

# Public Document Pack



## **NOTTINGHAMSHIRE & CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY - FINANCE AND RESOURCES**

**Date:** Friday, 20 January 2017      **Time:** 10.00 am

**Venue:** Fire and Rescue Services HQ, Bestwood Lodge, Arnold Nottingham NG5 8PD

**Members are requested to attend the above meeting to be held at the time, place and date mentioned to transact the following business**

A handwritten signature in black ink, appearing to read 'M. W. Taylor'.

**Clerk to the Nottinghamshire and City of Nottingham Fire and Rescue Authority**

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**ANY COUNCILLOR WHO IS UNABLE TO ATTEND THE MEETING AND WISHES TO SUBMIT APOLOGIES SHOULD DO SO VIA THE PERSONAL ASSISTANT TO THE CHIEF FIRE OFFICER AT FIRE SERVICES HEADQUARTERS ON 0115 967 0880**

**IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ABOVE, PLEASE CONTACT THE CONSTITUTIONAL SERVICES OFFICER SHOWN ON THIS AGENDA, IF POSSIBLE BEFORE THE DAY OF THE MEETING.**

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<http://committee.nottinghamcity.gov.uk/ieDocHome.aspx?bcr=1>



**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM  
FIRE AND RESCUE AUTHORITY**

**NOTTINGHAMSHIRE & CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY -  
FINANCE AND RESOURCES**

**MINUTES of the meeting held at Fire and Rescue Services HQ, Bestwood  
Lodge, Arnold Nottingham NG5 8PD on 14 October 2016 from 9.59 - 10.42**

**Membership**

Present

Councillor Malcolm Wood (Chair)  
Councillor John Allin  
Councillor Chris Barnfather  
Councillor John Clarke  
Councillor Dave Liversidge  
Councillor Gordon Wheeler

Absent

**Colleagues, partners and others in attendance:**

John Buckley	- Chief Fire Officer, Nottinghamshire Fire and Rescue (NFRS)
Councillor Brian Grocock	- Fire Authority Member, observing
Sue Maycock	- Head of Finance, NFRS
Craig Parkin	- Assistant Chief Fire Officer, NFRS
Ian Pritchard	- Head of Procurement and Resources, NFRS
Neil Timms	- Treasurer to the Authority
James Welbourn	- Governance Officer

**10 APOLOGIES FOR ABSENCE**

None.

**11 DECLARATIONS OF INTERESTS**

None.

## **12 MINUTES**

There was an error in item 5 of the minutes from 24 June 2016 in the third paragraph. The final sentence should have read:

*“An earmarked reserve has been created this year to support the Wholetime pay budget during this transition and to date £108,000 of this £350,000 reserve will be required to fund the overspend.”*

The incorrect value was previously stated at £180,000 rather than £108,000.

Subject to this change being made in the recorded minutes, they were agreed as a correct record and signed by the Chair.

## **13 REVENUE AND CAPITAL MONITORING REPORT TO AUGUST 2016**

Sue Maycock, Head of Finance at NFRS reported to Members on the financial performance of the Service in the year 2016/17 to the end of August 2016.

The following points were highlighted on the Revenue Budget:

- (a) by the end of August the numbers of NFRS employees is almost down to the established level of the Wholetime pay budget;
- (b) the Prince's Trust saving is not a net saving;
- (c) the fuel saving should be a permanent budget saving;
- (d) income from the Prince's Trust is not confirmed until some time after the teams have finished for that year. Central College won't release income until certification re course completion has been received. Income is therefore predicated on whether students complete the course;
- (e) the £121,000 overtime overspend relates mainly to the ridership, and is an estimate. However, NFRS know that once people retire appliances are going to have to be kept available using overtime;
- (f) the seven day notice continues for industrial action. However, there is no action expected because of national comments made by the Fire Brigade Union.

The Employment Tribunal is listed for the middle of next year – contingency arrangements for the fleet have been amended to pull on front line appliances.

Any changes in the pension scheme arising from the tribunal would fall to fire authorities on a national level;

The following points relate to the Capital Programme:

- (g) there is one final issue with the ground rent at Hucknall. Once this has been agreed, the deal with East Midlands Ambulance Service will go to the solicitors, and then onto the Finance and Resources Committee. There is a projected occupancy date of summer 2017 provided that building works can be completed quickly;
- (h) The contractors applied for and won an award in the regeneration category at the Forum of the Built Environment for the London Road Fire Station;
- (i) NFRS have now borrowed £3 million at a favourable rate.

Congratulations to all involved with the London Road Fire Station project was offered. The final project cost is expected to be around £4.7 million, significantly under the original projected £5.5 million.

**Members noted the contents of the report.**

#### **14 PRUDENTIAL CODE MONITORING REPORT TO AUGUST 2016**

Neil Timms, Treasurer to the Fire Authority informed Members of performance for the three month period to 31 August 2016.

The Fire Authority have now borrowed £3 million, and so are in full compliance with all financial indicators.

**Members noted the content of the report.**

#### **15 REPORT ON FIRE SERVICE PROCUREMENT**

Ian Pritchard, Head of Procurement and Resources provided an update to Members on the fire service procurement reforms under the Home Office.

In June 2016 the Home Office sent out a questionnaire requesting the prices paid by fire services across England for a list of twenty-five items (basket of goods). The basket of goods covered items from uniform, personal protective equipment (often referred to as 'fire kit'), operational equipment, services, vehicle parts and fire vehicles.

The example of helmets was cited – NFRS try and recondition helmets which are £85 rather than buying new. Only two or three replacement helmets are bought per year, which is less than other authorities who may buy cheaper, and buy in greater quantities.

The exercise was about getting services to work collaboratively on purchasing. The Home Office also laid a challenge to suppliers to not play services off against one another.

The new Procurement Hub is looking at some of the services being bought and seeing if there is any collaboration with services when buying in bulk. Kent Fire and Rescue are acting as coordinators with the Home Office on this issue.

**Members noted the content of the report.**

## **16 REPORT ON THE VEHICLE REPLACEMENT STRATEGY**

Ian Pritchard, Head of Procurement and Resources presented the NFRS Vehicle Replacement Strategy. Plans are being drawn up for replacement vehicles to meet the strategy for 2020 and beyond.

Alternative energy sources for vehicles, along with the new Euro 6 diesel engines are being looked at as part of the strategy. Once the technology behind alternative energy sources moves forward and a government grant becomes available this is something that can be picked up very quickly.

Old equipment was being used at some stations when new equipment was available – this part of the business needs to be made more effective. In future, the engineering section will have one Head, and should be totally coordinated. A report on proposed changes to the establishment will be forthcoming through the HR Committee and full Authority.

**RESOLVED to agree the Vehicle Replacement Strategy at Appendix A of the report.**

## **17 CORPORATE RISK MANAGEMENT**

Sue Maycock, Head of Finance at NFRS updated members on a review of the risk management policy and also provided an overview of the key strategic and corporate risks to which the Authority is exposed.

The following information was highlighted:

- (a) Craig Parkin, Assistant Chief Fire Officer at NFRS observed that road risk doesn't relate just to road accidents, but also includes the regular accidents that happen with fire engines. Action plan is still on-going, but issue won't be completely dealt with as it is a long term approach with staff;
- (b) SYSTEL, a French supplier to NFRS are subject to English law and so the agreement should be unaffected by the BREXIT vote.

**RESOLVED to:**

- (1) bring a paper on the implication of the falling Pound to a future Finance and Resources committee;**
- (2) note the content of the report.**



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# **REVENUE AND CAPITAL MONITORING REPORT TO NOVEMBER 2016**

Report of the Chief Fire Officer

**Date:** 20 January 2017

**Purpose of Report:**

To report to Members on the financial performance of the Service in the year 2016/17 to the end of November 2016. This report focuses on those key areas where outturn variances are likely to occur.

## **CONTACT OFFICER**

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## 1. BACKGROUND

- 1.1 Budget monitoring is a key aspect of financial management for the Fire and Rescue Authority. Regular reporting of spending against both the revenue and capital budgets is a check that spending is within available resources and, if necessary, allows for financial resources to be re-assigned to meet changing priorities.
- 1.2 For this report, those key areas with a higher risk of significant variance are reported on. An assessment of this risk has been made in the light of the size of the budgets selected and / or previous experience of variances, as well as the emergence of actual variances.
- 1.3 In this financial year, the overall revenue budget is at its lowest level since 2007/08 and it is vital that an overview of the budgetary position during the year is maintained so that appropriate action can be taken in respect of significant variances and the budget is managed as a whole.

## 2 REPORT

### REVENUE BUDGET

- 2.1 **Headlines:** When the 2016/17 revenue budget of £41.295m was approved by the Fire Authority in February 2016 it was on the basis that a £98k deficit in the budget would be supported by a transfer from general reserves, resulting in a net revenue budget of £41.197m. This was in line with the Medium Term Financial Strategy which sets out as a principle that financial planning will take account of the possible use of reserves to minimise the effect of reductions in funding as a means of transition. However, at this stage in the year there is a forecasted underspend of **£353k** so the transfer from general reserves is unlikely to be necessary.
- 2.2 The forecasted underspend of £353k is largely due to four significant variances:
  - 2.2.1 A forecasted underspend of £276k relating to interest charges
  - 2.2.2 A significant variance has arisen due to the number of wholetime employees falling faster than expected, meaning that staffing levels have already decreased to 474.6 FTE against the new approved establishment of 476. This, together with further retirements forecasted before the end of the financial year, means that the wholetime pay budget (excluding overtime) is no longer expected to significantly overspend. The creation of a £350k earmarked reserve, which Members approved to support the wholetime pay budget during this period of transition, is therefore unlikely to be required. This has resulted in a forecasted underspend of £350k against the contribution to earmarked reserves budget
  - 2.2.3 Pre-planned and operational wholetime overtime is expected to overspend by £309k by the end of the year

2.2.4 The Authority has also received a £387k revenue grant from the Home Office due to its role as lead authority on the Emergency Services Mobile Communications Project. £207k of this grant has been redistributed to the other four fire and rescue services in the East Midlands region, and the remaining balance will be transferred to earmarked reserves.

2.2.5 These key variances are explained further in the report below. The Revenue Monitoring position is shown in summary at Appendix A.

2.3 **Wholetime Pay:** the variance to date is a £175k overspend, and this budget is expected to be overspent by **£257k** by the end of the financial year. This is due to four main reasons:

2.3.1 The Wholetime establishment was reduced to 476 from 1 April 2016, and at that time it was assumed that the actual number of employees would not reduce to this level through natural turnover until approximately the end of the financial year. However, there have been 15 retirements during the period 1 April to 30 November, with a further six confirmed so far for the period up to the end of January 2017. As at the end of November, the number of Wholetime employees in post had reduced to 474.6 full time equivalent (FTE). The over-establishment of posts in the first five months of the year has caused an overspend of £163k to date (excluding overtime). Although it is difficult to accurately forecast retirements, it is possible that there will be more leavers before the end of the financial year. As a result, the underspend accruing as the number of staff falls below the establishment level will partially offset the overspend arising in the first half of the year and a net £60k overspend is forecasted for the full financial year (excluding overtime). Members approved the creation of a £350k earmarked reserve in 2016/17 to support the Wholetime pay budget during this period of transition, and in June Members of this committee approved a virement of £108k from this reserve into the Wholetime pay budget to fund the overspend that was forecast at that time. This virement has since been reversed, as current forecasts indicate that this earmarked reserve will not be required.

2.3.2 Pre-planned and operational overtime is overspent to date by £117k, and it is forecasted to be overspent by £309k by the end of the financial year. This is mainly due to a large increase in pre-planned overtime to cover vacancies on the ridership, with over 160 shifts due to covered by pre-planned overtime in January alone. The average amount spent on operational overtime has also increased in recent months.

2.3.3 The forecasted overspend of £257k includes expenditure of £73k relating to employee costs for the Emergency Services Mobile Communications Project (ESMCP). This expenditure could be funded from an earmarked reserve, which would reduce the £256k forecasted overspend to £183k.

- 2.3.4 The wholetime pay budget includes £185k for short term project work, which was intended to support key projects such as the ESMCP, Tri-Service Control Phase 2 and “Shaping the Future” work. None of this money has needed to be spent to date as costs have been covered within the main Wholetime pay budget, although this project work will impact on overtime requirements as indicated above. The resulting underspend of £185k is included within the overall forecasted overspend of £257k.
- 2.4 **Retained Pay:** This budget is underspending by £8k to date, but this overspend is expected to reduce to **£2k** by the end of the financial year due to the timing of expenditure.
- 2.5 **Administrative and Support Pay:** the variance to date is an underspend of £83k, and this budget is expected to underspend by **£45k** by the end of the financial year. This underspend is due to 3 main reasons:
- 2.5.1 The budget currently includes a £31k net saving relating to a restructure of corporate services, and £72k relating to posts which have been deleted from the Prince’s Trust establishment. These savings have been removed in the draft 2017/18 budget.
- 2.5.2 Further underspends have arisen due to a number of vacant posts (9.2 FTE as at the end of November). These savings have been partially offset by the use of agency staff to temporarily fill some positions, and these staff tend to be more expensive.
- 2.5.3 A number of temporary posts have been appointed to work on projects such as the Public Sector Network (PSN). The cost of this project work is around £160k
- 2.6 **Training:** the training budget is overspent by £76k to date, but it is expected to be underspent by **£6k** by the end of the financial year. The forecasted underspend is due to a combination of a £15k overspend relating to specialist rescue training, and a £21k underspend relating to the Prince’s Trust. Specialist rescue is overspending because additional accommodation costs have been incurred. The Prince’s Trust expenditure budget was set prior to the decision to reduce the number of teams being run, and this reduction in the level of activity will lead to an underspend. Further detail about the financial position of the Prince’s Trust can be found in paragraph 2.19.
- 2.7 **Pension Costs:** the pension revenue budgets are overspent to date by £102k, however this overspend is expected to reduce to **£97k** at year end. This overspend is due to two main reasons:
- 2.7.1 Ill health charges are forecast to overspend by £127k. This is largely due to the ill health retirements of four employees in 2014/15, the final instalment of which will impact on the revenue budget this year. The forecast outturn also includes the cost of one lower tier retirement which took place in July, and the estimated cost of two additional retirements (one Wholetime and one retained) which are likely to occur before the end of the financial year. There is an

earmarked reserve which can be used to support this budget if required.

2.7.2 The budget for injury pensions is expected to underspend by £23k due to there being no new injury pensions so far this year compared to a budget assumption of one new case.

2.8 **Redundancy and Severance Payments:** redundancy costs of £13k have been incurred, resulting in a **£51k** underspend against a £64k budget. There has been one redundancy, which occurred as a result of the reduction in the size of the Prince's Trust Team. Further redundancies were avoided due to redeployment and the deletion of a vacant post. No further expenditure is planned at this time.

2.9 **Premises related expenditure:**

2.9.1 The Rent of Premises budget is underspent by £45k to date, and is expected to be underspent by **£28k** by the end of the financial year. This budget covers the Guildhall accommodation recharges for Central Fire Station. There are plans to vire some of this budget to cover the district heating and electricity costs of the new London Road Fire Station, which are estimated at £35k per annum and this is essentially an on-going saving. The forecasted underspend figure of £28k takes into account the part year costs for London Road.

