

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

item 6

23 October 2012

Budget Monitoring: 2nd Quarter 2012/13

Report by the Chief Officer and Treasurer

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1 Summary

- 1.1 The second quarter's analysis of actual and committed spending identifies a projected underspend of £2.9m (4.1%). The main variations are:

	Q1	Q2	Total
	£'000	£'000	£'000
Community Response	-899	-577	-1,476
Community Safety	-11	-89	-100
Management and Support Services	-35	-696	-731
Revenue contributions to capital	1,778	-752	1,026
Pensions		-124	-124
Corporate efficiency savings	-145	-123	-268
Contributions from reserves	-1,888	636	-1,252
Total net savings	-1,200	-1,725	-2,925

- 1.2 As a result of the Government's intention to make a 25% reduction in its grant to Fire Authorities over the four years of the current spending review period 2011/12 to 2014/15, the Service is proposing to make substantial savings. The projected underspend, mainly relating to the recruitment freeze, represents early delivery on the savings programmes and helps to position the Service to successfully manage the expenditure reductions.
- 1.3 Given the projected level of underspend it is proposed, subject to the final outturn position being able to sustain the transfers, to make a contribution to the I&S reserve of £1m and use £0.5m to create a new reserve to help meet the cost of new operational requirements, such as those arising from the Shirley Towers inquest. The balance of the underspend would be available for the capital payments reserve.
- 1.4 As part of the second quarter review, budget holders have identified approximately

£300,000 of on-going savings in addition to the Financial Challenge Programme efficiency savings. The 2013/14 Budget report will consider how to make best use of these savings.

2 Recommendations

The Committee is invited to

- 2.1 Note latest financial position for 2012/13;
- 2.2 Approve the virements in section 5;
- 2.3 Support the principle of the transfers to the Improvement and Sustainability Reserve and an Operational Pressures Reserve as set out in Section 6 subject to the final outturn position being able to sustain the transfers;
- 2.4 Recommend that the Authority approves the changes to the capital programme set out in this report;
- 2.5 Recommend that the Authority delegates to the Chief Officer, in consultation with the Treasurer, Chairman of the Authority and Chairman of the Finance and General Purposes Committee, the power to make changes within the approved capital programme limits where it is in the Authority's interests, with the changes being reported back to the full Authority; and
- 2.6 Recommend to the Authority that the mid-year review of treasury management activities be noted.

3 Revenue expenditure

- 3.1 The latest position is detailed in Appendix A. The main variances can be summarised as follows:

	Approved budget / Projected outturn Q1 £'000	Virements £'000	Projected outturn Q2 £'000	Variance Q1 to Q2 £'000
Community Response	42,075	64	41,562	-577
Community Safety	4,914	31	4,856	-89
Management and Support Services	15,426	58	14,788	-696
Revenue contributions to capital	2,533	48	1,829	-752
Pensions	729	0	605	-124
Efficiency savings	255	60	192	-123
Contributions to earmarked underspendings reserve	0	0	25	25
Contribution from revenue	-917	-181	-487	611

grant reserve				
Other expenditure	4,253	-80	4,173	0
Total budget / projected outturn	69,268	0	67,543	-1,725

Staff Pay

- 3.2 The staff pay budget, at £50m, is the main part of the employee budget which also includes £1m other employee expenses such as training expenses, staff advertising and relocation expenses. The pay budget is forecast to underspend by £618,000 as follows:

	Community Response variance £'000	Community Safety variance £'000	Management and Support Services variance £'000	Total variance £'000
Wholetime firefighters pay	-218	0	0	-218
Retained firefighters pay	-150	0	-50	-200
Support staff pay	-84	11	-127	-200
Total staff pay budget	-452	11	-177	-618

Wholetime firefighters pay and allowances (-£218,000, -0.7%)

