

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 6

4 July 2014

Final Accounts 2013/14

Report of the Head of Finance and Chief Officer

Contact: Rob Carr, Deputy Treasurer, 01962 847508

1 Summary

- 1.1 The Authority has been preparing for some time for the Government Grant reductions in the second half of the CSR 2010 period and has implemented a strategy of making savings in advance of need in order to provide funding for investment in service improvement and further measures to generate savings. This strategy is again evident within the 2013/14 outturn position as the Authority continues to deliver the savings required to balance their budget whilst being able to establish a budget especially for service improvements this year.
- 1.2 In the final quarter expenditure was £1.475m (2.2%) below the revised budget position. £1.021m of this underspend was on the newly established service improvement budget. The revised budget report in January recommended this was added to the improvement and sustainability reserve (I&S) so this is available for Heads of Service to use in 2014/15. An additional £173,000 of the underspend is requested to be added to the earmarked underspends reserve to be carried forward to fund expenditure which has slipped into 2014/15.

	Quarter 1 to 3 £'000	Quarter 4 £'000	Total outturn £'000
Forecast / actual underspend	1,783	1,475	3,258
Used for service improvements		-1021	-1,021
Used for carry forward	-570	-173	-743
Balance to be added to reserves	1,213	281	1,494

- 1.3 The underspend has been achieved across many expenditure heads including IT and communications, environmental works, training expenses,

insurance costs, catering, spares & consumables and revenue contributions to capital. Additional income has been generated through interest on investments, income from fit out of operational vehicles and section 31 revenue grant funding above what was expected.

- 1.4 However some service areas experienced budget pressures, most notably in retained firefighters pay and allowances and energy costs. In both cases this was due to factors beyond the control of the Service.
- 1.5 This underspending will help the Authority to deal with government grant reductions in subsequent years. It is recommended that the additional underspend of £281,000 is added to the I&S reserve as the capital payments reserve is in a healthy position.
- 1.6 The opportunity is also taken in this report to update the Committee on the monitoring position for the 1st quarter of 2014/15 following changes to systems that have been or are being introduced this year and have therefore impacted on the normal monitoring processes and timetable.
- 1.7 In addition, the report contains a proposal to change the arrangements for the statutory Chief Financial Officer for the Authority in line with changes to structures being introduced as part of joint working with Hampshire County Council and Hampshire Constabulary.

2 Recommendations

- 2.1 That the annual treasury outturn report set out in appendix 2 of this report be noted and recommended to the Full Authority for approval
- 2.2 That capital payments for the year be financed as set out in paragraph 4.15 of this report.
- 2.3 That the carry forward of specific underspendings set out in paragraph 7.2 of this report be approved.
- 2.4 That the accounts for 2013/14 be approved including the use of reserves set out in paragraph 7.8 of this report.
- 2.5 That the increase in the 2014/15 capital programme under delegated authority as set out in paragraph 8.4 be noted.
- 2.6 That the funding for the Risk Review and Professional Services Directorate redesign projects totalling £453,000 as set out in paragraph 8.4 is approved to be met from the Service Improvement budget held in the I&S Reserve.
- 2.7 That the committee notes the changes to the 2014/15 capital programme set out in paragraph 8.5.
- 2.8 That the Committee recommends to the Full Authority the change in its statutory Chief Financial Officer as set out in paragraph 9.5.

3 Revenue Expenditure

The significant variations leading to the net underspending are summarised in the following table and set out in more detail in the following paragraphs.

	Original Budget £000	Revised budget £000	Outturn £000	Variance £000
Community Response	9,953	10,528	10,889	361
Community Safety	4,298	4,182	3,901	-281
Management and Support Services	6,726	6,736	6,316	-420
Service improvement budget	0	1,021	0	-1021
Interest receivable	-111	-111	-279	-168
Increase in provisions (See para 6)	0	0	279	279
Section 31 Grant funding	0	0	-240	-240
Other	755	663	678	15
				<hr/> <hr/> -1,475

Community Response (+£361,000, +0.8%)

- 3.1 The main overspends were in the budgets for retained firefighters pay and allowances and for printing and stationery. These are attributed to two main causes; the particularly severe weather this winter and the industrial action. Both of which required retained stations to be on stand by and a number of retained firefighters to be called on. During the industrial action a large amount of community safety information needed to be produced and distributed which impacted on the printing and stationery budget.
- 3.2 Energy costs were also overspent mainly due to increased consumption in retained fire stations. A detailed analysis of our energy use will be commissioned which will be used to profile the expenditure and identify premises with abnormally high consumption. We also need to be able to accurately forecast energy costs as occupancy increases.