2.9.2 The premises insurance budget is expected to underspend by **£22k** by the end of the financial year due to a saving which arose as a result of the recent tendering process.

2.9.3 Gas is underspent by £38k to date, and this underspend is expected to increase to **£48k** by the end of the year. This is mainly due to relatively mild weather.

2.9.4 Business rates are expected to overspend by £50k by the end of the year. This figure includes an estimate for the new London Road station, but the actual amount for this is not yet known.

2.10 **Transport related expenditure:**

2.10.1 **Finance Lease Extensions and Terminations:** the leased appliances which were used to bolster the fleet during industrial action periods have now been returned to the leasing company. The leases for these appliances had been extended and this overspend of £16k is for the final payment. Three fire appliances have been purchased off-lease at a cost of £19k. These have been bought to backfill appliances being temporarily taken out of the fleet due to the BA Telemetry Modification Programme. The three appliances will be sold or donated on completion of the project, which is due to finish in July 2017. The total overspend on this budget is therefore **£35k**.

2.10.2 **Fuel:** the fuel budget is expected to underspend by **£34k** by the end of the financial year. This is due to a reduction in the size of the fleet, and a general decrease in vehicle usage. The draft budget for

2017/18 includes a reduction of £30k to reflect this. However, expenditure against this budget is very volatile and is affected by factors such as fluctuations in oil prices, so it is closely monitored.

2.10.3 **Fleet Modification:** the fleet modification budget is expected to underspend by **£23k** by the end of the year. This is because fewer officers have chosen to renew their cars, and some new service vehicle orders have been put on hold.

2.10.4 **Fleet Maintenance:** the fleet maintenance budget of £574k is expected to underspend by **£26k** this year. This is due to the introduction of a new servicing regime which has delivered cost savings this year.

2.10.5 **Casual Mileage:** the casual mileage budget is overspent by £16k to date, and this overspend is forecasted to increase to £24k by the end of the financial year. Expenditure is up by £14k when compared to the same period last year, and this increase is mostly attributable to training mileage. This extra mileage is largely due to an increase in training courses for technical rescue, breathing apparatus assessment and revalidation for retained staff, animal rescue training, and additional training for retained recruits and contingency crew operatives.

2.11 **Supplies and Services:** Overall the Supplies and Services budget is expected to be overspent by **£33k**. This variance is due to a number of reasons:

2.11.1 The budget for fire hose is expected to overspend by around **£18k**. This is due to the outcome of the annual testing of the lay-flat hose, which led to the loss of around 70 lengths of hose. Staff in the Equipment Section are currently carrying out an audit to assess exactly how many lengths will need to be replaced.

2.11.2 The Hydrant Maintenance budget is underspent to date by £15k, and it is expected to underspend by **£23k** by the end of the year. Now that the hydrant maintenance technicians have been incorporated into the Equipment Section, hydrant inspections only take place during the period from April to September. There has been a reduction in the number of inspections carried out during the year due to technicians having to attend additional training courses in order to become familiar with new working practices, and because of a sickness absence within the team.

2.11.3 The Protective Clothing budget is underspent to date by £86k, and it is expected to underspend by **£100k** by the end of the year. More clothing is being refurbished rather than replaced, and this has led to a £55k saving. However, this saving is partially offset by a corresponding overspend of **£18k** on the budget for Uniform and Protective Clothing Repairs. These changes have been reflected in the draft budget for 2017/18. The Protective Clothing budget also contained additional funding for equipping new retained duty system

recruits, but the number of recruits has been smaller than originally expected. This accounts for the remaining underspend.

2.11.4 The previous Revenue and Capital Monitoring report stated that the Smoke Alarm budget was expected to underspend by £12k.

However, expenditure in this area has since increased and this budget is no longer expected to underspend. Expenditure in this area is driven by risk, and is largely dependent on the outcomes of the home safety checks carried out by the service. Expenditure levels can therefore be quite variable so this budget is closely monitored.

2.11.5 The Reference Books and Publications budget is due to overspend by **£14k**, however this can be funded from an earmarked reserve if required. An overspend of £20k has been caused by a contribution to CFOA's National Operational Guidance project. The Service has a three year commitment to this project, so it was decided that it could be funded from the resilience earmarked reserve rather than the revenue budget. This £20k overspend is partially offset by an underlying £6k underspend.

2.11.6 The Contribution to Partnership Working budget is expected to overspend by **£240k**. However, £40k of this overspend is due to a contribution to the New Cross Support Team, and this expenditure can be met from earmarked reserves if required. A further £207k is due to payments made to the other Fire and Rescue Services in the East Midlands region from the ESMCP grant received from the Home Office, so this is offset by the income received (see paragraph 2.15 for further details). There is an underlying underspend of around £8k on this budget, and the draft budget for 2017/18 has been reduced to reflect this.

2.11.7 The Consultancy fees budget is expected to underspend by **£60k**. £10k of this underspend relates to the amounts payable to the Prince's Trust for team fees and certificates, as the budget for this was set before the decision was made to reduce the size of the Prince's Trust programme. The remaining £60k underspend relates to the Organisational Development project, as some aspects of this project have not got to the procurement stage in time for them to be delivered before the end of the financial year.

2.11.8 The Communication Equipment Maintenance budget is underspent by £15k to date, and it is expected to underspend by **£24k** by the end of the financial year. This is due to the fact that the new Skype telephone system is support internally by the ICT department, therefore reducing the requirement to use external contractors.

2.11.9 The budget for Landline Phones is overspent by £13k to date and is expected to overspend by **£18k** by the end of the year. When this budget was set it reflected the planned timescales for the rollout of the new Skype telephone system, however in the period since the budget was calculated back in the autumn of 2015 these timescales have slipped. As a result the number of phone lines

decommissioned has been fewer than expected, hence the overspent phone charges.

2.11.10 The Firelink Charges budget is expected to overspend by £52k, but this increase in expenditure is covered by an increase in the Firelink revenue grant received from the Home Office.

2.11.11 The budget for Consultation Costs is underspent by £17k to date, and it is expected to underspend by £35k by the end of the year. This is largely because the consultation for the Sustainability Strategy had been planned for 2016/17, but this has now been pushed back to 2017/18.

2.12 **Treasury Services:** the Treasury Services budget is expected to overspend by **£15k** by the end of the financial year. This is due to increased pension administration costs arising from additional workloads and adaptations to systems required for pension regulatory changes.

2.13 **Special Service Charges Income:** in December 2015 Members approved the implementation of a plan for the recovery of costs for attending special service incidents, and approved a new scale of charges. This plan has now been fully implemented but only £2k has been recovered to date. Anecdotal evidence suggests that the new call challenging procedures being followed by Control staff are deterring callers from requesting an attendance once they had been informed that the service would be chargeable. Systems have therefore been put in place to record the number of instances in which callers decline assistance. The impact of the new Special Service Charging procedure is being monitored on a monthly basis. It is difficult to estimate how much income might be received during the remaining months of this financial year, but at this stage a deficit of **£37k** is expected against the £42k budget.

2.14 **Recovered Costs:** there is a forecasted surplus of **£26k** for income relating to recovered costs. This is due to income being accounted for which was not included in the budget. This variance is mainly due to an adjustment made in relation to the correction of pension errors. This correction was initially accounted for in the 2014/15 financial year, however the accounting entries were based on estimates. Once the actual figures were known, it became clear that the amount reimbursed to the Pension Fund had been overestimated by £26k, so this overpayment has now been recovered.

2.15 **Government Revenue Grants:** there is a forecasted surplus of **£439k** relating to Government Revenue Grants. The budget of £262k covers the New Dimensions grant and the Firelink grant which are received annually from central government, and the budget was based on the amounts received in 2015/16. The Firelink grant has been increased by £52k to reflect higher running costs, but this surplus is offset by an overspend on the Firelink Charges budget (see paragraph 2.11). The Authority has also received a £387k revenue grant from the Home Office due to its role as lead authority on the Emergency Services Mobile Communications Project. As detailed in paragraph 2.11, £207k of this grant will be paid over to the other Fire and Rescue Services in the region. The remaining balance of £180k will be transferred to earmarked reserves (see paragraph 2.22).

- 2.16 **Partnership income:** the Authority is due to receive an estimated **£25k** for which there is no budget. This income relates to partnership work, and includes money received from East Midlands Ambulance Service for the Emergency First Responder trial, and a contribution from Public Health England to support the Safe and Well agenda.
- 2.17 **Secondment income:** there is a forecasted surplus of **£46k** relating to secondment income. This is largely due to a secondment which was arranged after the budget for 2016/17 had been approved.
- 2.18 **Fire Safety Order:** the Authority can receive compensation and legal costs relating to the enforcement of fire safety legislation in non-domestic premises. There is a forecasted surplus of **£45k** relating to this budget. The amounts received by the Authority can vary tremendously from year to year, so the budget is set at a prudent level of £7.5k. However, £53k has been received this year to date.
- 2.19 **The Prince's Trust:** there is a forecasted deficit of £96k relating to Prince's Trust income. Members will be aware of the decision taken in January 2016 to reduce the size of the Prince's Trust programme, however due to the timing of this decision the budgets for 2016/17 were based on the assumption that activity levels would remain unchanged. As a result of this, the income budget for 2016/17 was set too high. As the expenditure budgets for the Prince's Trust were also calculated on the same basis there are numerous underspends which offset this income deficit, some of which are detailed elsewhere in this report. Overall there is a forecasted underspend of **£74k** across the Prince's Trust budgets as a whole.
- 2.20 **Interest Receivable:** there is a forecasted deficit of **£31k** for investment income. This is partly due to a decrease in interest rates following the cut in the Bank of England base rate in August, and partly due to lower than expected levels of cash balances as a result of a decision to delay long term borrowing for capital expenditure and instead rely on "internally borrowing" funds from the Authority's reserves. This strategy of using internally borrowed funds has reduced the Authority's interest rate payments, and avoided an increase in cash balances at a time when investment rates are low and credit ratings are relatively volatile.
- 2.21 **Capital Financing Costs:** Overall the capital financing budgets are forecasted to underspend by **£175k** by the end of the financial year. This is comprised of a £276k underspend relating to interest charges, offset by a £101k overspend relating to the minimum revenue provision charge. The Authority is advised by Capita on treasury management matters and, on advice, long term borrowing has been delayed and temporary borrowing was taken at a much lower rate instead. The Authority has recently taken a £3m long term loan from the Public Works Loans Board at a rate of 1.95%. This rate is particularly low when compared with the average loan rate during 2015/16, which was 3.2%. The £175k underspend is therefore partly due to taking borrowing later in the year than budgeted, and partly due to taking borrowing at a lower interest rate than budgeted. The element of the underspend arising from the lower interest rate will be converted into a budgetary saving for 2017/18 onwards. The budget for the minimum revenue provision (MRP) charge was calculated in the autumn of 2015 and was based

on estimated capital expenditure for 2015/16 of £4,668k. The actual capital expenditure for the year was £5,281k, as it included a significant amount of slippage. As a result of this, there is insufficient budget provision for the MRP charge in 2016/17. This has caused the £101k overspend.

## 2.22 Other Income:

2.22.1 Contribution to Earmarked Reserves: The budget included a contribution of £350k to earmarked reserves which was planned to be used to support the Wholetime pay budget during its transition this year towards 476 employees. As set out in paragraphs 2.1 and 2.2, this earmarked reserve is unlikely to be required this year and so the transfer to earmarked reserves has not taken place. There is therefore an underlying underspend of £350k against this budget. However, this underspend is partially offset by the transfer of the remaining ESMCP grant balance of £180k to earmarked reserves, and the transfer of the £10k contribution received from Public Health England towards the Safe and Well agenda. This £10k will be carried forward as an earmarked reserve because it is not due to be received until the end of the year, and there are no plans to spend it until 2017/18. There is therefore a forecasted net underspend of **£160k** against this budget.

2.22.2 Contribution from General Reserves: The underlying overspend of £98k in the Budget Requirement is reflected in the budget as a contribution from General Reserves to balance the budget. Due to the two significant underspends outlined in paragraph 2.1 there is likely to be a contribution to reserves as a result of the overall forecasted underspend this year and this will offset the £98k budget deficit, which still stands as a negative variance i.e. an overspend of **£98k**.

## CAPITAL PROGRAMME

2.23 A capital programme for 2015/16 of £1,964k was approved by Members at the February 2016 Fire Authority meeting.

2.24 There was slippage in the 2014/15 capital programme and Members approved that £2,809k be carried forward to 2016/17 at the Fire Authority meeting on 26 June 2015. In addition there is slippage from the 2015/16 capital programme and Members approved £1,211k be carried forward to 2016/17 at the Fire Authority meeting on 24 June 2016. This brings the total capital programme to £5,984k for the year. The total spend to date is £1,583k and the forecast out-turn expenditure is £3,445k, giving a forecast underspend of **£2,539k**, and the current capital programme is shown at Appendix B. The most significant area of underspend is within the Transport element of the capital programme and the current position has been fed into the Vehicle Replacement Strategy, which was approved by Members of this Committee at an earlier meeting.

2.25 A capital grant has already been received for the Tri-Service Control Mobilising system (£319k remaining), as well as £19k of capital receipts from the sale of vehicles. The sale of Central Fire Station is expected to complete this year and this will result in a capital receipt of £2.5m. A £3m long term loan has been taken out in September 2016 to finance capital expenditure,

and a temporary loan of £4m was taken out in May for three months in advance of this to enable the management of cash.

- 2.26 **Transport:** The replacement programme for rescue appliances will need to slip into next year because a review is now underway to consider alternative fleet options to meet the objectives of the Sustainability Strategy 2020 and the operational need for vehicles required for Service Delivery. The outcome of this work will determine the type and number of vehicles within the long term vehicle replacement plan and should be known early in the next financial year and will inform when the next tranche of fire appliances will need to be brought into front line service (for the purpose of capital planning some assumptions about this have been made in the draft budget for 2017/18). The budget will be used to complete the appliances which are already in build.
- 2.27 The budget for special appliances is unlikely to be spent in 2016/17. The Command Support Unit is to go out to mini competition once the potential for collaboration with other fire services has run its course. A feasibility study has been carried out to ascertain the requirements of the unit based on NFRS's requirements, however work needs to be completed on the design. The HMEPU (Hazardous Materials and Environmental Protection Unit) requires re-specification to meet the changing needs of Service Delivery and duties of the Environment Agency. The process of determining the equipment to be carried on the HMEPU is currently underway and will dictate the type of vehicle needed to fulfil this role. Until this process is complete it will delay the start of the specification of the vehicle itself and require slippage of £151k into 2017/18. This will also be subject to the potential to collaborate with other fire services in the provision of this type of vehicle.
- 2.28 A review of light vehicle utilisation has been undertaken and further work is now in progress to look at ways of working which will promote more effective use of the light vehicle fleet. At this stage in the year it is planned that some vehicles will be replaced before the year end, but some of this budget will slip into next year and some of it will be permanently saved as it is expected that the light fleet size and specification can be reduced as a result of the review. An outturn of £150k is anticipated for the light fleet element.
- 2.29 **Equipment:** The replacement Holmatro pumps and hoses have been received and issued to stations. Additional hoses were required to meet operational requirements which was greater than the original estimate, and this has led to a slight overspend of £3k.

