



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 09

MEETING	Finance, Governance and Audit Committee
DATE OF MEETING	22 March 2017
SUBJECT OF THE REPORT	Financial performance quarter 3
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and information
EXECUTIVE SUMMARY	<p>This report provides an analysis of the financial position for the 3rd quarter of the 2016-17 financial year, reflecting spending to 31 December 2016.</p> <p>Section 2 of the report deals with the revenue budget which highlights a potential underspend of £3.3m, principally arising from savings on employee costs as previously reported.</p> <p>Section 3 is an update on reserves and balances. This takes into account decisions made in the budget setting process to release funds from earmarked reserves that are no longer required, and establish new reserves for emergency medical response and the Emergency Services Mobile Communications Programme (ESMCP).</p> <p>Section 4 provides an update on the capital programme. A separate report on the capital programme was provided to Members at the December 2016 Fire Authority meeting, which included a revised capital programme cost of £5.423m. Forecast spending for the year is currently £3.559m, but may be less due to vehicle delivery timescales. Currently there are purchase orders in place worth £2.9m, including those for the five new fire appliances and two aerial appliances, but most of these vehicles will not be delivered until 2017-18.</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 feature in the medium term financial planning and budget setting process.</p>

COMMUNITY IMPACT ASSESSMENT	None undertaken as a result of this report
BUDGET IMPLICATIONS	None
RECOMMENDATIONS	1. It is recommended that Members note and comment upon the current financial position.
BACKGROUND PAPERS	Medium Term Finance Plan 2016-20
APPENDICES	A: Revenue Budget Summary 2016-17 B: Capital Budget Summary 2016-17
REPORT ORIGINATOR AND CONTACT	Ian Cotter, Head of Financial Services ian.cotter@dwfire.org.uk Tel: (01722) 691109

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 31 December 2016. The net revenue budget was set in February 2016 at £54.816m and the approved capital programme revised in December totals £5.423m.
- 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 Wholetime staff pay budget shows projected savings totalling £521k. This takes account of a pay award saving estimated at £153k, current vacancy levels, additional overtime costs and the employment of new firefighter recruits during the year. Wholetime strength was 428 during December, below the establishment level of 438, but an increase of 14 compared to the 2nd quarter, reflecting the second intake of ten new starters and six new apprentices.
- 2.1.2 Note 2: £806k is projected to be saved on retained duty system salary costs. 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 retained duty system (RDS) staff across the whole of the Service, but there is still a significant shortfall against the establishment numbers. Members will be aware that through the integrated risk management programme (IRMP) process we have been 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. Additional investment has been included in the 2017-18 budget proposals to move this work forward.
- 2.1.3 Note 3: The Fire Control pay budget shows a projected overspend of £143k. At the end of December there were 35.08 FTE staff working in Service Control, compared to the budget FTE of 32. As reported previously, additional overtime costs have been 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 £567k. 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.

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. A £30k saving is included for occupational health costs mainly as a result of the early termination of the former Wiltshire contract. The report reflects a projected underspend of £768k in total against Other Employee Costs.

2.2 Premises

2.2.1 Note 6: A net saving of £132k is 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 remain forecast to overspend by £35k following implementation of a new contract for the new Service. We have also now included a forecast overspend of £40k for energy costs (electricity, gas, heating oil, etc).

2.2.3 As previously reported property rental costs show an increase compared to budget. The increase includes an annual charge of £85k is made in respect of Five Rivers, which is funded from the Transformation Grant, so there is no overall impact on the net budget. There were also additional rental costs for the Granary building and Kemble Airfield site.

2.2.4 Spending on property maintenance projects is shown as underspending by £104k, reflecting the timing of projects, some of which will not be complete until after the end of the financial year.

2.3 Transport

2.3.1 Note 7: Although fuel prices continue to rise, based on current spending levels we still expect to save at least £165k during the year on the costs of diesel fuel for Service vehicles and travel allowance payments for staff. We anticipate saving an additional £30k on vehicle repair, maintenance and other running costs.

2.4 Supplies and Services

2.4.1 Note 8: The original budget included £263k for the purchase of new smoke detectors and associated equipment, but this has been reduced to £251k during the year. Previous reports indicated a potential underspend of £63k, but we have now increased this forecast to £100k.

2.4.2 £450k is included within this budget line for transition costs associated with the migration of information, communication and technology (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 now expect to save £27k on the costs of internal and external audit this year, having previously shown a saving of £22k. This is in addition to the £30k saving already taken through the Combination savings programme.

2.5.2 Pensions administration costs will be £65k higher than anticipated. This is due to costs for system upgrades passed on by our two pensions administrators, as well as ongoing additional work required due to national pensions changes.

2.5.3 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. There are no plans to undertake any new long-term borrowing in 2016-17, as we retain sufficient cash balances to manage our capital expenditure requirements, and the capital programme can be financed from grants and capital reserves.

