

Hampshire Fire and Rescue Authority

Finance and General Purposes Committee

Item 6

4 July 2016

Outturn Report 2015/16

Report of the Chief Finance Officer and Chief Officer

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1 Summary

- 1.1 The Hampshire Fire and Rescue Authority (the Authority) has been preparing for some time for the Government Grant reductions in the second half of the CSR 2010 period. A strategy of making savings in advance of need has been implemented in order to provide funding for investment in service improvement and further measures to generate savings. This strategy is again evident within the 2015/16 outturn position as the Authority continues to deliver the savings required to balance their budget whilst being able to implement a major savings programme which will improve service provision as well as reduce cost.
- 1.2 To enable transformation and continued service improvement there are currently two reserves, funded from previous years' underspends, which can be used to cover the costs of one off projects which improve efficiency and effectiveness. Having two separate reserves can over complicate the process; therefore it is recommended that these reserves be combined into a single Transformation Reserve. This report will assume that this amalgamation is approved.
- 1.3 The governance process for this reserve would be that any spend requests for under £100,000 would go to Heads of Service Team (HoST) for approval, with requests above that amount being reported to Directors for review and F&GP for final approval. This then aligns with the current levels of delegated authority stipulated within the Authority's Financial Regulations and Scheme of Delegation.
- 1.4 In the final quarter expenditure was £792,000 below the previously reported forecast outturn position, making a total underspend for the year of £3,777,000. A transfer of £1,493,000 has already been agreed to the Service Improvement Fund. It is recommended that the remaining underspend of £2,284,000 is transferred to reserves.

	£'000s
Quarter 3 Forecast	2,985
Transfer to Reserves (agreed Jan 2016)	<u>1,493</u>
Expected Year End position as at quarter 3	1,492
Increase in underspend in quarter 4	<u>792</u>
Year end balance to trf to Reserves	<u><u>2,284</u></u>

- 1.5 The underspend against budget has been achieved across a number of expenditure heads including support staff pay, wholetime and retained firefighters pay. Changes to pension schemes and the level of uptake has also affected the cost, with a significant underspend on retained firefighters pension costs. Additional income has been generated through interest on investments and income from Partnerships.
- 1.6 There were very few service budget overspends. The maintenance of vehicles was higher than budgeted, but this is more than offset by the additional income received for these partnership services.
- 1.7 This underspending is the product of continued good management and the strategy to make changes in advance of the need based on our Medium Term Financial Plan (MTFP) predictions. This will continue to help the Authority to deal with government grant reductions in subsequent years. It is recommended that the additional underspend of £2.284m is added to the Transformation Reserve as the capital payments reserve was increased in the 2016/17 budget and is in a healthy position.
- 1.8 As part of the 2016/17 Budget Settlement, the Government announced that Local Authorities, including Fire Authorities, would be given the option to agree a four year settlement. This is with the proviso that an achievable and realistic efficiency plan can be presented which balances the budget for the four year period.
- 1.9 The opportunity is also taken in this report to provide a brief update to the Committee on the monitoring position for the first 2 months of 2016/17.

2 Recommendations

- 2.1 That the annual treasury outturn report set out in appendix 4 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 4.11 of this report.
- 2.3 That the use of reserves set out in section 7 of this report be approved, including several one off initiatives that it is proposed to fund from the underspend in 2015/16.
- 2.4 That the Service Improvement Reserve be amalgamated into the Transformation Reserve in 2016/17, combining the two previously separate reserves for use in the transformation and improvement of future services, as set out in paragraph 1.2 of this report.
- 2.5 That the changes to the capital payments in 2015/16 (Appendix 1) and the impact on the capital spend profile going forward (Appendix 2) are approved.
- 2.6 That the accounts for 2015/16 be approved including the use of reserves set out in paragraph 7.10 and Appendix 3 of this report.
- 2.7 That the Authority accept the four year settlement offer (see paragraph 1.8 and section 8) and that the Chief Finance Officer and Chief Fire Officer be directed to prepare and submit the Efficiency Plan alongside an update of the Medium Term Financial Plan to a special F&GP Committee and the Authority in September.
- 2.8 That funding of up to £850,000 in 2016/17 and £117,000 in 2017/18 be approved for ICT Transformation.