The procurement phase of the breathing apparatus project for 2017/18 is now underway and training will commence prior to the go live date in 2017. This has required the early purchase of some breathing apparatus sets for training purposes in the current year in advance of the 2017/18 capital programme and this shows as an overspend in 2016/17 of £190k. The capital budget for 2017/18 has been reduced as a result and Members are requested to approve a capital variation in respect of this advance expenditure. It is expected that the impact of capital financing charges arising from the early expenditure will be able to be contained within the draft 2017/18 budget.

- 2.30 **Estates:** The London Road Fire Station Project is now complete and the new station was handed over to NFRS on 12 August 2016. The project is currently predicted to come in under the last reported estimate of £5.005m and is expected to be in the region of £4.7m. The majority of the project expenditure will be paid within the current financial year except for the contract retention and fees (estimated at circa £115k) which will be paid in the next financial year.
- 2.31 The design for the new Newark Fire Station Project is now complete based on the rebuild of a new station on the western part of the same site whilst continuing to operate from the station on the eastern part of the site. On completion of the new station the surplus land (the site of the existing station building) will be disposed of, this has currently been valued at circa £275k. The initial programme is indicating that the tendering for the project will be complete by March 2017 with a construction period of up to sixteen months and a project completion in the summer of 2018.
- 2.32 Work with the East Midlands Ambulance Service on the potential collaboration concerning the existing Hucknall Fire Station is underway with both organisations working toward agreeing terms of a collaborative arrangement. The details and budget impact of these negotiations are to be reported once a draft agreement has been reached.
- 2.33 The initial feasibility work for a new Worksop Fire Station is currently underway; this will include a strong potential for collaboration with the Police and Ambulance Service in a joint project.
- 2.34 **ICT:** The ICT capital programme budget will be used throughout the year for on-going ICT purchases such as additional software and hardware along with consultancy services.
- 2.35 The Skype for Business (telephony replacement) project is projected to be rolled out to all stations by March 2017 and the Mobile Working budget will be used to purchase additional hardware.
- 2.36 Business Process Automation – this budget will continue to be used to finance ICT Strategic developments such as the implementation of the new SharePoint solution and migration to Office365. The earmarked reserve created for SharePoint will supplement specific expenditure related to this system.
- 2.37 For business systems, the implementation phase of the project to upgrade the finance and procurement system in collaboration with Leicestershire Fire and Rescue Service has gone live. The payroll replacement system project implementation phase is also underway but is now likely to slip into the early part of next year. Phase two of the Tri-Service Control system project is in progress and the project to upgrade the transport system is in the options appraisal stage.
- 2.38 It is expected that there will be some slippage relating to ICT projects at this stage in the year.

### **3. FINANCIAL IMPLICATIONS**

The financial implications are set out in the body of the report.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development implications arising directly from this report.

### **5. EQUALITY IMPLICATIONS**

An Equality Impact Assessment has not been undertaken because this report is not associated with a policy, function or service. Its purpose is to explain variances to the approved budget, which reflects existing policies.

### **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 directly from this report.

### **8. RISK MANAGEMENT IMPLICATIONS**

Budget monitoring and the regular receipt of financial reports is key to managing one of the most significant risks to the organisation, that of financial risk. The process of budget monitoring is a key risk management control measure as are the management actions which are stimulated by such reporting.

### **9. RECOMMENDATIONS**

It is recommended that Members:

- 9.1 Note the contents of this report.
- 9.2 Approve the capital variation of £190k in respect of the Breathing Apparatus project, as expenditure in advance of the main project to be carried out in 2017/18.

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

None.

John Buckley  
**CHIEF FIRE OFFICER**

REVENUE BUDGET MONITORING TO NOVEMBER 2016

Account Description	Annual Budget	Profile Budget	Actual YTD	Commitments	Net Expenditure	Forecast Out-turn	Out-turn to Budget
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Employees	32,598	21,547	21,658	90	21,748	32,829	231
Premises-Related Expenditure	2,202	1,428	1,390	200	1,590	2,158	-44
Transport-Related Expenditure	1,704	1,136	1,129	362	1,491	1,697	-7
Supplies & Services	3,590	2,383	1,871	446	2,317	3,686	96
Third Party Payments	58	39	39		39	58	
Support Services	211	106	147	19	166	226	15
Depreciation and Impairment Losses							
Sales Fees & Charges	-193	-120	-123		-123	-203	-10
Other Income	-1,365	-1,081	-1,352		-1,352	-1,824	-459
Capital Financing Costs	2,392	0	435		435	2,217	-175
	<b>41,197</b>	<b>25,438</b>	<b>25,194</b>	<b>1,117</b>	<b>26,311</b>	<b>40,844</b>	<b>-353</b>

**CAPITAL BUDGET MONITORING TO NOVEMBER 2016**

CAPITAL PROGRAMME	2016/17 Approved Budget	Slippage from 2014/15	Slippage from 2015/16	2016/17 Virements	2016/17 Revised Budget	Actual to Nov	Remaining Budget to be Spent	Estimated Outturn	Estimated Outturn Variance
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>TRANSPORT</b>									
Rescue Pump Replacement	907	313	-240	0	980	71	-909	73	-907
Special Appliances	52	202	119	0	373	0	-373	0	-373
Appliance Equipment (radios)	26	36	17	0	79	0	-79	50	-29
Light Vehicle Replacement	173	394	336	0	903	24	-879	150	-753
	<b>1,158</b>	<b>945</b>	<b>232</b>	<b>0</b>	<b>2,335</b>	<b>95</b>	<b>-2,240</b>	<b>273</b>	<b>-2,062</b>
<b>EQUIPMENT</b>									
Breathing Apparatus	0	0	0	0	0	0	0	190	190
Special Appliances Equipment (Holmatro)	157	0	0		157	160	3	160	3
	<b>157</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>157</b>	<b>160</b>	<b>3</b>	<b>350</b>	<b>193</b>
<b>ESTATES</b>									
London Road Fire Station	0	0	268	1,335	1,603	932	-671	1,603	0
Refurbishment and Rebuilding Fire Stations	0	1,664	0	-1,538	126	0	-126	0	-126
Feasibility Studies & Station Design	23	0	225	-60	188	181	-6	111	-77
Newark Fire Station	325	0	0	60	385	0	-385	184	-201
Hucknall Fire Station	0	0	0	203	203	0	-203	203	0
Worksop Fire Station	0	0	0	0		0		0	0
Retention Payments	0	0	64	0	64	0	-64	0	-64
	<b>348</b>	<b>1,664</b>	<b>557</b>	<b>0</b>	<b>2,569</b>	<b>1,114</b>	<b>-1,455</b>	<b>2,101</b>	<b>-468</b>
<b>I.T. &amp; COMMUNICATIONS</b>									
Microsoft Infrastructure Software Upgrade	0	0	0	0	0	4	4	4	4
ICT Capital Programme - Replacement Equipment	140	0	14	0	154	39	-115	189	35
Mobile Computing	20	0	0	0	20	0	-20	3	-17
Business Process Automation	95	200	0	0	295	51	-244	80	-215
Telephony Replacement	0	0	35	0	35	55	20	25	-10
	<b>255</b>	<b>200</b>	<b>49</b>		<b>504</b>	<b>149</b>	<b>-356</b>	<b>301</b>	<b>-203</b>

<b>CAPITAL PROGRAMME</b>	<b>2016/17 Approved Budget</b>	<b>Slippage from 2014/15</b>	<b>Slippage from 2015/16</b>	<b>2016/17 Virements</b>	<b>2016/17 Revised Budget</b>	<b>Actual to Nov</b>	<b>Remaining Budget to be Spent</b>	<b>Estimated Outturn</b>	<b>Estimated Outturn Variance</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>HUMAN RESOURCES</b>									
HR System Replacement	0	0	0	0	0	1	1	1	1
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>TRANSPORT</b>									
Tranman Software	11	0	25	0	36	0	-36	36	0
	<b>11</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>36</b>	<b>0</b>	<b>-36</b>	<b>36</b>	<b>0</b>
<b>CONTROL</b>									
Tri-Service Control & Mobilising System	0	0	178	0	178	6	-172	178	0
	<b>0</b>	<b>0</b>	<b>178</b>	<b>0</b>	<b>178</b>	<b>6</b>	<b>-172</b>	<b>178</b>	<b>0</b>
<b>FINANCE</b>									
Payroll System Replacement			100		100	33	-67	100	0
Finance Agresso Upgrade	35		70	0	105	25	-80	105	0
	<b>35</b>		<b>170</b>		<b>205</b>	<b>58</b>	<b>-147</b>	<b>205</b>	<b>0</b>
<b>Grand Total</b>	<b>1,964</b>	<b>2,809</b>	<b>1,211</b>	<b>0</b>	<b>5,984</b>	<b>1,583</b>	<b>-4,401</b>	<b>3,255</b>	<b>-2,539</b>

	<b>2016/17 Approved Budget</b>	<b>Slippage from 2014/15</b>	<b>Slippage from 2015/16</b>	<b>2016/17 Virements</b>	<b>2016/17 Revised Budget</b>	<b>Actual to Nov</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>To Be Financed By :</b>						
Capital Grant - General	0				0	
Capital Grant – Tri-Service Control	178				178	
Capital Earmarked Reserve	0				0	
Capital Receipts - Property	2,500				2,500	-19
Capital Receipts - Vehicles	15				15	
New Borrowing	3,291				3,291	
Internal Financing	0				0	
<b>Total</b>	<b>5,984</b>				<b>5,984</b>	<b>-19</b>

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**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# **PRUDENTIAL CODE MONITORING REPORT TO NOVEMBER 2016**

Report of the Treasurer to the Fire Authority

**Date:** 20 January 2017

**Purpose of Report:**

To inform Members of performance for the three month period to 30 November 2016 relating to the prudential indicators for capital accounting and treasury management.

## **CONTACT OFFICER**

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Head of Finance

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## **1. BACKGROUND**

- 1.1 The Local Government Act 2003 sets out a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code, which CIPFA updated in 2011.
- 1.2 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. The Prudential Code sets out a number of indicators which authorities must use to support decision making. These are not designed to be comparative performance indicators.
- 1.3 The Fire Authority approved these prudential indicators for 2016/17 at its meeting on 26 February 2016.
- 1.4 The Prudential Code requires that local authorities report performance against prudential targets to Members.

## **2. REPORT**

### **PRUDENTIAL INDICATORS**

- 2.1 Some of the prudential indicators set cannot easily be measured during the year and will be reported on in the Treasury Management Annual Report for 2016/17 after the end of the financial year. These indicators are:
  - Ratio of financing costs to net revenue stream 2016/17 (affordability).
  - Incremental impact of capital investment decisions on Council Tax 2016/17 (affordability).
  - Total capital expenditure 2016/17.
  - Capital Financing Requirement as at 31 March 2017.
- 2.2 In terms of borrowing, the indicator "Gross borrowing and the capital financing requirement (CFR)" (a prudence indicator) requires that gross external borrowing does not, except in the short term, exceed the CFR. The CFR at 1 April 2016 was £25.76m and was estimated to be £29.19m by the year end. During the period 1 April 2016 to 30 November 2016 the gross indebtedness of the Authority, calculated at the start of each month, did not exceed £24.337m including any requirements for temporary overdrafts. As at 30 November 2016, the gross indebtedness of the Authority was £21.3m, which is well within the estimated CFR for the end of the year. A loan of £4m was taken on 9 May for three months at a rate of 0.48%, to support the Authority's cash management temporarily. In addition the Authority has taken

out a long term maturity loan on 22 August of £3m over 49 years at a fixed rate of 1.95%.

- 2.3 The Authority set an operational boundary for 2016/17 of £28.026m and an authorised limit of £30.829m. Although these limits are year end targets, the Authority is required to demonstrate that it has not exceeded them at any time during the financial year. Again, the maximum indebtedness of the Authority during the period, as shown in the paragraph above, is within the limits set.

The graph given as Appendix B illustrates the levels of borrowing for the eight months up to the end of November 2016.

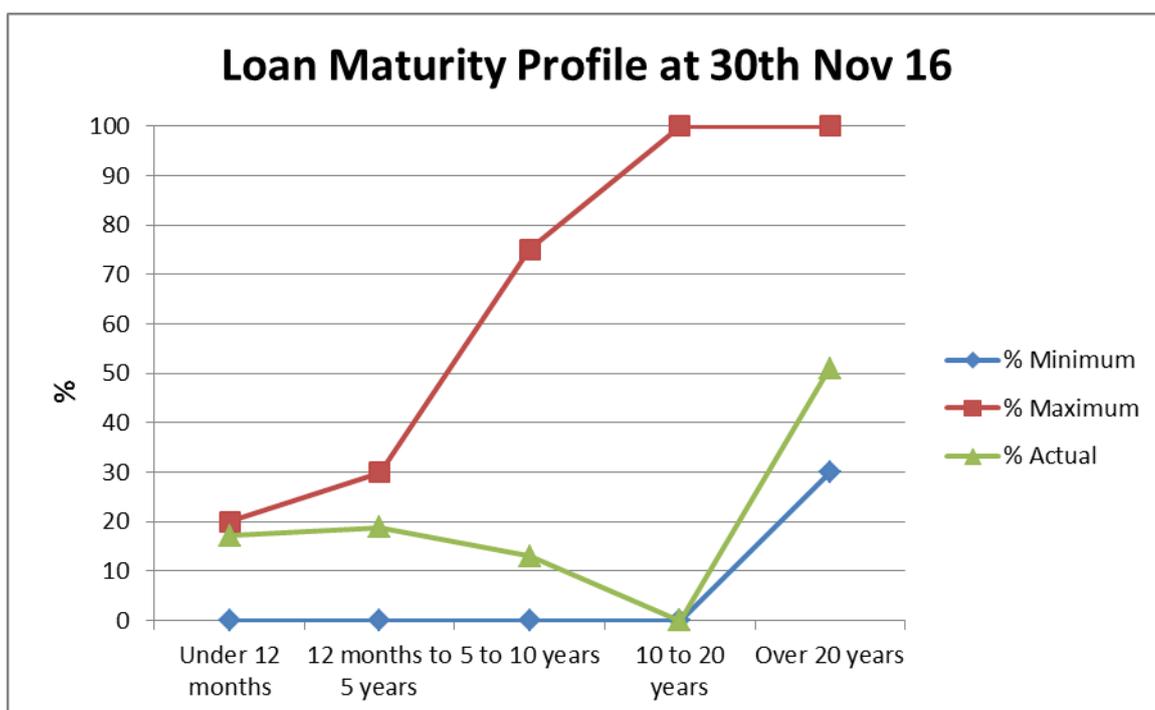
### TREASURY MANAGEMENT INDICATORS

- 2.4 An interest earnings budget of £76k was set for 2016/17, as at 30 November 2016 £30k has been received. Subsequent to the bank rate reduction in August it is expected that there will be a shortfall in the interest being received on our investments. The new projection for interest earned during the year is £45k.
- 2.5 The treasury management target relating to interest rate exposure is that fixed interest rate exposures should be between 0% and 100% of total lending and that variable interest rate exposures should be between 0% and 30%. During the period up to 30 November 2016, 100% of borrowing was at fixed interest rates.
- 2.6 The treasury management target in respect of cash management is that the Authority's bank overdraft should not exceed £200,000. During the part of the 2016/17 financial year up to 30 November 2016 the account was not overdrawn. A graph of cash balances for the eight months up to 30 November 2016 is shown in Appendix A.