Community Safety (-£281,000, -6.0%)

- 3.3 A large part, £118,000, of this underspend has arisen due to slippage in costs

arising from delays in the Home Safety project and Protection change projects.

- 3.4 The remainder of the underspend has arisen from a number of vacant posts, most of which are in Protection.

Management and support services (-£420,000, -2.9%)

- 3.5 £163,000 of this underspend has arisen from extra income generation, most of which has been generated through fit outs of operational vehicles. In addition, an insurance claim settlement of £19,000 has been paid for the flooding of the control room and a contribution towards overheads of £24,000 has been made from 3S Fire Ltd along with an interest charge made to them for £2,022 in respect of the monies loaned to them under the original agreement.
- 3.6 The insurance budget has seen a large underspend of £80,000 due to only a few minor claims being made this year, resulting in a small number of insurance excesses needing to be paid.
- 3.7 Other areas of underspend were in the provision of catering for meetings, fewer physiotherapy referrals, and lower recruitment costs than expected. Also workshop spares and consumables were underspent, partly because Royal Berkshire FRS have rescheduled major servicing of appliances and specials and the balance (5%) is within normal deviation for unscheduled breakdowns and repairs.

Interest receivable (-£168,000, +151%)

- 3.8 The increase in interest has resulted from investment of the significant reserves which the Authority held at the beginning of the year coupled with the early, one off payments of grants which both have enabled a more active cash management strategy this year with greater investment of cash balances.

Impact on future years

- 3.9 The savings achieved in 2013/14 are part of the early delivery of the four year Financial Challenge programme established in response to the comprehensive spending review 2010. The savings are at the target level.
- 3.10 The addition to reserves will help the Authority to meet future spending. This applies particularly to the capital programme as specific government capital grant has been withdrawn from 2015/16
- 3.11 The level of underspend is not permanent and will reduce because the annual grant from Government will reduce. However the opportunity is being taken to review all significant budget underspending to identify if permanent budget reductions can be made.

4 Capital

- 4.1 Capital payments during the year totalled £2.7m compared with the £4.2m forecast in January 2014. Full details are given on a scheme-by-scheme basis in appendix 1. Variations are summarised in the following paragraphs.

Vehicle replacement programme (-£929,000)

- 4.2 There have been no changes to the planned purchases on the 2011/12 vehicle replacement programme. However a variance of £2,000, is shown due to fit out costs on a support van exceeding the underspend on the two Ariel Ladder Platforms. This £2,000 will be accommodated from underspends in the 2013/14 programme.
- 4.3 On the 2012/13 vehicle replacement programme £29,000 worth of planned expenditure has slipped and there has been a £7,000 overspend caused by higher than expected costs on the command support vehicles. This will be funded by underspends in the 2013/14 programme.
- 4.4 On the 2013/14 vehicle replacement programme £603,000 has slipped to 2014/15 on a number of vehicles. These include the 7 provided cars as the final specification is still under consideration and 8 of the 12 the crew cars due to Ford updating the model and retooling the production line. The remainder of the slipped vehicles is largely due to pending information from the Risk Review regarding staffing and operational need.
- 4.5 The four response support vehicles and foam pods on the 2013/14 programme are now expected to have an underspend of £296,000 due to the vehicles being less complex than originally thought. There is also an additional £10,000 underspend on the 4 crew cars which became operational this year.

Other Capital Schemes (-£600,000)

Winchester Fire Station (-£74,000)

- 4.6 The final account for construction of Winchester Fire Station has been settled. Therefore the under spending shown this year will be needed to be carried forward into 2014/15 to pay for retention and the last remaining charges.

2012/13 Capital schemes (- £615,000)

- 4.7 The main Basingstoke fire station project has been re-profiled and a larger part of expenditure will now be incurred in future years.
- 4.8 The Network Fire control system has slipped due the late decision of Wiltshire and Dorset Fire Authorities to merge control rooms.