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 Revenue Support Grant (RSG) arrangements. In addition, reimbursements received for staff currently on secondment to other organisations totals £60k and we expect other grants and contributions to exceed the budget by a further £60k. These other grants and contributions relate to prevention activity, such as Salamander, and partner funding for the Dorset Civil Contingency Unit (CCU). There may be balances of this funding at year end that will need transferring to earmarked reserves.

3. Reserves and Balances

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

3.2 General balances stood 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 £3.306m. The budget proposals agreed by the Authority in February 2017 included an identified surplus of £1.368m within earmarked reserves that would be transferred to general balances and £1.2m of general balances that would be used to set aside funding for emergency medical response and the Emergency Services Mobile Communications Programme (ESMCP). The general reserves risk assessment remains £2.5m, as reviewed in the budget setting process. Overall general balances available to support the Medium Term Financial Plan (MTFP) would stand at £7.421m at the end of March, slightly higher than previously shown as a result of the additional projected underspend.

- 3.3 Earmarked reserves stood at £12.32m as at 1 April 2016 (excluding grant monies held). Appendix A indicates utilising £277k of earmarked reserves this year to support the budget. Further reserve adjustments will be required at year end, in particular to fund the financing of the capital programme and ensure that any grant funding is properly accounted for.

4. Capital Programme

- 4.1 The original capital programme for 2016-17 totalled £8.75m. This included £3.257m within the Property/Estates budget to fund works for the new safety centre and £470k in the Information Technology and Communication budget to complete the required ICT infrastructure works for the new Service. (Appendix B)
- 4.2 Projects totalling £1.755m were carried forward from 2015-16 and these were approved by the Finance and Audit Committee in July 2016. The revised capital programme for 2016-17 therefore totalled £10.505m. Further changes have since been made, particularly relating to the Safety Centre development and timing of the vehicle replacement programme. At December's Fire Authority meeting members approved a revised capital programme of £5.423m for 2016-17.

Capital budget summary	Original Budget	Carry Forwards	December 2015 changes	Revised Budget
	£'000s	£'000s		£'000s
Property/Estates	4,119	375	(3,241)	1,253
IT and Communications	856	156	(140)	872
Vehicles	3,611	1,224	(1,799)	3,036
Operational Equipment & Other Equipment	164	0	98	262
TOTAL	8,750	1,755	5,082	5,423

- 4.3 The capital outturn costs for the year are currently forecast at £3.559m, but likely to be less at year end. Appendix B provides details.

4.4 **Property/Estates**

- 4.4.1 The revised budget reflects moving the Safety Centre construction costs to the 2017-18 capital programme, with just a provisional sum of £200k now allowed for Safety Centre and Strategic Hub costs in 2016-17 (note 1).

4.5 **IT and Communications**

- 4.5.1 Within the £872k revised budget for ICT, £552k relates to establishing Five Rivers and wider ICT infrastructure harmonisation work. Within this sum £275k is already earmarked for ICT harmonisation costs this year and £168k remains from funding allocated for the development of the new Services information management systems and website.

- 4.5.2 The remaining £320k allocated for ICT is for a number of new or replacement programme requirements. Spend to date totals £148k. There is an overspend on uninterruptable power supply (UPS) replacements, but this can be funded from savings on other replacement costs. Mobile communications work on satellite training facilities in stations has been deferred to 2017/18 awaiting network issues to be resolved at stations (£35k). Work on the Incident Command Assessment Centre project will not start until 2017-18 following the decision to defer to concentrate on competency and harmonisation (£30k), (note 2).

4.6 **Vehicles and Equipment (note 3)**

- 4.6.1 The vehicle replacement programme was revised down to £3.036m to reflect anticipated delivery timescales on ordered vehicles and also a number of changes due to ongoing work to review future requirements. Spend on vehicles to date this year totals just under £1.1m and we currently have purchase orders committed totalling £2.9m. This covers the two new aerial appliances, five B-type fire appliances from the 2016-17 replacement programme and a number of support vehicles. A further purchase order will be made shortly for replacement Flexi Duty System (FDS) officer provided cars. At year end actual spending will only reflect those vehicles registered and delivered by 31 March 2017, with any later deliveries due to supplier delays beyond our control having to be accounted for in the 2017-18 financial year. This is likely to include most of the vehicles currently on order, and is reflected in the £1.8m additional variance shown.

- 4.6.2 Spending on replacement operational equipment currently totals £95k and purchase order commitments total £85k.

5. **Summary & key points**

- 5.1 The forecast underspend for this financial year is £3.3m, an increase of £0.3m from that shown in the 2nd quarter report. This reflects additional savings on "Other Employee Costs", a number of non-pay budget savings and additional grants and contributions income being received.

- 5.2 The capital programme costs for this year have been revised significantly during the year to reflect the timescales required to deliver the new Safety Centre, and slippage on a number of vehicle replacement projects.

BENJAMIN ANSELL

Chief Fire Officer

22 March 2017