LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 29 June 2016 in the Main Conference Room, Service Headquarters, Fulwood at 10.00 am.

MINUTES

PRESENT:

Councillors

F De Molfetta (Chairman)
A Barnes
M Green
F Jackson
D O'Toole
M Parkinson (for A Matthews)
N Penney (for T Aldridge)
R Shewan
V Taylor
T Williams

Officers

C Kenney – Chief Fire Officer (LFRS)
K Mattinson – Director of Corporate Services (LFRS)
B Warren – Director of People and Development (LFRS)
J Bowden – Head of Finance (LFRS)
D Brooks – Principal Member Services Officer (LFRS)

1/16 APOLOGIES FOR ABSENCE

Apologies were received from County Councillor T Aldridge and Councillor A Matthews.

2/16 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

3/16 MINUTES OF THE PREVIOUS MEETING

In response to a question raised by CC Barnes in relation to the recruitment item, the Director of People and Development confirmed that the recruitment process had begun and a significant level of interest had already been received.

RESOLVED: That the Minutes of the meeting held on the 30th March 2016 be confirmed as a correct record and signed by the Chairman.

4/16 EXTERNAL AUDIT - UNDERSTANDING HOW THE RESOURCES COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

In order to comply with International Auditing Standards, the External Auditors, Grant Thornton was required to obtain an assurance as to how those charged with governance discharged their responsibilities in connection with oversight of the annual accounts process and financial reporting. The letter requesting this was considered by Members. A draft response prepared by the Chairman of the Resources Committee was considered by Members. It was noted that the Audit Committee had provided a similar response in connection with the risk of fraud and breaches of internal controls.

RESOLVED: - That the Committee approve and endorse the submission of the response.

5/16 YEAR END TREASURY MANAGEMENT OUTTURN 2015/16

The report set out the Authority's borrowing and lending activities during 2015/16.

All borrowing and investment activities undertaken throughout the year were in accordance with the Treasury Management Strategy 2015/16, and were based on anticipated spending and interest rates prevailing at the time.

In accordance with the updated CIPFA Treasury Management code of practice and to strengthen Members' oversight of the Authority's treasury management activities, the Resources Committee received regular updates on treasury management issues including a mid-year report and a final outturn report. Reports on treasury activity were discussed on a quarterly basis with Lancashire County Council Treasury Management Team and the Director of Corporate Services and the content of these reports was used as a basis for this report to the Committee.

The Director of Corporate Services confirmed that the report had been written before the outcome of the referendum on the European Union which now meant more uncertainty regarding the economy. He reassured Members that interest rates would continue to be monitored.

Short term interest rates continued at very low levels since the Bank of England reduced the base rate to 0.5% in March 2009. Short-term investment levels available in the market remained below 0.6% through the year as illustrated in the report.

A revised forecast of interest rates, published recently by Lancashire County Council's treasury management advisors, Arlingclose Treasury Consultants was shown in the report.

The Authority's cash investments remained significantly in excess of borrowing requirements and hence the Authority had adopted a policy to set aside additional monies in the form of additional Minimum Revenue Provisions (MRP) in order to reduce borrowing requirements and enable the repayment of debt as it matured as well as reducing credit rate risk. This policy had seen overall debt reduce from £8.1m in 2009/10 to its current level of £5.8m. No new borrowing had been taken out in the year, and £0.25m of debt matured in the year.

During the year the Authority had made a charge to revenue to make provision to pay debt. This statutory minimum revenue charge was broadly 4% of previous capital expenditure funded from borrowing adjusted to take into account a shorter asset life of some assets. In 2015/16 the charge was £0.010m.

In addition, during the budget setting process for 2014/15 it was decided that an additional lump sum MRP payments would be made in order to set aside sufficient monies to provide scope to pay off debt in 5 years' time. This was reflected in an additional charge of £0.162m in 2015/16.

The negative borrowing requirement presented in the report would be carried forwards until 2018/19, when the Authority would hold £4.849m after repaying debt as it fell due. The balance was anticipated to match the level of debt outstanding at 31 March 2019. An annual review of the penalties due on early repayment was carried out and should they be considered favourable the Authority would consider whether to repay the debt.

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Authority's objective when investing money was to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of low investment returns.