4.9 Major building repairs shows a £14,000 underspend, however £5,000 of this is expected to slip into 2014/15.

4.10 The fire control room refurbishment has now been concluded and required £1,000 less from the I&S than originally anticipated.

2013/14 Capital schemes (+£89,000)

4.11 Replacement of garages as part of the retained station programme is showing an £84,000 underspend. There is still an outstanding garage at Beaulieu to be completed in 2014/15, so £34,000 of this underspend is slipped expenditure. The remaining £50,000 has been declared as an underspend and will go towards the refurbishment of the annex at Steele close.

4.12 The BA chambers are showing £160,000 over planned expenditure. This is due to the programme being completed ahead of schedule. Only £5,000 is expected to slip into 2014/15 as opposed to £225,000 that was originally profiled to be spent. £60,000 has been declared as an underspend.

4.13 The Live Fire training facility is showing as £23,000 variance over the profile expenditure. This has occurred due to extensive unplanned electrical works on the facility being required. The total budget for this project has therefore been increased by £50,000 which is being funded through the underspend on the BA chambers.

4.14 Work has begun on the refurbishment of the annex at Steele close to house the Occupational Health team earlier than expected in 2013/14 and is expected to be completed in 2014/15. The remainder of the project will be funded by the underspend on the 2012/13 major building repairs budget, the earmarked revenue contribution of £200,000 and £85,000 from the 2014/15 major buildings repair budget.

4.15 The rope training facility has now slipped to 2014/15.

Financing

4.16 Capital payments can be financed from the following sources:

	£'000
Capital grants	1,498
Capital grant unapplied reserve	257
Revenue contributions	929
Total	<hr/> 2,684 <hr/>

- 4.17 The Authority received £1,450,141 in the form of a capital grant in 2013/14 from the Department for Communities and Local Government (CLG) for 'capital priorities'.
- 4.18 Also this year a grant from the Environment Agency of £48,000 was used to partially fund two environmental protection vehicles.
- 4.19 Part of the 2012/13 capital grant which was transferred to the capital grants unapplied reserve (CGUR) at the end of last year has been spent this year to fund expenditure this year, which had slipped from 2012/13.
- 4.20 By using the capital grant, CGUR and revenue contributions this year the Authority has not had to use any unsupported borrowing.

5 Treasury Management

- 5.1 The treasury management strategy approved by the Authority in February 2013 was followed throughout the year. All the limits and boundaries set were fully complied with.
- 5.2 The year end report is set out as Appendix 2 for Members' approval.

6 Provisions (+£279,000)

Provision for pensionable allowances (+£261,099)

- 6.1 Following the ruling in Norman V Cheshire, a provision has been set up this year to cover pension contributions which will now need to be paid on certain allowances which were not treated as pensionable when originally paid. These included allowances paid to training instructors, additional responsibility allowances (ARAs) and the new USAR allowance. Pension contributions on Co-responder ARAs allowances have also been included in the provision. However, the possibility of recovering these costs from South Central Ambulance Service (SCAS) is being investigated in hope of reducing the Authority's total liability.
- 6.2 The remaining increase relates to the provision for uninsured losses.

7 Reserves and general balance

- 7.1 At the revised budget the Authority agreed the principle that any further underspend should be added to the capital payments reserve. However, as no contribution towards the capital programme was required this year from this reserve meaning it is still in a healthy position, it is recommended that the additional un-earmarked underspend of £281,000 is added to the I&S reserve.

Earmarked Underspendings reserve

- 7.2 Several requests for carrying forward Underspendings have been made totalling £743,200. Members are asked to approve the following.

