



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 2014

Report of the Chief Fire Officer

Date: 16 January 2015

Purpose of Report:

To report to Members on the financial performance of the Service in the year 2014/15 to the end of November 2014. This report focuses on those key areas where outturn variances are likely to occur.

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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 more important than ever 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:** The total revenue budget is £42.9m, and the forecast outturn variance at this stage in the year is an underspend of **£290k**, which represents an overall variance of 0.67%. It is important to emphasise that this is the position as at the end of November, with 4 months of the year still to go, during which a lot of factors could influence the final outturn.

The net cost of industrial action by the Fire Brigades Union for 2014/15, as reported in the finance system, is **£442k**. These costs are shown “below the line” in the table in paragraph 2.21 as there is no budget to cover this expenditure and the overspend will be funded from General Reserves if required. The forecast underspend of £290k therefore excludes the impact of industrial action.

- 2.2 **Wholetime Pay:** the variance to date is a £365k underspend. An estimated outturn underspend of **£245k** is anticipated at this stage and this is due to a number of reasons: the number of employees on development rates of pay is higher than assumed in the budget (causing an underspend), the number of employees in a pension scheme is lower than assumed in the budget (causing an underspend) and although the total number of wholetime employees is in line with the budgeted establishment, there are vacancies for some roles and over-establishment for other roles. This means that pre-planned overtime is being used to maintain crewing (causing an overspend). It is assumed that the pre-planned overtime will **not** continue for the estimated outturn, but expenditure to date on pre-planned overtime is £139k. An element of contingency is built into the wholetime pay budget to cover either temporary over-establishment or a requirement to maintain crewing, so the net result is an overall forecast underspend at this stage.

2.3 An assumed pay award of 1% has been built into the forecast outturn and it is assumed that there will be no new trainees this year, with any retirements or resignations replaced with transfers in or Retained migration. The removal of one wholetime and one retained appliance, as approved by the Combined Fire Authority on 26 September 2014, will lead to further underspends later this year as the number of occupied posts falls below the budgeted establishment. This managed underspend will translate into budget reductions in 2015/16.

2.4 **Retained Pay:** In 2013/14, the Retained pay budget underspent by a total of £338k and the 2014/15 budget has been reduced by £200k. The current position is an underspend to date of £206k. There is a projected outturn underspend of around **£244k** at this stage. This under spend does not contain the net costs to date for the industrial action of £208k (see paragraph 2.1).

The Retained call outs for the current financial year are 1,524 compared to the same period 2013/14 of 1,792.

2.5 **Administrative and Support Staff Pay:** the forecast variance for administrative and support staff is expected to be a **£344k** underspend (including the Princes Trust forecast underspend referred to below). This is due either to some instances where employees are working fewer hours than their established FTE or to establishment vacancies which are assumed to be continuing throughout the year due to the current recruitment freeze.

2.6 **Pension Strain:** no budget has been set aside to cover the costs of pension strain arising from phase 2 voluntary redundancies occurring at the end of 2013/14 and in 2014/15. It is estimated that up to £163k will be charged to the revenue budget in 2014/15, with further costs likely to fall in 2015/16. This is now reported as an outturn overspend of **£158k**. The overspend could be covered by the pensions earmarked reserve, however this reserve will also be required to fund an increase in ill health charges so it has been assumed that the pension strain overspend will remain.

2.7 **Prince's Trust:** as previously reported, the budget for this activity was recalculated and presented in summary to the Policy and Strategy Committee in April, showing an annual deficit of £92k. The Princes' Trust Manager has already sought to make further savings and it is felt that the activity could run this year at a deficit of **£86k** per annum. CMB has approved virements to correct the budget in line with Members' decision to continue running the activity at a deficit for the time being.

2.8 The Princes' Trust expenditure budgets are showing an underspend to date of around **£33k**. Most of this relates to pay, and is due to a maternity leave earlier in the year, as well as changes in the staffing structure part way through the year.

2.9 A substantial amount of Princes' Trust income due for the 2013/14 financial year had not been received as at 31st March 2014. This income, amounting to £338k, has been accrued for in 2013/14 in anticipation of the income being received in 2014/15. So far £223k has been received in the current year relating to 2013/14, and a further £85k is also expected to be received from

the Colleges in respect of last year's teams. The Princes' Trust Manager is progressing the documentation required to trigger the payments.