Two long term investments were held with UK local authorities as outlined in the report. In addition, the Authority had access to the call account provided by Lancashire County Council which paid the base rate throughout 2015/16. Each working day the balance on the Authority's current account was invested in this to ensure that the interest received on surplus balances was maximised. The average balance in this account during the year was £43.187m accruing interest of £166k.

The overall interest earned during this period was £366k at a rate of 0.69% which compared favourably with the benchmark 7 day notice index which averaged 0.36% over the same period.

All the investments were made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Cash flow and interest rates continued to be monitored by the Director of Corporate Services and the County Council's Treasury Management team, and when rates were felt to be at appropriate levels, further term deposits would be placed.

In order to control and monitor the Authority's treasury management functions, a number of prudential indicators had been determined against which performance could be measured. The revised indicators for 2015/16 were presented alongside the actual outturn position.

RESOLVED: - That the Committee note and endorse the outturn position report.

6/16 YEAR END CAPITAL OUTTURN 2015/16

The report presented the year end position for the Authority's capital programme including how this had been financed, which showed total expenditure in year of

£4.031m compared with a total budget of £8.829m with a slippage requirement of £4.613m which resulted in an overall underspend of £0.185m.

The year end capital outturn position, set out in appendix 1 also showed how the programme had been financed in year, from a combination of capital grant (£0.5m), revenue contributions (£2.9m), capital reserves (£0..5m) and earmarked reserves (£0.1m). Over the next five years the capital reserves, available to fund future capital programmes outlined in the report now presented, would leave a balance of £2.8m in capital reserves as at 31/3/21.

Under the prudential framework, the Authority was required to identify various indicators to determine whether the approved capital programme was affordable, prudent and sustainable. The revised indicators, after allowing for the various changes to the capital programme, which were set out in the report confirmed that performance had been within approved limits.

The estimated impact on band D council tax of the revised capital programme compared to the actual outturn figures was considered by Members and it was noted that the net impact was zero.

The original approved capital programme for 2016/17 was £2.770m which excluded any estimated slippage from 2015/16. This had been amended to reflect the final level of slippage of £4.613m. A further adjustment of £0280m was required in order to meet the anticipated cost of the Fleet workshop and the Multi Compartment Fire prop, both of which were subject to separate tendering exercises. The final proposed capital programme for 2016/17 was £7.663m which was funded from capital grant, revenue contributions, capital reserves and the drawdown of the Service Training Centre Improvement Programme earmarked reserve. Full details of the programme and its funding were set out in Appendix 2 and considered by Members.

Revised prudential indicators for 2016/17 to 2018/19 showed that the revised programme remained affordable, prudent and sustainable.

The estimated impact of slippage on band D council tax was considered by Members and noted that there was no net impact in each of the 3 years.

RESOLVED: - That the Committee: -

i. Note the capital outturn position, the financing of capital expenditure 2015/16 and the prudential indicators, and
ii. Approve the revised capital programme, and the financing of this, for 2016/17.

7/16 YEAR END REVENUE OUTTURN 2015/16

The report set out the revenue outturn position, which fed into the Income and Expenditure Statement within the main Statement of Accounts and the impact of the revenue outturn position on the Authority's reserves.

The annual budget for the year had been amended to reflect the increased Section 31 grant due in respect of localised business rates. At the time of setting the precept/budget the Section 31 grant was based on estimated figures which were then updated once final numbers were known, and which this year had resulted in an additional £0.23m of Section 31 grant being received. The outturn position showed a net expenditure of £57.49m against an updated budget of £56.97m giving a total underspend for the financial year of £0.52m. It was noted that this position included additional costs associated with the December floods of £0.177m, offset by a Bellwin claim for funding of £0.063m.

As reported throughout the year, the Service had identified savings at the earliest possible opportunity following the completion of reviews, and therefore held vacancies in advance of planned future establishment reductions, utilising this underspend to pay off a further £3.2m against the LGPS deficit during the year. The final position within individual departments was set out in Appendix 1 with major variances summarised in the report.

The report identified total in-year efficiency savings of £5.2m compared with a target of £3.4m, performance exceeded the efficiency target, largely as a result of staffing savings made and procurement savings in respect of contracts let during the year.

