



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 FEBRUARY 2016

Report of the Chief Fire Officer

Date: 15 April 2016

Purpose of Report:

To report to Members on the financial performance of the Service in the year 2015/16 to the end of February 2016. 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:** When the 2015/16 revenue budget was approved by the Fire Authority in February 2015 a £570k surplus was included within the £41.8m total budget i.e. a planned underspend of £570k was part of the budget strategy. During the year there have been items of expenditure for which earmarked reserves are held and these amount to £500k and will be funded from the earmarked reserves allocated for these purposes. Once this transfer from earmarked reserves has taken place, an outturn underspend of **£692k** is forecast, which exceeds the budgeted surplus by £122k. There are a number of key variances which make up this overall £122k variance including a Prince's Trust net budget deficit of £175k, leasing rebates of £118k received as a result to changes to corporation tax rates, receipt of small business rate relief grant £100k over the budgeted amount for 2015/16, and an underspend on interest charges of £125k, due to a decision being made to delay taking out further borrowing to finance the capital programme.

The additional cost of industrial action by the Fire Brigades Union for 2015/16, as reported in the finance system, is £42k. These costs relate to periods of industrial action taking place in the last financial year and are shown "below the line" in the table in paragraph 2.20 as there is no budget to cover this expenditure and costs incurred will be funded from General Reserves. The forecast outturn position including the impact of industrial action is an underspend of £650k (1.5% of the total budget) and there are no further industrial action transactions anticipated at this point in time.

- 2.2 **Wholetime Pay:** the variance to date is a £168k overspend, which is forecast to be a **£124k** overspend at year end due to two main reasons:

- Although there was an over-establishment of posts during the first four months of the financial year, wholetime staff numbers have been falling steadily throughout 2015/16 and there is now an under-establishment of 12.42 (as at the end of February). This decrease through natural wastage will be allowed to continue until the establishment reaches the new approved figure of 476 FTE (approved with effect from 1 April 2016). As a result of this, wholetime pay budgets excluding overtime are expected to be underspent by £102k at year end.
- Pre-planned and operational overtime is expected to be overspent by £226k at year end, but £47k of this relates to out-of-county flooding incidents and has been reclaimed (showing within Income). The amount spent on overtime has reduced sharply in recent months as a result of management intervention.

- 2.3 **Retained Pay:** The budgets for retaining fees and drills & training are forecast to overspend by £16k and £104k respectively. This is due to the large intake of new recruits during 2015/16. The budgets for incident-related costs such as turnout and attendance fees etc. are forecast to underspend by £50k.
- 2.4 **Administrative and Support Pay:** the budget is underspent to date by £199k. There are currently 11.88 FTE vacancies in the establishment, and this situation will continue until the end of the year in the light of changes to the workforce to meet budget reduction requirements. The forecast outturn is a net underspend of **£156k**.
- 2.5 **Control Pay:** the budget is underspent to date by £67k due to transitional arrangements put in place to support the Tri-Service Control project. Going forward it is likely that there will be permanent savings achievable within this budget for 2017/18. The forecast outturn is an underspend of **£67k**.
- 2.6 **Indirect Employee Expenses:** the Relocation/Removal expenses budget is anticipated to have an estimated outturn overspend of **£17k**; this is due to 2 Principal Officers relocating in this financial year. The training budget is expected to underspend by **£54k**. £11k of this forecasted underspend relates to the Prince's Trust, and £43k relates to Fire Service College fees. The Prince's Trust underspend has arisen because fewer teams will be run in 2015/16 than had been anticipated. Further details about the budgetary position of the Prince's Trust can be found in paragraph 2.19. The Service's training budget has undergone a base budget review this year, which has resulted in a reduced budget for 2016/17.
- 2.7 **Pension Costs:** the pension revenue budgets are overspent to date by £68k, and are expected to be overspent by **£198k** at year end. Ill health charges are overspending due to the ill health retirements of four employees in 2014/15 which will impact on the revenue budget over the next two years. In total the budget for ill health charges is expected to overspend by £80k. The budget for injury pensions is expected to overspend by £125k; this is due to payment of arrears for injury pension errors of £138k. This is partially offset by an underlying underspend of £13k. This underspend is due to both the pensions

inflationary increase and the number of injury pension recipients being lower than expected.