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.

	Revised Budget £000	Q3 Forecast £000	Outturn £000	Variance £000
Wholetime Firefighters pay	32,053	31,463	31,695	+232
Staff pay	8,948	8,568	8,860	+292
Premises	5,248	5,209	4,845	-364
Transport	1,650	1,493	1,779	286
Supplies and Services	9,452	8,909	8,132	-777
Income	-3,321	-3,626	-3,751	-125

Net cost of pensions	926	926	793	-133
Interest Receivable	-135	-135	-365	-230
Other	10,634	9,663	9,690	27
Other	65,455	62,470	61,678	-792

Wholetime firefighters pay (+£232,000)

- 3.1 The underspend was less than forecast at quarter 3. This was mainly due to fewer vacancies than expected.

Staff pay (+£292,000)

- 3.2 The increased expenditure in the last quarter is mainly due to Transformation project team costs being charged to revenue rather than capital as originally planned.

Premises (-£364,000)

- 3.3 Most of the underspend relates to projects which have slipped and are due to be completed in 2016/17. The balance is due to an underspend in business rates, energy bills, and grounds maintenance.

Transport (+£286,000)

- 3.4 Increased costs in transport costs are due to higher transport lease costs and workshops spares and consumables.

Supplies and Services (-£777,000)

- 3.5 The forecast at the previous quarter assumed that the first set of personal and protective equipment would be delivered, however the business case is still being considered.

Income (-£125,000)

- 3.6 The additional income is mainly due to higher contributions from partners than expected for fleet maintenance which partly offset the higher costs referred to under Transport above. The recovery of vehicle fit-out costs was also higher than planned.

Pensions (-£133,000)

- 3.7 This budget covers the net cost of pensions met from the revenue budget. The underspend is mainly due to there being no retained ill health cases this

year compared to the planning assumption of three cases.

Interest receivable (-£230,000)

- 3.8 Interest earnings during the year were higher than expected due to the larger cash balances from reduced revenue and capital expenditure during the year.

Impact on future years

- 3.9 The savings achieved in 2015/16 reflect the delivery of the four year Financial Challenge programme supporting our MTFP. This was initially established in response to the comprehensive spending review 2010. It reflects the early delivery of aspects of the efficiency programme overseen by the Safer Stronger Board which seeks to meet a forecast funding gap of £12m.
- 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 underspends to identify if permanent budget reductions can be made.

4 Capital

- 4.1 Capital payments during the year totalled £5.7m compared with the £12.0m forecast in January 2016. A breakdown of the variances is given 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 2013/14 programme:
- In light of the implementation of the Risk Review plan through the Service Delivery Redesign programme it has been decided to remove the 4x4 pick up truck from the programme saving £110,000.
 - A provided vehicle estimated at £24,000 has slipped into 2016/17 to match delivery to when vehicles are required.
- 4.3 On the 2014/15 programme:
- A variance of £41,000 is showing on the remainder of the 35 provided vehicles. Of this, £17,000 relates to reduced costs and £24,000 will be carried forward and spent in 2016/17.

- Three operational equipment technician vans were completed with a reduced specification (no tail lifts) saving £43,000.
- Two personnel carriers estimated at £27,000 have been deferred to 2016/17 to meet operational requirements at that time.
- An underspend of £736,000 was due to the specification for the five large rescue pumps being finalised later than planned delaying the ordering and delivery of the vehicles. Consequently the total cost of the vehicles has increased by £85,000 to include Ultra High Pressure Lances (UHPL).