- 3.3 Last quarter £768,000 savings were reported. Since then there are three more firefighter vacancies making a total of 34. The part year effect of these additional vacancies is to save a further £50,000. It is estimated that another 20 firefighters will retire by the end of the financial year but these savings will be reported later in the year when more vacancies have materialised.
- 3.4 The recruitment of wholetime firefighter trainees will not begin until the new financial year. The trainees budget of £200,000 can therefore be declared a saving.
- 3.5 As described elsewhere on this agenda, it is planned to set up a Marine Offshore Team at a cost of £32,000 (£64,000 in 2013/14) to replace the Marine Incident Response Group (MIRG) which was funded by the Maritime and Coastguard Agency.

Retained firefighters pay and allowances (-£200,000, -3.1%)

- 3.6 Based on the first six months' spend the retained firefighters pay budget is forecast to underspend by between £150,000 and £200,000. Although this budget is difficult to predict and is influenced by weather conditions and other factors beyond our control, it is felt an underspending of £150,000 is likely. This still allows for a 13% increase in cost over the winter months, which was not required last year. Last year spend in the second half of the year was less (48%) than the first (52%).
- 3.7 The Training Department is in the process of introducing fully trained retained firefighter trainers. The budget provision of £100,000 will meet the cost of additional

responsibility allowances when the project is fully implemented and the required number of trainers have been trained. The number of trainers this year is expected to cost £50,000, saving £50,000.

Grey Book pay award

3.8 The employers have recently agreed a 1% pay award from 1 July 2012 for all grey book employees. The estimated cost of £305,000 can be met from the 1% contingency built into this year's pay budget. The full year cost in 2013/14 is estimated at £407,000 which will be taken into account as part of the development of the 2013/13 budget.

Support staff (-£200,000, -2.0%)

3.9 Until the Staff Review plans have been fully implemented, only business critical posts may be filled on a permanent basis, otherwise vacant posts may be filled temporarily. At 1 September 2012 there were 52 support staff posts vacant some of which were covered by 19 agency staff.

3.10 Budget holders have reviewed their establishments and are in the process of filling a number of vacancies resulting in a projected net saving of £400,000, £200,000 more than the first quarter.

Community response (-£577,000, -1.4%)

	Q1 £'000	Q2 £'000	Total £'000
Employees	-899	-452	-1,351
Premises		-60	-60
Supplies and Services		-65	-65
Total	-899	-577	-1,476

3.11 The projected underspend is mainly due to variations in pay budgets as explained above. In addition a saving of £30,000 in energy bills is expected due to the energy conservation schemes already undertaken. Next year savings of over £90,000 are expected. The other savings in fixtures and fittings, hydrant maintenance and stationery reflect current and historical usage.

Community safety (-£89,000, 1.8%)

	Q1 £'000	Q2 £'000	Total £'000
Employees	-11	11	0
Supplies and Services		-100	-100
Total	-11	-89	-100

3.12 The saving of £100,000 relates to a creditor provision set up as part of last year's final accounts which is unlikely to be required as the supplier has yet to submit their invoice despite several requests.

Management and Support Services (-£696,000, -4.5%)

	Q1	Q2	Total
	£'000	£'000	£'000
Employees	-35	-177	-212
Transport		-170	-170
Supplies and Services		-289	-289
Income		-60	-60
Total	-35	-696	-731

- 3.13 The savings in employees from support staff vacancies and the introduction of retained firefighter trainers are estimated at £177,000 as explained above.
- 3.14 Transport costs are forecast to save £170,000 this year. Less operational activity, more fuel efficient vehicles and the introduction of a fuel management system have all contributed to the reduced use of vehicle fuel and estimated savings of £120,000 this year. If activity continues at its present level similar savings will be achieved next year. In addition savings in vehicle spares and additional income from the fitout of vehicles and MOT testing are forecast.
- 3.15 Savings in staff advertising (due to the recruitment freeze), consultancy fees for assessment development centres, and Criminal Records Bureau checks are estimated at £100,000.
- 3.16 As well as savings in printing and stationery and postage, the project and programme management budget for pump priming new projects is not expected to be used this year saving £95,000.