In addition, there will be an estimated outturn overspend of **£259k** relating to the correction of historic pension errors. An audit of pension records carried out by the current pension administrator after this function transferred to Leicestershire County Council revealed that there were 158 pension records containing errors. As a result some pensioners had been overpaid and some underpaid and the errors had arisen in some cases as far back as 1990/91. On-going pension amounts have been corrected but arrears plus interest relating to underpaid pensioners have not yet been finalised. This matter was the subject of a report to the Human Resources Committee in January 2015. The impact on the firefighter pension fund of correcting these errors is being met jointly by the Authority and the previous pension administrator and amounts to approximately £259k plus interest on arrears. The Authority is funding £83k of this sum, with the previous pension administrator funding the remaining £176k.

- 2.8 **Redundancy and Pension Strain:** there is no budget for pension strain or redundancy costs as it was planned that an earmarked reserve would be used to fund these costs. During 2015/16 redundancies have resulted in an overspend to date of £233k. In addition the Service has incurred pension strain costs of £294k. Further costs are expected, but the timing is uncertain as there is often a delay between the occurrence of a redundancy and the settlement of a pension strain cost. As local government accounting rules dictate that pension strain costs must be accounted for in the year of payment, these additional costs are not included in the estimated outturn for 2015/16. An earmarked reserve is available to fund the majority of the redundancy and pension strain costs, and £370k of this reserve has already been applied to fund all of the pension strain costs so far (£294k) and £76k of the redundancy costs. It is proposed that underspends from the non-uniformed pay budget should be used where possible to fund the remainder of the redundancy costs, with the balance being taken from the earmarked reserve for Organisational Transition at the year end. The current forecast overspend is therefore **£156k**. The remaining balance in the earmarked reserve can then be used for future expenditure of this nature.
- 2.9 **Premises:** The rent budget is anticipated to have an estimated outturn underspend of **£51k**. This is due to the 2014/15 charges for Central Fire Station utilities from the City Council being significantly lower than in previous years. An estimate was made in the 2014/15 accounts and the effect of this is now reflected in 2015/16. The Estates Department is anticipating a similar charge for 2015/16 and this is also reflected in the forecast outturn.
- 2.10 **Fuel:** Fuel prices have fallen and the Transport department has reduced the budget in 2015/16 by £33k. The budget is under spending to date by £3k, however this is due to stock levels held in station bunkers. The forecast outturn is an underspend of £36k.
- 2.11 **Car Allowances:** The car allowances budgets are currently underspending by £7k, and the forecast outturn is an underspend of £13k. These budgets have been reviewed and a budget saving of £9k has been made in 2016/17.

2.12 **Supplies and Services:** Overall the Supplies and Services budget is expected to be underspent by **£84k**. This variance is due to a number of reasons:

- There is a net underspend of £38k in the budgets for operational equipment, PPE and uniform. This can be a volatile budget in terms of expenditure from year to year and it is closely monitored and scrutinised.
- Computer software maintenance contract charges are expected to underspend by £29k. The implementation of the new phone system has significantly reduced the amounts paid to the previous supplier. These savings have been built into the 2016/17 budget but have caused an underspend during this year as the new system is implemented.
- FireLink contract charges are anticipated to overspend by £80k. This is due to the charges from Central Government increasing last year by index linked inflation backdated to an earlier year. The notification of this increase was received after the budget had been finalised, and this has caused an overspend with only part of the charge being met by government grant.
- The Authority has made a contribution of £130k towards the installation of sprinkler systems in social housing properties, which will be met from earmarked reserves, as planned. In addition there is expenditure of £12k relating to On Fire Fund Grant payments which are also funded by way of an earmarked reserve. There is an underlying underspend within the budget for Contribution to Partnership Working of £38k which is caused by a number of agreements and contracts either being re-negotiated or coming to an end. The budget has been reviewed and will be reduced in 2016/17.
- Insurance budgets are expected to underspend by £11k due to the fact that the premium costs have come in lower than budgeted in some areas. This downward trend has continued in the insurance renewal tender that was received recently.