Treasury management limits relating to loan maturity are shown below:

Loan Maturity		
	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	20%	0%
12 months to 5 years	30%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	0%
Over 20 years	100%	30%

Actual performance against these targets at 30 November 2016 is shown in the following graph and demonstrates that none of the maturity bands have been breached.



- 2.7 The upper limit for sums invested for longer than 364 days is £2m. During the part of the 2016/17 financial year up to 30 November 2016, no sums were invested for a fixed term of longer than 364 days. This excludes amounts invested in call accounts with notice periods of less than 364 days, and on which notice can be given immediately if required.

## UK SOVEREIGN RATING

- 2.8 The Authority currently specifies a minimum sovereign rating of AA by Fitch (or equivalent). This is in relation to the fact that the underlying domestic and, where appropriate, international, economic and wider political and social background will have an influence on the ratings of a financial institution. However, following the outcome of the EU Referendum in June 2016 and the resulting economic and political uncertainty, Fitch downgraded the sovereign rating of the UK by one notch on 28th June 2016 to AA-, the minimum approved rating within the Authority's current investment strategy as highlighted above. The ratings agency also placed the UK on "negative outlook" which raises the potential for the agency to downgrade the UK further within the next eighteen months, if the economic outlook for the UK deteriorates. If the UK were to be downgraded to AA- this would remove the option of investing with UK institutions under the current Treasury Management Strategy. Given that the Authority's banker is a UK bank this could cause some difficulty and it is therefore recommended that, if the UK is downgraded to AA- status, the Authority's strategy will be to continue with existing banking arrangements and to retain current investments with UK institutions. The Authority will then need to reconsider its investment strategy in a further report to Members, with any immediate requirements in the interim to be agreed between the Treasurer and the Chair of the Finance and Resources Committee.

### **3. FINANCIAL IMPLICATIONS**

The financial implications are set out in full within this report.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources and learning and development implications arising directly from this report.

### **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been undertaken because this report gives detail of performance against the approved Treasury Management Strategy and Prudential Code. These are financial policies and do not directly impact on employees or members of the public.

### **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 directly from this report.

### **8. RISK MANAGEMENT IMPLICATIONS**

The Prudential Code is a framework which sets out to quantify and minimise financial risk arising from the financing of capital, the investment of surplus funds and the maintenance of operating cash balances for the Authority. The favourable performance against the prudential targets demonstrates that these areas of operation are being managed effectively.

### **9. RECOMMENDATIONS**

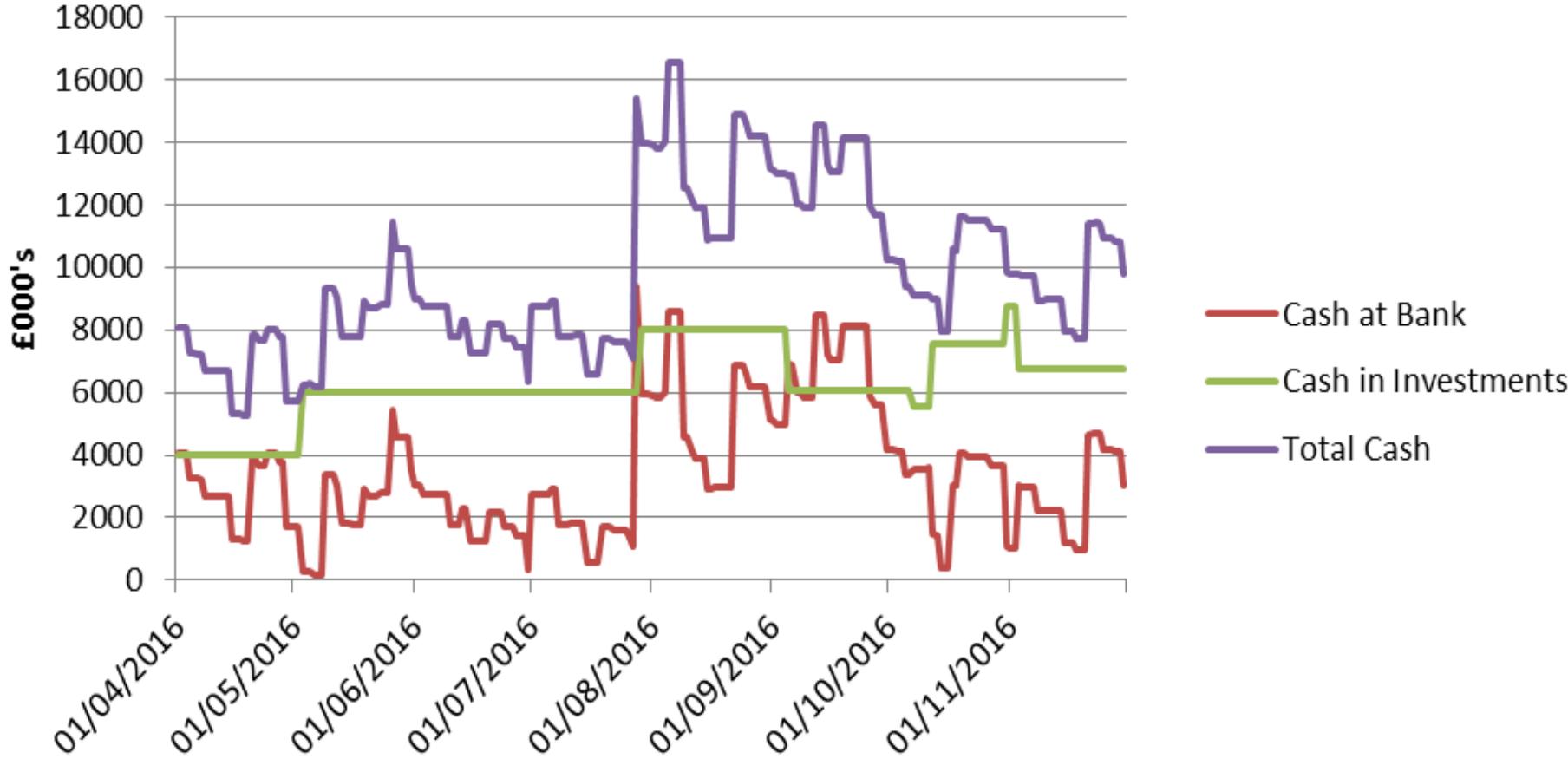
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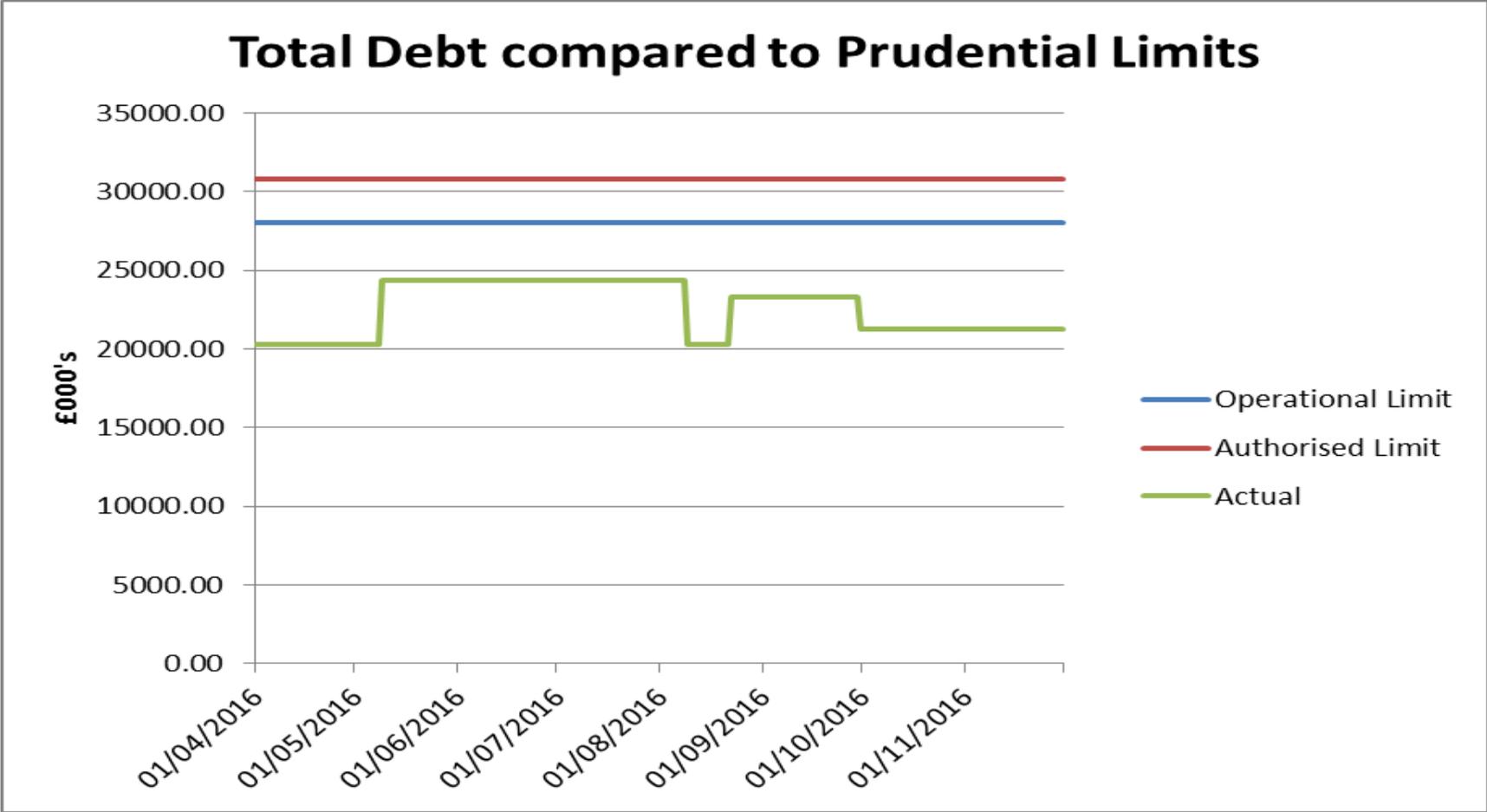
**10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Neil Timms  
**TREASURER TO THE FIRE AUTHORITY**

### Cash Balances 1 April - 30 Nov 16







**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# **BUDGET PROPOSALS FOR 2017/2018 TO 2019/2020 AND OPTIONS FOR COUNCIL TAX 2017/2018**

Report of the Chief Fire Officer

**Date:** 20 January 2017

**Purpose of Report:**

To allow Members to consider the options for the recommendation of a balanced revenue budget to the Fire Authority for acceptance. Implications for Council Tax are also considered.

## **CONTACT OFFICER**

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## 1. BACKGROUND

- 1.1 The Finance and Resources Committee is charged with considering the financial position of the Authority and proposing revenue and capital budgets to the Fire Authority for approval. The Fire Authority will also decide upon levels of Council Tax for the coming year and will consider the recommendations of the Finance and Resources Committee in doing so.
- 1.2 In mid-December, the government announced the provisional grant settlement for 2017/2018 which was largely in line with the 2017/2018 indicative finance settlement published the previous December as part of the four year funding offer, but reflected an increase in business rates funding arising from an increase in the Retail Price Index. The final settlement for 2017/2018 will be laid before Parliament in February.

## 2. REPORT

### CAPITAL BUDGET PROPOSALS 2017/2018 TO 2019/2020

- 2.1 The Authority maintains a sustainable Capital Programme that has been planned out over an extended period. This programme seeks to replace appliances and vehicles when they are approaching the end of their useful life, maintains a rolling programme of ICT replacements and a property programme that will ensure that property remains fit for purpose, is appropriately located and can be contained within the internal capacity of the organisation to complete.
- 2.2 The programme is set out for the next three years and reflects proposed new expenditure. Actual expenditure in each year may also be increased by slippage carried forward from the prior year.

The proposed Capital Programme for 2017/2018 to 2019/2020 is therefore as follows:

<b>Capital Programme Item</b>	<b><u>2017/18</u> <u>Proposed</u></b>	<b><u>2018/19</u> <u>Proposed</u></b>	<b><u>2019/20</u> <u>Proposed</u></b>
	<b>£</b>	<b>£</b>	<b>£</b>
Appliance Replacement	0	0	2,417,000
Special Appliances	379,000	0	99,500
Appliance Equipment	28,000	0	0
Light Vehicle Replacement	733,000	363,500	187,000
<b>Transport Total:</b>	<b>1,140,000</b>	<b>363,500</b>	<b>2,703,500</b>
BA Sets	595,000	0	0
Conversion of Hose Reel Equipment	200,000	0	0
Lightweight Fire Coats	180,000	0	0
Personal Protective Equipment	0	0	650,000
<b>Equipment Total:</b>	<b>975,000</b>	<b>0</b>	<b>650,000</b>

<b>Capital Programme Item</b>	<b>2017/18 Proposed</b>	<b>2018/19 Proposed</b>	<b>2019/20 Proposed</b>
Fire Station Project	2,000,000	425,000	75,000
<b>Property Total:</b>	<b>2,000,000</b>	<b>425,000</b>	<b>75,000</b>
ICT Capital Programme	140,000	140,000	140,000
Mobile Computing	20,000	20,000	20,000
<b>ICT Total:</b>	<b>160,000</b>	<b>160,000</b>	<b>160,000</b>
Performance Management System	103,000	0	0
Emergency Services Mobile Communications Project	116,700	40,700	
<b>IT Systems Total:</b>	<b>219,700</b>	<b>40,700</b>	<b>0</b>
<b>Total Capital Programme:</b>	<b>4,494,700</b>	<b>989,200</b>	<b>3,588,500</b>

- 2.3 The rescue pump renewals programme will be temporarily suspended whilst a review of appliance equipment is undertaken as part of the Sustainability Strategy 2020. The Strategic Leadership Team has approved the extension of the rescue pump's useful life from thirteen to fifteen years to reflect actual experience in recent years and this will allow the time for the equipment review to be conducted and for recommendations to be made about the technical specification of appliances for the future. The capital budget for appliances in 2019/2020 will cover the purchase of 8 rescue pumps which will bring the Authority back on track with the replacement programme. Orders for these will be placed towards the end of 2018/2019.
- 2.4 The special appliances budget covers the Command Support Unit and a replacement Training Vehicle for the Driving School.
- 2.5 The light vehicle programme has been virtually suspended during recent restructures and the lives of vehicles have been extended where possible. This was to avoid purchasing vehicles which may not have been required going forward. The vehicle replacement strategy was approved by the Finance and Resources Committee in 2016 and allows for a fewer number of vehicles to be replaced in future years, which reflects the contracting size of the organisation and more efficient ways of working. Nevertheless the capital programme is quite substantial over the three year period as there will be an element of "catching up" with vehicle purchases.
- 2.6 There are three projects within the equipment programme for 2017/2018: the replacement of breathing apparatus and ancillary equipment as part of a managed service package when the current provision reaches the end of its ten year life; the conversion of hose reel equipment as the current branches become uneconomical to repair and the purchase of lightweight fire coats designed to protect personal protective equipment from an element of wear and tear, thereby extending its life. In 2019/2020 personal protective equipment is due to be replaced. Previous practice has been to purchase new personal protective equipment from the revenue budget but, as experience

has shown that such equipment can be successfully refurbished to extend its life, it will now be treated as capital expenditure for the new issue of equipment with the cost to the revenue budget spread over the life of the equipment.

