



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

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

# REVENUE AND CAPITAL OUT-TURN FOR 2016/2017

Joint Report of the Treasurer and Chief Fire Officer

**Date:** 07 July 2017

**Purpose of Report:**

To report to Members on the financial performance of the Service in the year 2016/17, analysing significant variances against the original revenue and capital budgets. This final position will also be reported in the Statement of Accounts for 2016/17 at the Combined Fire Authority meeting in September 2017.

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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 2016/17 is required to be completed and then authorised for issue to the external auditor before 30 June 2017 by the Treasurer to the Fire Authority.
- 1.2. The audit of the Statement of Accounts is due to be completed in July 2017, and the audited Statement of Accounts and the external auditor's Annual Governance Report will be presented to Members of the Fire Authority on 22nd September 2017.
- 1.3. The purpose of this report is to give Members early sight of the Authority's financial performance in 2016/17 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 When the 2016/17 revenue budget of £41.197m was approved by the Fire Authority in February 2016 it was on the basis that a budget deficit of £98k would be supported by general reserves in order to balance the budget. 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 as a transitional measure to minimise the impact of reductions in funding.
- 2.2 The approved Revenue Budget for 2016/17 was £41.197m and the actual spend against this budget was £40.766m, which is an underspend of £431k – a variance of just over 1%. This compares to a projected underspend at the end of February of £207k. The main reasons for the change since February is due to:
  - A change in accounting policy to account for Retained Duty System Pay in 2017/18, not 2016/17 which results in a higher underspend (£122k);
  - Some slippage in the delivery of operational equipment into 2017/18 (£41k);
  - Some slippage in the procurement of Organisational Development support (£55k); and
  - Other increases in income and reduced contribution from reserves (£200k)

These are offset by some small overspends on certain budgets. The significant variances to the budget are detailed within this report, but the net

underspend meant that the planned contribution from general reserves to support the budget was not required.

- 2.3 With this underspend, general reserves will increase to £7.837m at 31 March 2017. 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 (£4.4m) identified in the most recent risk assessment reported to Members in February 2017. Reserves are needed to support a number of Authority's projects and where possible, are used to fund expenditure to avoid the cost of borrowing.

## REVENUE BUDGET OUTTURN

- 2.4 The total revenue budget for 2016/17 was £41.295m. The out-turn is £40.766m which is an underspend of £431k, 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 2016/17	Actual 2016/17	Variance 2016/17
	£000's	£000's	£000's
Employees	32,565	32,546	-19
Premises	2,202	2,290	88
Transport	1,704	1,621	-83
Supplies & Services	3,590	3,291	-299
Third Party Payments	58	65	7
Support Services	211	210	-2
Income	-1,526	-1,474	52
Capital Financing	2,392	2,217	-175
	<b>41,197</b>	<b>40,766</b>	<b>-431</b>

### Employees

- 2.6 Wholetime Operational Pay: (annual budget £21,493k). The out-turn overspend is **£175k**.
- 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. In fact, by September 2016 the Wholetime numbers of employees had reduced to the required level and since that month there has been an under-establishment of employees as numbers continued to fall. The cost of over-establishment in the first part of the year has been offset by savings in the under-establishment resulting in a

net underspend of around £130k, however an overall overspend has arisen due to levels of pre-planned overtime required to maintain fire cover in accordance with the current collective agreement, an overspend of £305k.

- Members supported the creation of a £350k earmarked reserve in 2016/17 to support the Wholetime pay budget during this period of transition, however the overall underspend in the revenue budget means that this earmarked reserve has not been needed to be created and used. As at the end of March, the number of Wholetime employees in post had reduced to 464.6 full time equivalent (FTE), and this under-establishment of employees supports the strategy of allowing numbers to fall in anticipation of delivering further pay budget savings over the next two years.

2.7 Retained Pay: (annual budget £2,919k). The out-turn underspend is **£263k**, of which £51k is related to Retained Duty System (RDS) employee activity.

