

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 7

8 July 2015

Final Accounts 2014/15

Report of the Chief Finance Officer and Chief Officer

Contact: Rob Carr, Head of Finance, 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 2014/15 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 £903,000 (1.4%) below the previous reported forecast outturn position, making a total underspend for the year of £4,438,000. It is recommended that a contribution of £1,484,000 is made to the capital payments reserve to meet the pension cost of historic over claims. An additional £16,000 of the underspend is requested to be carried forward to fund expenditure which has slipped into 2015/16.

	Quarter 1 to 3 £'000	Quarter 4 £'000	Total outturn £'000
Forecast / actual underspend	3535	903	4,438
Used for carry forward	-88	-16	-104
Used for capital payments reserve re historic over claims of pension costs		-1,484	-1,484
Balance to be added to reserves	3,447	-597	2,850

- 1.3 The underspend has been achieved across many expenditure heads including support staff pay, wholtime and retained firefighters pay, IT and

communications, insurance costs, and hydrant maintenance. Additional income has been generated through interest on investments, income from the Primary Authority Scheme and 3S Fire Ltd.

- 1.4 There were very few service budget overspends and these were mainly for one-off situations, such as redundancy and pension strain costs.
- 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 £2.85m is added to the newly created Transformation 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 2015/16.

2 Recommendations

- 2.1 That the annual treasury outturn report set out in appendix 3 of this report be noted and recommended to the Full Authority for approval
- 2.2 That the capital payments for the year be financed as set out in paragraph 4.13 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 Transformation Reserve be set up in 2014/15, amalgamating previous reserves for use in the transformation of future services.
- 2.5 That the changes to the capital payments in 2014/15 (Appendix 1) and the impact on the capital spend profile going forward (Appendix 2) are noted and approved.
- 2.6 That the accounts for 2014/15 be approved including the use of reserves set out in paragraph 7.12 and 8.3 of this report.
- 2.7 That delegated authority be given to the Chief Officer in consultation with the Chief Finance Office and Chairman of the Authority to approve time critical expenditure where it is in the best interests of the Service from the Transformation Reserve subject to it being reported retrospectively to the next F&GP Committee.

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	Q3 Forecast £000	Outturn £000	Variance £000
Community Response	41,894	42,016	41,766	-250
Community Safety	4,965	4,009	3,954	-55
Management and Support Services	15,508	15,062	14,697	-365
Interest receivable	-126	-168	-329	-161
Other	3,637	1,512	1,440	-72
	65,878	62,431	61,528	-903

Community Response (-£250,000, -0.6%)

- 3.1 The main underspend was in the budget for retained firefighters pay and allowances. During industrial action retained stations were required to be on stand by and a number of retained firefighters were called on. However the cost of this was more than offset by the lower than expected operational activity.
- 3.2 The hydrant maintenance budget was also underspent. This was mainly due to delays with the Water Authorities carrying out the work.

Community Safety (-£55,000, -1.4%)

- 3.3 Increased costs in IT equipment, publicity and non staff advertising was more than offset by additional income from the Primary Authority Scheme and wholetime firefighter vacancies.

Management and support services (-£365,000, -2.4%)

- 3.4 The majority of the underspend relates to the IT and communications budgets. Following the decision to conduct the IT transformation review it was agreed to pause the Hantsfile project until the outcome of the review was known. Savings in telephone costs and income from 3S Fire Ltd also contributed to the underspend.
- 3.5 The underspend was slightly offset by an overspend in employee costs due to the late settlement of the support staff pay award and higher than expected training costs.

Interest receivable (-£161,000, +96%)

- 3.6 The increase in interest has resulted from investment of the significant reserves which the Authority held at the beginning of the year, which were not drawn on in year as much as was originally anticipated, coupled with further underspends and the early, one off payments of grants which has enabled a more active cash management strategy this year with greater investment of cash balances.

Impact on future years

- 3.7 The savings achieved in 2014/15 reflect the delivery of the four year Financial Challenge programme established in response to the comprehensive spending review 2010. Also it reflects the early delivery of the Safer Stronger Board efficiency programme which seeks to meet a forecast funding gap of £12m.
- 3.8 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
- 3.9 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 budgets underspending to identify if permanent budget reductions can be made.

4 Capital

- 4.1 Capital payments during the year totalled £3.15m compared with the £5.26m forecast in January 2015. Full details are given on a scheme-by-scheme basis in appendix 1. Variations, which affect this year and the following years capital spend profile are summarised in the following paragraphs.

Vehicle replacement programme

- 4.2 On the 2012/13 programme:
- An underspend of £3,000 has been declared on two of the three remaining vehicles on this programme.
 - £54,000 on the USAR vehicle has slipped into 2015/16.
- 4.3 On the 2013/14 programme:
- A variance of £14,000 is showing on the remainder of the 12 crew cars & vans, this will be used to fund the small overspend on the 4 RSV's.
 - Expenditure totalling £61,000 for fit out on the 4x4 pick up and the 2 foam pods has now slipped into 2015/16.