- 2.10 For the first two tranches of teams which have run in the financial year it is clear that there will be a shortfall in budgeted income amounting to around £55k. This is mainly due to the proportions of students recruited in each age group being different from those budgeted as well as the total numbers recruited being lower than budgeted. If this continues, then it is reasonable to assume that there will be a shortfall in income of around **£82k**, and this is reflected in the forecast outturn.
- 2.11 The net variances explained above will increase the budgeted deficit of £86k, resulting in a forecast total deficit for the activity of £135k. This forecast will be updated as the year continues, and assumes that all other budgeted assumptions for the remainder of the year remain valid.
- 2.12 **Fleet Maintenance:** some of the appliances in the fleet have suffered metal erosion of the flow meter and pump casings. The causes of this are being investigated but it is thought to be due to the way bulk foam is being used. Initial indications are that repairs and labour will amount to around **£40k**, which cannot be contained within the fleet maintenance budget for planned and ad-hoc works to the fleet.
- 2.13 **Premises:** The Service benefited from some successful rateable value appeals last year, with rebates received during 2013/14. The budget was set prior to these appeals being concluded, so a further underspend is anticipated for the current year of around **£37k**. In addition the Energy budgets are anticipated to under spend by **£54k** at the stage; this will be reviewed as the year progresses. Orders have been placed for backlog maintenance works, an earmarked reserve will be used to fund any over spends.
- 2.14 **Insurance:** Overall, the insurance premium budget is expected to overspend this year by **£22k**, following the insurance tender earlier this year. The premiums paid include a low claim rebate, so there is a possibility that this position may worsen if more claims are processed than expected by the insurers.
- 2.15 **Supplies and Services:** During the budget process a generic savings budget was set aside of £50k, it is anticipated that this budget will not be spent resulting in an underspend of **£50k**. Offsetting this are a number of budgets with small overspends anticipated for various reasons.
- 2.16 **Support Services:** is overspent by **£100k** due to an anticipated additional compensation payment being made in relation to the sale of Dunkirk Fire Station legal case.
- 2.17 **Earmarked Reserves:** Two contributions to earmarked reserves have been agreed by the Corporate Management Board. The first is a contribution of £200k to cover potential NFRS costs arising from developments in communications. The second is a contribution of £80k to top up the pensions earmarked reserve for future ill health charges. The total contribution of **£280k** is shown within "Other Income" in the table in paragraph 2.21.

- 2.18 In addition to this approval is sought to rationalise a number of smaller earmarked reserves into a single earmarked reserve of £200,000 to support the transition to a joint control room.
- 2.19 **Industrial Action:** The net expenditure to the end of November was **£442k** with not all costs yet reported. There is no budget for industrial action therefore all net expenditure will be an overspend against the budget. Currently, the **£442k** is not shown as an outturn overspend, for information, the total net cost of industrial action in 2013/14 was £140k.
- 2.20 **Depreciation and Impairments:** This budget is showing a surplus of income as no budget was set for the sale of vehicles. To date two vehicles have been sold, resulting in a surplus of **£6k**.
- 2.21 **Capital Financing Costs:** The underspend of **£239k** this year has occurred due to the voluntary MRP charge of £1m in 2013/14 which was not known at the time the 2014/15 budget was calculated, plus the underspend of £1.6m on the 2013/14 capital programme.
- 2.22 The table below shows the position of the revenue budget as at the end of November 2014.

Budget Monitoring Report for November 2014

	Annual Budget £k	Budget Profile to Nov 2014 £k	Actual including Commitments to Nov 2014 £k	Variance to Nov 2014 £k	Forecast Outturn £k	Outturn to Budget £k	Outturn to Budget %
Employees	34,036	22,475	21,921	-554	33,372	-664	-2
Premises-Related Expenditure	2,366	1,476	1,429	-47	2,293	-73	1
Transport-Related Expenditure	1,935	1,277	1,248	-29	1969	34	0
Supplies & Services	3,690	2,406	2,518	112	3,777	87	2
Third Party Payments	125	79	140	60	153	28	0
Support Services	199	80	176	97	299	100	0
Depreciation and Impairment Losses			-6	-6	-6	-6	No Budget
Sales Fees & Charges	-122	-73	-142	-68	-104	18	0
Other Income	-1,642	-952	-222	731	-1,215	426	0
Capital Financing Costs	2,304	374	374		2,065	-239	0
	42,892	27,142	27,436	294	42,602	-290	0
Net Industrial Action Costs	-	-	442	442			No Budget

