u>

9. The Authority has recognised that to maintain its financial planning targets for council tax *(increases of no more than 4%)* at a time when current and foreseeable future government grant support increases *(grant support equates to nearly 70% of all Authority funding)* are below forecast salary inflation *(employee costs make up over 80% of all revenue expenditure)* significant savings would have to be achieved. To deliver the required level of cost reduction the Authority has acknowledged that it would have to reduce the number of its staff. At the same time the Authority was and is committed to avoiding compulsory redundancies. In order to address the financial issues the Authority developed an innovative financial plan which involved:-

   - Introducing significant changes to staffing and working practices to deliver savings through staffing efficiencies, which will be achieved without redundancy by using natural retirement rates;

   - Continue with its modernisation programme and deliver the Authority's vision of making Merseyside a Safer, Stronger, Healthier Community

10. The Authority set a 2009/2010 budget, financial plan and capital programme that continued to work in line with this approved financial strategy despite a poor grant settlement (an increase of +0.5%) and challenging financial pressures. The council tax increase for 2009/2010 was 3.85%. The table below summarises the key assumptions the Authority made in its 2009/2010 budget:

- Revenue Budget:

    - o set at £72.110million,

    - o provision for pay-bill and inflation increases of 2%
    - o a target to deliver gross savings of £3.9m in 2009/10 rising to £4.6m by 2011/12.

- Capital:

    - o a five year capital programme, 2009/2010 – 2013/2014, of £36.4m,
    - o planned spend in 2009/2010 of £12.4m

- Reserves:

    - o Maintain a general reserve of £2.0m

    - o Approve £5.1m of earmarked reserves to fund specific projects and one-off initiatives. This included a modernisation reserve of approximately £0.7m to fund potential upfront investments that might deliver longer term savings.

11. Despite the financial pressures the Authority set itself the challenge of building upon its already excellent performance and continuing with Merseyside Fire & Rescue Service's world leading work whilst providing a cost effective service to the people of Merseyside. It would:

    - Invest in world leading community fire safety initiatives

    - Invest in a full range of rescue services to make Merseyside safer including the inshore rescue service

    - Invest in equality including a risk based programme of fire safety advocates

    - Invest in the most modern and up to date equipment and vehicles to make fire fighting efficient and safe

    - Invest in services like the Search & Rescue Team and the Small Fires Units

    - Invest in prevention of Firework Incidents to build upon the significant reduction in nuisance incidents around Bonfire Night

<u>How the 2009/2010 Budget changed during the year</u>

12. The budget reflects in financial terms the Authority's plan to deliver its vision and objectives for making Merseyside a safer, stronger, healthier community.

13. The single most strategic and demanding aspect of the approved financial plan was the achievement of the approved saving options plan required over the 2009/10 to 2011/12 period. The full list of target savings is in the table below:

Description	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Saving Options:			
Effectively Reducing ill health retirements	-200	-350	-350
Review management Structures	-400	-400	-400
Non Uniform Support Costs	-150	-150	-150
Special Appliance provision/ORC	-280	-280	-280
Grey Book/Green Book Review	-250	-250	-250
Further Review of RRT (11 posts)	-400	-400	-400
LLAR * 1	-300	-300	-300
Apply Retirement Re-engagement	0	-175	-175
Income Generation through social enterprise	0	-175	-200
Procurement Efficiencies Target	-200	-250	-250
Self Rostering	-360	-360	-360
Reduce R & R team	-1,332	-1,332	-1,332
Engineering Centre of Excellence	0	-150	-150
	-3,872	-4,572	-4,597

This savings plan was mainly because of a poor grant settlement in the CSR2007 period.

14. During the year Members received regular financial review reports detailing the progress in implementing and achieving the approved saving options, and any additional budget amendments required during the year. The last final review approved by Members covered the period up to the end of quarter 3 (31st December 2009), report CFO/012/10. Further minor budget amendments have been made since CFO/012/10 that reflect already approved policy decisions these were:

- a further drawdown of £0.318m from reserves to the revenue budget, (mainly £0.200m from the job evaluation reserve. Members created this reserve to fund the backdating of the approved review of grades to April 2008)
- a realignment of the inflation provision, £0.021m to cover price increases in the year
- an increase of £0.075m in the capital budget of which the majority will be funded from revenue and reflects the need for additional building & ICT works for existing schemes.