4.4 On the 2015/16 programme:

- Planned expenditure on 4 light off road vehicles and 1 personnel carrier has slipped into 2016/17.
- The specification for one heavy off road vehicle has been adjusted causing a delay and £120,000 slipped expenditure.
- It has been decided to convert 11 crew vans estimated at £176,000 to seven provided vehicles which will be spent in 2016/17.
- The delivery of 17 provided vehicles has been matched to when vehicles are required enabling £236,000 of slippage in expenditure.
- The purchase of eight leased appliances was negotiated at a very competitive price of £44,000 and this helps maintain the fleet whilst decisions are made on the specifications required in the light of Risk Review outcomes.

2012/13 Capital schemes (- £666,000)

4.5 The main Basingstoke fire station project has started and £495,000 of planned expenditure has slipped into 2016/17. There have been some delays to the design completion and works undertaken which have impacted on the shortfall identified. This does not represent a lack of progress on Kier's part, but that the forecasting of costs pre-commencement were shown at accelerated rates, which has proved not to be achievable.

4.6 The Network Fire control system has slipped reflecting the contractual arrangements for the partnership.

2013/14 Capital schemes (-£38,000)

4.7 Relatively small budgets were held for retention and defects at the Live Fire training facility and annexe at Steele Close which were not required

2014/15 Capital schemes (-£2,356,000)

4.8 Planned expenditure for the Strategic Police and Fire Headquarters and the wider estate transformation project has slipped by £2,301,000. Phase 2b was slightly behind schedule and was not completed before the year end. The capital cost of the HQ project has decreased slightly due to £255,000 of project management costs have been transferred to revenue and partly offset by an increased cost of £215,000 due to an increased contribution from the PCC. The cost of the wider estate has increased by £55,000 met from a contribution from the revenue repairs and maintenance budget.

2015/16 Capital schemes (-£1,679,000)

4.9 The transforming on call arrangements project has slipped by £529,000. It was intended to spend virtually all of the budget in 2015/16 but more time was required to decide on choice of equipment etc that led to delays.

4.10 A number of projects;- Frontline appliance – major repairs, Breathing apparatus telemetry, Thermal image cameras and station end equipment were agreed at quarter 3 of 2015/16. Due to lead in times and compliance with contractual arrangements, expenditure has slipped into 2016/17.

Financing

4.11 Capital payments can be financed from the following sources:

	£'000
Capital grants	3,243
Capital receipts	222
Partner Contributions	2,070
Revenue contributions	160
Total	<hr/> 5,695 <hr/>

4.12 The Authority received £3,855,958 in the form of a capital grant in 2015/16 from the Department for Communities and Local Government (DCLG) for Transformation projects. As this was not all spent in 2015/16 the balance has been transferred to the Capital Grants Unapplied Reserve (CGUR) for use in future years.

4.13 By using the capital grant, capital receipts 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 2015 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 4 for Members' approval.

6 Provisions (£229,465)

- 6.1 The following provisions have been increased in the 2015/16 financial year. The increase is met from the revenue budget.

Provision for Uninsurable and other claims (£73,000)

- 6.2 This covers costs which may arise as a result of the Authority being uninsured for a period (the Authority's insurers went into liquidation some years ago), possible employment tribunals (together with their associated costs) and other claims made against the Authority. These cases may take a number of years to settle.

Provision for Tax Liabilities (£141,000)

- 6.3 This year the provision for potential tax liabilities has been increased. This increase relates to an additional two possible payments due to HMRC in respect of pensions of staff who have retired from the Service and have subsequently been re-employed.

Provision for pensionable allowances (£15,465)

- 6.4 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 increased to reflect the estimated cost for the 2015/16 financial year. The contingent liability 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, has also been increased to include an estimate for 2015/16.

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 funding was provided within the 2016/17 Budget maintaining it in a healthy position, it is recommended that the balance of the underspend is added to the Transformation Reserve.

Use of reserve

- 7.2 Requests for funding from the Transformation Reserve have been made totalling £201,700. Members are asked to approve the following.

Headquarters Toilet Refurbishment (£52,000)

- 7.3 Work is required to update and refurbish the toilet facilities within the Headquarters building. Part of this is being funded within the Headquarters programme, however an additional £52,000 is required to complete this work for areas not originally within the scope.

