

**Hampshire Fire and Rescue Authority**

**Finance and General Purposes Committee**

**Item: 15**

**24 July 2013**

**Update on the Authority's company – 3SFire Limited**

**Report by the Chief Officer**

Contact: John Beckerleg Telephone: 02380 644000

**1 Summary**

- 1.1 At the Hampshire Fire and Rescue Authority meeting on 14 February 2013, Members agreed to establish a trading company. It was agreed that the Finance and General Purposes Committee would receive regular updates (6 monthly) on the company's progress.
- 1.2 This report provides an overview of the current position with the company and includes an update from the Head of Operations for 3SFire Ltd. It highlights the progress made since February 2013 in terms of establishing the company and developing the brand. It also provides an overview of the business development work to date and where the company is focussing on for future business.

**2 Recommendation**

- 2.1 The Committee is invited to note the update on 3SFire Ltd.

**3 Introduction and background**

- 3.1 HFRA is facing further grant reductions for at least the next four years. Establishing a trading company will allow the Authority to generate profits through fire related contracts, including some in partnership with others, and this will help to offset these funding reductions. There will also be other benefits including potentially improved resilience, the development of staff and the potential to bring new practices into the Service.

**4 3SFire Ltd – update**

- 4.1 Significant work has been undertaken to establish the foundations for 3SFire Ltd and to start to develop the business. Appendix A provides an overview of the main work carried out to date.

## **5 Other actions**

- 5.1 The Standards and Governance Committee will receive a report on the relationship between the Authority and the company.

## **6 Supporting our corporate aims and objectives**

- 6.1 Within our Service Plan priorities we have identified that we are likely to create capacity and generate more revenue by working with other organisations. If successful, a commercial strategy would provide a source of income for HFRS and therefore reduce the impact of future budget reductions that may affect the service.
- 6.2 This proposal would also offer non-financial benefits including:
- staff development;
  - exchange of expertise with other partners; and
  - economies of scale.

## **7 Risk analysis**

- 7.1 Appendix B sets out an analysis of the risks arising from this proposal together with the mitigating actions to manage the risks. The Authority agreed to a financial investment to support the start up of the company. This is on the basis of a repayable, interest bearing loan to be repaid from the company's expected profit. There is a risk that the trading activities of the company are never sufficient to repay this loan.

## **8 People impact assessment**

- 8.1 The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.
- 8.2 No PIA has been completed as there is no identifiable impact on any person/s at this time. However this position will be kept under review as business opportunities are identified.

## **9 Resource implications**

- 9.1 Human Resources

An Area Manager is currently seconded from HFRS to 3SFire Ltd to carry out the role of Head of Operations. Where other resources have been drawn from the Service this has been from within existing capacity.

## **10 Conclusion**

- 10.1 3SFire Ltd, the trading company of the HFRA, has been set up, registered and is starting to develop income. Significant work is underway to develop future

business opportunities and win contracts to create a profit for the company.

## **11 Background papers**

11.1 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

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

## Update from Head of Operations, 3SFire Limited

### **1 Establishing 3SFire**

- 1.1 Following the HFRA meeting on 14 February 2013, 3SFire Ltd was registered with Companies House with the registered office at the HFRS Headquarters. The Articles of Association are now complete. Further to this the company has been registered with HM Revenue and Customs (HMRC) for corporation tax and VAT purposes.

### **2 Governance**

- 2.1 The HFRA has appointed the company directors and the Board has met three times. A company secretary has been appointed.
- 2.2 The HFRA has appointed a shareholder representative who will chair the company's annual general meeting which is expected to take place in June 2014.

### **3 Staffing**

- 3.1 The company has appointed a Head of Operations, a secondment from HFRS.
- 3.2 Work is progressing to identify the available HR models to provide 3SFire with the appropriate people for future contracts. Essentially these come down to using self employed staff on a contract, using agency staff, creating a staff bank from existing HFRS staff and finally direct employment by 3SFire. The decision on which model is most appropriate will be driven by the size and nature of future contracts and their duration.
- 3.3 A draft agreement covering secondments has been prepared.

### **4 Administration**

- 4.1 Insurance arrangements have been put in place for the company, its directors and staff.

### **5 Finance**

- 5.1 Financial accounting and support arrangements are being implemented using services provided initially by Hampshire County Council.
- 5.2 The advice of the HFRA external auditor has been sought on the audit arrangements for the company and a response is awaited.
- 5.3 A loan agreement has been prepared which will determine the basis of the agreed loan of £250,000 to the company. The loan will be at a commercial rate and once

this is determined it will draw down in instalments.

- 5.4 A cost model has been developed to identify the full costs when using people and services from within HFRS by 3SFire. This model has been developed with the Finance Team at HFRS and ensures that there is transparency in how 3SFire is operating. It will also help ensure that there is a reduced risk of challenge with regards to using state aid to subsidise the company. The model has been developed to cover all appropriate Grey and Green Book roles that may be accessed by 3SFire Ltd.
- 5.5 A draft legal agreement governing the full recovery of costs incurred by HFRS on behalf of the company has been finalised and will be signed shortly.
- 5.6 Work to shape the financial aspect of the business plan and financial monitoring is ongoing.