- 2.7 The property programme allows for one fire station to be re-built during the three year period, together with a feasibility study to prepare for the next project. The programme covers the construction of a new fire station at Newark and this budget sets aside the resources to continue with the Authority's sustainable capital programme which will ensure that all property assets remain fit for purpose over time.
- 2.8 The ICT programme has been pared back and now contains budget to replace items by way of a rolling programme and provision for the general expansion of ICT usage across the organisation.
- 2.9 There is provision in the capital programme for a new performance management system to be implemented during 2017/2018. In addition, the Authority is due to receive capital grant from the government to support the Emergency Services Mobile Communications Project and, whilst the detail of what expenditure will be required is not yet known, an equivalent capital expenditure budget has been included in the programme.

## **REVENUE BUDGETS 2017/2018 TO 2019/2020**

- 2.10 The budget report presented to the Fire Authority in February 2016 detailed a revenue budget requirement of £42.2m for 2017/2018. It was estimated at this time that this would result in a budget deficit of between £2.4m and £2.9m for that year, and that there would continue to be a budget deficit going forward up to 2019/2020. During this year's budget process the focus has been on driving out further savings and on re-defining budget assumptions by taking a more risky approach to estimating in order to eliminate the element of contingency built into some budgets.
- 2.11 The riskier approach outlined above has translated into a revenue budget which reflects the best estimates of likely actual expenditure and this has made a substantial difference, in particular to those pay budgets which have traditionally been constructed based on the approved establishment. The Administrative and Support pay budget includes a vacancy factor of 1.5% (previously it was 1%) and the Retained pay budget has been re-adjusted to take account of actual numbers recruited in 2016/2017 and planned recruitment over the next three years. The Wholetime pay budget has been prepared on the basis of an establishment of 455 posts in 2017/2018, 445 posts in 2018/2019 and 449 posts in 2019/2020 (the current approved establishment is 476 posts). This allows for retirements and leavers and some recruitment later in the three year period but is nevertheless significantly below the approved establishment and has resulted in a temporary saving of £673k in 2017/2018. This also means that the pre-planned overtime budget has increased by £300k to allow for the additional cost of covering ridership

vacancies in accordance with the current collective agreement, and budget has been provided for temporary posts to deliver “invest to save” projects by 2019/2020. The budgetary position shown later in this report assumes that the temporary savings to the pay budget will become permanent savings at some point by 2019/2020 but of course this will be a matter for the Fire Authority to determine.

2.12 Detailed budgets have been prepared for the three years 2017/2018 to 2019/2020. A number of key assumptions have been made in drawing up these budgets including assumed pay awards of 1% per annum for all groups of employees. The budget for 2017/2018 will not be finalised until the end of January 2017, when the surplus or deficit on collection fund and the taxbase are confirmed by the billing authorities.

2.13 The base budget for the current year 2016/2017 is £41,295k. This can be sub-divided into its major elements:

Budget Heading	Base Budget 2016/17 £000's	Percentage of Total Budget
Wholetime Pay	21,493	52.0%
Retained Pay	2,919	7.1%
Control Pay	1,027	2.5%
Admin. & Support Pay	5,817	14.1%
<b>Total Pay</b>	<b>31,256</b>	<b>75.7%</b>
Capital Financing	2,316	5.6%
Non Pay	7,723	18.7%
<b>Total Budget</b>	<b>41,295</b>	<b>100.0%</b>

2.14 The budget process has resulted in a number of proposed changes to the 2016/2017 base budget, and these are set out in the following table:

Changes to Budget Requirement		£000's	£000's
<b>Base Budget 2016/17</b>			<b>41,295</b>
<b>Pay:</b>			
Administrative & Support Pay			
	Restructures & Deletions of Posts	-230	
	Pay Award 1%	57	
	Increments	67	
	Increase in Employer Pension Contribution	132	
	Temporary Project work to support change transition	350	
	Other minor changes	-26	352

<b><u>Changes to Budget Requirement</u></b>		<b>£000's</b>	<b>£000's</b>
<u>Wholetime Pay</u>			
	Changes to budget assumptions various	-145	
	Pay Award 1%	213	
	Remove funding for Project Work - reallocate to Administrative Pay	-185	
	Increase in pre-planned overtime to cover vacancies	300	
	Changed budget assumption re number of posts - Net saving after retirements, leavers, new trainees	-673	-490
<u>Retained Pay</u>			
	Changes to budget assumptions various	-1	
	Increase in Community Safety work	83	
	Changed budget assumptions re no. of courses / posts	-165	
	Pay Award 1%	29	-53
<u>Control Pay</u>			
	Changes to budget assumptions various	-35	
	Establishment change	-6	
	Pay Award 1%	10	
	Increase in Employer Pension Contribution	16	-15
<b><u>Capital Financing:</u></b>			
	Net Change	113	113
<b><u>Non-Pay:</u></b>			
<u>Inflation</u>			
	Members Allowances 1%	1	
	Premises inflation (net)	10	
	Premises contracts price increases	9	21
<u>Adjustments to Budget</u>			
	Remove contribution from reserves to support SRT restructure	-350	
	Adjust FireLink grant in line with actuals	-35	-385
<u>Unavoidable Growth:</u>			
	Retirement / long service awards	1	
	Blue light fittings	26	
	Insurance tender	2	
	Pension administration workloads	6	
	Apprenticeship Levy	107	
	Contribution National Pensions Scheme Board	4	
	Reduced telephone call income	3	
	Ill health retirements	33	
	Motor insurance	27	

<u>Changes to Budget Requirement</u>		<b>£000's</b>	<b>£000's</b>
	Community safety consumables	3	
	Reduction in investment income	10	
	Overnight accommodation	12	235
<u>Growth</u>			
	Training CFBT / BAAR 3	48	
	Spring Forward programme (1 YO)	10	
	Backlog building maintenance	20	
	ICT Training requirement (1 YO)	20	
	Pulp Friction at SDC, recruit Cook (1 YO)	10	
	Methods of entry training	1	
	Hose reel branches	20	
	Rip saws and impact drivers	25	154
<u>Net Change to Non-pay / Income re Princes Trust Reduction</u>			
	Reduction in Princes Trust Non-pay (net) due to fewer teams	-49	-49
<u>Corrections / Minor Adjustments</u>			
	Training	4	
	Office equipment	-1	
	Insurance claims handling	-1	
	Subscriptions / Reference books	-1	
	Corporate costs	-2	-2
<u>Reversal of Temporary Budget Changes from 2016/2017</u>			
	Fitness Equipment	-9	
	No longer doing Workplace Culture benchmarking	-22	-31
<u>Redesign of Service Delivery</u>			
	Less PPE due to restructure of SRT	-19	
	Less PPE required as nos. of staff reduce	-25	
	Restructure - Estates	-21	
	Media / Comms restructure	-1	
	Travel expenses	-17	-82
<u>Procurement</u>			
	Tyres	-5	
	Payroll in-house	-51	
	Training of Instructors	-21	
	Printing	-4	
	Intonox contract price saving	-3	-84
<u>Maximise benefit &amp; value of assets</u>			
	Closure of Central, opening of London Rd	-40	
	Gas detection suits life extended	-25	-65

<b>Changes to Budget Requirement</b>		<b>£000's</b>	<b>£000's</b>
Changes in Budget Assumptions			
	Electricity	-30	
	Gas	-25	
	Fuel	-28	
	ICT contracts	-20	
	Personal Protective Equipment	-24	
	Operational Equipment	-20	
	Pensions	-31	
	Partnerships	-12	-190
<b>Budget Requirement 2017/18</b>			<b>40,724</b>

2.15 The Fire Authority approved a Sustainability Plan for 2016/2017 to 2019/2020 at its meeting in September 2016, which was published under the terms of acceptance of the government's four year settlement offer. This plan was prepared on the basis of the budget approved by the Fire Authority in February 2016 and will need to be updated and republished in the light of the budget approved by the Fire Authority in February 2017. The current Sustainability Plan is attached at Appendix A and set a savings target of up to £3.8m over the four year period, with an interim target of up to £2.4m by April 2017.

2.16 The draft budget for 2017/2018, as set out in paragraph 2.14, has achieved savings as follows:

- 2.16.1 Procurement savings: £84k
- 2.16.2 Maximising the benefit and value of assets savings: £65k
- 2.16.3 Redesign of service delivery savings: £361k

In addition, budgetary savings have been achieved by amending budget assumptions to eliminate contingencies and this has produced savings of £190k (non-pay budgets) and £181k (pay budgets). This brings the total savings achieved to £881k. The refresh of the Sustainability Plan will be included in the next Statement of Assurance.

## **FUTURE YEARS**

2.17 The detail of the budget requirements for 2018/2019 and 2019/2020 will be set out in the budget paper to be presented to the Fire Authority in February. The total budget requirements for all three years of the medium term budget period are:

<b>Year</b>	<b>£000's</b>
2017/2018	40,724
2018/2019	41,078
2019/2020	41,593

## FINANCING THE BUDGET

2.18 The Authority primarily receives income from Revenue Support Grant, Business Rates and Council Tax. The government announced the provisional finance settlement on 15 December 2016 covering the three years to 2019/2020 and this is being used for planning purposes with the final settlement for 2017/2018 expected in February 2017. Experience shows that there is likely to be little change from the provisional figures.

2.19 In making predictions about budget financing some assumptions have been made. These are:

i) **That business rates collected by the billing authorities will be broadly in line with the assumptions made in the provisional settlement.**

This is unknown but the assumptions in the provisional settlement seem to be broadly in line with the figures declared by the billing authorities last year. Business rates funding will be confirmed by billing authorities at the end of January 2017.

ii) **That the taxbase will increase in line with forecasts provided by the billing authorities**

This again is unknown until the end of January 2017 but it is unlikely that the actual taxbase will be significantly different from forecasts.

iii) **That the actual settlement is the same as the provisional.**

This is a reasonably safe assumption, given that there is hardly ever a change in these figures.

iv) **That surpluses and deficits on the collection fund accounts will be broadly the same as they were in 2016/2017.**

This is probably the most risky assumption in that most billing authorities will not declare their position until the very end of January and the actual amounts declared as uncollectable will vary from one authority to another. The budget assumes that there will be an overall surplus on collection which is the same as the current year i.e. £421k – if there is a material difference from this assumption then this will most likely have to be managed through General Reserves.

2.20 The finance settlement provided the provisional figures for 2017/2018, 2018/2019 and 2019/2020:

	2017/2018 £	2018/2019 £	2019/2020 £
Revenue Support Grant	6,978,641	5,961,472	5,335,308
Business Rates Assumption	3,469,609	3,599,029	3,751,787
Top Up Grant	6,659,508	6,855,969	7,075,098
<b>Total External Funding</b>	<b>17,107,758</b>	<b>16,416,470</b>	<b>16,162,193</b>

The reduction in external funding between 2016/2017 and 2019/2020 amounts to just over 14%.

- 2.21 The government announced, within the finance settlement, that the council tax increase threshold, above which a referendum would be triggered, would remain at 2%. No council tax freeze grant is being offered to authorities who maintain council tax next year at current levels.
- 2.22 The following table brings together the budget requirement and the finance settlement figures and presents the position for the Authority if there was no change to the level of council tax in each of the three years:

	<b>2017/2018</b> <b>£</b>	<b>2018/2019</b> <b>£</b>	<b>2019/2020</b> <b>£</b>
Total External Funding	17,107,758	16,416,470	16,162,193
Budget Requirement	40,723,618	41,077,747	41,591,954
Balance to be met locally	23,615,860	24,661,277	25,429,761
Council Tax Yield*	22,628,497	22,933,981	23,243,590
<b>Budget Shortfall (Cumulative)</b>	<b>987,364</b>	<b>1,727,296</b>	<b>2,186,171</b>

\*Assumes a rise in tax base but no rise in Council Tax

The above figures show that a budget deficit of £987k will need to be eliminated in order for the Fire Authority to approve a balanced budget for 2017/2018. Even when this has been achieved, there will be a requirement to find further savings of approximately £1.2m by 2019/2020 as shown in the above table (savings of £2.2m in total) and the Fire Authority will also need to determine the future size of the Wholetime pay budget and whether or not the temporary savings built into the base budget can be converted into permanent savings (see paragraph 2.11). If this cannot be achieved then the total savings required over the three year period amounts to around £2.9m.

- 2.23 A council tax increase of 1% would generate additional funding of £227k, and a 1.95% increase would realise a total of £441k in 2017/2018. For a Band D household a 1.95% increase would see a rise in council tax to £75.29 per annum (an increase of £1.44 per annum, which is just under 3 pence per week additional cost). The impact of an increase in council tax of 1.95% for each property band is given in the table below:

<b>Band</b>	<b>Annual Council Tax £</b>
A	50.19
B	58.56
C	66.92
D	75.29
E	92.02
F	108.75
G	125.48
H	150.58

## **RESERVES AND BALANCES**

- 2.24 General reserves stood at £7.4m in March 2016 and the latest position on revenue budget monitoring (a report is elsewhere on this agenda) indicates that an additional £353k will be added to general reserves at the end of this financial year, bringing the total general reserves balance to just under £7.8m. A risk assessment to determine the minimum level of general reserves to hold is underway and the results of this will be reported to the Fire Authority in February.
- 2.25 The major areas of underspend arising in 2016/2017 are within supplies and services, government grant and interest charges and these have been addressed in the budget going forward where appropriate. The area where funding needs to be maintained is the capital financing budget which must be sufficient to allow the Authority to meet its Capital Financing Requirement.
- 2.26 The medium term budget deficit will have to be addressed and savings will need to be approved in due course by the Fire Authority in order to achieve this. However the planning, approval and implementation of some solutions will take time, particularly where employee and public consultation is required, so Members may wish to consider using general reserves to support the budget deficit in 2017/2018 as a temporary measure, as set out in the Medium Term Financial Strategy.