The table below outlines the overall budget movement to the original base figure:

REVENUE BUDGET MOVEMENTS IN 2009/2010

	Original Budget	Qtr 3 Report Budget	Further Budget Amendments	Final Budget	Original to Final Budget Movement
	£'m	£'m	£'m	£'m	£'m
Net Expenditure					
Fire Service	69.712	71.594	0.339	71.933	2.221
Corporate	0.587	0.583	0.000	0.583	-0.004
Provision for Pay & Prices	1.510	0.120	-0.021	0.099	-1.411
	71.809	72.297	0.318	72.615	0.806
Use of Reserves	0.301	-0.187	-0.318	-0.505	-0.806
Total Expenditure	72.110	72.110	0.000	72.110	0.000
Funded By					
Government Grant	-46.074	-46.074	0.000	-46.074	0.000
Precept	-26.036	-26.036	0.000	-26.036	0.000
	-72.110	-72.110	0.000	-72.110	0.000

CAPITAL BUDGET MOVEMENTS IN 2009/2010

	Original Budget	Qtr 3 Report Budget	Further Budget Amendments	Final Budget	Original to Final Budget Movement
	£'m	£'m	£'m	£'m	£'m
Total	12.352	8.717	0.075	8.792	-3.560

The budget adjustments have been fully explained and detailed in the financial review reports, CFO/012/10, CFO/260/09 and CFO/198/09 received by Members during 2009/2010.

Financial Performance in the Year & 2009/2010 Revenue Outturn Position:

15. The 2009/10 outturn position is consistent with the approved financial plan and the forecast outturn reported during the year. Officers have successfully implemented and delivered the majority of the approved savings planned for 2009/10. Only three options were not fully implemented due to extensive consultation periods. However in cash terms the required savings were delivered since staff turnover continued at forecast rates ahead of implementing the structural changes in full. All options will be fully implemented

16. In considering the Authority budget and financial plan for 2009/10 – 2013/14, Members instructed the ACE&T to look for opportunities to increase the Authority's reserves in light of the risk around some of the key assumptions in the plan, particularly around future grant increases (which originally assumed 2% p.a increases from 2011/12 onwards based on treasury forecast inflation rates). This strategy was reinforced during the year when Members considered

the financial review reports and the changing expectations for public finances became clearer.

17. As part of the strategy of building-up reserves, a revenue saving of £0.250m was forecast in the third quarter financial review report, CFO/012/10. After considering this report Members instructed Officers to continue to work to maximise any savings in the year in light of the pending financial challenge facing the public sector.

18. A further option to consider as part of the strategy to build up reserves was to review alternatives for financing elements of the approved budget. Capitalised HFSC smoke alarm installation costs (assumed to be funded by the revenue saving from the associated HFSC salaries), has throughout the year been identified as an arrangement that, if necessary and justified, could be financed through borrowing as part of a short term strategy to free up revenue funds as part of an overall financial strategy to build up reserves.

19. Further on in this report more detail is provided on the year-end spend to budget variances but as the summary below outlines the Authority has:

- successfully kept spend within the approved plan; and

- as part of its strategy of building up reserves, delivered a 1.4% saving against its gross revenue budget after taking into account year-end reserves; and

- by financing capitalised HFSC alarm installation salaries via borrowing increased the saving by a further £1.339m to increase reserves as part of its financial strategy in light of the pending financial challenge.

Year-End revenue summary:

	£'m
Revenue Budget	72.110
Actual before year-end reserves	70.131
Year-end savings BEFORE required adjustments	-1.979
Year-End Earmarked Reserves	0.964
Revised underspend	-1.015
Fund capitalised alarm installation via borrowing	-1.339
Revised year-end saving	-2.354
Increase Smoothing Reserve	2.354
Adjusted Year-End Position	0.000

The £0.964m of year-end ear marked reserves relate to a requirement to carry over funding from grants and special projects which are taking place over more than one financial year. Details of the reserves that make-up the £0.964m is provided further on in this report in the reserves section.