BUDGET ITEM	ORIGINAL BUDGET OR AGREED DURING THE YEAR £'000	CARRY FORWARD BUDGET UNDERSPEND £'000	REASON FOR UNDERSPEND AND HOW IT WILL BE USED
Mobilising technology for FDS officers	50.0	50.0	This budget is for 80 mobile devices plus fitting and training, which was not spent due to delays in procurement caused by a change to HFRS procurement rules for IT solutions.
Community Safety - protection change projects	102.0	64.0	Project to support the development of the Community Fire Risk Management Information System and the purchase of the next generation of mobile data devices to support flexible working and increase contacts with the business community. The budget again was not spent due to delays in procurement necessitated by a change in HFRS procurement rules for IT solutions which impacted on CFRMIS software development upgrades.
Repairs and maintenance	808.0	200.0	This is required for to increase RCCO in 2014/15 for the refurbishment of Steele Close annexe.
Insurance	580.0	40.0	£15K is required to fund the temporary position for an Insurance Risk Officer for further 6 months. £25K Risk Control Measures and a contingency for setting up insurance pool.
Hantsfile set up costs	210.0	136.0	Delays have caused the majority of the Hantsfile project to be delivered during 2014/2015
FireWatch - Extension of Integrated Personal Development System	95.5	93.0	Delays due to difficulties recruiting staff
Home Safety Project	114.0	55.0	There is not a linear spending pattern for the 18 month project spread across two financial years. Many of the costs are still to be seen such as up skilling staff and spending time with partners to establish and embed fire safety in the social care environment where maximum impacts will be delivered.
Animal Rescue WM secondment to CFOA	40.0	29.0	8 months remaining of an 11 month contract.
Retained Management System, Gartan, texting costs to August 14	10.0	4.0	RMS Gartan system annual licence ends August 2014 when FireWatch takes over. Texting costs paid on a quarterly basis so 6 months costs to be funded in 2014/15.

Retained Duty System sustainability project manager	60.0	48.0	Station Manager secondment required to complete project.
Provided vehicles - project manager	24.0	6.0	PM started July 13 and required to complete project by June 14, so to fund 2 months of pay costs.
Project Manager- Knowledge Management	21.6	7.2	PM started Dec 13 and to complete project by end of May 14, so required to fund 2 months of pay costs.
Business Intelligence developers	66.0	11.0	Last year it was agreed to carry forward funding to extend the funding for these posts for 12 months to May 2014, so required to fund 2 months of pay costs.
Total carry forwards (Earmarked underspending reserve)		743.2	

Grant reduction reserve

- 7.3 This reserve was originally to finance the costs of the voluntary redundancy scheme of which a total of £44,000 has been paid out in 2013/14. An additional contribution was made to this reserve in 2012/13 to fund other priorities, therefore once all the exit package costs have been met this reserve will be available for other priorities the Authority identifies.

Improvement and Sustainability Reserve

- 7.4 A contribution of £1,149,000 from this reserve is recommended to fund the costs incurred to date with the joint working programme, FireWatch, the capital costs of the control room refurbishment, the environmental works and the risk review area manager. This is offset by the recommended contribution of the service improvement underspend of £1,021,000 and the quarter 4 underspend of £281,000 to this reserve, which results in a net contribution of £153,000 to the reserve.

Capital payments reserve

- 7.5 It is recommended that a contribution of £3,674,000 is made to the capital payments reserve, which is in line with the original budgeted contribution and the underspend which was presented at the revised budget position in January 2014.

Capital and Revenue grants unapplied reserve

- 7.6 This year a draw of £256,891 from the capital grants unapplied reserve has been required to fund expenditure incurred in 2013/14 which has slipped from 2012/13 capital programme.

7.7 Revenue grants totalling £2,083,000 have been received in 2013/14 and £2,393,000 of grants have been spent requiring a net draw from the revenue grants unapplied reserve of £310,000.

Reserves and general balance summary

7.8 The movements in these reserves and the general balance, including the proposed adjustments to reserves, can be summarised as follows:

Reserve	Balance at 1 April 2013 £'000	Used during the year £'000	Planned Addition £'000	Further Addition £'000	Balance at 31 March 2014 £'000
Capital payments	14,659	0	3,674	0	18,333
Improvement & sustainability	3,853	-1,149	1,021	281	4,006
Earmarked underspendings	858	-858	570	173	743
Grant reduction	2,149	-44	0	0	2,105
Revenue grants	1,780	-338	28	0	1,470
Earmarked Revenue Reserves	23,299	-2,390	5,293	454	26,657
Capital grants	681	-257	0	0	424
Capital Receipts	1,054	0	64	0	1,118
Capital Reserves	1,735	-257	64	0	1,542
General balance	2,500	0	0	0	2,500
Total reserves	27,535	-2,647	5,357	454	30,699

8 Budget Monitoring 2014/15 Quarter 1

8.1 The quarter 1 budget monitoring report has been removed as a separate item from the F&GP agenda due to the extensive changes which have resulted from the changes to the IBC, which has seen reporting tools such as Business Intelligence disappear.