2.13 **Third Party Payments:** The budget for legal services has a forecast outturn underspend of **£27k**. This budget has overspent in recent years due to fees arising from two significant legal issues for the Authority, so the 2015/16 budget was maintained at a similar level to that in 2014/15. However, this year has seen activity returning to normal levels and this has resulted in an underspend. The budget has been reviewed and will be reduced in 2016/17.

2.14 **Support Services:** The budget for Firefighter pension scheme administration is expected to overspend by **£57k** in 2015/16. The proliferation of work arising from the introduction of the 2015 Firefighter Pension Scheme, as well as the new Modified Retained pension scheme has meant that the Pensions team at Leicestershire County Council required additional staff resources to cope with the workload and continue to provide a good service. An additional fee will be paid to fund this extra resource and the remaining overspend relates to the charges imposed by the external supplier to Leicestershire County Council for the pension administration system.

- 2.15 **Capital Financing Costs:** Overall the capital financing costs budget is expected to underspend by **£256k**. £131k of this underspend is attributable to the minimum revenue provision charge, which is lower than anticipated due to an underspent capital programme in 2014/15. The remaining £125k underspend relates to interest charges. These charges relate to loan interest, and they are lower than budgeted because a decision was made to delay the replacement of a loan which matured in 2014/15 and to delay further borrowing until the economic circumstances become more favourable.
- 2.16 **Income from Sales, Fees and Charges:** Overall the budget for sales, fees and charges income is forecasted to be in surplus by **£342k** by the end of the year. This is largely due to payments received from lease companies as a result of changes made to the rate of corporation tax and writing down allowances by Finance Acts between 2010 and 2014. As a consequence of these changes, the lease companies were required to adjust the lease rentals paid by the Service and refund the overpayments, £118k has been received to date. This income was not included in the 2015/16 budget.

The Service also received a one-off grant of £18k from the Department for Communities and Local Government for the Emergency Services Mobile Communications Programme. In addition the authority received £176k from Nottinghamshire County Council for a settlement relating to the Firefighters' Pension corrections (see paragraph 2.7 above), £62k relates to flood recharges from Cumbria FRS, Lancashire FRS and North Yorkshire FRS (see paragraph 2.2 above). £8k relates to Primary Authority work carried out for a major local company. None of this income was budgeted for.

- 2.17 **Other Income:** The Income budget is forecast to be in deficit by **£182k** (excluding the budgeted contribution to general reserves of £570k – see paragraph 2.1 above) by the end of the year. The deficit is mainly caused by a £250k shortfall in the amount of funding available for the Prince's Trust activity, more details of which can be found in paragraph 2.19. This deficit is partially offset by a surplus relating to the budget for the Small Business Rate Relief Grant. Notification of this grant is not received until the end of January in advance of the forthcoming financial year, and so the budget was based on an estimate which differed from the actual amount by £100k.
- 2.18 **Industrial Action:** The additional net expenditure to date is **£42k** and relates to costs incurred in 2014/15 but not charged until the current year. There is no budget for industrial action therefore all expenditure will be an overspend against the budget and will be funded from general reserves. Currently, the £42k is shown "below the line" in the table in paragraph 2.20.
- 2.19 **The Prince's Trust:** The Prince's Trust is expected to have a net budget deficit of £175k by the end of the year. This is mainly due to a withdrawal of funding from January 2016, resulting in a £250k shortfall in income. This shortfall is partially offset by underspending expenditure budgets. Underspends include £25k relating to salaries, £11k relating to training, £6k relating to transport costs, and £20k relating to supplies and services. These variances are included in the totals shown in the table in paragraph 2.20.