The Authority held 3 specific revenue reserves: Devolved Financial Management, PFI Equalisation and Other Earmarked Reserves. The impact of the year end position on the reserves was set out in a table, as now presented and the following was noted: -

- Devolved Financial Management (DFM) reserves enabled budget holders to carry forward any surplus or deficit from one financial year to the next, giving greater flexibility in managing budgets thereby optimising the use of available financial resources and facilitating better value for money. The total DFM balance stood at £414k; full details by department were set out in Appendix 2;

- The PFI Equalisation Reserve was used to smooth out the annual net cost to the Authority of both PFI schemes and would be required to meet future contract payments. The reserve level was reviewed each year to ensure it was sufficient given changes in forecast inflation and interest rates. The reserves had been updated during the year, resulting in a revised balance of £3.4m;

- Other Earmarked Reserves were to fund a specific purpose. The report highlighted all the earmarked reserves, their value and specific purpose. The overall reserves level had increased to £5.7m;

In addition, the General Reserve carried forward all surpluses and deficits that arose in year and was designed to cover uncertainties in future years' budgets; to meet short-term loss of funding and to provide flexibility in terms of medium-term financial planning. As a precepting Authority any surpluses or deficits were transferred into/out of reserves in order to meet future potential commitments, and as such the balance of the deficit on the revenue budget, £0.5m had been drawn down from this reserve. After allowing for these the Authority now held a General Fund balance of £10.2m (18% of the net 2016/17 budget).

On an annual basis the Treasurer was required to report on the adequacy of reserves, given the risks faced by the Authority setting out the minimum (£3.0m) and maximum (£10.0m) level of reserves considered appropriate. Based on this position the current level of general reserves was slightly in excess of this, however the draft revenue and capital budgets for 2017/18 – 2019/20 included potential drawdowns in excess of £7m which would put this level of reserve at the bottom end of the target range.

RESOLVED: - That the Committee:-

i. Agree the virement in respect of Section 31 grant receivable;
ii. Note the outturn position on the 2015/16 revenue budget as presented;
iii. Agree the proposed transfer of £43k from the Devolved Financial Management Reserve;
iv. Agree the proposed transfer of £147k to the Private Finance Initiative Equalisation Reserve;
v. Agree the creation of a £1m earmarked reserve to fund potential penalties associated with the future repayment of Public Works Loan Board debt;
vi. Agree the proposed net transfer of £824k from Other Earmarked Reserves and the purpose of these;
vii. Note the decrease of £478k in the General Reserve.

8/16 STATEMENT OF ACCOUNTS 2015/16

The report presented the Authority's Statement of Accounts prepared in line with recommended accounting practice and subject to review by the Authority's external auditors, Grant Thornton. The review was scheduled to take place in June and July and a further report would be presented to the Audit Committee once this had been completed with the final Statement of Accounts re-presented to the Resources Committee for information.

The Statement would be signed by the Treasurer to certify that it presented a true and fair view of the financial position of the Authority as at 31 March 2016.

Under existing regulations the Chairman of the Committee approving the accounts had responsibility for signing and dating these. The aim of this requirement was to encourage audited bodies to produce timely accounts of a good quality and promote the concept of corporate governance.

The Statement of Accounts would be placed on deposit for public inspection in July 2016.

The Authority's Statement of Accounts set out the financial context in which it operated, and provided an overview of the financial year 2015/16. It reflected the position the Authority had reached in connection with corporate governance, including internal controls and risk management, including a review of the effectiveness of these arrangements, as reported at the Audit Committee in June. It set out the Auditor's opinion on the Statement of Accounts and was subject to the results of the outstanding audit work which would commence in June. It also set out the responsibilities of the Authority and the Treasurer in terms of the overall management of the Authority's finances and in terms of the production of the annual accounts. It included a statement that showed the movement in year on the different reserves held by the Authority which was analysed into usable and unusable reserves. It provided a statement that showed the accounting cost in year of providing services. The balance sheet showed the value of the assets and liabilities recognised by the Authority and the cash flow statement showed the changes in cash and cash equivalents of the Authority during the reporting period. The statement of accounts also included notes to the core financial statements.

RESOLVED: - That the Committee approve the Statement of Accounts.

9/16 FINANCIAL MONITORING

The report set out the current budget position in respect of the 2016/17 revenue and capital budgets and performance against efficiency targets.

