



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

OUT-TURN FOR 2015/2016

Joint Report of the Treasurer and Chief Fire Officer

Date: 24 June 2016

Purpose of Report:

To report to Members on the financial performance of the Service in the year 2015/16, analysing significant variances against the original budget. This final position will also be reported in the Statement of Accounts for 2015/16 at the Combined Fire Authority meeting in September 2016.

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1. BACKGROUND

- 1.1. The Authority's Statement of Accounts is produced annually and is a comprehensive statement of the Authority's financial position and financial transactions in the reported year. The un-audited Statement of Accounts for the financial year 2015/16 is required to be completed and then authorised for issue to the external auditor before 30 June 2016 by the Treasurer to the Fire Authority.
- 1.2. The audit of the Statement of Accounts is due to be completed by early July 2016, and the audited Statement of Accounts and the external auditor's Annual Governance Report will be presented to Members of the Fire Authority on 25 September 2015.
- 1.3. The purpose of this report is to give Members early sight of the Authority's financial performance in 2015/16 prior to receiving the audited accounts in September. The out-turn position may be subject to change if any issues are identified by the auditor which require amendments to revenue or capital expenditure.

2. REPORT

EXECUTIVE SUMMARY

- 2.1 The 2015/16 year saw a further reduction in grant funding from Central Government with the overall revenue budget around £1.1m less than in 2014/15. Despite this, savings has been achieved to meet this lower target and the budget approved by Members for the year included a planned contribution to general reserves of £570k in recognition of further funding reductions expected in future years.
- 2.2 The approved Revenue Budget for 2015/16 was £41.783m. The actual spend against this budget was £40.910m, which is an underspend of £873k – a variance of 2%.
- 2.3 With this underspend, general reserves will increase to £7.408m at 31 March 2016. This leaves the Authority in a sound position in terms of being able to use further general reserves to cushion the transition towards a revenue budget which is expected to be significantly lower over the next few years, whilst still maintaining at least the minimum level of reserves (£3.8m) identified in the most recent risk assessment reported to Members in February 2016. The approved 2016/17 revenue budget includes the provision for up to £350k of reserves to be used to cover the reduction in wholetime posts following the Specialist Rescue team restructure in advance of natural staff turnover.

REVENUE BUDGET

- 2.4 The total revenue budget for 2015/16 was £41.783m. The out-turn is £40.910m which is an underspend of £873k, however within this overall variance are some significant over and underspends which are explained in the report below.
- 2.5 A summary of variances is shown in the following table with detailed explanations in the following paragraphs for the most significant variances.

	Annual Budget 2015/16	Actual 2015/16	Variance 2015/16
	£000's	£000's	£000's
Employees	33,420	33,536	116
Premises	2,196	2,184	(12)
Transport	1,907	1,808	(99)
Supplies & Services	3,643	3,309	(334)
Third Party Payments	126	114	(12)
Support Services	198	257	59
Income	(1,934)	(2,337)	(404)
Capital Financing	2,225	2,038	(187)
	41,783	40,910	(873)

Employees

- 2.6 Wholetime Operational Pay: (annual budget £22,263k). The out-turn overspend is **£61k**. There were two main factors leading to this variance: firstly there was an over-establishment of posts during the first four months of the financial year but with numbers falling steadily throughout 2015/16 there was an under-establishment by the year end resulting in an underspend on the main pay budgets of £272k. This decrease through natural wastage will continue until the establishment reaches the new approved figure of 476 FTE (approved with effect from 1 April 2016); secondly pre-planned and operational overtime overspent by £333k at year end, but £62k of this related to out-of-county flooding incidents and has been reclaimed (showing within Income). The amount spent on overtime reduced sharply in recent months as a result of management intervention.
- 2.7 Administrative and Support Staff Pay: (annual budget £5,596k). The out-turn underspend is **£153k**. There have been vacancies in the establishment during the year and this position was maintained due to the planned redundancy programme, allowing for redeployment opportunities where appropriate. A number of redundancies were effected partway through the year which realised some early savings and these savings have offset part of the total cost of redundancy and pension strain arising.
- 2.8 Retained Pay: (annual budget £2,620k). The out-turn underspend is **£48k**. The budget for drills & training overspent due to the intake of new trainees during the year designed to increased retained availability in advance of

future workforce reductions. However the budgets for incident-related costs underspent, giving an overall underspend position. Retained mobilisations totalled 2,753 in 2015/16, compared to 2,525 in 2014/15.