CAPITAL PROGRAMME

- 2.23 A capital programme for 2014/15 of £4,364k was approved by Members and to this has been added a budget of £1,091k for the remaining expenditure expected on the Tri-Service Control and Mobilising system for which a capital grant was received in 2012/13. This brings the total capital programme budget for the year to £5,455k.
- 2.24 There was a significant amount of slippage in the 2013/14 capital programme and the budget for this has been approved by the CFA and carried forward and added to the 2014/15 capital programme. The amount of slippage was £5,542k. In total this then gives an estimated available capital budget of £10,997k for the year. The total spend to date is £2,829k, however orders have been placed for £890k mainly for Rescue Pumps (£539k), Light Vehicles (£112k) and the Telephony System (£168k). The Strategic Director of Finance and Resources has undertaken a detailed review of the current capital programme with its associated funding and capital budget holders have reviewed the estimated outturns on the capital projects - these are reported in the table in paragraph 2.32, giving a forecast outturn of **£5,878k**.
- 2.25 Two capital grants have already been received: the grant for the Tri-Service Control and Mobilising system (£1,091k remaining) and the general capital grant of £1,087k. The capital receipts reserve holds some £2,135k arising from the sale of assets over the past two years. In addition, three vehicles have been sold this year, resulting in capital receipts totalling £6k. These monies will be used first to finance the capital programme, with remaining expenditure to be financed by a combination of unused borrowing, cash generated by the minimum revenue provision charge and new borrowing if required of up to £5,250k as approved within the Authority's Prudential limits.
- 2.26 **Transport:** Three further appliances scheduled for the current year should be completed during the first quarter of 2015. Two special appliances included within the 2013/14 capital programme are now fully built and due to go into service shortly – these are the aerial ladder platform and the water / foam unit. A review of light vehicle utilisation and provision has been done and meetings have taken place (or are scheduled) to ascertain if fleet reductions can be made in some departments. As a result only limited new light vehicle procurement is currently underway with other scheduled acquisitions awaiting the outcome of any structure changes. When these outcomes become known an update will be given regarding the number of vehicles to be purchased this year and associated costs. At the time of this report 5 new vehicles are on order for the Trading Company (£112k). In addition the aerial ladder platform appliance at Mansfield is now in need of a new body to take it through to disposal and an outline quotation for this work is awaited.
- 2.27 **Equipment:** The radios currently in use on the incident ground are now many years old and are planned to be replaced this year. The specification is now complete and out for tender.
- 2.28 **Estates:** The rebuilt Retford Fire Station is now complete and occupied, with the temporary station vacated ready for stripping out and returning to the landlord sometime early 2015. Early indications show that the project will be coming in under budget to the extent of around £50k. Upon completion of the final account this will be reported to Members. The new London Road Fire Station: it is hoped that land can be purchased on which to build the new fire

station this year in order to maintain the project programme for occupation of the new station by spring 2016. The land purchase has been subject to delays outside of the Authority's control and has impacted on the ability to commence the station rebuild project. Expenditure will take place on professional fees this year leading up to the letting of the contract to build the replacement for Central Fire Station. In addition, a number of plans for rebuilding or refurbishing some of the older fire stations will be developed – for now the cost of these plans is shown in the outturn, although whether or not the costs will be capital or revenue depends upon whether or not the plans contribute directly to a capital project. If the costs are treated as revenue costs, then they will be financed from the capital earmarked reserve. The outcome of the plans will be reported in due course for decisions on future major property projects.