- Expenditure on the Incident Command Unit (ICU) has been increased by the underspends declared on the 2014/15 programme as this is set to go ahead next year and may potentially exceed the original budget.

4.4 On the 2014/15 programme:

- The 5 frontline appliance chassis' and the 2 light off road vehicles have been purchased. However, due to fit out a large proportion of spend has slipped into 2015/16.
- The 4 GP vans and two mobile workshops have slipped in to 15/16 pending risk review.
- The 23 additional provided vehicles have been ordered, however also have now slipped into 15/16 along with the 3 Operational Equipment vans.

4.5 Underspends on the 2014/15 vehicle programme have been declared on the following;

- The 14 crew cars / vans; this is due to Ford releasing an upgraded model at a lower price.
- The 12 provided vehicles; this is due to 9 of these being bought prior to the final specification being finalised and therefore coming in slightly below
- The personnel Carriers; this is due to the vehicles coming in at £9k per carrier less than budgeted for and one being fully funded by the Princes Trust.

4.6 These underspends have been used to increase the budget which was originally available for a driver training car to £20,000 so a provided vehicle can now be purchased, with the rest used to potentially fund the ICU.

Other Capital Schemes

Winchester Fire Station (-£45,000)

4.7 The final account charges relating to retention for Winchester Fire Station has now been received from Leadbitter. This has come in at £125,000 so has achieved an underspend of £45,000.

2012/13 Capital schemes (- £615,000)

4.8 The main Basingstoke fire station project has been re-profiled and a larger part of expenditure will now be incurred in future years.

4.9 The Network Fire control system has slipped due the late decision of Wiltshire and Dorset Fire Authorities to merge control rooms.

2013/14 Capital schemes (+£89,000)

- 4.10 The remaining garage at Beaulieu is almost complete. However, the remaining budget is being slipped into 15/16 to cover the last few charges and defects.
- 4.11 The Live Fire training facility has now been concluded, with the remainder of the budget being held for 2015/16 to cover defects.
- 4.12 Work has concluded on the annex at Steele close to house the Occupational Health team. Again the last remaining small piece of budget is being held in 2015/16 to cover retention and defects.

Financing

4.13 Capital payments can be financed from the following sources:

	£'000
Capital grants	737
Capital contributions	18
Revenue contributions	2,394
Total	<hr/> 3,149 <hr/>

- 4.14 The Authority received £1,450,141 in the form of a capital grant in 2014/15 from the Department for Communities and Local Government (CLG) for 'capital priorities'. As this was not all spent in 2014/15 the balance has been transferred to the Capital Grants Unapplied Reserve (CGUR) for use in future years.
- 4.15 By using the capital grant and revenue contributions this year the Authority has not had to use any unsupported borrowing or the capital payments reserve.

5 Treasury Management

- 5.1 The treasury management strategy approved by the Authority in February 2014 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 3 for Members' approval.

6 Provisions (-£552,000)

- 6.1 The following provisions have been reduced in the 2014/15 financial year. The money released from the reduction in these provisions has been transferred to the Transformation Reserve.

Provision for pensionable allowances (-£219,802)

- 6.2 The provision set up following the ruling in Norman V Cheshire case, to cover pension contributions which will now need to be paid on certain allowances which were not treated as pensionable when they were originally paid, has been reduced to reflect the fact that this is only likely to impact as far back as the 1st July 2013. However, a contingent liability of £59,000 has now been provided for in the Statement of Accounts, to cover some allowances which at this time it is not clear whether they are pensionable or not.

Provision for tax liabilities (-£174,000)

- 6.3 This provision has been removed due to the amount of time which has now elapsed since the original investigation, which now makes it unlikely HMRC will be able to reclaim any tax liabilities.

Provision for pension payments arising from the P/T Workers (Prevention of Less Favourable Treatment) Regs 2000 (-£162,462)

- 6.4 This provision has also been removed. This is due to the fact there is only a very small number of previous employees who were originally written to regarding making a claim under these regulations, who are yet to respond. Due to the amount of time which has elapsed since the original correspondence was sent it appears very unlikely that anyone will now come forward. If they do the average claim is only around £6,000, which could met from revenue.
- 6.5 There has been a small increase of £4,000 in the provision made for uninsured losses after discussions with the Authority's insurers.

7 Reserves and general balance

- 7.1 In recent years it has been normal practice to add any underspends 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 apart from the planned contributions, the balance of the underspend is added to the newly created transformation reserve.

Earmarked Underspendings reserve

7.2 Requests for carrying forward underspends have been made totalling £104,000. Members are asked to approve the following.

Budget Item	Original Budget £'000	Carry Forward Underspend £'000	Reason for underspend and how it will be used
FireWatch Interface project	151.0	88.0	This is required to pay for staff costs and any work that is required around the interfaces with joint working and Network Fire Control Services Partnership.
New National short audit process	39.0	16.0	Slippage in the Protection change projects has resulted in the underspend. The budget will be needed to fund the new national short audit process in 15/16.
Total carry forwards (Earmarked underspending reserve)		104.0	

Organisational Change Reserve

7.3 This reserve was originally created to finance the costs of the voluntary redundancy scheme. A total of £293,000 has been paid out in 2014/15. Due to the significant balance on this reserve at the end of 2014/15 the balance has been transferred to the Transformation Reserve, where these costs will be accommodated from in the future if they become required.