2.20 The table below shows the position of the revenue budget as at the end of February 2016.

Revenue Budget Monitoring to February 2016

Account Description	Annual Budget £k	Profile Budget £k	Actual YTD £k	Commitments £k	Net Expenditure £k	Forecast Outturn £k	Outturn to Budget £k
Employees	33,133	30,189	30,289	93	30,382	33,621	488
Premises-Related Expenditure	2,204	2,026	1,852	139	1,991	2,093	-111
Transport-Related Expenditure	1,907	1,661	1,557	106	1,663	1,875	-33
Supplies & Services	3,587	3,321	2,734	205	2,939	3,503	-84
Third Party Payments	126	112	94		94	99	-27
Support Services	198	122	216		216	259	60
Depreciation and Impairment Losses							
Sales Fees & Charges	-144	-126	-471		-471	-486	-342
Other Income	-1,454	-1,965	-1,671	1	-1,670	-1,842	-388
Capital Financing Costs	2,225		506		506	1,969	-256
	41,783	35,340	35,105	544	35,648	41,091	-692
Industrial Action costs			42		42	42	42

CAPITAL PROGRAMME

2.22 A capital programme for 2015/16 of £3,407k was approved by Members.

2.23 There was slippage in the 2014/15 capital programme and Members of the Combined Fire Authority approved that £5,882k of slippage be carried forward at the meeting on 26 June 2015. This amount of slippage has been spread over 2015/16 (£3,075k) and 2016/17 (£2,809k). In total this then gives an estimated available capital budget of £6,482k for the year. The total spend to date is £3,874k and the current capital programme is shown at Appendix A.

2.24 A capital grant has already been received, for the Tri-Service Control Mobilising system (£592k remaining). It is likely that new borrowing will be required this year to finance capital expenditure and Officers will shortly be taking out temporary borrowing at lower rates to cover the requirement, with a decision on longer term borrowing to be taken in a few months' time. All of the

capital receipts and the capital grants received in previous years have been applied in 2014/15.

- 2.25 **Transport:** The Rescue Pump appliances scheduled for 2014/15 are all now on station and will shortly be going on the run after completion of the familiarisation training.

Two replacement Rescue Pump appliances are currently in build. There is some build slippage due to delayed delivery of the body shell. Slippage from 2014/15 into future years was approved earlier this year, it was anticipated that although the 2015/16 appliances would be ordered this year, some stage payments would be in 2016/17 as a result of the build slippage. An element of the slippage was therefore pushed into 2016/17, however some stages of the procurement of these vehicles has progressed more quickly than expected and this has resulted in expenditure in the current year taking place in advance of next year's slippage. The overspend in the current year is £266k and this will be deducted from the slippage carried into 2016/17 of £313k. The overall transport capital programme is expected to underspend in this year.

Certain Special Appliance projects are now underway with others subject to change with the planned requirements being amended or reviewed before any procurement takes place to ensure that there is still a user requirement. There will be an underspend of £158k on Special Appliances which will be slipped into next year.

A full review of light vehicle fleet usage is underway and this will result in options for future provision for some elements of the light vehicle fleet. Only some light vehicles will be purchased until this review is complete and the remaining budget of £336k will be slipped into 2016/17.

- 2.26 **Equipment:** the project to purchase and roll out new radios for the incident ground has now completed.
- 2.27 **Estates:** Land upon which to build the new London Road Fire Station was acquired in April 2015. Building work is progressing well and the contractor is reporting the project is on programme to hand the new station over to the Service in August 2016; this is subject to the legal agreements being put in place for the required highways works. The project budget has been reduced from an initial estimate of £5.5M to an estimated £5.0M. The reduction in the estimated cost has been achieved through the competitive tendering of the main works and the final land transaction for the new site.

Feasibility and option appraisals are being carried out to identify the next fire station(s) to be included within the capital works programme, the information gathered from this planning exercise will form the basis for a business case presented to the Strategic Leadership Team early in the next financial year.

- 2.28 **ICT:** Mobile Computing – ICT is currently completing the roll-out of the Microsoft Surface Pro 3 Tablets across the Service. Testing of other Windows 8 tablet devices continues for the introduction of CFRMIS Mobile to allow Appliance Crews to gather Operational Intelligence information.

Replacement Equipment – a new learning management system has been purchased from Redkite, to maintain Operational Competence; the project will cost £40k in total.

The CFRMIS online services web portal project is nearing completion and is expected to be underspent by £38k.