- The pay budget underspend of £51k is mainly due to the numbers of RDS employees being less than budgeted for in the year. The budget was based on an assumption of 157 units as it was expected that recruitment activity would increase numbers. In fact, in April 2016 there were 144 units and this reduced to 135 units by the end of the year.
- The remaining underspend of £212k arose at the end of the year as a result of a change in accounting policy relating to accruing for payroll payments made in arrears. Historically, where pay costs relating to March are transacted in April (this mainly affects RDS pay which is paid a month in arrears) these have been accrued for in March. The accruals process is time consuming and by its nature can only be carried out after the April payroll has run. In anticipation of the change to the statutory accounts closure deadline (31<sup>st</sup> May from 2017/18 onwards), this accounting policy has been changed and payroll accruals for payments in arrears will no longer be carried out. This will help to streamline the accounts closure process in future years. The change has resulted in a one-off budgetary saving of £212k relating to RDS pay (variances to other pay budgets are insignificant). An earmarked reserve of £212k has been created, to be used in 2017/18 to offset the new initiatives to encourage retention and changes in working arrangement going forward.

2.8 Pensions: (annual budget £781k). The out-turn overspend on injury pensions is **£100k** due to two main reasons:

- Ill health charges have overspent by £127k, which is largely due to the ill health retirement of four employees in 2014/15, the final instalment of which has impacted on this year's budget. In 2016/17 there were 3 new ill health retirements, 1 upper tier and 2 lower tier).
- The budget for injury pensions has underspent by £27k due to there being no new injury pensions this year, compared to a budget assumption of one new case.

## Premises

- 2.9 Building Maintenance: (annual budget £535k). The out-turn overspend is **£135k** is due to backlog building maintenance work being carried out. This work is supported by an earmarked reserve, which has not been used this year as the overall underspend in the revenue budget has covered the additional costs.
- 2.10 Gas: (annual budget £168k). Gas has underspent by **£79k** due to relatively mild weather this year, however this has been offset to a large extent by an overspend on electricity of £60k arising from a review of charges this year following the identification of a historic billing fault by the supplier.
- 2.11 Rent of Premises: (annual budget £74k). Rent has underspent by **£46k** mainly due to the annual charge for the utilities charged by Nottingham City Council, for the Central Fire station being lower than historic charges.
- 2.12 Business Rates: (annual budget £710k). Rates has overspent by **£52k**, this is due to an estimated of £53k for the New London Road Fire station which became occupied in September 2017. This has been addressed in the 2017/18 budget.

## Transport

- 2.13 Fuel: (annual budget £374k). The out-turn underspend is **£126k**. Although an underspend was predicted for the year the final result is higher than previously anticipated. Although the price of diesel has increased during the year the amount of fuel used in 2016/17 compared with the previous year has fallen, which is most likely related to reducing incident numbers. This budget has been reduced by £28k for 2017/18, but the scale of the underspend again this year means that this budget will need to be closely monitored next year.

## Supplies and Services

- 2.14 Operational Equipment: (annual Budget £383k). The operational equipment budgets have underspent by **£62k** in total, largely due to slippage on items ordered but not received until after the end of the financial year (defibrillators and thermal image cameras).
- 2.15 Protective Clothing: (annual budget £233k). The out-turn underspend is **£94k**. More clothing is being refurbished rather than replaced, resulting in this saving. The budget also included additional funding for RDS trainees but the number of recruits has been fewer than originally expected.
- 2.16 Consultancy Fees: (annual budget £168k). The out-turn underspend is **£105k** and almost all of this is due to slippage on Organisational Development activities, for which some activities have not reached the procurement stage in time for them to be delivered by the year end.