Improvement and Sustainability Reserve

7.4 A contribution of £2,782,000 from this reserve has already been applied to fund the costs incurred to date with the joint working programme, FireWatch, the capital costs of the solar photovoltaic panels, and a few temporary posts. Again the remaining balance on this reserve has been consolidated into the newly created Transformation Reserve, with the balance of the Service Improvement Budget left in this reserve at the end of 2014/15 being transferred to the Service Improvement Reserve.

Capital payments reserve

- 7.5 It is recommended that a contribution of £3,746,000 is made to the capital payments reserve; this is in line with the revised budget contribution and the amount which the reserve was reduced at the end of last year to cover the historic over claims of pension costs which should have been borne by the Authority amounting to £1,484,424.

Capital and Revenue grants unapplied reserve

- 7.6 This year a contribution of £713,130 has been made to the capital grants unapplied reserve to fund expenditure next year which has slipped from 2014/15 mostly attributable to the results of Risk Review which are expected in Autumn.
- 7.7 Revenue grants totalling £2,149,000 have been received in 2014/15 and £2,971,000 of grants have been spent requiring a net draw from the revenue grants unapplied reserve of £822,000.

Transformation Reserve

- 7.8 This reserve is newly created this year to fund all transformational projects that will support the re-design of the service over the next few years in order to achieve the financial savings that are required to balance the budget. This year the reduction in provisions, the remaining underspend on revenue, the balance remaining on the I&S and the Organisational Change Reserve have been combined to make up the balance available in future years.
- 7.9 The Transformation Reserve will be critical in ensuring that the proposed changes from Risk Review and Service Delivery Transformation are delivered and effectively implemented. Indicative spending plans against the reserve will be presented as part of the update of the Medium Term Financial Plan and Members will be asked to approve the spending against the reserve.
- 7.10 However, there may be instances where expenditure is required to be approved quickly in order to progress a particular initiative and therefore this report seeks delegated authority for the Chief Officer (in consultation with the Chief Financial Officer and the Chairman of the Authority) to approve expenditure of this sort, subject to it being retrospectively reported back to F&GP Committee at the earliest opportunity.

Service Improvement Reserve

- 7.11 This reserve has been set up in 2014/15 to hold the balance remaining on the Service Improvement budget, which is available to Host in 2015/16 to fund initiatives to improve the day to day running of the service.

Reserves and general balance summary

7.12 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 2014	Used during the year	Planned Addition	Transfer between reserves	Balance at 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Capital payments	16,849	0	3,746	0	20,595
Improvement & sustainability	4,006	-2,782	0	-1224	0
Earmarked underspendings	743	-743	104	0	104
Organisational change	2,105	-293	0	-1812	0
Revenue grants	1,470	-822	0	0	648
Transformation Reserve	0	0	3,370	2,752	6,122
Service Improvement	0	0	0	284	284
Earmarked Revenue Reserves	25,173	-4,640	7,220	0	27,753
Capital grants	424	0	713	0	1,137
Capital Receipts	1,118	0	2,018	0	3,136
Capital Reserves	26,715	-4,640	9,951	0	32,026
General balance	2,500	0	0	0	2,500
Total reserves	29,215	-4,640	9,951	0	34,526

8 Budget Monitoring 2015/16 Quarter 1

8.1 Due to the better than anticipated position the Authority was in at the end of 2014/15 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.

8.2 Heads of Service propose to use the Service Improvement budget to fund 2 key projects in the current year, namely the Project Management Office (PMO) transformation project and Response Delivery additional temporary resource.

- During the organisational stocktake in December 2014, it was agreed that there is a business need for the enhancement of the PMO to support the Service through the current transformational change as well as future change as governed by the Corporate Change Portfolio and SMT/SSB over the next two years. The enhancement of the existing PMO will provide assurance to our governance process that Service resources are being appropriately used in support of progressing our Service Plan priorities. The total funding requirement over the next two years is £137,000.
- An additional temporary SM is required for essential work over the next two years including assisting with the implementation of Risk Review and NFCSP. The total funding required over the next two years is £104,000.

8.3 Directors have agreed to meet the following costs from the Transformation reserve which if approved would reduce the current reserve balance to £5.875m:

Project	Total Cost £'000
Risk review additional posts - additional PM and support officer	107
Transformation Communications Support June 15 to May 16	100
Extra HR business Partner for 1 year	40
Total	247

8.4 At the end of the financial year the Authority had loaned 3S Fire Ltd £45,200 of the £250,000 loan facility agreed. Currently the Authority is receiving interest on this amount of 3.19% APR which amounted to £3,480 in 2014/15.

9 People impact assessment

9.1 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.