## **BUDGET OPTIONS**

- 2.27 The Fire Authority at the December 2016 meeting considered four options for council tax. Two of these were eliminated from further consideration, with the Authority recommending that the Finance and Resources Committee work within the following guidelines in making its recommendations to the Fire Authority in February:
- The options for council tax to be recommended to the Fire Authority will be limited to either a council tax freeze or an increase in council tax within the referendum limit;
  - If required, options for eliminating any budget deficit to enable the Fire Authority to approve a balanced budget as required by law will be presented to the Fire Authority.
- 2.28 The effect of a zero increase in council tax is set out in paragraph 2.20 above and shows a significant deficit for the three years. With the removal of council tax freeze grant as an incentive for Authorities to maintain council tax at current levels, this is a less attractive option than it may have been previously. The current level of council tax for a Band D household is £73.85 per annum.
- 2.29 A proposal to increase Council Tax by 1.95% in each of the three years of the budget strategy would yield the following results:

	2017/2018 £	2018/2019 £	2019/2020 £
Total External Funding	17,107,758	16,416,470	16,162,193
Budget Requirement	40,723,618	41,077,747	41,591,954
Balance to be met locally	23,615,860	24,661,277	25,429,761
Council Tax Yield*	23,069,729	23,837,676	24,631,596
<b>Budget Shortfall (Cumulative)</b>	<b>546,131</b>	<b>823,601</b>	<b>798,165</b>

\*Assumes a rise in tax base and a 1.95% increase in Council Tax each year

- 2.30 There are two advantages associated with implementing a council tax increase in 2017/2018: firstly it adds funding permanently into the base budget and secondly it reduces the budget deficit by £441k in 2017/2018. However, this would still leave the Authority with budget savings of £546k to find in order to approve a balanced budget as required by law.
- 2.31 The decisions required to solve the budget deficits for 2017/2018 and the following two years will be beyond the scope of this Committee but will be a key issue for the Authority to consider over the forthcoming months and years.
- 2.32 Regardless of which council tax option the Fire Authority chooses to take in February the problem of a budget deficit will need to be solved. Given the time that it will take to plan and implement a solution (implementation may not be possible until the 2018/2019 financial year) Members may wish to consider using general reserves to support the budget deficit in 2017/2018.
- 2.33 Appendix B shows two graphs which illustrate what the impact on general reserves would be if the remaining budget deficit was not resolved by way of budgetary reductions during the three year period and general reserves were used to support the budget up to and including 2019/2020. A minimum level of reserves of £4.4m has been assumed as this is in line with the likely outcome of the risk assessment work currently being undertaken. The first graph represents what the position would be if there was to be a Council Tax freeze for the next three years and shows that surplus reserves would be exhausted before the end of 2019/2020 and would require the full budget reduction of £2.2m to be achieved in 2020/2021 with only a relatively small proportion of this able to be funded by increased Council Tax in that year. The second graph represents what the position would be if Council Tax were to be increased by 1.95% in each of the next three years and this shows a remaining level of reserves at the end of 2019/2020 of approximately £2m which would still be available to support the revenue budget beyond the three year period if required. It should be noted that the long term use of general reserves in this way is not advocated within the Medium Term Financial Strategy and a permanent reduction in the budget requirement will need to be resolved.

### **3. FINANCIAL IMPLICATIONS**

The financial implications are set out in full in the body of the report.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development implications arising directly from this report, although the achievement of budgetary savings in future years will undoubtedly have an impact.

### **5. EQUALITIES IMPLICATIONS**

An Equality Impact Assessment (EIA) has not been undertaken because this report relates to a series of recommendations which will be consulted upon. It is anticipated that a full EIA will be carried out on the report that goes to the Fire Authority in February 2017.

### **6. CRIME AND DISORDER IMPLICATIONS**

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

### **7. LEGAL IMPLICATIONS**

The Authority must set a balanced budget for 2017/2018 but may acknowledge potential budget shortfalls for future years.

### **8. RISK MANAGEMENT IMPLICATIONS**

- 8.1 Risks associated with budget setting are always significant. Budgets are by their very nature estimates of future activity and these estimates can sometimes be incorrect. Changes involving contraction of activities may not be made on the envisaged timescales, public consultation may vary policy and external issues such as national pay awards may not align with the assumptions.
- 8.2 Council tax base figures used for this report are only estimates at present and the grant settlement details are only provisional. It is possible that both or either of these could change.
- 8.3 There can be no control over external issues however the Authority has sufficient reserves to cope with any in year changes which alter these budget assumptions significantly.

**9. RECOMMENDATIONS**

That Members consider the contents of this report and make appropriate recommendations to the Fire Authority.

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

None.

John Buckley  
**CHIEF FIRE OFFICER**

## SUSTAINABILITY PLAN 2016/17 TO 2019/20

**1. Introduction**

- 1.1 This Sustainability Plan sets out how Nottinghamshire Fire and Rescue Authority (the Authority) plans to reduce its cost base over the period from 2016/17 to 2019/20 in order to balance its revenue budget in the context of an expected reduction in external funding. This plan is designed to meet the Home Office requirement for Fire and Rescue Authorities to publish an Efficiency Plan in return for a four year funding settlement.
- 1.2 This Sustainability Plan is appended to the Medium Term Financial Strategy (MTFS) and should be read within the context of the strategy. In particular, this plan seeks to fulfil the core objective (see Section 1.1 of the MTFS) of “to support the continuance of the Authority’s core services and strategies”, and has been prepared in accordance with the principles set out in Section 1.2 of the MTFS.
- 1.3 The principal aim of the Authority is “Creating Safer Communities” and underpinning this aim are three principles, which are:
- to deliver high quality services,
  - with an engaged and motivated workforce,
  - within a framework of strong governance and financial stability.

The Authority will be creating and managing a programme of significant change, and will do so in line with its Shaping the Future Strategy with the aim of ensuring that the three principles outlined above underpin the delivery of objectives through to the year 2020. It is recognised that there are often significant barriers to change and the Authority aims to involve employees fully in the transformation process as a way of overcoming these barriers.

- 1.4 The amount by which the base revenue budget must reduce by 2019/20 is between £2.5m and £3.8m. This range is approximate and the cost reduction required could be more than £3.8m or less than £2.5m. The reason for this variation is that the calculation of the budget requirement in future years depends on a number of uncertain factors which will only crystallise into certainties as time progresses. Examples of these factors are:
- the level of pay awards over the four year period
  - wider economic factors such as inflation and interest rates
  - actuarial valuation of pension schemes and resulting employer contribution rates
  - government fiscal policies such as National Insurance rates or new levies

- the impact of reforms to funding such as business rates retention, potential fire grant, the fair funding review, referendum limits, other grants
- council taxbase levels
- decisions on council tax by those charged with governance

Currently almost half of the revenue budget is supported by external funding as opposed to by council tax, and around three quarters of the revenue budget relates to employee pay. This means that the budget is particularly sensitive to changes in any factors relating to pay, pensions or external funding. It is noted that savings in the region of £11m have already been achieved over the last six years.

## 2. Timetable

- 2.1 The reduction in budgets required of up to £3.8m by 2019/20 will need to be achieved through cashable savings. Where efficiencies can be found which do not release cashable savings, the non-cashable benefits will be used to resource other priority areas. The table below sets out the timescale for achieving savings in each of the four years:

	<u>By 1<sup>st</sup></u> <u>April</u> <u>2016</u>	<u>By 1<sup>st</sup></u> <u>April</u> <u>2017</u>	<u>By 1<sup>st</sup></u> <u>April</u> <u>2018</u>	<u>By 1<sup>st</sup></u> <u>April</u> <u>2019</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Amount of Budget Reduction Required <u>per year</u>	0.10*	1.99 to 2.43	0.45 to 0.92	0.01 to 0.50
Amount of Budget Reduction Required <u>cumulative</u>	0.10*	1.99 to 2.43	2.44 to 3.34	2.45 to 3.84

\* reduction not yet achieved

- 2.2 Consultation with employees, representative bodies and the public will be undertaken where appropriate, with the results feeding into the change programme.
- 2.3 Where planned savings cannot be achieved in line with the above timetable e.g. due to the requirement for consultation, then the Authority's general reserves can be used to support the budget temporarily in line with principle no. 14 in Section 1.2 of the MTFs. The minimum level of reserves required to be held was risk-assessed in February 2016 and the amount of available reserves which could be used to support the budget is therefore £3.5m as at 1<sup>st</sup> April 2016.

### **3 Areas for Change: Sustainability Strategy 2020**

#### **3.1 Seek collaborative opportunities to deliver cost savings and / or improved outcomes – Savings target: £850k**

3.1.1 Continue with existing collaborative arrangements and seek to increase the coverage of these where possible and practicable. Examples of existing collaboration arrangements are:

- The sharing of fire stations with the East Midlands Ambulance Service (EMAS). As at 1<sup>st</sup> April 2016 facilities at a number of fire stations were being used by EMAS employees and these arrangements are generating rental income.
- The sharing of premises with other partners e.g. the use of Fire Authority buildings by both the Police and St Johns Ambulance. These arrangements are also generating rental income.
- The First Responder scheme which supports EMAS is being undertaken by crews at two fire stations as at 1<sup>st</sup> April 2016 and is funded by EMAS. The Co-responding scheme has been in place for a number of years.
- The use of certain training facilities provided by regional fire and rescue services, which has avoided the need to build our own facilities.
- A finance and procurement system purchased and developed with two other fire and rescue services, which has achieved economies of scale.
- A mobilising system purchased and developed with two other fire and rescue services, which has achieved economies of scale, reduced staffing costs and has improved resilience.
- Certain aspects of fire investigation are carried out with regional resources, generating cost savings. The national Primary Key Authority concept for fire protection has generated efficiencies and this Authority carries out that role for Boots PLC.

3.1.2 Proactively seek new collaborative arrangements with Police, Health, other Fire and Local Authority partners, where these will achieve cost savings and / or improved outcomes

#### **3.2 Procurement – Savings target: £350k**

3.2.1 Continue to focus on effective procurement to drive down non-pay costs. This will involve the use of procurement frameworks for major purchases (a recent example of this is the Wide Area Network contract) and maintaining a strong governance framework which seeks to achieve best value through all procurement activity.

3.2.2 Continue to proactively seek collaborative procurement opportunities wherever possible to reduce costs. This will involve the exploration of opportunities by working with professional networks, and the use of benchmarking tools to identify innovative procurement initiatives.

3.3 Maximising the Benefit and Value of our Assets - Savings target: £150k

3.3.1 Continue to rationalise property assets with the aim of increasing collaboration, improving sustainability and reducing costs.

3.3.2 Develop a new fleet strategy with the aim of rationalising numbers of vehicles and ensuring that on-going fleet is fully utilised at a lower cost.

3.3.3 Continue to refurbish and reuse assets and equipment to extend their useful life where it is safe to do so, thereby reducing costs.

3.4 Redesign of Service Delivery - Savings target: £1,100k

3.4.1 Develop alternative crewing models and use of emerging technologies to maximise appliance availability.

3.4.2 Develop a mixed crewing model where feasible to maintain appliance availability and reduce costs.

3.4.3 Revision of current crewing collective agreement to release surplus capacity within the ridership.

3.4.4 Voluntary secondary contracts to support retained appliances at peak demand and to support the transformation process.

3.4.5 Focus on recruitment and retention of retained firefighters to maximise appliance availability.

**4 Transparency and Reporting**

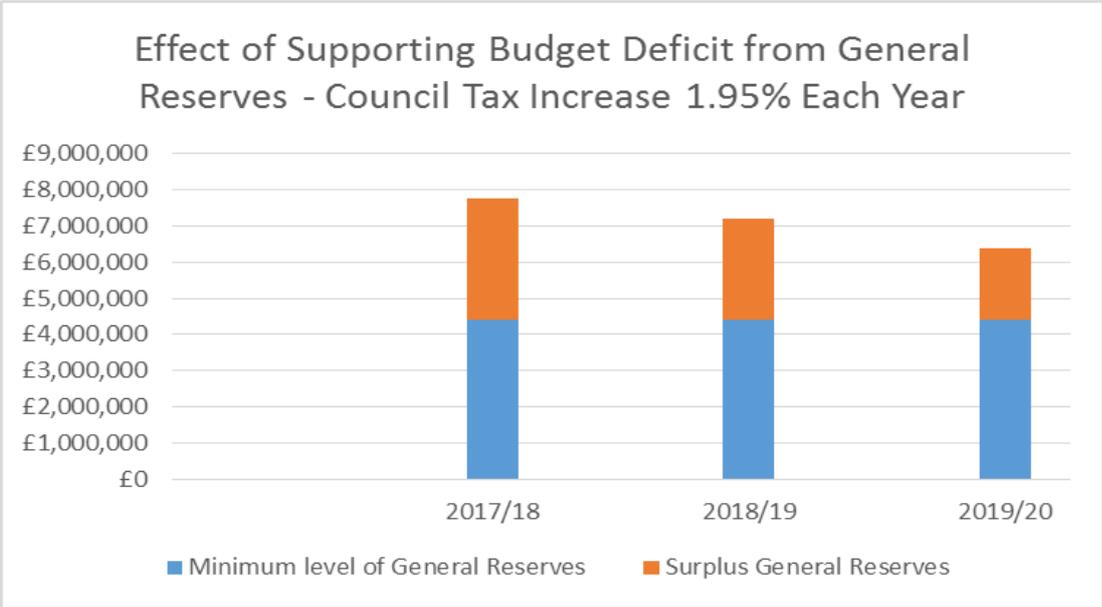
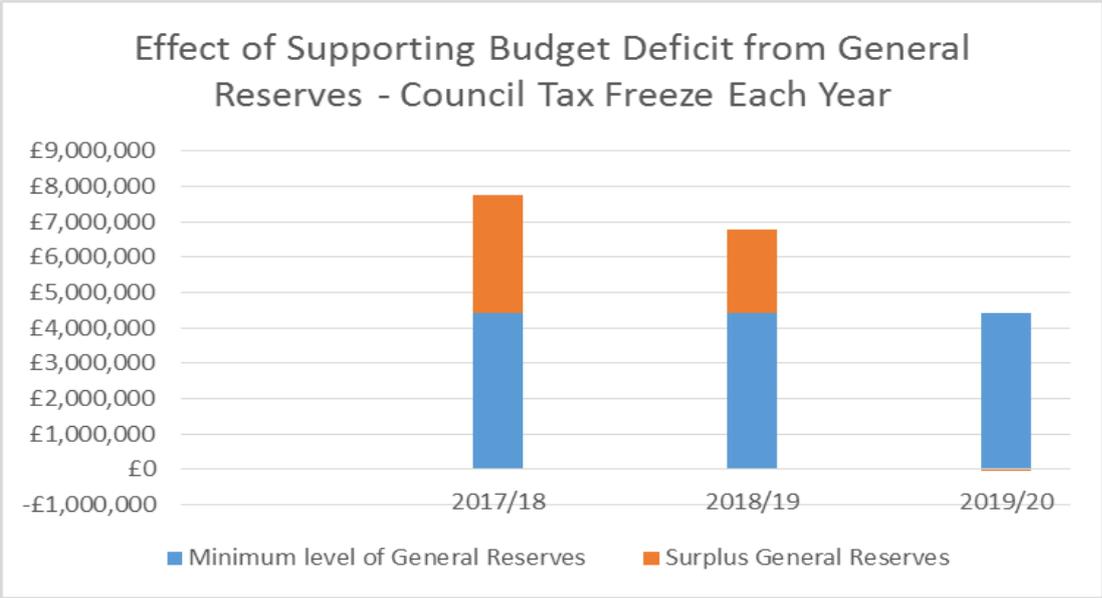
4.1 Options will be presented to those charged with governance, for consideration and decision, taking account of consultation responses where appropriate.