Business Process Automation – ICT have commenced the project to develop a completely new SharePoint 2013 solution and infrastructure with Risual Ltd; the initial phase of the project will cost £59k with a potential overall project cost estimated at £263k (this cost will be from the capital budget in future years) if all elements of the design are implemented. It is intended that Risual will provide their expertise in the design phases of the five separate implementation projects (infrastructure, collaboration/ERDMS, Intranet, Internet and Extranet) and Service employees will be able to undertake the implementation activities autonomously. This strategy is expected to reduce the overall cost of implementation by £100k.

2.29 **Human Resources:** Phase 2 of the implementation project is nearing completion, and work on an upgraded version of the reporting tool (Business Intelligence) has been completed. The final module (People Development) is currently being developed. It is anticipated that the project will be completed by the end of April 2016. The remaining budget of £146k will be slipped into 2016/17 and it is likely that a substantial element of this will be reported as a project underspend next year.

2.30 **Incident Command Training:** Members approved at the February 2015 meeting a capital variation of £90k for the service's internally provided Incident Command training, which will be funded from the Capital Earmarked Reserve. The project is almost complete and is anticipated to cost up to £98k in total. This is mainly because the original estimate for computer hardware was lower than the actual cost. This hardware has been procured at a higher specification than originally anticipated, and this will enable the system to be used by the Service for a longer time period.

2.31 **Finance:** a project to replace the current payroll system is in the planning phase and work has commenced, however it is still in the procurement stage and the budget will be slipped into 2016/17.

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

That Members note the contents of this report.

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

None.

John Buckley
CHIEF FIRE OFFICER

Appendix A
Capital Budget Monitoring to February 2016

CAPITAL PROGRAMME	2015/16 Approved Budget £000's	Estimated 2014/15 Slippage To Be Approved £000's	2015/16 Revised Budget £000's	Actual to February £000's	Remaining Budget to be Spent £000's	Estimated Outturn £000's	Estimated Outturn Variance £000's
TRANSPORT							
Rescue Pump Replacement	624		550	664	114	816	266
Special Appliances		300	374	181	-193	216	-158
Appliance Equipment (radios)	17		17		-17	35	18
Light Vehicle Replacement	381		381	45	-336	45	-336
	1,022	300	1,322	890	-432	1,112	-210
EQUIPMENT							
Radio Replacement	15	204	219	196	-23	219	
	15	204	219	196	-23	219	
ESTATES							
Central Fire Station Rebuild	1,750	1,450	3,200	2,347	-853	2,675	-525
Feasibility Plans	225		225		-225	198	-27
Retention Payments:		70	70	9	-61		-70
- Retford	60		60	52	-8	60	
	2,035	1,520	3,555	2,408	-1,147	2,933	-622
I.T. & COMMUNICATIONS							
Business Continuity & Disaster Recovery				15	15	15	15
Business Expansion				2	2	2	2
Replacement Equipment	140	9	149	137	-12	137	-12
Telephone PABX Replacement		105	105	98	-7	105	
SAN & Back Up Replacement		4	4		-4	4	
Business Process Automation		88	88	52	-36	88	
CFRMIS Online Services		47	47	10	-37	10	-37
Moblie Computing	60		60	30	-30	30	-30
	200	253	453	344	-109	391	-62
HUMAN RESOURCES							
HR System Replacement	0	176	176	24	-152	30	-146
	0	176	176	24	-152	30	-146
TRANSPORT							
Tranman Software	25		25		-25		-25
	25		25		-25		-25
Learning and Development							
Incident Command Training						98	98
						98	98
CONTROL							
Tri-Service Control & Mobilising System	0	592	592	12	-580	592	
	0	592	592	12	-580	592	
FINANCE							
Payroll System Replacement	40	30	70	0	-70		-70
Finance Agresso Upgrade	70		70		-70		-70
	110	30	140		-140		-140
Grand Total	3,407	3,075	6,482	3,874	-2,608	5,375	-1,107
To Be Financed By :							
Capital Grant - General	0	0	0	0			
Capital Grant - TriService Control	592	0	592	12			
Capital Earmarked Reserve	90		90				
Capital Receipts	0	0	0				
Unused Borrowing b/f	0	0	0				
New Borrowing	5,802	0	5,802	3,861			
Internal Financing	0	0	0				
Total	6,484	0	6,484	3,874			