- 2.9 Control Pay: (annual budget £1,057k). The out-turn underspend is **£63k** mainly due to transitional arrangements put in place to support the Tri-Service Control project, resulting in a vacancy. Going forward it is likely that there will be permanent savings achievable within this budget for 2017/18.
- 2.10 Training: (annual budget £436k). The outturn underspend is **£96k** with around half of this related to savings against the budget for the Fire Service College. A base budget review was carried out in this area, resulting in a reduced budget of £314k for 2016/17.
- 2.11 Pensions: (annual budget £658k). The out-turn overspend on injury pensions is **£136k** due to the payment of arrears for injury pension errors. Ill health pension charges also overspent in the year by £80k due to the ill health retirements of four employees in 2014/15 but this has been funded from the pensions ill health earmarked reserve.
- 2.12 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 resulted in an overspend of £331k. In addition the Service incurred pension strain costs of £294k. The Organisation Transition earmarked reserve was used to fund all of the pension strain costs and £76k of the redundancy costs, leaving an overspend of **£256k**, which is largely covered by the net underspend against pay budgets. The earmarked reserve has £149k remaining in it.

Premises

- 2.13 Rent of Premises: (annual budget £95k). The out-turn underspend is **£64k** due to a reduction in charges for Central Fire Station utilities from the City Council over both 2014/15 and 2015/16 (an estimate was made in the 2014/15 accounts and the effect of this is now reflected in 2015/16).

Transport

- 2.14 Fuel: (annual budget £405k). The out-turn underspend is **£124k**. Although an underspend was predicted for the year the final result is higher than previously anticipated. The price of diesel has fallen by 12% over the course of the year, and the amount of fuel used in 2015/16 compared with the previous year has also fallen by an estimated 8%, which is most likely related to reducing incident numbers. This budget has been reduced by £30k for 2016/17, but the scale of the underspend this year means that this will need to be closely monitored next year.
- 2.15 Finance Lease Extensions: there is no annual budget for lease extensions so the expenditure of **£50k** for the year is an overspend. This is due to the extension of leases for fire appliances whilst the Fire Brigades Union industrial action is still on-going (although there have been no periods of action in the 2015/16 financial year).

Supplies and Services

- 2.16 Protective Clothing: (annual budget £152k). The out-turn underspend is **£71k**. This budget has been reduced over recent years, and still continues to underspend as the numbers of employees and incidents reduce. This can be a volatile budget in terms of expenditure from year to year and it is closely monitored and scrutinised.
- 2.17 Insurances: (annual budget £561k). The out-turn underspend is **£50k**. There are two reasons for this underspend. Firstly premium costs came in lower than budgeted in some areas and this downward trend continued in the insurance renewal tender earlier this year; secondly the provision made for the current number of outstanding insurance claims as assessed at the end of the financial year reduced giving an underspend of £43k.
- 2.18 Consultancy Fees: (annual budget £121k). The out-turn underspend is **£42k** and is mainly due to an underspend on organisational development work as well as reduced Princes Trust costs as the number of teams has started to reduce in the year.
- 2.19 FireLink Contract Charges: (annual budget £350k). The out-turn overspend is **£110k**. 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.
- 2.20 Smoke Alarms: (annual budget £100k). The out-turn underspend of **£39k** will be analysed to see if this is an issue just for 2015/16 or an indication of a longer term trend. The result of this analysis will inform the next budget process.
- 2.21 Communications Equipment & Maintenance: (annual budget £61k). The out-turn underspend is **£48k**. Costs have been reducing in this area and the budget has been reduced for 2016/17. There may be an opportunity to reduce this budget still further and this will be reviewed in the next budget process.
- 2.22 Consultation Costs: (annual budget £45k) This budget has underspent by **£35k** this year because there has been very little consultation activity. Public consultation is expected to take place over the forthcoming period as the strategy to reduce costs continues.
- 2.23 Partnership Working: (annual budget £138k) The out-turn underspend is **£31k** and was 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.

Third Party Payments and Support Services

- 2.24 Legal Services : (annual budget £103k). The out-turn underspend on legal fees is **£12k**. 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.
- 2.25 Treasury Services: The out-turn overspend is **£65k** and is due to an overspend on fire pensions administration. 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 was paid to fund this extra resource and the remaining overspend relates to the charges imposed by the external supplier to Leicestershire County Council for changes required to the pension administration system.