4.2 Annual reports monitoring progress against this plan will be published within the Statement of Assurance.

4.3 Reports to those charged with governance, and minutes of meetings, will continue to be published so that interested parties can see how the Service is being transformed.

## **5 Conclusion**

- 5.1 The period ahead will be one of immense change, which will require significant effort from employees and input from a range of stakeholders in order to achieve the Service's core aims and objectives whilst managing within a smaller budget.
  
- 5.2 The expectation is that the resulting organisation in 2020 will still deliver high quality services which will continue to address the risks identified in the Integrated Risk Management Plan and meet the needs of the community. Working practices within the Service will be modern and efficient and the cost base will be reduced to a sustainable level.





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# NEWARK FIRE STATION PROJECT

## Report of the Chief Fire Officer

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**Date:** 20 January 2017

**Purpose of Report:**

To update Members on the Newark Fire Station Project and to seek authority to proceed with the construction of the new fire station.

### CONTACT OFFICER

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Chief Fire Officer

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## **1. BACKGROUND**

- 1.1 Members of the Committee will be aware that the replacement or refurbishment of Newark fire station is a key aim of the current Property Strategy and that financial support for the project has been factored into the current and anticipated capital programme.
- 1.2 Newark fire station and the site is wholly owned by Nottinghamshire Fire and Rescue Service (NFRS). The main station building is of CLASP construction and was built in 1963. The remainder of the site comprises largely of storage and garaging, this is of traditional construction dating back to circa 1915. This part of the site was previously owned by what is now the Ministry of Defence (MoD).
- 1.3 The total existing building floor area is in the region of 1,382 square metres including garaging and storage. This is considerably larger than other stations carrying out a comparable role.
- 1.4 The main station building itself is over fifty years old and is now beyond its original life expectancy and planned for replacement in the Property Strategy.
- 1.5 The station is currently a two pump station, one pump on the whole-time duty system and the second pump on the retained duty system (RDS). The RDS is one of a number of sections who also provide national resilience support for the high volume pump (HVP) capability; these vehicles are currently garaged at Newark in the old MoD buildings.
- 1.6 From April this year the station also took on the role of the technical rescue station as part of the reorganisation of the Specialist Rescue Team.
- 1.7 The new station will have three appliance bays, similar to that of Retford fire station, and will have a smaller building footprint of circa 685 square metres.
- 1.8 The Newark fire station project has now developed and progressed to the stage where the estimated cost can be assessed prior to the return of tenders from the bidding contractors, and therefore enable Members to make a final decision on the proposed project.

## **2. REPORT**

- 2.1 This report is to provide a full update to Members on the progress of the proposed project for a new Newark fire station to be constructed on the existing site at Boundary Road, and to seek authority to proceed with the project.
- 2.2 An option appraisal and feasibility study was carried out identifying the choices available for the replacement of the station; this was based on whole life cost in order to determine the best value option. These are shown in the table below.

Option	Description	Estimated Whole Life Cost	Estimated Capital Cost (incl 5% contingency allowance)
Option 1	Do nothing, the status quo	£4.21M	N/A
Option 2	Full refurbishment of the existing buildings	£4.22M	N/A
Option 3	Part demolition and part refurbishment of the existing buildings	£4.00M	N/A
Option 4	Demolish and rebuild on the same site	£4.83M	£3.57M
Option 5	Build a new station alternative site and dispose of the current site (disposal of existing site)	£4.64M	£3.37M
Option 6	Demolish and rebuild on one part of the same site (disposal of any residual land)	£4.47M	£3.19M

- 2.3 Options 1, 2 and 3 would require the lifespan of the existing CLASP structure to be extended well beyond its original design life. Extending the life of the building to over ninety years was considered an unacceptably high risk. None of these options are considered feasible.
- 2.4 Between Options 4, 5 and 6 the most cost effective based on the whole life cost is Option 6. This option is to demolish the old ex MoD buildings and construct the new station on that part of the site, and then dispose of the remaining element of land.
- 2.5 Option 6 also has the advantage that during the construction of the new station the existing building, training tower and yard will remain operational throughout the project, therefore providing continuity of operational fire cover.
- 2.6 If this proposal is approved, the HVP will be relocated to Tuxford Fire Station in preparation for the contractor to start demolition of the MoD buildings.
- 2.7 Once the new station is occupied and becomes operational the remaining part of the site, the CLASP fire station, will be put up for disposal. The estimated capital receipt for this part of the Newark site is circa £275k. The authority to dispose of the site and the prevailing options will be presented to the Finances and Resources Committee at a future meeting.

- 2.8 In October 2016 NFRS held an open evening with its neighbours to discuss the proposal and to provide an opportunity to ask the project team any questions on the project. This was well attended and very well received by those who attended the event.
- 2.9 The planning application for the new station was submitted in October and planning permission has now been granted for the project.
- 2.10 A pre-qualification questionnaire (PQQ) was published in November and twenty contractors expressed an interest in the project. Nine contractors completed and submitted the PQQ and five of these were shortlisted for the invitation to tender (ITT). The contractors shortlisted are:
- J Tomlinson
  - GF Tomlinson
  - RG Carter
  - Gelder Group
  - Wildgoose Construction
- 2.11 The five contractors are now preparing their tender submissions for a return date of 03 February 2017. Once the tender process is complete, and the project proposal is authorised, the contract will be let under a design and build contract subject to the contract price being within the pre-tender estimate.
- 2.12 The outline project programme is as follows:
- Final Finance and Resources Committee approval 20 January 2017
  - Tender return date – 03 February 2017
  - Tender assessment and approval period – 03 February to 13 March 2107
  - Appointment of contractor – 13 March 2017
  - Contractor mobilisation and contract – 13 March to 25 April 2017
  - Demolition and construction works – 25 April 2017 to 28 June 2018
  - Operational from the new fire station – 28 June 2018
- 2.13 The estimated project budget based on the pre-tender construction cost estimate is currently £3.196M, this is marginally higher than the original feasibility estimate and is broken down as follows:
- Pre-tender estimate contract sum, contract risk and abnormals – £2.72M.
  - Direct costs for fittings, fixtures and equipment – £70k.
  - Professional fees, legal fees, surveys, planning fees – £328k.
  - Overall project contingency – £78k.
- 2.14 The capital receipt from the sale of the residual part of the site has been estimated at £275k.

### **3. FINANCIAL IMPLICATIONS**

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

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources implications arising directly from this report.

### **5. EQUALITIES IMPLICATIONS**

There are no known equality implications arising directly from this report.

### **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 directly from this report.

### **8. RISK MANAGEMENT IMPLICATIONS**

There are a number of risks still inherent with the project and will be either cleared or mitigated through the project lifecycle. The Project Team are dealing with these risks, which are recorded on the Project Risk Register, and will continue to do so as the project proceeds.

### **9. RECOMMENDATIONS**

That Members consider the contents of this report and give authority to proceed with the project to build a new fire station on the existing site at Boundary Road.

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

None.

John Buckley  
**CHIEF FIRE OFFICER**

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# **INTERNAL AUDIT REPORT – CARDIFF CHECKS**

Report of the Chief Fire Officer

**Date:** 20 January 2017

**Purpose of Report:**

To provide Members with the results of the internal audit work undertaken in relation to Cardiff Checks in 2015/16.

## **CONTACT OFFICER**

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## **1. BACKGROUND**

- 1.1 Members will be aware that as part of their audit programme, the Internal Auditors carry out a “Cardiff Checks” audit each year.
- 1.2 The Cardiff Checks audit is effectively a “cradle to grave” audit of all aspects of procurement and finance relating to a small number of invoices selected as a random sample by members of the Finance and Resources Committee. As Members are directly involved in this audit, it is felt that they will have a particular interest in the audit findings, so the audit report is attached as Appendix A.

## **2. REPORT**

- 2.1 At a previous meeting of the Finance and Resources Committee members were presented with a live view of the Authority’s finance and procurement system (Agresso). A report was run in Agresso in real time, which enabled Members to see the transaction numbers of the hundreds of invoices and expenses claims paid over the year. Members selected ten transaction numbers and were then provided with a report showing the ten transactions either side of the original numbers selected – a total of 200 payments. Further detail of each payment was provided e.g. the payee name, the amount and a description of the goods or services paid for. From this detail Members selected five invoices of interest to them.
- 2.2 The five invoices selected were passed to Internal Audit, who selected three of these for detailed scrutiny. The audit work included a check that all relevant financial and procurement policies, processes and checks were carried out in respect of each of the selected transactions.
- 2.3 The report attached at Appendix A gives the findings of the auditor and makes a number of recommendations. The Authority’s responses to the recommendations are also shown and have been returned to Internal Audit.
- 2.4 Invoice number 1 related to the Cognitive Centre and was in respect of a delegate attending a conference held in April 2015. The cost amounted to £295. The auditor noted that the order was raised on the system at the point the invoice was received and not at the point the commitment was made with the supplier. The recommendation was that orders should be raised at the point of commitment with the supplier and not on receipt of the invoice. This accords with the Authority’s policies and a briefing note has been issued to all Requisitioners highlighting the need to ensure the proper process is followed when procuring goods or services to comply with the Procurement Policy and Financial Regulations.
- 2.5 The second invoice under review was a payment to Trent Cars in respect of taxi fees for the month of February 2015 for work related journeys travelled by an individual employee. The value of the invoice was £238.92 including VAT.

The auditors made a number of recommendations as a result of their examination and these can be seen at Appendix A. In summary they covered the requirement for market testing although it was acknowledged that in this instance a single source of supply form could be completed to justify use of this particular contractor; the need for a formal contract to be in place including an agreed rate of charge; the creation of a value order against which journeys can be “called off” and improved checking of Access to Work claims and invoices. All of the recommendations are accepted.

- 2.6 The third invoice related to legal work undertaken by Browne Jacobson between October 2014 and January 2015. The work amounted to a gross payment of £9,282.72 for seven areas of legal work including areas of capital expenditure and HR issues. The invoice was paid on 25 February 2015. The auditors’ recommendations focussed on the inability to check charges against the procurement framework agreement as a result of a lack in information included on the invoice. This is accepted and discussions will take place with the supplier to request that further detail is included with future invoices to enable sufficient checks to be made when authorising payments.

### **3. FINANCIAL IMPLICATIONS**

There are no financial implications arising directly from this report, other than those around financial processes.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no direct human resources or learning and development implications arising from this report.

### **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been undertaken because this report does not consider matters of policy. Equality Impact Assessments will be prepared as initiatives are developed.

### **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**

Internal Audit forms part of the wider system of internal control which deals with the Authority's exposure to financial and, to some extent, non-financial risk. The recommendations made by Internal Audit are aimed at ensuring that effective risk controls are in place.

## **9. RECOMMENDATIONS**

That Members note the contents of this report.

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

None.

John Buckley  
**CHIEF FIRE OFFICER**

**FIRE & RESCUE SERVICE - CARDIFF CHECKS 2015/16**

**Invoice 1    Training**

**1.        Invoice Information**

- 1.1        A payment was made to the Cognitive Centre - Internal Invoice No 9059451. This payment was in respect of a delegate attending a conference held in April 2015 and amounted to £295.
- 1.2        The invoice was paid on 25 March and posted to the correct account code which was staff conference expenses.

**2.        Summary of Findings**

- 2.1        The order was raised on the system at the point the invoice was received and not the point the commitment was made with the supplier. As the invoice matched the order payment was made automatically.
- 2.2        The course was specific to the role of the delegate as Fire Setters Coordinator. Fire Setters Coordinators are staff who work with juveniles who deliberately set fires. The delegate is required, as part of their CPD process, to ensure they are up to date with relevant legislation. This was a specialised course and could not have been provided in-house.

**3.        Recommendation**

- 3.1        An order should be raised at the point of commitment with the supplier and not on receipt of the invoice.

**4.        Response of the Chief Fire Officer**

- 4.1        An intranet briefing note will be issued to all Requisitioners highlighting the need to ensure the proper process is followed when procuring goods or services to comply with the Procurement Policy and Financial Regulations.



**Invoice 2    Taxi Fees**

**1.        Invoice Information**

- 1.1        This payment to Trent Cars was in respect of taxi fees for the month of February 2015 for work related journeys travelled by an individual employee. The value of the invoice was £238.92 including VAT.
- 1.2        Because the invoice matched the order which was authorised by the Budget Holder, approval of the invoice was automatic.
- 1.3        The invoice was paid on 18 March and was coded to the public transport account code.

**2.        Summary of Findings**

- 2.1        The level of expenditure for this service does not require a tendering process to be undertaken. However as this is a regular arrangement, the market should be tested to ensure that value for money is being obtained. The market was last tested in 2011. This supplier was chosen based not only on the price but also on the level of service required. Despite the regularity of use, there is no formal contract in place with this provider so prices charged can vary.
- 2.2        The user does not receive an acknowledgement at the point a journey is made with the taxi company. The user creates an order on the system to the value of the monthly travel, retrospectively and upon receipt of the invoice. In this instance the order was raised in the accounting system on 9 March 2015 for £239.92 although the order invoice value was £238.92.
- 2.3        The order on the system is authorised by the user's manager following a visual reasonableness test. Evidence of checking of the journeys made is not formally documented, however as part of the audit process we were able to match each journey to supporting documentation confirming the business need for the journey.
- 2.4        The rate charged by the company is only checked for reasonableness. The rate charged per mile is not shown on the invoice for individual journeys. As a result we were unable to confirm that the rate being charged is as agreed with the supplier. An exercise was carried out to establish the rate charged per mile based on the mileage between establishments as shown on the internet. This resulted in charges ranging between £1.28 and £1.97 per mile.
- 2.5        A proportion of the costs of the provision of the taxi service are funded through the Department of Works and Pensions under the Access to Work Scheme. The employer is required to contribute £0.58 per mile (£0.522 at the time of the claim being made) for travel in work and this is deducted from the DWP claim. A review of the reimbursement claim identified errors had been made with the declaration of the mileages which resulted in an under claim of 79 miles (£41.24). Checking of the claim by a second person should have identified the error.

**3.        Recommendations**

- 3.1 The market should be tested periodically to ensure the authority is obtaining best value for money.
- 3.2 A contract agreement should be drawn up for the provision of taxi journeys to the fire authority.
- 3.3 A single provider justification form should be completed in order to comply with Financial Procedures as regular expenditure is incurred with the single provider over the year in excess of £500.
- 3.4 Orders should be processed prior to the commitment with the supplier. This could be achieved by estimating the cost for the year and using a call off system.
- 3.5 The agreed rate of charge should be established in the contract and recorded on the suppliers invoice. Spot checks should be carried out to ensure the company is charging the specified rate.
- 3.6 Access to Work claims to the DWP should be subject to a checking process to ensure all the appropriate mileage claims are correct.

#### **4. Response of the Chief Fire Officer**

- 4.1 The Procurement Section will undertake market testing to ensure that the rates being charged are competitive and agree a schedule of rates.
- 4.2 It should be noted that in this particular case the member of staff uses the same supplier for travel to and from work which he partially funds himself. The member of staff is content using the current provider which caters for his guide dog, and the consistency of service is important to him. As such the Equality & Diversity department shall complete a Single Source Supplier Form.
- 4.3 A valuation order will be produced for an annual contract.
- 4.4 The Equality & Diversity Manager will ensure that appropriate checking takes place.