Revenue contributions to capital (-£752,000)

- 3.17 Changes to the capital programme are set out in paragraph 7. The Fire Control project is funded from revenue contributions (which in turn are funded from a revenue grant received last year). The latest forecast shows that there is slippage in this project into next year with an associated reduction in revenue contributions of £752,000 this year. This reduction will be offset by a reduction in contributions from the revenue grant reserve (see paragraph 6.4).

Corporate efficiency savings (-£123,000)

- 3.18 As reported last quarter all anticipated efficiency savings in 2012/13 have been achieved. Appendix B shows the latest forecasts including Partnership Working savings of £50,000 and Operational equipment and appliances savings of £50,000, which are expected to be achieved by the end of this year, two years ahead of schedule.
- 3.19 In addition, the following on-going savings have been reported as part of the second quarter review and included in the projected savings described in paragraphs 3.11 – 3.16 above.

	2012/13 saving £'000	2013/14 saving £'000
Corporate agency budget – has not been used in last three years	-61	-61
Equality and diversity – reduced publicity and promotions and Equality and Diversity Consultative Scrutiny project no longer running.	-21	-21
Carbon management plan - energy savings	-30	-93
Project and programme management contingency	-95	-95
Vehicle fuel – less operational activity and more efficient use (new mgt system)	-120	-120
Central stationery and postage – change in supplier and fewer letters posted	-25	-25
Members' conferences – very little use in last three years.	-30	-30
Staff magazine – Exchange- no longer produced	-20	-20
Total savings	-402	-465

3.20 This year £32,000 of these savings are required for budget pressures elsewhere in the Service resulting in a net saving this year of £370,000. In 2013/14, due to the reduction in budgets listed above and consequently the reduced flexibility this allows, it is considered prudent to increase the corporate budget by £100,000, resulting in a net on-going saving of £301,000 in 2013/14 :

	2012/13 cost £'000	2013/14 cost £'000
Marine Offshore Team (further details elsewhere on the agenda)	32	64
Corporate budget		100
Total cost	32	164

3.21 The additional on-going net savings of £301,000 will be included in the draft 2013/14 forward budget and considered as part of the 2013/14 budget report in due course .

Pensions (-£124,000, -17.0%)

3.22 This saving is mainly as a result two factors. Firstly, a reassessment of the number of ill-health retirements that should be budgeted for has been undertaken with the result being three assumed each year compared with the previous assumption of five (saving an ongoing £48,000 p.a.). The second is as a result of there being no ill health retirements last year (payments are made over three financial years). This saves £73,000 in the current financial year.

4 Carry forward of 2012/13 underspends (-£25,000)

- 4.1 The budget carried forward for the Gartan RDS management system was intended for two years. Only one year has been purchased and a request has been made to carry forward the balance in case a further extension is required.

5 Virements requiring member approval

- 5.1 Under financial regulations Members are responsible for agreeing virements a) over £100,000 or b) permanent virements from non pay budgets to pay budgets. The following virements require member approval this quarter:

- £30,000 from the corporate contingency budget to fund a new volunteer coordinator post. This post will support our volunteers and local managers, and was approved by Directors on 5 July 2012.

