



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 08

MEETING	Finance and Audit Committee
DATE OF MEETING	17 November 2016
SUBJECT OF THE REPORT	2nd Quarter Financial Performance
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information and decision
EXECUTIVE SUMMARY	<p>This report provides an analysis of the financial position for the 2nd quarter of the 2016-17 financial year, reflecting spending to 30 September 2016.</p> <p>Section 2 of the report deals with the revenue budget which highlights a potential underspend of £3m, principally arising from savings on employee costs. This is an increase on the previous forecast, with further one off savings on employee costs now predicted. Whole-time staffing resources are now closer to establishment levels, with 20 firefighters (including 4 former apprentices) and 6 new firefighter apprentices, joining the Service during the year. Although challenging, we are working hard to address vacancy levels amongst corporate posts and deal with recruitment and retention issues in the retained duty system. The level of savings seen this year will not be repeated in future years.</p> <p>Section 4 updates Members on the capital programme, with an updated total programme cost of £10.505m indicated, with forecast spending for the year at £5.3m. Orders have recently been placed for five fire appliances and two aerial appliances, at a combined total of £2.7m.</p> <p>The Policy and Resources Committee will be meeting on 29 November 2016 to discuss the budget and medium term financial plan requirements for 2017-18 onwards.</p>
RISK ASSESSMENT	<p>Financial sustainability remains a key focus as a strategic risk, and as such the monitoring of the financial position is a critically important factor in financial planning and decision making for the Authority. Any anticipated financial outcome arising will therefore</p>

	feature in the medium term financial planning and budget setting process.
COMMUNITY IMPACT ASSESSMENT	None undertaken as a result of this report
BUDGET IMPLICATIONS	None
RECOMMENDATIONS	<ol style="list-style-type: none"> 1. It is recommended that Members note and comment upon the current financial position. 2. Members approve the use of £100k from the identified underspend to fund the replacement of firefighter helmets (see para 3.1.4).
BACKGROUND PAPERS	Medium Term Finance Plan 2016-20
APPENDICES	<p>A: Revenue Budget Summary 2016 - 17</p> <p>B: Capital Budget Summary 2016 - 17</p>
REPORT ORIGINATOR AND CONTACT	<p>Ian Cotter, Head of Financial Services</p> <p>ian.cotter@dwfire.org.uk</p> <p>Tel: (01722) 691109</p>

1. Introduction

- 1.1 This report provides an update of the revenue and capital budget positions for the 2016-17 financial year and includes all known actual and committed costs to 30 September 2016. The net revenue budget was set in February 2016 at £54.816m and the approved capital programme totalled £8.75m.
- 1.2 Appendices A and B follow the budget monitoring format used previously for the Finance Review and Audit Committee of Wiltshire and Swindon Fire Authority. Variations have been “traffic lighted” to highlight the major variances, with those in excess of £20,000 (under or overspending) shown in pink, those between £10,000 and £20,000 in yellow and those below £10,000 in green.

2. Major Variations From Revenue Budget

2.1 Employee Costs

- 2.1.1 Note 1: The Whole-time Staff pay budget shows projected savings totalling £392k (£255k 1st Quarter). This takes account of a pay award saving estimated at £153k, current vacancy levels, additional overtime costs and the employment of new firefighter recruits and apprentices during the year. Whole-time strength was 414 during September, compared to the establishment of 438, with 10 new firefighters and 6 new firefighter apprentices commencing in October. These are in addition to the 10 firefighters (including 4 former apprentices) already recruited earlier in the year. Whole-time staffing resources are still being managed to ensure that we meet the financial savings as outlined in the Combination business case, and included in the medium term finance plan of the new Service.
- 2.1.2 Note 2: £788k is projected to be saved on retained duty system salary costs (£500k 1st Quarter). This is based on actual costs to date and projected costs based on 2015 spend profiles. We continue to pursue the recruitment and retention of RDS staff across the whole of the Service, but there is still a significant shortfall against the establishment numbers. Through the IRMP process we are exploring options for more sustainable RDS working systems, including a number of different options for salary schemes, rather than the traditional pay- as-you-go pay model. Options will feature in the budget proposals for 2017-18 to be discussed with the Policy and Resources Committee on 29 November 2016.
- 2.1.3 Note 3: The Fire Control pay budget shows a projected overspend of £155k (£152k 1st Quarter). At the end of September there were 35.08 FTE staff working in Service Control, compared to the budget FTE of 32. As reported previously, additional overtime costs are being incurred as a result of transition arrangements and over-crewing whilst the system instability issues are addressed.
- 2.1.4 Note 4: The Corporate Staff pay budget shows a projected underspending of £713k (£498k 1st Quarter). The projection takes into account the current level of vacancies in the Service and plans to fill those vacancies, along with any temporary cover

arrangements. As reported previously there has been significant change to corporate staffing structures as a result of the Combination, staff turnover levels have increased and we have experienced difficulties in filling vacant posts. This is a unique situation resulting in a one-off underspending this financial year, at a level not previously seen, or anticipated to occur in the future. Although the level of vacancies is challenging, staff are working hard to fill all identified vacancies.