**Invoice 3    Legal Charges**

**1.        Invoice Information**

- 1.1        This invoice was for the provision of various legal work undertaken by Browne Jacobson between October 2014 and January 2015. The work amounted to a gross payment of £9,282.72 for seven areas of legal work including areas of capital expenditure and HR issues. The invoice was paid on 25 February 2015.
- 1.2        The provision of legal work is exempt from the need to raise an order in the accounting system so no order was raised associated to the payment.
- 1.3        The provision of legal advice is subject to a framework agreement with EM Law Share (a legal services consortium for public bodies).
- 1.4        Due to the nature of the legal work completed, the invoice was subject to approval prior to payment by two authorisers and coded to two separate account codes for the revenue and capital elements of the legal fees.

**2.        Summary of Findings**

- 2.1        A review of the narrative on the invoice does not provide the authoriser with sufficient detail to establish if the charges made are reasonable. As a result it is not possible for the authoriser of the payment to check the reasonableness of the charge made and to ensure it is complying with the framework agreement.
- 2.2        Levels of authorisation of the payments are recorded in the accounting system and detailed within the work flow system. Each project invoiced is authorised separately.

**3.        Recommendation**

- 3.1        The supplier should be requested to provide a more detailed breakdown of the work carried out so the charges can be checked against the framework agreement.

**4.        Response of the Chief Fire Officer**

- 4.1        Discussions will take place with the supplier to request a more detailed breakdown of charges on future invoices, to enable sufficient checking to take place.



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# **IMPACT OF THE FALL IN THE VALUE OF STERLING**

Report of the Chief Fire Officer

**Date:** 20 January 2017

**Purpose of Report:**

To set out the risks to the Authority arising from the fall in the value of currency following the European Union referendum, and potential risk control measures.

## **CONTACT OFFICER**

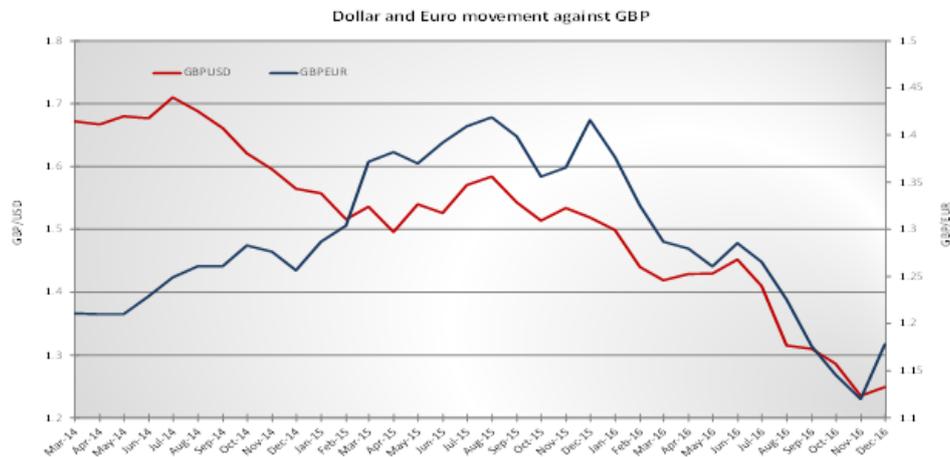
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## 1. BACKGROUND

- 1.1 At its meeting on 14 October 2016, the Finance and Resources Committee considered a report on Corporate Risk Management which included reference to the result of the European Union (EU) referendum in June 2016. Following a discussion on this item, Members of the Committee requested a future report on the implications of the falling pound for the Fire Authority.
- 1.2 The result of the EU referendum was that the United Kingdom will invoke Article 50 of the Lisbon Treaty on European Union, which will eventually result in the United Kingdom leaving the EU (this process has become commonly known as “Brexit”). This significant event prompted a high degree of economic uncertainty and a sharp fall in the value of the UK’s currency, Sterling.
- 1.3 The United Kingdom operates in a global economy which means that it trades with many other nations. Trade between two currency zones i.e. between two nations with different currencies, requires the use of an exchange rate which is the price at which the two currencies can be exchanged with each other.

## 2. REPORT

- 2.1 The chart below illustrates the movement in Sterling against both the Euro and the Dollar since 2014.



Sterling against the Euro has fallen from around 1.40 Euros prior to the referendum announcement early in 2016, to around 1.17 Euros at the time of writing this report. This equates to a fall of around 16% but is above the low point it reached in October 2016 of 1.10 Euros. Similarly against the US Dollar the rate has fallen from around \$1.45 to the current level of \$1.23, which equates to a fall of around 14.5%.

- 2.2 It is very rare for Nottinghamshire Fire and Rescue Service to purchase goods or services in any currency other than Sterling. This is because even where items are supplied by overseas companies, procurement of such items is usually through a third party UK supplier and all transactions are in Sterling. The risk of a devalued Sterling currency therefore lies not in direct foreign exchange transactions but more in transactions with suppliers who themselves purchase items in a foreign currency at some point in their supply chain. It is not possible to assess how many of the Authority's suppliers might fall into this category although it is felt that it is likely to be a widespread issue given the extent of global trading generally. Such companies will themselves suffer a sharp increase in the cost of purchasing items in non-Sterling currencies and they may pass this cost increase on to the end consumer i.e. the Fire Authority.
- 2.3 The scenario outlined above is not a certainty, as companies could choose to absorb some of the impact on their costs rather than passing on the increases, however this would probably only apply where there is competition in the market. Another factor to consider is that a difficult Brexit negotiation could potentially be bad for Europe and the value of the Euro, and this could keep the Sterling and Euro currencies in balance.
- 2.4 An assessment of the impact of the fall in the value of Sterling is therefore subject to a high degree of uncertainty however the Authority has already seen a significant price increase relating to one contract, which has been avoided by renewing the contract earlier than originally planned at a lower price level (this action has saved the Authority £30k per annum). It was indicated that the price increase was due to the equalisation of UK and European contract values so this does seem to be directly connected to the falling value of Sterling.
- 2.5 The Authority's non-pay budget is currently £7.7m, around 19% of the total revenue budget. This is a relatively high level of potential exposure to the value of Sterling, however a recent exercise to identify suppliers of critical fire and rescue goods and services with foreign head offices revealed 39 such companies, mainly supplying vehicles, operational equipment and ICT systems to the Authority therefore any impact may be difficult to avoid. The total value of expenditure with these suppliers in the most recent full financial year 2015/16 was £596k so, if it is assumed that a 15% decrease in the value of Sterling against the US Dollar and against the Euro might translate into a 15% price increase, this would equate to a total price increase for these suppliers of £89k if the expenditure in 2015/16 represents a typical year. It must be emphasised that this is a theoretical figure though, with a high degree of uncertainty around how much this issue would actually impact on the Fire Authority due to the factors outlined in paragraph 2.3.
- 2.6 The following risk management controls have been considered in relation to this issue:

- 2.6.1 The budget process for 2017/18 to 2019/20 could have allowed for the creation of a generic contingency to cover potential price increases in non-pay items. This option was rejected because it would have required further savings to be found to cover this increased cost, which may not be required.
- 2.6.2 A Euro bank account could be set up and used to pay some suppliers in Euros which would eliminate the risk of exchange rate fluctuations at the point of payment. This option was rejected because almost all of the Authority's suppliers are paid in Sterling, and any balance held in the Euro account would itself be subject to losses arising from further potential falls in the value of Sterling, which could more than offset the gain from mitigating price increases by using such an account.
- 2.6.3 The continued application of strong procurement policies is supported because this will result in best value for the Authority in the long term. Examples of good practice include the use of tendering to promote market competition and achieve overall value for money; seeking collaborative procurement opportunities to achieve savings through economies of scale; fixing contract prices by reference to a more stable index such as the Retail Price Index.
- 2.6.4 The annual risk assessment of the minimum level of General Reserves is currently underway and this will reflect the increased risk outlined in this report. If significant price increases do materialise in 2017/18 then General Reserves can be used to cover the resulting overspend and the on-going impacts can be built into the revenue budget from 2018/19 onwards as part of next year's budget process.
- 2.7 In terms of potential wider impacts it is acknowledged that the United Kingdom's manufacturing sector has seen a contraction over the past two to three decades and is therefore not in a position to take advantage of the falling Sterling value by increasing exports. This is likely to result in a general increase in prices within the home economy which will in turn raise the rate of inflation. This may put pressure on wage inflation which could then potentially affect almost the whole of the remainder of the revenue budget.
- 2.8 As this report explains, it is difficult to assess the potential impact on the Fire Authority of the fall in the value of Sterling due to a number of uncertain factors. Officers will remain aware of this issue and, if price increases or pay awards do start to materialise, then any overspends will be highlighted to this Committee through the usual budget monitoring report. The Committee will then be able to make a decision about how to deal with the issue both within the year and in the future budget setting process.

### **3. FINANCIAL IMPLICATIONS**

The financial implications are set out in full in the body of the report.

#### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development implications arising directly from this report.

#### **5. EQUALITIES IMPLICATIONS**

An Equality Impact Assessment (EIA) has not been undertaken because this report has no direct human resources or people implications.

#### **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 directly from this report.

#### **8. RISK MANAGEMENT IMPLICATIONS**

The risk management implications are set out in the body of the report.

#### **9. RECOMMENDATIONS**

That Members note the contents of this report.

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

None.

John Buckley  
**CHIEF FIRE OFFICER**

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# **NATIONAL FIRE SERVICE PROCUREMENT REFORM**

Report of the Chief Fire Officer

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**Date:** 20 January 2017

**Purpose of Report:**

To provide an update to Members on the national fire service procurement reform, the National Procurement Strategy and the procurement categories as part of the strategy programme.

## **CONTACT OFFICER**

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## 1. BACKGROUND

- 1.1 This report is to update Members on the Chief Fire Officers Association (CFOA) National Procurement Strategy and the part Nottinghamshire Fire and Rescue Service will be contributing to this strategy.
- 1.2 In 2013 the then Chief Fire Officers Association (CFOA) National Procurement Group worked together with the Department for Communities and Local Government (DCLG) on a spend analysis project. The research looked at the spend data, price benchmarking and strategic future plans within those fire services taking part in the project. The result of this project culminated in the publication of the “Fire and rescue procurement aggregation and collaboration report” in March 2014.
- 1.3 This report provided the basis on which CFOA developed its high level national procurement strategy setting out how savings could be achieved by adopting a category management approach to deliver best practice, professional procurement outcomes through sector led and sector managed projects.
- 1.4 Category management is a strategic procurement approach to the effective management of different categories of goods and services into a ‘category’ of similar expenditure items. This approach has been in operation in the private sector for many years.
- 1.5 In 2015/16 a collaborative bid for transformation funding was submitted by three fire authorities (Devon and Somerset Fire and Rescue Authority, Essex Fire Authority and Kent and Medway Towns Fire and Rescue Authority) on behalf of the Sector. This bid was successful and, has provided funds to develop a small collaborative procurement hub to provide a national procurement capability for the Sector.
- 1.6 The Government also announced in May 2016 that as part of the reform of the Fire Service under the Home Office there was an intention to publish data to show how much each fire and rescue authority paid for items they purchase for a list of twenty five items; this was termed as the “basket of goods”. This was the subject of a report to members of the Finance and Resources Committee in October 2016.
- 1.7 The Home Office have also indicated that they will run a second basket of goods exercise in 2017; the proposal is to include a wider range of goods and services procured across the fire and rescue services.

## 2. REPORT

- 2.1 In response to the Home Office reform agenda CFOA have committed to implement a number of reforms in the commercial operation of the fire and rescue service; this has been termed as the 'Commercial Transformation Programme'.
- 2.2 Governance of the Fire Commercial Transformation Programme is to be through the newly formed Strategic Commercial Committee (SCC), this is predominantly formed of Chief Fire Officers and Strategic Commercial Representatives.
- 2.3 Under this programme CFOA Category Sponsors (Chief Fire Officers) have been appointed to provide Category Leadership and Accountability who in turn will work with Category Leads to deliver savings and efficiencies up to the end of financial year 2019/20.
- 2.4 The Procurement Category Leads (Heads of Procurement) will perform the role of the delivery arm of the SCC taking forward the development and delivery of the strategies agreed by the committee.
- 2.5 The procurement categories as part of the programme are:
- Construction and Facilities Management
  - ICT
  - Clothing including Personal Protective Equipment
  - Fleet
  - Operational Equipment
  - Professional Services
- 2.6 The outline role of the category lead will include:
- Support to the category sponsor
  - Taking the national lead for the category
  - Defining the category structure
  - Establishing the category strategy
  - Membership of the SCC
  - Establishing a category team with other fire services
- 2.7 In October last year the SCC through CFOA, requested volunteers from across the fire service to act as category leads for each of the six categories.
- 2.8 Nottinghamshire Fire and Rescue Service (NFRS) proposed the Head of Procurement and Resources, Ian Pritchard, as the category lead for Construction and Facilities Management. This offer was accepted by the SCC in November 2016 under the category sponsor of the Chief Fire Office of Merseyside Fire and Rescue Service.
- 2.9 The six national category leads are being undertaken by the heads of procurement from the following fire and rescue services:

Construction and Facilities Management	Nottinghamshire Fire and Rescue Service
ICT	London Fire and Rescue Service
Clothing including Personal Protective Equipment	Kent Fire and Rescue Service
Fleet	Devon and Somerset Fire and Rescue Service
Operational Equipment	West Midlands Fire and Rescue Service
Professional Services	Cambridgeshire Fire and Rescue Service

- 2.10 The detailed plan and the implementation of the Construction and Facilities Management category, and the other categories, are yet to be fully defined; this will be determined through the development of the strategies by the SCC over time.
- 2.11 As the category lead for Construction and Facilities Management NFRS will receive a one off payment of £10,000. This funding will assist in the resourcing costs associated with the anticipated role and responsibilities within the first year of operation.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The proposed reforms by the Home Office will almost certainly have financial implications within the fire service as a whole. The immediate positive effect from the recent basket of goods exercise is the open communication with other fire and rescue services.
- 3.2 The £10k grant referred to in Paragraph 2.11 will be used to partially fund a Procurement Officer post to provide support within the department to the work undertaken by the Head of Procurement as Procurement Category Lead for Construction and Facilities Management. A further £30k has been budgeted for temporarily in 2017/18 and 2018/19 to support this project and other procurement work which aims to achieve long term budgetary savings.
- 3.3 Once the Fire Commercial Transformation Programme starts to gather pace and any further financial implications become clear they will be reported to the Finance and Resources Committee.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There will be a human resource requirement in the support needed for the national category lead; this will be funded initially through the receipt of a one off payment of £10,000.

### **5. EQUALITIES IMPLICATIONS**

There are no known equality implications arising directly from this report.

## **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 direct risk implications arising from this report, however the drive from Home Office around improved procurement outcomes is a key theme of the reform agenda and the Authority will be regularly updated to consider any implications as appropriate.

## **9. RECOMMENDATIONS**

It is recommended that Members note the content of this report.

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

None.

John Buckley  
**CHIEF FIRE OFFICER**

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