6 Reserves

Improvement and sustainability (I & S) reserve (+£1,000,000)

- 6.1 The balance on the I & S reserve currently stands at £2,853,000. It is proposed to fund the following projects included in the projected outturn from this fund if there are insufficient underspendings elsewhere in the budget at the end of the year:

	2012/13 £'000	2013/14 £'000
Joint working project manager	71	
Revenue contributions to capital:		
- Control Room refurbishment	500	
- Capital environmental works	378	800
Total included in the projected outturn	949	800

- 6.2 In addition it has been agreed to fund up to £558,000 to meet the set up costs of the joint working project, of which £71,000 is for the project manager. Also £421,000 is required to complete the FireWatch programme which leaves a balance of £196,000. The environmental works are part of the capital grant bid to the Department of Communities and Local Government (CLG) and if successful this will reduce the call on the reserve by £800,000, increasing the balance available to £996,000.
- 6.3 At present the projected outturn would not require a contribution towards the project manager position and revenue contributions as £949,000 can be met from the original budget. However for presentational purposes it is proposed to show these being met from the I&S reserve and reporting the £2.9m underspend.
- 6.4 It is suggested that £1m of the projected underspend is used to top up the I&S reserve. If the capital bid is unsuccessful this would increase the uncommitted balance to £1.2m.

Revenue grant reserve (+£611,000)

- 6.5 The capital element of the fire control project is being funded from the revenue grant reserve. Due to the change in the profile of expenditure explained at paragraph 7, the contribution from the reserve is reduced by £752,000. This reduction is offset by an increase from the reserve for the cost of the fire control project team (£141,000).

Earmarked underspending reserve (+£25,000)

- 6.6 Paragraph 4 above refers to carrying forward £25,000 budget underspend which will be added to the earmarked underspending reserve.

Operational Pressures reserve (+£500,000)

- 6.7 Following the Shirley Towers inquest the Service Delivery Directorate is reviewing the specification for operational equipment at incidents. The outcome of the review has not been completed but could require a substantial investment. It would be prudent to set up a reserve which would be available for one-off budget pressures like this.

Summary

- 6.8 The following table summarises movements in reserves and the general balance:

	Actual level 1/4/12 £000	Budgeted addition in year £000	Used in year £000	Balance before any in year underspend added 31/3/13 £000
I&S reserve	2,853	0	-949	1,904
Grant reduction	1,811	0	0	1,811
Capital Payments	7,008	4,920	-508	11,420
Earmarked underspending	587	25	-587	25
Revenue Grants	2,141	0	-487*	1,654
Total specific reserves	14,400	4,945	-2,531	16,814
General Balance	2,500	0	0	2,500
Total	16,900	4,945	-2,531	19,314

* As the grant is committed throughout the year it will be counted as 'used'.

7 Capital

- 7.1 The latest committed capital programme costs and proposed financing are set out in Appendix C.

Winchester Fire Station

- 7.2 Discussions are still ongoing with the Contractor to finalise the outstanding works.

Control room refurbishment

- 7.3 This project is now at the interim design stage. It has been decided to incorporate an air handling unit in the scheme, the cost of which will be met from the maintenance revenue budget.

Vehicles – 2011/12 starts

- 7.4 The progress on vehicles is covered in the vehicle replacement report elsewhere on this agenda. Overall the costs are very close to the overall budget. The pumping appliances are approximately £50,000 over budget due to higher raw material costs. However, this is offset by lower cost than anticipated on the two small fire vehicles and only one instead of the original two general purpose vans.

Vehicles – 2012/13 starts

- 7.4 The cost of the 2012/13 starts has reduced by nearly £1.3m as a result of deferring the purchase of certain vehicles (such as the Response Support Vehicles) or assuming that less will be required (provided cars). The full details are set out in the vehicle replacement report.

8 Mid-year Treasury Management report

- 8.1 Attached as Appendix D is the mid-year review of treasury management report. It is a requirement of the CIPFA Treasury Management code to present this report to Members of the Authority for their approval.
- 8.2 The report sets out for Members the Treasury Management activity for the first six months of the year. It sets out the details of the investments made in the Authority's own name, borrowings and reports that the Authority operated within the treasury management indicators set out in the Authority's Treasury Management Strategy.
- 8.3 Members are asked to recommend to the Authority that the report be approved.

People Impact Assessment

- 8.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.

9 Background papers

- 9.1 The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

None identified

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.