The table below outlines the summarised revenue position for the Authority in 2009/10, (Appendix A provides a more detailed analysis):

2009/10 Year - End Summary

							Adjusted Variance after ER	
Expenditure head	Budget	Actual	Variance	New Yr-end ER Request	Fund HFSC Installation Via Borrowing	Year-End Adjustment	Variance	Variance
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Employees	58.863	58.289	-0.574				0.073	-0.501
Premises	2.466	2.547	0.081				0.016	0.097
Transport	1.710	1.635	-0.075				0.000	-0.075
Supplies & Services	4.998	4.184	-0.814				0.355	-0.459
Agency	2.268	2.453	0.185				-0.250	-0.065
Central Support Services	0.241	0.228	-0.013				0.014	0.001
Corporate Management	0.584	0.611	0.027				0.000	0.027
Income	-4.416	-5.292	-0.876				0.596	-0.280
Net Service Expenditure	66.714	64.655	-2.059				0.804	-1.255
Interest Payable / Income	2.305	2.144	-0.161				0.160	-0.001
MRP / RCCO	3.499	3.838	0.339		-1.339		0.000	-1.000
Inflation Provision	0.099	0.000	-0.099				0.000	-0.099
Operating (Surplus)/Deficit	72.617	70.637	-1.980	0.000	-1.339	0.000	0.964	-2.355
Movement on Earmarked	-0.907	-0.907	0.000	0.964		2.354	shown above	2.354
General Reserve	0.400	0.400	0.000			0.001	0.000	0.001
	72.110	70.130	-1.980	0.964	-1.339	2.355	0.964	0.000

20. A breakdown of the above variations above is now provided in the following paragraphs and analysed by the main expenditure types:

- **Employee Costs, £0.501m favourable variance** –

    - As reported in CFO/012/10 (April – December financial review report), due to staff vacancies and turnover being consistent with that forecast a cash saving of £0.690m was anticipated. This cash saving was ringfenced to cover the approved saving options yet to be formally actioned. Direct employee costs outturn figures were consistent with this forecast, and overall neutral. The Firefighter retirement profile remains consistent with the current financial plan's expectations in 2009/10 and future years.

    - Staff time associated with HFSC installation costs is charged to the HFSC capital programme. This in effect reduces revenue employee expenditure but increases the cost of revenue expenditure associated with contributions that fund capital spend (if capitalised HFSC installation is funded in this way). The Authority has again out performed its benchmark of 100,000 HFSC visits in the year and installed over 100,000 alarms. This has meant the capitalised salaries has exceeded the £1.000m in the budget by **£0.339m**, resulting in a favourable variance on employee expenditure.

- o Fire authorities receive a financial penalty for any Firefighter ill health retirements approved in a year. The budget while reflecting the recent success in managing this issue, assumes the Service will have one or two such retirements a year. No such retirements have been approved in 2009/10 resulting in a favourable variance of **£0.119m**.

- **Premises Costs, £0.097 (3.9 % of budget) variance –**

  - o Officers must make an estimate at the year-end the likely actual cost of utility bills for all the Authority's premises that have no actual true readings of usage for the year or have outstanding final quarter bills. At the end of 2008/09 a significant number of bills for energy were based upon estimated usage/charges. During 2009/10 the actual true usage bills were received, some covering more than 12 months. It was found that the cost had been under-estimated by £0.073m or 17.4%. Work is ongoing to improve energy monitoring arrangements as part of greening the fire service which will reduce the reliance on estimating in the future.

- **Supplies and Services, £0.459m (9.2 % of budget) variance –**

  - o Operational supplies expenditure, particularly foam concentrate and support equipment is driven by activity. Low fire incident activity requiring use of these supplies has resulted in a saving of £0.090m in the year.

  - o The Service has a number of one-off or specialist projects and initiatives that either due to skill shortages or due to other priorities requires the Service to buy in professional support. Officers have tried to limit the use of professional support when ever possible. A one-off saving of £0.107m on professional services support has arisen in the year.