Culture, Inclusion and Diversity (£62,500)

- 7.4 This request includes two pieces of work. Firstly, a research project into the culture of HFRS, with clear outcomes to enable the Service to understand how staff currently feel and to produce an action plan to assist the Change Team in moving HFRS into a model for a high performance organisation. Secondly, to employ an Engagement Lead to develop an embedded approach/framework for sustainable internal engagement to support an inclusive workplace and culture

FireWatch (£62,200)

- 7.5 FireWatch requires further work to optimise the use of the system and maximise the benefits gained from its implementation. This funding will form part of a wider project looking at the next phase of changes to improve the system.

Heritage Museum (£25,000)

- 7.6 After 38 years of the collections being housed at HFRS Headquarters, the Heritage Collection has been moved to the Solent Sky Museum in Southampton. Work will be completed through a newly formed charitable trust. Display cabinets, mannequins and story boards are needed for the collection to be displayed in an informative way to the public and therefore funding is required to purchase these items. The set up costs will ensure the ongoing preservation of the Services heritage.

Capital and Revenue grants unapplied reserve

- 7.7 This year a contribution of £621,380 has been made to the capital grants unapplied reserve to fund expenditure next year which has slipped from 2015/16 mostly attributable to the Transformation projects slipping into 2016/17.
- 7.8 Revenue grants totalling £2,228,000 have been received in 2015/16 and

£2,446,000 of grants have been spent requiring a net draw from the revenue grants unapplied reserve of £218,000.

Transformation Reserve

- 7.9 The balance of the updated Transformation Reserve as at 31st March 2016 is £6.483m, which takes into account the £1.493m agreed to be transferred in the 2016/17 Budget Report to this committee. If agreement is given to transfer the underspend of £2.284m to this reserve, the balance will increase to £8.767m.

Reserves and general balance summary

- 7.10 The movements in these reserves and the general balance, including the proposed adjustments to reserves, can be summarised as follows;

Balance as at 1 April 2015	Used during the year	Additions in year	End of year addition	Balance as at 31 March 2016
£'000s	£'000s	£'000s	£'000s	£'000s
-34,526	5,155	-6,440	-4,256	-40,067

- 7.11 Details are shown in Appendix 3 of this report.

- 7.12 Revenue Contributions to capital have not been required this year due to project slippage; therefore the budget has been transferred to the capital payments reserve.

8 Four Year Settlement and Efficiency Plan

- 8.1 As part of the 2016/17 Budget Settlement, the Government has offered Fire and Rescue Authorities the opportunity to agree a four year settlement, which would fix the Grant amount and allow for much more accurate forward planning.
- 8.2 As part of this agreement, the Authority must provide a detailed Efficiency Plan which sets out realistic and achievable plans for how savings will be made that reduce costs sufficiently to balance the budget over the four year period. A letter from the Home Office detailing the requirements of the Efficiency Plan is attached at Appendix 5.

- 8.3 It is proposed that the Medium Term Financial Plan will be presented to a special F&GP Committee and then the Full Authority in September, along with the proposed Efficiency Plan prior to the submission deadline in October.

9 Budget Monitoring 2016/17 Month 2

- 9.1 Due to the early point in the year of this report, to date nothing has become apparent which will affect the original budget estimates and there are not any significant variations to be reported. However, the following items are mentioned for information.
- 9.2 A 1% increase in pay for all Firefighters and staff has been offered. If accepted this is within the budget provision.
- 9.3 At the end of the financial year the Authority had loaned 3S Fire Ltd £25,200 of the £250,000 loan facility agreed. This loan has been fully repaid by 3SFire in April 2016.
- 9.4 Senior Management Team has agreed to invest of £785,000 to £967,000 (depending on the final scope of the project) from the Transformation reserve in the ICT Transformation project which will deliver annual savings in excess of £800,000 per year. This represents a return on investment of between 13 and 16 months. In addition to the cost savings, benefits include the delivery of services that meet the needs of the business now and in the future, and support for operational effectiveness by delivering services that are agile and promote innovation. Further details are presented in the confidential business case at Appendix 6.

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.