Revenue Budget

The overall position as at the end of May showed an underspend of £0.274m. It was noted that it was too early in the financial year for any trends in expenditure to be evident and that the situation would be closely monitored as the year progressed. The Committee was provided with detailed information regarding the position within individual departments with major variances related to non-pay spend and variances on the pay budget summarised as follows: -

Area	Overspend/ (Under spend)	Reason
	£'000	
Fleet & Technical Services	69	The overspend related to the timing of committed spend against operational equipment, breathing apparatus and hydrant repairs, as goods and services were ordered for delivery later in the financial year, and therefore it was expected to reduce as the year progressed. These overspends were partially offset by underspends against vehicle repairs and maintenance and fuel, and the overall position would be monitored.
Property	(84)	The current underspend related to the timing of spend against planned repairs and maintenance as works were scheduled in for completion later in the financial year, rather than an anticipated forecast underspend at this stage.
Pay	(181)	In terms of the underspend to date, this was broken down as follows: • Wholetime pay (£51k underspend) related largely to the timing of costs of ad hoc payments such as overtime and public holidays, and would be monitored closely for the rest of the financial year. • Retained pay (£113k underspend) related to vacant hours of cover across many fire stations, plus timing of spend for retained training courses scheduled for later in the financial year. • Support staff pay (£18k underspend) related to various vacant posts for which recruitment was currently underway.

Capital Budget

The Capital Programme for 2016/17 stood at £7.663m, after allowing for slippage, as reported elsewhere on the agenda, however it was now necessary to bring forward the budget for the replacement of the wide area network (WAN) which had been approved for the next financial year as part of the five year capital programme, to allow the procurement process to start during 2016/17. This would be funded from capital reserves. In addition, in order to allow for operational crews to be fully trained on the new Aerial Ladder Platforms bought towards the end of the 2015/16 it was necessary to either extend the existing lease, which ran out on 28 June, or to purchase the vehicle. Following discussion with the Chairman it was agreed to purchase this for £20k, as opposed to paying £1.5k per month to lease it. Selling the vehicle once the training was completed at an anticipated price (based on market research) in excess of £15k was anticipated. Hence allowing for this purchasing, rather than extending the lease, represented better value for money. The cost would be met from a contribution from the revenue budget, and was reflected in the revised capital programme of £8.063m.

A review of the programme had been undertaken to identify progress against the schemes as set out in the report. Appendix 2 sets out the capital programme and the expenditure position against this, as reflected in the report. The costs to date would be met by both capital grant and revenue contributions.

Delivery against savings targets

The annual target stood at £2.5m. To date £0.3m of savings had been delivered. The performance to date was slightly ahead of target, a combination of the underspend on salaries for the first two months, plus savings in respect of procurement activities during the same period. It was anticipated that the efficiency target would be met for the financial year.

RESOLVED: - That the Committee note the financial position.

10/16 FOUR YEAR SETTLEMENTS

As part of the Local Government Finance Settlement the Secretary of State announced an offer of four year funding settlements for local authorities in return for publishing an efficiency plan. Members considered a letter from the Minister for Policing, Fire, Criminal Justice and Victims, that re-affirmed this offer and set out details of the requirements in order to apply for this.

In order to apply for the Four Year Funding Settlement the Authority would need to publish a robust, transparent and locally owned efficiency plan which should:-

- be published and easily accessible to the public on the Fire and Rescue Authority's website, clearly stating what it contains;
- include the full 4 year period to 2019-20, and be open and transparent about the benefits the plan would bring to both the Fire and Rescue Authority and the local community;
- demonstrate the level of cashable and non-cashable savings expected would be achieved through the Spending Review period, the timetable for delivery, key risks and mitigation strategies;
- include the approach to increasing collaboration, including with the Police and local public sector partners and in relation to procurement;

- demonstrate how more flexible working practices would be achieved, including more effective utilisation of retained firefighters;
- include a commitment to the publication of transparent performance information;
- include a clear strategy for the use of reserves; and
- include a commitment to publishing annual reports on the progress of the efficiency plan alongside the Fire and Rescue Authority's statutory assurance statement, enabling local people to scrutinise progress.