  - o Some non essential supplies expenditure was capable of being controlled during the year to enhance the forecast saving in the year as directed in the last financial review; underspends on items which include printing/reprographics (£0.041m), ICT computing supplies (£0.044m,) and medicals & subscriptions (£0.034m) delivered an overall saving of £0.222m in the year.

- **Income, £0.280m additional income above budget –**

  - Members will recall that they have tasked Officers with generating income through social enterprise. Pleasingly additional training for NW Ambulance Service staff in HART skills raised an additional £0.188m, and selling the Authority's Electronic Standard Operating Procedures Manual to other fire authorities, £0.070m, Increases in other income such as secondments made up the remaining income generated.

- **Capital Expenditure Charged to Revenue, favourable variance £1.000m-**

  The £1.339m HFSC alarm installation costs charged to capital were assumed within the original budget to be financed by an equivalent revenue contribution to capital (RCCO). The ACE&T has reviewed the 2009/10 position to determine if anything can be done to increase reserves to provide a short term resource to act as a buffer while the necessary changes to the Service resulting from the pending public financial challenge, are being considered and implemented. If the Authority chooses to borrow to fund the capitalised HFSC installation costs instead of funding them by a revenue contribution it will reduce revenue expenditure by £1.000m. That underspending would then allow an increase in the smoothing reserve. Increasing reserves is in line with the Authority Strategy for managing service changes to deliver a balanced budget over the long term.

21. Since the last financial review 9 debtor accounts have been written off under delegated powers at a value of £4,318 (excluding VAT) and an analysis of the detailed accounts is attached as Appendix B.

<u>2009/2010 Capital Spending:-</u>

22. The Authority originally approved a capital budget for 2009/2010 of £12.352m and after taking account the re-phasing from 2008/2009 of £2.079m it was increased to £14.431m.

23. During 2009/2010 the financial review reports updated Members on the movements in the current year's, 2009/2010, and five year (2009/2010–2013/2014) capital programme. Some small budget changes have been actioned since the last financial review that increased the overall programme in 2009/10 by £0.075m to reflect some enhancement to existing schemes, most of which is funded by a revenue contribution. All the changes to the 2009/10 programme and the 5 year programme are outlined in Appendix C and D attached to this report. The final 2009/10 budget was set at £8.792m. The changes made to the original programme, £12.352m, can be summarised as:

- Re-phasing from 2008/09 year-end of **+£2.079m**;

- Re-phasing of expenditure from 2009/10 to future years in line with the Asset Management Plans approved during the year **-£6.741m**, mainly from the building programme £4.413m (Kensington CFS £1.500m), the ICT programme £0.325m and the vehicle replacement programme £1.483m;

- Increases in the 2009/10 programme approved during the year totalled **+£1.102m** mainly reflected in the building programme approved by the Authority £0.385m (Eccleston LLAR Building £0.300m) and the ICT programme £0.640m (Children's Information Management System, £0.250m & incident Management system, £0.221m).

24. Actual spending in the year was £6.574m, a net variation of £2.218m against the final budget, however Officers propose to re-phase £2.514m of planned 2009/10 spend into 2010/11. The difference between the net underspend and the amount required to be carried forward as re-phasing is the additional spending of £0.339m on the capitalised HFSC salaries referred to in the revenue section of this report and a small saving of £0.043m on some schemes in 2009/10. A summarised capital programme is shown below:

2009/10 Capital Programme Summary of Changes to Expenditure & Funding

Programme	Original Budget	Final Budget	Outturn	Year-end Re-phasing from 2009/10 into 2010/11	Variance after Re-Phasing Adjustment
	£'m	£'m	£'m	£'m	£'m
EXPENDITURE					
Building/Land	5.311	2.761	1.675	1.056	-0.030
Fire Safety	1.754	1.726	2.055	0.000	0.329
Hydrants	0.037	0.026	0.024	0.002	0.000
ICT	1.302	1.935	1.071	0.862	-0.002
RCC ICT	0.136	0.137	0.014	0.123	0.000
Operational Equipment	0.677	0.246	0.194	0.050	-0.002
T.D.A.	0.010	0.020	0.007	0.013	0.000
Vehicles	3.125	1.941	1.534	0.408	0.001
TOTAL	12.352	8.792	6.574	2.514	0.296
FINANCING					
Capital Receipts	0.900	0.000	0.000		0.000
Revenue Contribution	1.000	1.433	0.433		-1.000
Grants	1.105	1.055	1.055		0.000
External Contributions	0.000	0.000	0.000		0.000
Supported Borrowing	3.160	3.160	3.160		0.000
Unsupported Borrowing	6.187	3.144	1.926	2.514	1.296
TOTAL	12.352	8.792	6.574	2.514	0.296

25. The most significant year-end re-phasings are outlined below:

- Building Programme, £1.056m year-end re-phasing. Various building and accommodation refurbishment schemes have been slightly delayed due to planning design & approval, technical design challenges and the tendering and commencement of work being later than originally scheduled. The Belle Vale LLAR accommodation will be completed early in 2010/11 and £0.202m has been re-phased to cover the revised payments. Delays in getting planning permission for St Helens Fire Station conversion works £0.152m re-phasing, and additional approved works delaying the Centre of Excellence scheme, £0.179m, complete the schemes that make-up the largest contribution to the re-phased programme. All re-phased schemes should be completed in 2010/11.

- ICT, £0.862m year-end re-phasing. Two late changes to the ICT programme, the Children's Young Peoples Information System, £0.250m, and the Incident Ground Management System, increased from £0.195m to £0.416m, were approved in December 2009. The budget assumed both these schemes could be delivered and paid for by the end of the financial year – this has not been possible. Thus resulting in a £0.334m re-phasing. The upgrade to station end network switches has been delayed because of concerns about the requirements and timing of the RCC project, requiring a 0.131m re-phasing on the network budget. The Authority has approved measures to increase the resilience of SHQ by ensuring sufficient power capacity exists should the national grid supply be lost for a lengthy period via the procurement of back-up power generators for £0.130m. Detailed preparation work has taken place with consultants and the actual project will now take place in 2010/11 as reported to Members.

- The Vehicle replacement programme, £0.408m year-end re-phasing. A 6 month delay has been reported by suppliers in the delivery of the refurbished CPL Specialist appliance due to the technical challenges around refurbishing an existing chassis leading to a re-phasing of the £0.263m budget. The challenge of being the first fire authority to implement a fully operational motorcycle response unit has been significant, however the project is expected to deliver a fully kitted, certified, and associated PPE equipment by the end of June 2010, requiring a re-phasing of £0.080m.

A full detailed breakdown of the 2009/10 capital budget movements, year-end variances and proposed slippage can be found attached to this report as Appendix C.

2009/10 Movement on Reserves

26. In the attached Statement of Accounts a detailed description of all reserves can be found on **pages 45 - 48**. A detailed analysis of the planned and actual movement on reserves in 2009/10 has been prepared and is attached as **Appendix E** to this report. The table overleaf summarises the movements in the year:

MOVEMENT ON RESERVES 2009/10

Reserves	Opening Balance	Anticipated Closing Balance	Actual Closing Balance	Variation to that Anticipated
	£m	£m	£m	£m
Earmarked Reserves	7.685	6.778	10.096	3.318
General Revenue Reserve	2.143	2.543	2.544	0.001
Total Reserves	**9.828**	**9.321**	**12.640**	**3.319**

27. The £3.318m year-end increase in earmarked reserves is as follows:

- £1.015m net underspending on the revenue account (see section 11 on the revenue outturn position) has been used to increase the smoothing reserve.

- Proposed increase in the Smoothing Reserve utilising the revenue funds made available by financing capitalised HFSC installation costs through borrowing, £1.339m.

- £0.964million increase in reserves to cover timing issues related to grant funded projects and special projects. In summary these are:

	Increase £'m
PFI ICT Costs	0.160
SRT Bridge Works / hovercraft	0.070
Regional Control Project	0.025
Fireboots /Clothing	0.160
Other	0.001
Grant/Contribution related	0.548

	0.964

The statement of accounts document attached to this report outlines the purposed use of each of the reserves and the balance being carried forward into 2010/11.

28. Despite the financial pressures, Merseyside has worked hard to remain at the forefront of modernisation and to build upon its past success. In the latest round of the Audit Commission's Comprehensive Area Assessment (CAA) which was conducted during 2009/2010 the Authority has continued its high performance;

The 2009 Organisational Assessment rated the Authority's performance as 3 out of 4, or "Performs Well". The Audit Commission reported that:

Managing Performance:

"Merseyside Fire and Rescue Authority scores 3 out of 4 for managing performance. This is because it responds well to fires and other emergencies and works hard to prevent such emergencies and protect communities. It targets prevention work to those people and communities that are at the highest risk. Its Home Fire Safety Check programme is ambitious and successful."

Use of Resources:

"Merseyside Fire and Rescue Authority scores 3 out of 4 for use of resources to deliver value for money. This is because the Authority manages its finances well and has a good track record of delivering efficiency savings by changing working practices and increasing productivity. As fires have reduced the Authority has shifted resources from emergency response to prevention and protection in the highest risk areas. It is working with other public services to deliver better outcomes in all the communities across Merseyside."

(The Government has recently announced the CAA assessment regime will be discontinued and any alternative process is yet to be identified.)

29. Overall staffing arrangements have changed at over a third of fire stations in Merseyside whilst performance standards and response have been maintained. Expected reductions of staff by natural retirement rates have been in line with assumptions.

30. Key performance successes achieved by the end of 2009/10 include:

- For the second year the Authority is the only fire authority in the world to visit 100,000 households in a single year (and well over 600,000 visits have been carried in total)
- Fitted approximately 700,000 free smoke alarms
- Reduced fire deaths from 20 in 1999 to 8 in 2009/10, a 60% reduction.
- Employed advocates which serve diverse communities like age, disability, deafness, drugs, alcohol, arson and anti-social behaviour, as well as multilingual specialists.

The table below summarises some key performance over the last 6 years:

Year	Accidental Dwelling Fires	Injuries in Accidental Dwelling Fires	Fatalities in Accidental Dwelling Fires	Anti Social Behaviour Fires
2003-2004	1,612	171	9	18,984
2004-2005	1,470	173	11	12,258
2005-2006	1,456	155	11	11,689
2006-2007	1,336	126	8	12,721
2007-2008	1,286	69	9	10,449
2008-2009	1,302	107	9	7,648
2009-2010	1,297	117	8	7,372
Reduction between 2003/04 to 2009/10	-19.5%	-31.6%	-11%	-61.2

Impact of the Local Authority Statement of Recommended Practice (SORP):

31. The move of local authority accounting more closely to the way companies prepare their accounts and UK GAAP (Generally Accepted Accounting Practice) has changed the presentation of the statements and despite the intention to improve clarity makes them harder to understand. Since 2006 the SORP requires the Authority to present the accounts in a revised format, and the **Income and Expenditure Account,** and, **The Statement of Movement on the General Fund Balance** have replaced the old Consolidated Revenue Account and it can now be difficult to interpret the "bottom line".

32. The Income and Expenditure Account outlines all the resources the Authority has generated, consumed or set aside in providing services during the year, but it does not include all the items of "income" and "expenditure" that are required to be charged to the General Fund in order to compare the outturn position to the net expenditure budget approved when setting the Council Tax. The Income and Expenditure Account needs to be reconciled to the additional income and expenditure required by statute and non-statutory proper practices. The Statement of Movement on the General Fund Balance provides the necessary reconciliation. In summary the increase or decrease in the General Fund Balance for the year can be found on the Statement of Movement on the General Fund Balance.

33. For 2009/2010 the overall financial position for the Authority was a small 1.4% favourable variance of £1.015m and a General Fund balance as at 31.03.10 was £2.544m. A summary of the issues arising from 2009/10 expenditure has been outlined in the previous paragraphs of this report.

Final Accounts

34. The statutory accounts are attached as "The Statement of Accounts" (**Appendix F**) and explain the Authority's financial position in detail. However, to identify and briefly explain some of the largest movements between the figures in the formal statements for 2008/09 and 2009/10 the table below analyses the variations:-

    1. Income & Expenditure Account (I&E):

    - The net cost of service changed from £73.781m in 2008/09 to £72.576m in 2009/10 a reduction of £1.205m, yet overall spending between the years has increased. The reason for the "reduction" in spending in the I&E accounts is that it must include significant notional entries, particularly around the liability and value of pension funds, to adhere to the accounting requirements required by SORP. These notional entries are "reversed out" through the Statement of Movements on General Fund Balance and can be ignored for council tax purposes. The Firefighter pension "operating" charge to the I&E account reduced by £7.504m between 2008/09 and 2009/10.

2. Statement of Total Recognised Gains & Losses:

- The (Surplus)/Deficit on the Actuarial (gains) & losses on pension fund assets and liabilities moved from -£75.826m in 2008/09 to a loss of £222.958m in 2009/10. In accordance with FRS17 Actuarial estimates are completed each year, and they relate to the changing markets and assumptions made in calculating pension liabilities and assets. It can be ignored for council tax purposes. The Authority re-values its land and property every five years and such a review was carried out in 2009/10 resulting in a £10.252m increase in the asset value. This is simply a notional adjustment held in the revaluation reserve and has no impact on the Authority's available resources.

3. Statement of Movement on General Fund Balance:

- This reflects the Authority's spending against the council tax raised for the year. The movement, an increase of £0.401m, is consistent with that reported throughout the year in the financial review reports. The increase is funded from revenue underspends in the year, particularly the saving arising from pay awards being below the +2% assumed in the budget.

4. Balance Sheet – the main changes are:

- There have been some changes in Intangible and Tangible Fixed Assets. The Authority is required to adjust the value of assets held in the year for gains and losses in valuations, additions, disposals, depreciation and impairments. Note 13 in the Statement of Accounts breaks down the opening and closing book valuations and movements during the year. This includes assets under construction such as the purchase of the Vesty property.

- Current Assets & Current Liabilities –

    - In 2009/10 SORP changed the way councils and precepting authorities must reflect the collection of council tax monies. The debtor & creditor figures have been adjusted (prior year as well, 2008/09) and note 19 outlines the detailed breakdown.

    - The reduction in debtors from £4.431m to £3.901m reflects the reduction in the VAT HMRC debtor which is simply a reflection of the March 2010 vat spend, that is much lower than the previous year.

    - Investments have gone from £8.000m to £0.000m and Long Term Borrowing from £49.575m to £43.075m as a consequence of the revised treasury management strategy. Exceptionally low investment interest rates and recent increased risk over investments has led to a policy of using available cash to fund capital projects rather than seek long term loans.

- o The increase in short-term borrowing from £0.641m to £2.541m reflects the re-classification of a £2.5m loan with PWLB from long term to short term as its maturity date is now less than 12 months.

- o The 75% increase in the "cash" balance to £9.190m is misleading in the sense it does not reflect the true cash position of the Authority. The "reversing" out of pension fund entries makes less transparent the actual cash balance held in the bank on 31 March 2010 which was actually £0. 319m in credit.

- Revaluation Reserve. The 5 year land and property revaluation carried out in 2009/10 resulted in some assets increasing in value by £10.252m. However, some assets reduced in value by £4.301m and this impairment has been charged to the Capital Adjustment Account.

- Capital Adjustment Account up 72% to £14.390m represents amounts required by statute to be set aside from revenue resources or capital receipts to finance expenditure on fixed assets or the repayment of external loans. The balance on the reserve is not available to support capital or revenue spending.

- Earmarked reserves are £10.096m, an increase of £2.411m. See paragraph 14 in this report.

- Liability related to Defined Benefit Pension Scheme and Pension Account movement £1,459,950m – This relates to the movement in liability and funds in Firefighter pension liability within the year. These accounts balance each other out and allow the inclusion of the pension liability in the balance sheet.

<u>Summary Position</u>

36. The final accounts of the Authority have now been closed and after taking into account the actual movement on year-end earmarked reserves the level of revenue expenditure in 2009/10 is £71.095m, a £1.015m or 1.4% saving against the £72.110m budget.

37. Utilising borrowing to fund capitalised HFSC alarm installation costs reduced revenue spending by a further £1.339m to £2.354m.