8.2 Due to the better than anticipated position the Authority was in at the end of 2013/14 and the fact the 2014/15 original budget anticipates a contribution to reserves, and at this point in time nothing has become apparent which will

affect the original budget estimates, there is not deemed any significant variations to be reported. However, the following items are mentioned for information and / or approval.

8.3 A new vehicle for the Princes Trust has been purchased under delegated authority. The purchase cost of £17,000 and on-going maintenance costs will be met from the externally funded Princes Trust budget.

8.4 Heads of Service propose to use the Service Improvement budget to fund 2 key projects in the current year. The Risk Review and Professional Services Directorate Redesign project.

- The Human Resources Committee received a report on 5 May 2014 explaining the redesign of the newly established Professional Services directorate. The Professional Services Redesign will deliver a full review of the new Directorate to ensure it provides effective and sustainable services in the future. It will also deliver £1.4m savings that will be required due to the financial challenge anticipated due to CSR2. The project requires a dedicated Senior Responsible Officer and a dedicated Project Manager for 12 months at an estimated cost of £115,000.

- The Risk Review is a key strand of work that will shape the Service over the coming years. This will undertake a fundamental examination of cover across the County together with many other related factors such as the use of technology and vehicle strategy and is tasked to deliver savings of £5m to help meet the financial challenge. The estimated cost of the review in 2014/15, including four team members and risk mapping work, is £300,000.

Also, to support the Professional Services Director during this period of significant change Directors have agreed to fund a temporary Staff Officer for 18 months from the Investment and Sustainability reserve at a cost of £38,000

8.5 in 2014/15 and 2015/16. There have been two alterations to the capital programme in 2014/15.

- The remaining project cost of the refurbishment of the annex at Steele close of £314,000 now appears on the programme. The major buildings repair budget for 2014/15 has transferred £85,000 to this project to fund the shortfall of costs expected which will not be met from the earmarked revenue contribution or the other aforementioned underspends.

- £1,071,000 for the solar photovoltaic panels has now been added to the capital programme. This project will still be funded from the I&S reserve as previously agreed.

8.6 At the end of quarter 1 the Authority had loaned 3S Fire Ltd £145,200 of the £250,000 loan facility agreed. Currently the Authority is receiving interest on this amount of 3.19% APR.

8.7 Due to the switch over and go-live on the new SAP system falling within August, the quarter 2 budget monitoring report will be prepared prior to this (which is earlier than normal) to ensure any potential discrepancies in reporting between the two systems can be fully resolved before the figures from the new system are relied upon.

9 Chief Financial Officer Position

9.1 Although it does not sit entirely with the content of this report, the opportunity is being taken to use this report to make a proposed change to the arrangements for the statutory Chief Financial Officer to the Fire Authority.

9.2 Since its inception, HFRA has received its strategic financial support from the County Treasurer's Department at Hampshire County Council. In addition, Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

9.3 The Chief Financial Officer (sometimes referred to as the Section 151 Officer) for HFRA has always been the County Treasurer (more recently the Director of Corporate Resources) although day to day interaction has generally been with the Deputy County Treasurer (more recently the Head of Finance).

9.4 The joint working partnership between Fire, Police and the County Council have prompted a review of these arrangements, to ensure that the financial accountabilities and responsibilities are properly reflected in the new structures that are being put in place.

9.5 It is therefore proposed that the statutory Chief Financial Officer (CFO) for HFRA be transferred from Carolyn Williamson to Rob Carr and that the Deputy CFO be moved from Rob Carr to Richard Croucher, who is now the Lead Finance Business Partner for Police and Fire.

9.6 Since this is a constitutional issue, it will need to be agreed by the Full Authority in September and would not come formally into force until that date, which ties in with the 'go live' date for Fire moving onto the new IBC systems near the end of August.

10 People impact assessment

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

Section 100 D – Local Government Act 1972 – background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the

preparation of this report.

None identified

NB the list excludes published works and documents which disclose exempt or confidential information as defined in the Act.