## Income

- 2.17 Non Domestic Rates Growth Income: (no budget). The Nottinghamshire Billing Authorities have identified this year that the methodology for distributing non domestic rates income to Precepting Authorities was flawed. As a result £97k of growth income has been incorrectly paid to the Authority in 2013/14 and 2014/15, and a further £44k of growth income was accrued for in 2015/16. The overpaid income has been reimbursed to the relevant Billing Authorities, resulting in a negative variance of **£141k**.
- 2.18 Government Grant (Revenue): (annual budget -£393k). There is a positive variance against this budget of **£1,142k**. The majority of this variance relates to revenue grant received from government in the year for the Emergency Services Mobile Communications project - £1,070k, which was not anticipated at the time the budget was approved. A further £52k variance is in respect of FireLink grant, which has been increased by government to reflect higher running costs.
- 2.19 Contributions to / from Earmarked Reserves: (budget this year £350k).
- In total, the net change to earmarked reserves in the year was a net contribution to reserves of £1,394k. The biggest single new reserve created was in respect of the national Emergency Services Mobile Communications project, for which government grant was received during the year totalling £1,070k. The creation of this earmarked reserve allows for unspent grant of £950k to be carried forward to future years to fund this project. In February 2017 the Finance and Resources Committee approved an increase of £200k in the earmarked reserve for Organisation Transition and this transfer has been effected. A contribution was received in the year from Public Health England to support the Safe and Well Initiative and this has been used to create an earmarked reserve of £10k to be spent in 2017/18. An earmarked reserve was created for the Hepatitis B vaccinations of £22k as this is an operational requirement for 2018/19. Finally, the underspend of £212k on Retained Duty System pay, caused by a change in accounting policy (see paragraph 2.7 above) has been used to create an earmarked reserve to fund the corresponding overspend in 2017/18.
  - There were some movements between earmarked reserves in the year. An existing earmarked reserve set aside for developments specific to the finance and procurement system was renamed “Business Systems Development” and will now be used to support minor business systems developments which are outside of major upgrades or capital programme ICT projects. Another earmarked reserve has now been closed with its funds transferred to the Business Systems Development reserve – this related to a government grant of £8k to support improvements to transparency reporting, which was received in a previous year, and it is felt that developments in transparency reporting are most likely to be within core business systems such as the finance or the HR systems. In addition £40k has been transferred from the Capital earmarked reserve to

the Business Systems Development earmarked reserve, bringing the total held to £4,894k.

- 2.20 Secondment Income: (annual budget £28k). The outturn underspend on this budget is £56k, which has arisen due to two seconded posts agreed during the financial year, which had not been budgeted for. One secondment relates to the Emergency Services Network project, whilst the other relates to the National Operational Guidance project.
- 2.21 Fire Safety Order: (annual budget £7.5k). The Authority can receive compensation and legal costs relating to the enforcement of fire safety legislation in non-domestic premises. 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 £55k has been received this year, resulting in a positive variance of **£48k**.

## Capital Financing

- 2.22 Capital Financing: (annual budget £2,392k). The out-turn underspend is made up of two variances:
- *Interest charges*: which has underspent by **£276k**. The Authority is advised by Capita on treasury management matters and, on advice, long term borrowing has been delayed. During the year, long term borrowing took place in September (£3m) and again in February (£2m). Both loans were at advantageous interest rates compared to the average loan rate in 2015/16 and were taken out to provide support to reserves in funding future capital schemes. The Authority has now reduced its level of internal borrowing and eliminated some of the interest rate risk it faced due to the high levels of political and economic uncertainty. The underspend is therefore due to a combination of borrowing later than planned, as well as borrowing at a lower rate than budgeted.
  - *Minimum Revenue Provision (MRP)*: which has overspent by **£101k** because the budget 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, and this has increased the MRP charge for 2016/17.

## RESERVES

- 2.23 At 31 March 2016, General Reserves stood at £7.406m and earmarked reserves totalled £3.501m. The revenue outturn underspend of £431k will increase General Reserves and give a new total of £7.837m as at 31 March 2017.
- 2.24 During the year, net changes were made to earmarked reserves of £1,393k, giving a balance as at 31 March 2017 of £4.894m

## CAPITAL BUDGET OUTTURN

- 2.25 The approved capital programme for 2016/17 totalled £1.964m. Slippage brought forward from 2014/15 totalled £2.809m and from 2015/16 totalled £1.211m giving a total capital programme of £5.984m for the year. The outturn is £2.047m, which is an underspend of £3.937m against the total programme.
- 2.26 A capital grant of £14k was received from the Home Office during the year to finance some specific expenditure on the Marauding Threats with Fire Arms Attack this has not been spent within the year 2016/17. A further capital grant from DCLG received in 2015/16 has been used to finance expenditure of £7k on the Tri-Service system project.
- Capital receipts totalling £2.040m have also been used to finance the capital programme and these related to the sale Central Fire station (£2.5m) plus the sale of vehicles and a boat (£18k). The remainder of the capital receipts of £477k will be used to fund capital expenditure in 2017/18.
- 2.27 All assets have been purchased rather than leased which also helps to reduce any future borrowing costs.
- 2.28 A summary of variances is shown in the following table with detailed explanations in the following paragraphs.