Income

- 2.26 Contributions to Earmarked Reserves: (no budget). The out-turn expenditure is **£363k**. At the end of the financial year, a number of contributions were made to either set up new earmarked reserves or to augment existing reserves. Government grants received in the year but not yet spent were transferred into either existing or new earmarked reserves. These related to Resilience Crewing and Training; Emergency Services Mobile Communications Project and Transparency Reporting and totalled £159k. A contribution of £150k was made to supplement the existing Pensions Ill Health reserve which has been depleted due to the higher than usual numbers of ill health retirements in 2014/15. A new reserve of £100k was set up to cover the costs of resolving the remaining pension errors as well as any other possible future pension issues (Pensions General). Finally three earmarked reserves have been deleted with the remaining balances written back to the revenue budget because they are no longer required: Business Continuity Management Training £3k; Operational Equipment £32k and Gym Equipment £11k.
- 2.27 Prince's Trust: (annual budget -£376k). Members will be aware, from reports to the Policy and Strategy Committee during the year, that external funding for the Prince's Trust activity has substantially reduced during the year and plans are in progress to decrease the level of the activity and seek more secure funding streams. The out-turn position shows that the income budget was not achieved to the tune of **£222k**, but the full picture for the whole activity shows that there were underspends on pay in the year of £32k and underspends on non-pay of £30k as change was implemented. Overall the deficit for the activity was £161k.
- 2.28 Recovery of Costs: (no budget). The outturn surplus is **£345k** and this includes £62k of income recovered from three fire and rescue services which were assisted by Nottinghamshire crews during the floods in the year (the additional costs are included within the pay budget). Members will be aware

that the Authority's previous fire pension administrator has contributed a sum towards covering the cost of pension errors, which were corrected in the 2014/15 financial year, and this sum was £176k. In addition, payments were 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 - £100k has been received.

- 2.29 Government Grants: (annual budget £316k). The out-turn underspend is **£170k**. Notification of the Small Business Rate Relief 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. Two capital grants were received during the year totalling £54k which were not known about when the budget was set. These related to the Emergency Services Mobile Communications Project and Resilience operational activity. Three revenue grants were received in the year, again unknown in advance, totalling £47k
- 2.30 Contribution to General Reserves: For 2015/16 a budget of **£570k** was created as a contribution to General Reserves as approved by Members of the Fire Authority.

Capital Financing

- 2.31 Capital Financing: (annual budget £2,225k). The out-turn underspend is **£187k**, which is due to both an underspend on loan interest of £126k and an underspend on the Minimum Revenue Provision charge of £170k. These variances have arisen because budget assumptions about capital expenditure and loans were different to actuals. The capital programme underspent in 2014/15, which caused an underspend on the Minimum Revenue Provision charge and new borrowing has not yet been taken, which reduced interest charges in comparison to the budget. This underspend allowed the opportunity to be taken to finance some capital expenditure directly by way of revenue contributions, which will reduce capital financing costs in future years. In total there were £109k of revenue contributions, with £97k of this relating to the Incident Command Training facility completed in the year and reported to Members of this committee earlier this year as a project to be funded.

RESERVES

- 2.32 At 31 March 2015, General Reserves stood at £6.535m and earmarked reserves totalled £3.831m. The revenue outturn underspend of £873k (which includes the planned underspend of £570k) will increase General Reserves and give a new total of £7.408m as at 31 March 2016.
- 2.33 During the year, net changes were made to earmarked reserves of £326k, giving a balance as at 31 March 2016 of £3.505m

CAPITAL BUDGET

- 2.34 The approved capital programme for 2015/16 totalled £3.407m. Slippage brought forward from 2014/15 totalled £3.075m giving a total capital programme of £6.482m for the year. The out-turn is £5.282m, which is an underspend of £1.2m against the total programme.
- 2.35 A capital grant of £38k was received from DCLG during the year to finance some specific expenditure on the Emergency Services Mobile Communications Project. A further £402k of a separate capital grant from DCLG has been used to finance expenditure on the Tri-Service system project. Capital receipts totalling £30k have also been used to partially finance the capital programme and these related to the sale of four vehicles plus a small piece of land at Mansfield fire station. As reported in paragraph 2.31 above, £109k of the programme has been financed by revenue contributions, and the remainder will be funded from borrowing in due course but has meanwhile been covered by cash held as investments.
- 2.36 No new borrowing has been taken in the year and all assets have been purchased rather than leased.
- 2.37 A summary of variances is shown in the following table with detailed explanations in the following paragraphs.