- 2.29 **ICT:** In addition to the usual equipment replacement programme, there are two key projects taking place in 2014/15: the replacement of the telephone system and the replacement of the storage area network, both of which are expected to complete within the year. Orders have been placed for the telephone system amounting to £168k. The project to implement CFRMIS Online Services is in progress and the Business Process Automation project will cover a range of developments, some of which will be done this year. An estimated outturn for these two projects is not yet available as further decisions need to be made which will affect project expenditure. The purchase of a Microsoft Enterprise Licence was completed in 2013/14 and treated as revenue expenditure, so this capital budget is not required.
- 2.30 **Human Resources:** the project to implement a replacement HR system went live in May for core aspects of the system. Phase two of the project is now underway. The total capital budget for this project was £527k spread over three years and to date £311k has been spent. An outturn underspend of £100k on the whole project is now forecast, with **£168k** likely to be underspent by the end of this year.
- 2.31 **Tri-Service Control:** the project to implement a Tri-Service Control and mobilising system has suffered some delays but is currently due to go live later this year. It is assumed that the system will go live by the end of March 2015 and the whole of the outstanding project sum will be accounted for as expenditure in the current year with the exception of any unspent contingency.
- 2.32 **Finance:** a project to replace the current payroll system is in the planning phase and work has commenced, however the costs will fall into 2015/16.
- 2.33 The table below shows the position of the capital programme as at the end of November 2014:

CAPITAL PROGRAMME	2014/15 Approved Budget £000's	Estimated 2013/14 Slippage £000's	2014/15 Virements £000's	2014/15 Revised Budget £000's	Actual to November £000's	Remaining Budget to be Spent £000's	Estimated Outturn £000's	Estimated Outturn Variance £000's
TRANSPORT								
Rescue Pump Replacement	910	670		1,580	1,038	542	1,327	-253
Special Appliances		568		568		1,235	116	-452
Appliance Equipment (radios)	36			36		36	0	-36
Light Vehicle Replacement	138	369		507		431	112	-395
	1,084	1,607	0	2,691	1,116	1,575	1,555	-1,136
EQUIPMENT								
Radio Replacement	250			250		250	250	
	250	0	0	250	0	250	250	0
ESTATES								
Retford Fire Station Rebuild	0	800	996	1,796	1,337	459	1,746	-50
Central Fire Station Rebuild			232	232	173	59	322	90
Central Fire Land Purchase		411	189	600		600	0	-600
Refurbishment and Rebuilding	2,310	1,984	-1,567	2,727		2,727	0	-2727
Feasibility Plans			150	150		150	75	-75
Retention Payments:								
- Blidworth FS		25		25		16	15	-10
- Edwinstowe FS		31		31		30	20	-11
- Sustainable Technology Project		15		15	1	14	1	-14
	2,310	3,267	0	5,577	1,522	4,055	2,179	-3,397
I.T. & COMMUNICATIONS								
Business Continuity & Disaster Recovery	30			30		30	30	
Business Expansion	25	6		31	19	13	31	
Replacement Equipment	85			85		85	85	
Microsoft Enterprise Software Licences	200			200		199	0	
Telephone PABX Replacement	250			250		231	225	
SAN & Back Up Replacement	100			100		100	100	
Microsoft Infrastructure			7	7	15	-8	7	
Business Process Automation		345	-7	339	25	314	25	
CFRMIS Online Services		47		47		47	0	
	690	398	0	1,088	78	1,011	503	-585
HUMAN RESOURCES								
HR System Replacement		270		270	78	193	102	-168
	0	270	0	270	78	193	102	-168
CONTROL								
Tri-Service Control & Mobilising System	1,091			1,091			1,034	-57
	1,091	0	0	1,091	36	1,055	1,034	-57
FINANCE								
Payroll System Replacement	30			30		30	0	-30
	30	0	0	30	0	30	0	-30
Grand Total	5,455	5,542	0	10,997	2,829	8,168	5,878	-5,118
To Be Financed By :								
Capital Grant - General	-1,088			-1,088	-1,088			
Capital Grant - TriService Control	-1,091			-1,091	-1,091			
Capital Receipts	-2,385			-2,385	-2,289			
Unused Borrowing b/f		-910		-910	0			
New Borrowing		-2,793		-2,793	0			
Internal Financing	-891	-1,839		-2,730	-1,314			
Total	-5,455	-5,542		-10,997	-5,878			

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. EQUALITIES 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

9.1 That Members approve the proposals in respect of earmarked reserves set out in paragraphs 2.17 and 2.18 above.

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

None.

John Buckley
CHIEF FIRE OFFICER