- 2.1.5 Note 5: Other Employee Costs includes a budget of £1.311m for ill-health and injury pension costs. These costs are forecast to overspend by £35k as a result of one-off ill-health contributions payable. This budget line also includes the £1.0m provision allowed to meet the costs of employment termination costs associated with the Combination. The majority of the costs incurred to date, £908k in total, were charged against the 2015-16 accounts of Dorset and Wiltshire as separate authorities. The report reflects a projected underspend of £715k.

2.2 Premises

- 2.2.1 Note 6: A net saving of £118k forecast this year following the vacation of the Joint Emergency Services Building in Poole and the move to new Area Offices at Ling Road. A further saving of £20k is included following a review of business rates valuations across the Wiltshire area properties, although this saving may be short lived given the new rateable values applicable from April 2017. We are currently evaluating the impact of the changes.
- 2.2.2 The costs for premises cleaning are forecast to overspend by £35k following implementation of a new contract for the new Service.
- 2.2.3 Property rental costs show an increase compared to budget. An annual charge of £85k is made in respect of 5 Rivers. This amount was not included at the time of setting the original budget, but is funded from the Transformation Grant, so there is no overall impact on the net budget. Rental for The Granary building is forecast at £19k and was not included in the original budget. Rental costs for the training facility at Kemble Air Field site are projected to be £10k more than budgeted as a result of a significant price increase levied by the owners. The Service has been given notice to leave the site and is currently exploring alternative options for siting this facility.

2.3 Transport

- 2.3.1 Note 7: Although fuel prices have risen recently, based on current spending levels we still expect to save at least £150k during the year on the costs of diesel fuel for Service vehicles and travel allowance payments for staff.

2.4 Supplies and Services

- 2.4.1 Note 8: The budget includes £263k for the purchase of new smoke detectors and associated equipment. We are still forecasting spending up to £200k of this budget during the year.

2.4.2 £450k is included within this budget line for transition costs associated with the migration of ICT software systems. The migration process will take some time, certainly beyond this financial year, so any balance of this funding at year end will need to be carried forward in transformation reserves.

2.5 Agency and Contracted-Out Services

2.5.1 Note 9: We expect to save £22k during the year on the costs of internal and external audit. This is in addition to the £30k saving already taken through the Combination savings programme.

2.5.2 Spending on consultancy costs is forecast to be £60k more than included in the budget. In the main this results from the Safety Centre project and the additional costs will be funded from the Transformation Grant.

2.6 Capital Financing and Leasing Costs

2.6.1 Note 10: The budget includes £3.12m associated with capital finance and treasury management costs. Actual costs are projected to total £3.079m, with £41k saved against the cost of long term borrowing. At this point in time we do not anticipate undertaking any new long-term borrowing in 2016-17, as we retain sufficient cash balances to manage our capital expenditure requirements.

2.7 Income

2.7.1 Note 11: The forecast for income includes the previously reported additional grant payments of £49k for Rural Services support and £167k for Transition funding relating to the new RSG arrangements.

3. Reserves and Balances

3.1.1 Appendix A (second table – lower half) shows the anticipated position regarding reserves and balances as at March 2017.

3.1.2 General balances stand at £6.701m as at 1 April 2016, with £254k expected usage in 2016-17 in setting the revenue budget. The outturn estimate is currently projected at an underspend of £3m. The general reserves risk assessment remains £2.5m, although this will be reviewed in the budget setting process.

3.1.3 Earmarked reserves stand at £12.32m as at 1 April 2016 (excluding grant monies held). We have identified £1.368m within this sum for earmarked reserves that can be transferred to general balances or earmarked for alternative use, and propose to move this funding at the year end. Appendix A indicates utilising £152k of earmarked reserves this year to support the budget.

3.1.4 In our future budget discussions we have identified a need to replace the firefighter helmets issued to operational staff in the Wiltshire and Swindon areas. We would like to take the opportunity to replace these helmets slightly early, to achieve

alignment of replacement programmes now, rather than have further issues in future years. The anticipated cost is £100k and it is recommended this is funded from the identified underspend.

- 3.1.5 The Policy and Resources Committee considered a paper on Finance Principles at their meeting on 14 September 2016. This included a wider discussion on reserves and balances, and how they are best used over the medium term to support projected revenue budget shortfalls and future investment needs. On 29 November 2016 the Policy and Resources Committee will discuss a paper on the 2017-18 budget requirements and an updated medium term finance plan, including updated plans for using reserves and balances.