	Total Capital Programme 2015/16	Actual 2015/16	Provisional Variance 2015/16
	£000's	£000's	£000's
Transport	1,322	1,090	(232)
Equipment	219	216	(3)
Property	3,555	2,997	(558)
IT & Communications	1,386	979	(407)
Total	6,482	5,282	(1,200)

Transport

- 2.38 The rescue pump appliances scheduled for 2014/15 are all now in use and there are two further rescue pump appliances being built. This budget has overspent by **£223k** as 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. This overspend will be deducted from the slippage from 2014/15 which has been carried into 2016/17.
- 2.39 Certain special appliance projects are now underway with others subject to change with the planned requirements being amended or reviewed before the procurement takes place. There is an underspend of **£119k** on Special Appliances which will be slipped into next year.
- 2.40 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 have been purchased this year and the remaining budget of **£336k** will be slipped into 2016/17.

Equipment

- 2.41 The project to purchase and roll out new radios for the incident ground has now completed, coming in **£3k** under budget.

Property

- 2.42 As reported elsewhere on this agenda, the project to build a new fire station at London Road has progressed well with the completed station expected to be occupied by September this year. This project is showing an underspend of **£268k** for the year, with the final out-turn to be reported in 2016/17 when the project has completed.
- 2.43 Feasibility studies / options appraisals have been carried out this year to identify the next fire station(s) to be included within the capital works programme and these were in progress at the end of the financial year. The budget of **£225k** will be slipped forward to cover these costs. There is also an unspent budget for retention payments of **£64k** which will be slipped into 2016/17 to cover future costs arising from recently completed projects.

Information and Communications Technology

- 2.44 The on-going ICT replacement programme was largely completed in the year, with **£14k** to be slipped forward to next year. The project to replace the telephony system has made progress during the year although is not yet complete with **£35k** to be slipped to next year.
- 2.45 The HR system replacement project completed its second phase this year, with a reporting tool and a People Development module implemented. The total underspend is **£150k** out of an initial capital budget of £527k and £30k of this will be slipped forward to next year to help support the implementation of the Payroll module of the HR system which is already a project on the capital programme.
- 2.46 Two projects to upgrade existing systems underspent: the upgrade of the transport system is in the options appraisal stage so **£25k** will be slipped into next year; the upgrade of the finance and procurement system was in the procurement phase during 2015/16 and implementation work started in 2016/17 so **£70k** will be slipped into next year. The replacement payroll system project has completed its procurement phase and will be implemented as a module of the HR system. The cost is very close to the budget of **£70k** so £30k of the HR system project underspend will be carried forward as slippage to support this project if required, in addition to the £70k underspend.
- 2.47 The Tri-Service Control Mobilising system went live in September and phase two of the project is now underway. Capital expenditure of £401k was accounted for in the year, leaving **£178k** of the original budget for the system to be slipped forward. A further **£12k** of enabling works has been financed by a revenue contribution. The project to build an Incident Command Training

facility at Headquarters completed during the year, costing **£97k** and this has also been financed by a revenue contribution.

2.48 The Emergency Services Mobile Communications Project, which is a national project to replace the current radio system, started this year with the focus on the work required to ensure that the Authority's ICT infrastructure will be able to securely connect to the new Emergency Services Network when this is in place. Capital expenditure of **£38k** was incurred for an IT "health check" in preparation for this work and this was financed by a capital grant from central government.

2.49 The total underspend to be carried forward into 2016/17 is therefore £1,211k and Members are asked to approve this capital slippage.

DEBTS WRITTEN OFF IN 2015/16

2.50 There were no debts written off in the 2015/16 financial year.

3. FINANCIAL IMPLICATIONS

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

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report summarises only the financial impact of activities undertaken in 2015/16. Equality impacts arising from new policies implemented in the year will have been identified in other reports.

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 risk management implications that arise specifically from this report however the regular receipt of financial reports is key to managing one of the most

significant risks to the organisation, that of financial risk. Throughout the year, finance department staff work collaboratively with budget holders towards keeping expenditure within budget and improving financial performance and reporting to Finance and Resources Committee at regular intervals.

9. RECOMMENDATIONS

It is recommended that Members:

- 9.1 Note the contents of this report.
- 9.2 Approve the total capital slippage of £1,211k to be carried forward to 2016/17.

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

None.

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TREASURER TO THE FIRE AUTHORITY

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