38. The Authority has an approved strategy of building up reserves in order to provide a short-term buffer while it re-engineers the service to meet the pending

public sector financial challenge. The revised revenue saving of £2.354m will be used to increase the smoothing reserve as part of this approved strategy.

39. Capital spending was £6.574m resulting in a “underspend” of £2.218m against the £8.792m budget for 2009/10. The variance can be broken down into:

- A £2.514m re-phasing of planned spend from 2009/10 into 2010/11, requiring the carry forward of capital budget into 2010/11, (-£2.514m);

- A small underspend on a few schemes of £0.043m, (-£0.043m);

- An overspend of £0.339m due to the higher capitalised HFSC salary costs, (+£0.339m).

40. The increase in year-end reserves of £3.319m compared to that anticipated can be explained by:

- £0.964m of reserves for grant & special project schemes for which funding was received in 2009/10 but the scheme will be delivered over more than one year therefore requiring a carry forward of funding via a reserve; and

- A £2.354m increase in the smoothing reserve funded from the revenue saving identified above to help provide a short-term buffer to meet the future financial challenge.

<u>Equality & Diversity Implications</u>

41. None arising from this report.

<u>Financial Implications & Value for Money</u>

42. The previous paragraphs have explained in some detail the Authority’s financial performance in 2009/10, in summary:

- The total revenue expenditure, (after funding smoke alarm installation through borrowing), in the year was £69.756m and resulted in a small saving of £2.354 against the £72.110m budget.

- The saving will, as part of the approved financial strategy, be used to increase the smoothing reserve by £2.354m to help create a short term buffer in order to meet the forecast financial challenge arising from the squeeze on public finances. Other earmarked reserves have increased by £0.964m to carry forward funds received for specific projects in 2009/10, but will be delivered over more than one year.

- Capital expenditure in the year was £6.574m resulting in a £2.218m “underspend” against the £8.972m budget. However a £2.514m re-phasing of schemes from 2009/10 into 2010/11 meant that overall capital had a small overspend of £0.296m (reflecting the overachievement in HFSC alarm installation in the year).

- The General Fund Balance as at 31 March 2010 stood at £2.544m.

Health & Safety & Environmental Implications

43. None arising from this report.

Contribution to Achieving the Vision:
"To Make Merseyside a Safer, Stronger, Healthier Community"

44. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's vision.

BACKGROUND PAPERS

Report CFO/021/09 "MFCDA Budget and Financial Plan 2009/2010-2013/2014" Authority 26th February 2009.

Report CFO/198/09 "Financial Review 2009/10 – April to June Review" Authority 17 September 2009.

Report CFO/260/09 "Financial Review 2009/10 – April to September Review" Strategy & Resources Committee 17th December 2009.

Report CFO/012/10 "Financial Review 2009/10 – April to December Review" Authority 18th February 2010.

Glossary of Terms

ACE&T – Assistant Chief Executive & Treasurer

AGS - Annual Governance Statement.

BALANCE SHEET -A statement of assets, liabilities and other balances at the end of an accounting period. The Balance Sheet combines all the accounts of the Authority

CAPITAL EXPENDITURE (or capital spending) – Section 40 of the *Local Government and Housing Act 1989* defines 'expenditure for capital purposes'. This includes spending on the acquisition of assets either directly by the Authority or indirectly in the form of grants to other persons or bodies. Expenditure that does not fall within this definition must be charged to a revenue account.

HFSC – Home Fire Safety Check

MINIMUM REVENUE PROVISION - An amount set aside from revenue towards the repayment of loan debt. This is currently 4% of the initial credit ceiling (outstanding loan debt less reserved capital receipts).

OUTTURN – actual income and expenditure in a financial year.

RCCO - Revenue contribution to capital. Capital expenditure is funded by earmarking approved revenue budget in the year to cover the capital cost.

RESERVES -Amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account.

REVENUE EXPENDITURE -This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.

SUPPORTED BORROWING – Borrowing to fund capital expenditure that through the Revenue Support Grant receives grant support to cover the revenue costs associated with borrowing (interest / debt repayment)

UNSUPPORTED BORROWING – No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.