	<b>Total Capital Programme 2016/17</b>	<b>Actual 2016/17</b>	<b>Provisional Variance 2016/17</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Transport	2,335	107	(2,228)
Equipment	157	263	106
Property	2,569	1,226	(1,343)
IT & Communications	923	452	(472)
<b>Total</b>	<b>5,984</b>	<b>2,047</b>	<b>(3,937)</b>

### Transport

- 2.29 The decision to extend pumping appliance life to 15 years has changed the replacement programme for rescue pump appliances and there will be no further appliance acquisitions before 2019/20. A review of the existing appliance equipment inventory will help inform the types of vehicles required to meet the operational need of Service Delivery and help fulfil the objectives of the Sustainability Strategy 2020. The outcome of this work will determine the type and number of vehicles required for part of the overall long term vehicle capital replacement plan. The budget for special appliances in 2016/17 was not spent. The Command Support Unit is currently under review as a potential collaboration project with Derbyshire Fire and Rescue Service (DFRS). 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. This vehicle is also under review as a potential collaboration project with DFRS. 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 the specification of the vehicle itself cannot be determined and require **£151k** to be slipped into 2017/18. This will also be subject to the outcome of the proposed to collaboration project with DFRS.

- 2.30 The budget for appliance equipment underspent by **£79k**, this was for the purchase of ICT/radio equipment for the Command Support Vehicle, which was delayed in 2016/17, **£30k** is required to be slipped into 2017/18 for the purchase of equipment for the 2 vehicles that are due to be delivered in June 2017 and for the HMEPU (Hazardous Materials and Environmental Protection Unit).
- 2.31 The budget for the light vehicles underspent by **£864k**. 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, **£116k** will slip into next year and **£748k** will be a permanent saving as it is expected that the light fleet size and specification can be reduced as a result of the review.

## Equipment

- 2.32 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**.
- 2.33 The procurement phase of the breathing apparatus project for 2017/18 is now underway and training commenced 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 Members of this Committee approved a capital variation of **£190k** for this purpose in January 2017. It has now transpired that the supplier can only deliver £105k of the sets before the end of March, so **£87k** will slip into 2017/18.

## Property

- 2.34 The London Road Fire Station Project is now complete and the new station was handed over to NFRS on 12 August 2016. The majority of the project expenditure has been paid within the 2016/17 financial year, except for the contract retention and fees (estimated at circa £120k) which will be paid in the 2017/18 the remaining sum of **£120k** will slip forward to 2017/18.
- 2.35 Refurbishment of Fire Stations budget of **£126k** was not required in 2016/17 and will be slipped into 2017/18.
- 2.36 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 budget for 2016/17 of **£385k** was not required in 2016/17 as it was still in the feasibility stage and will be slipped into 2017/18.

- 2.37 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 budget for 2016/17 of **£203k** was not required in 2016/17 as it was still in the feasibility stage and will be slipped into 2017/18.

### **Information and Communications Technology**

- 2.38 Business Process Automation 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. The slippage on this budget into 2017/18 of **£189K** will be used to fund electronic documents and records management system and a replacement Occupational Health system.
- 2.39 The on-going ICT replacement programme was largely completed in the year.
- 2.40 The upgrade of the existing Tranman system underspent by **£36k** and the options appraisal stage is now complete and **£36k** will be slipped into next year.
- 2.41 The Tri-Service Control Mobilising system phase two of the project is now underway, linked closely with the requirements to implement the new Emergency Services Network (ESN) requirements. **£178k** of the original budget for the system was slipped from 2015/16 and **£171k** will be slipped forward to 2017/18.
- 2.42 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 project was achieved on time and within budget, with an underspend of **£20k** although this was phase one of the project and it is recognised that further modules of the upgraded system could be purchased to enhance efficient working. The underspend will be slipped forward to 2017/18 to enable further developments to be considered and then a final underspend will be reported next year. The payroll replacement system project implementation phase is also underway but will **£45k** now slip into the early part of next year.

### **DEBTS WRITTEN OFF IN 2016/17**

- 2.43 There were no debts written off in the 2016/17 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. COLLABORATION IMPLICATIONS**

The collaboration implications are contained within the body of the report.

## 10. RECOMMENDATIONS

- 10.1 That Members note the contents of this report.
- 10.2 That Members approve the total capital slippage of **£1,679k** to be carried forward to 2017/18.

The breakdown of the slippage is as follows:-

Transport	£297k
Equipment	£87k
Premises	£834k
ICT	£461k
<b>Total</b>	<b>£1,679K</b>

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

None

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