## **6 Branding and logo**

- 6.1 With the name of the company agreed, work has been undertaken to develop the company logo and strap line to support it. This work was carried out by developing a number of options and then using the Board members to make the final choices.
- 6.2 The logo and strapline are:



**Safety – your concern, our business**

## **7 Business development and marketing**

- 7.1 The business plan is being developed to provide the overarching vision of where the company is aiming to be in the future, but should not be used to restrict development of business in relevant areas at the present. The business plan is structured around four main areas of business opportunity:
  - Fire Management Consultancy;
  - Specialist Training;
  - Fire Risk Assessment; and
  - Operational and Support Services
- 7.2 Work is underway in each of the four areas and the company has delivered and invoiced for its first services within the fire management consultancy area. A number of leads are being worked on within the specialist training area seeking to capitalise on the strengths within the Service.

- 7.3 We are continuing to work with Serco on the potential Defence Fire Risk Management bid though this is now not likely to be released to the market until late 2013 or early 2014. We are taking part in the pilot of a new landlord fire safety and carbon monoxide safety register (Blue Watch) which has been developed by Capita. We are anticipating delivering the first validation of a landlord's self assessment in the coming weeks and the activity should then start to increase as the awareness of the register is developed.

## **8 Marketing and communications**

- 8.1 3SFire Ltd has the ambition to establish itself as a market leader in the provision of a range of fire service related activities. To establish a foothold in competitive markets and start to build the 3SFire Limited brand there is a need to invest in some marketing activity in the near future. A marketing plan has been developed and this will support 3SFire in becoming a recognised leader in the areas of business it is pursuing and assist in developing the business to become profitable.
- 8.2 Work on the 3SFire website is progressing and we about to appoint a web developer to create our official site. This will be used to promote the services of the company and to capture leads for future business.

## Risk assessment

## Appendix B

A comprehensive analysis of the risks (legal, financial, contractual and operational) involved in setting up a company has been undertaken. The key risks and the mitigating actions are:

No	Risk	Likelihood	Impact	Total	Mitigation
	Failure to set up company in strict compliance with legislation	L	M		Appropriate legal advice will be sought in creating the company.
	Failure to follow the statutory guidance on trading companies	L	M		Appropriate legal and governance arrangements will be built into the new company, based on legal advice.
	Lack of commercial expertise and experience	M	M		Accessing advice and guidance both from within and outside the service and Authority. Appointment of an appropriately qualified non executive director
	Use of the company to provide services which have to be provided by HFRS	L	L		Each trading proposal considered by the company will include a business case which identifies the statutory obligations
	Possibility of trading with out the necessary legal powers (ultra vires)	L	L		Each trading proposal considered by the company will include a business case which identifies the statutory powers. The Fire Services Act 2004 provides wide ranging powers.
	Possibility of conflict of interest for Members/ employees acting as Board members or staff of the company	M	M		Codes of Conduct will be established. Potential conflicts will be considered on appointment and regularly after that.
	Weaknesses in documentation of company contracts (e.g. break clauses, payment terms, liabilities for non-performance)	L	M		Robust contracting and governance arrangements to be established by the company. Contracts to be checked with legal advisers before signing.
	Failure to manage the reputational impact of the company on HFRA	L	L		A full communications plan will be developed to ensure that the image of the company is aligned and supports the HFRA

No	Risk	Likelihood	Impact	Total	Mitigation
	Failure to arrange adequate insurance cover for the company's liabilities and assets.	L	H		The HFRA insurance advisers will be asked to advise on the various appropriate insurance policies that are required. Insurance arrangements will be kept under review (including potential areas of business)
	Failure to comply with statutory requirements for limited companies including taxation (such as VAT and corporation tax)	L	M		Appropriate expert advice will be sought. Advice will be taken on taxation issues
	Failure to comply with statutory requirements relating to staff transfer (Transfer of undertaking – protection of employment – (TUPE))	L	L		Initially no functions / staff will transfer but this risk will need to be reviewed regularly
	Failure of the company affects the reputation and public perception of HFRA / HFRS.	L	M		This risk will be kept under regular review alongside the communication plan (see above)
	Failure of the company to be competitive	M	L		Bids will be assessed to take account of the full costs of contracts. Market intelligence will be developed
	Adverse financial impact on the HFRA reserves (and hence the taxpayer) if the company makes losses or has insufficient cash flow to begin trading	L	L		Robust costing, finance, contract and governance arrangements to be put in place.
	Absence of company credit rating	L	L		Consideration will be given to HFRA providing a guarantee or seeking appropriate insurance if available. Working in partnership with other more established organisations may help with reduce this risk.
	Challenge from the HFRA auditors (particularly external auditors)	L	L		HFRA will continue to discuss the establishment of a company with its external auditor. The internal audit plan will examine the relationship between HFRA and the company.

No	Risk	Likelihood	Impact	Total	Mitigation
					All financial transactions will be separately identifiable. The accounts closedown process will include an assessment of the relationship between the HFRA and the company following the Code of Practice on Local Authority accounting.
	Lack of capacity to manage the additional work of the company	M	L		The company's business plans will be carefully scrutinised to ensure that there is careful planning of staff resources and additional demands met without affecting core services.
	Contractual disputes	L	M		All contracts will be checked with the legal team before signing. Staff will be trained in contract preparation and operation.

H – High  
M – Medium  
L – Low