4. Capital Programme

- 4.1 The original capital programme for 2016-17 totalled £8.75m. This includes £3.257m within the Property/Estates budget to fund works for the new safety centre and £470k in the IT and Communications budget to complete the required ICT infrastructure works for the new Service. (Appendix B)
- 4.2 Projects totalling £1.775m were carried forward from 2015/16 (£1.1m Dorset FRS and £0.665m Wiltshire FRS) and these were approved by the Finance and Audit Committee in July 2016. The revised capital programme for 2016-17 therefore totals £10.505m, as shown below.

Capital budget summary	Original Budget £'000s	Carry Forwards £'000s	Revised Budget £'000s
Property/Estates	4,119	375	4,494
IT and Communications	856	156	1,012
Vehicles	3,611	1,224	4,835
Operational Equipment & Other Equipment	164	0	164
TOTAL	8,750	1,755	10,505

- 4.3 Taking into account the anticipated slippage detailed in the following paragraphs the capital outturn costs for the year are currently forecast at £5.3m (£5.6m 1st Quarter). Appendix B provides details.
- 4.4 **Property/Estates**
- 4.4.1 The original programme includes £3.257m to fund works for the new Safety Centre, £397k for minor capital works and £465k for major capital works, including £325k for refurbishing Salisbury Fire Station. The carry forward amount includes £184k for the Safety Centre/Strategic Hub and £191k for other capital works.
- 4.4.2 As Members will be aware the major construction work on the Safety Centre is not scheduled to start until we have vacant possession of the hangar in spring 2017. The

costs to be incurred this year will therefore be much lower than shown in the capital programme, mainly covering professional fees, consultancy costs and preliminary work. At the present time a provisional total of £200k has been allowed for Safety Centre and Strategic Hub costs, with the balance of the £3.441m revised budget carrying forward to 2017-18 (note 1).

4.5 IT and Communications

4.5.1 Within the £1.012m revised budget for ICT, £602k relates to the Strategic Hub/Safety Centre and ICT infrastructure harmonisation. The provisional sum allocated for the Safety Centre was £50k (note 3), and although this is subject to the final design requirements, it will not be spent this year. Work continues on ICT infrastructure harmonisation.

4.5.2 The remaining £410k allocated for ICT is for a number of replacement programme requirements, including £90k for the replacement of breathing apparatus radios. This project has been put on hold and will be reviewed again for 2017-18 (note 2).

4.6 Vehicle Replacement Programme

4.6.1 The capital programme includes £1.2m for the procurement of two new aerial appliances. The tender process for this procurement has recently concluded and a contract award will be made shortly. Due to price increases the cost of the two new vehicles is now estimated at £1.36m. Although the vehicles will be ordered shortly, and we may make some stage payments towards the overall cost, we do not expect the vehicles to arrive during this financial year. This will mean that the full cost will be charged in 2017-18, rather than 2016-17 (note 4).

4.6.2 £2.55m is included for the purchase of fire appliances, including the buy-back of previously leased vehicles. Four new appliances were in-build with Dorset during 2015-16 and were delivered recently. £1.08m of the carry forward amount relates to these. The procurement process for the purchase of five other appliances is complete, and a purchase order has been raised with John Dennis Coachbuilders. The expected cost of these appliances is £1.35m. Due to chassis delivery timescales we may not receive delivery of these appliances until 2017-18, but they are still shown in the forecast costs for this year at the moment. The buy-back of leased vehicles was completed before combination so £120k will be saved (note 5).

4.6.3 £290k is included in the budget for Off Road and Incident Command vehicles. The replacement of these vehicles has been deferred pending a review of special vehicle requirements (note 6).

4.6.4 A saving of £35k has been taken as only one of two hydrant vans included in the capital programme needs replacing and £30k for the replacement of an officer car has been deferred to 2017-18 (note 7).

- 4.6.5 £124k was carried forward from last year for the purchase of three 4x4 rural rescue units, but the replacement of these has been put back to 2017-18, and subject to further review (note 8).

5. Summary

- 5.1 The forecast underspend for this financial year has increased from that shown in the 1st quarter report. Our expectation for one off savings, for example the saving on the corporate staff pay budget, have increased, and as advised previously, there is a significant saving against the provision in this years' budget for redundancy costs. Most of these costs were charged against the 2015-16 budgets of the two former Services.
- 5.2 Capital programme costs for this year will be much lower than originally programmed due to the timescales required to deliver the new Safety Centre, and slippage on a number of vehicle replacement projects, particularly the procurement of two new aerial appliances.

DARRAN GUNTER

Chief Fire Officer

17 November 2016