It was noted that this issue would be discussed at the July meeting of the National Fire Finance Network, following which a report would be presented to the full Authority in September in order to determine whether to apply for the four year settlement and to agree on a suitable efficiency plan. The deadline for an application is 14 October 2016.

RESOLVED: - That the Committee note the letter and agree to a subsequent report being presented to the full Authority in September outlining options and including a draft efficiency plan.

11/16 DELEGATION OF PENSION FUNCTION

The Service currently contracted Lancashire County Council's (LCC) Pension Administration Services (Your Pension Service) for pension administrative services for the Firefighter Pension Schemes and separately was part of the LCC Local Authority Pension Scheme Fund.

"Your Pension Service" entered into a creation of an Asset and Liability Management Partnership with the London Pensions Fund Authority (LPFA) with effect from 1 April 2016. The stated aim of the partnership was to:

1. Create a large pool of assets of which more could be managed in-house at low cost, which was in keeping with the Government's stated aim of creating a smaller number of Local Government Pension Scheme "Wealth Funds".

2. Create a shared service that would provide an end to end service in the management of pension schemes dealing with all aspects of pension administration from processing data member communications and the payment of benefits.

The Pensions administration currently undertaken on behalf of Lancashire Fire and Rescue Service (LFRS) by "Your Pension Service" would be delivered by a company jointly owned by the Lancashire County Pension Fund and the LPFA. The company would be known as the Lancashire and London Pension Partnership (LLPP).

This changed arrangement altered the basis under which the service was performed which necessitated a new agreement and the discharge of function in accordance with the provisions of section 101 of the Local Government Act 1972.

LFRS was highly satisfied with the services it currently received.

LFRS' preferred option was for LCC to continue to discharge the pension administration function on behalf of LFRS. However, due to the potential legal ramifications, external legal advice was sought as to whether the proposed route was legal and appropriate and did not contravene EU procurement rules and could proceed as a “discharge of function”.

Similar arrangements currently existed between LCC and both Cumbria County Council and Merseyside Fire & Rescue Service for their firefighter schemes. Cumbria County Council had already entered into a contract with LLPP, so joint advice was sought by Merseyside and ourselves. The advice confirmed the proposal was an acceptable method of delivery.

Following receipt of that advice additional changes had been incorporated into the documentation which could now be finalised. The alternative would be to re-tender the pension provision through a tendering exercise.

The proposed arrangement was already being utilised to enable Greater Manchester Fire and Rescue Service to administer our Payroll administration.

RESOLVED: - That the Committee note the report, approve the discharge of function and authorise the finalisation of the arrangement.

12/16 DATE AND TIME OF NEXT MEETING

The next scheduled meeting of the Committee would be held on Wednesday 28 September 2016 in the Main Conference Room, Service Headquarters, Fulwood, commencing at 1000 hours.

Further meeting dates were noted for 30 November 2016 and agreed for 29 March 2017 and 28 June 2017.

13/16 EXCLUSION OF PRESS AND PUBLIC

RESOLVED: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act 1972, indicated under the heading to the item.

14/16 HIGH VALUE PROCUREMENT PROJECTS
(Paragraph 3)

Members considered a report that provided an update on all contracts for one-off purchases valued in excess of £50,000 and high value procurement projects in excess of £100,000 including: new contract awards, progress of ongoing projects and details of new projects with an anticipated value exceeding £100,000.

RESOLVED: That the Committee note the recommendations as outlined in the report.

15/16 LANCASTER FIRE AND AMBULANCE STATION REDEVELOPMENT
(Paragraph 3)

As part of the High Value Procurement Projects Report, Members have had regular updates in connection with the redevelopment of Lancaster Fire Station. This report provided Members with a detailed update on the current position.

RESOLVED:- That the Committee note and endorse the report and the actions outlined within it.

16/16 DAY CREWING PLUS UPDATE
(Paragraphs 3 and 4)

This report provided Members with an update on recent national developments that could impact on the Authority and its employees.

RESOLVED:- That the Committee note the report.

17/16 REQUEST FOR EXTENSION OF PAID SICK LEAVE
(Paragraph 1)

The Director of People and Development presented a report to Members on the circumstances relating to a proposed extension of full sick pay.

RESOLVED: - That the Committee approve not to agree the request for the extension of full sick pay on the grounds that there were no exceptional circumstances.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood