

**Budget Monitoring Sub-Committee – 21 October 2014****Transcript of Item 6 – Quarter 1, 2014/15 GLA Group Monitoring Reports**

**John Biggs AM (Chairman):** We have another brief item - hopefully it is not too brief - we have the London Fire and Emergency Planning Authority (LFEPA) coming very briefly to talk about the fire budgets. Thank you for coming. Sue [Budden] is here and John Anthony is here to keep an eye on her, from LFEPA. Is that right?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes.

**John Biggs AM (Chairman):** Yes, and we have a number of questions about your budgets, therefore a gentle opener. How are you making the savings planned in your 2014/15 budget?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** I think you probably know that the majority of that was related to the Fifth London Safety Plan (LSP5). There were ten stations that closed, they closed on 9 February, and we took 14 appliances out. The main part of that, in addition to taking the assets away, was the staff reduction. We planned for it by not recruiting during 2013/14, and then we did a voluntary severance programme that cut nearly 100 people. We did start the year over establishment and we are managing it through natural wastage, however we have had money from the Greater London Authority (GLA), a one-off, to help us manage that. Therefore the whole thing is broadly on target.

The remainder of the savings outside of LSP5, there was another £8 million, are a whole cost-cutting range of things across departments. However a significant part of it, nearly £3 million, was further no trainees, no recruitment, this year. I think that is quite straightforwardly delivered. You can probably see from our quarterly monitoring report, the main risk to spend this year is around strike action, everything else is broadly contained.

**John Biggs AM (Chairman):** OK, so the two worrying areas are first of all strike action and the cost of that in terms of funding substitute services, and the second is that not enough people have gone voluntarily.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** I would not say not enough people have gone voluntarily, we planned for this.

**John Biggs AM (Chairman):** You planned for not enough people to go voluntarily? That does not sound quite right.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** We did a voluntary trawl, however we knew there would only be so many that would volunteer as a result of that. We knew back sort of February/March time that we would be over establishment during the year, we have had conversations with City Hall about that and therefore we have additional funding of about £6.1 million in the current year to cover the cost of that.

**John Biggs AM (Chairman):** OK, so you, as a matter of policy, you decided not to make people compulsorily redundant, which is a fine policy.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** We cannot.

**John Biggs AM (Chairman):** You cannot make operational fire staff redundant?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** No, there is no scheme within the pension fund that allows us to do that.

**John Biggs AM (Chairman):** OK, right. You have structurally to hang on to staff who you do not have a budget for? All right. I am sure there are experts here who know this. I am not suggesting we should throw people on the streets by any stretch of course, however the budget was agreed, the budget anticipated x-staff and we have x-plus-y staff in post, therefore we need additional funding from City Hall to pay for it. OK. Therefore the GLA will be increasing its funding to cover those extra costs?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** That was for the current year, therefore the budget settlement for this year, we already have that money. We have monthly sessions with some of Martin's [Clarke] team to see how that is going. We are broadly on track and therefore we expect to end the year pretty much on our establishment. This issue then disappears for 2015/16, depending of course on the budget.

**John Biggs AM (Chairman):** How does it disappear, people disappear and it disappears?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes, people disappear. The money was based on being over establishment on average by about 104 people through the year, and people leave month on month.

**John Biggs AM (Chairman):** It sounds very hard. Therefore you will not need any call on the funding for future years to cover this shortfall?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** No anticipation, no.

**John Biggs AM (Chairman):** You are restructuring. I think the good news, if there was any good news, is that the restructuring that took place last year is based on the premise that there will not be any future need for restructuring in the foreseeable term.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes.

**John Biggs AM (Chairman):** OK.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** That is why we set up the funding as opposed to a major frontline realignment for 2015/16.

**John Biggs AM (Chairman):** OK, industrial action, you did not plan for industrial action; tell us about the funding for that?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** We have a contingency arrangement to cover periods of strike action. You can see in the quarterly report that we have a forecast net overspend, not corporately, however the cost of the strike itself is costing us an additional net £5.1 million.

The total forecast overspend in the figures that you can see is about £3.7 million, therefore we have absorbed some of that, and in the quarter one report we said that we would absorb the rest of it through our general reserve. Therefore we say we need about £10 million in general reserves as our adequate minimum level, and we have a bit more than that, therefore we can mop that up.

**John Biggs AM (Chairman):** OK. Therefore, there is no risk to your £10 million reserves?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Well, if there were more strikes, then, yes, there would be. We have some capacity left, therefore when I do the quarter two monitoring I am expecting the overspend to improve slightly. We have had some additional money through the Metropolitan Fire Brigade Act, people are declaring higher insured values than anticipated, therefore we expect the overspend to come down a bit, which gives me more capacity in reserves. However, they could get to a point where I could not manage the overspend through that.

We are looking at other areas of spend; what are the things that we could turn off during the year. It does look pretty limited. We only have a small number of agency staff, we are not recruiting, and most of our money is tied up in some pretty large contracts. However we are looking to see if there are other things. Obviously, as you get further along, you get to November, it becomes harder because you have fewer months left.

**John Biggs AM (Chairman):** OK. Here is, I keep calling them wicked questions, but a question about reserves, which is you have advice that says that £10 million is the lowest reasonable level of reserves; that is the advice you give to your members and you have a basis for that. We seem to have this risk, recurrent risk perhaps, obviously one does not want to anticipate continued industrial action, however there has been industrial action. We now can quantify the cost to the authority. Therefore, does that leave you to want to challenge your prudent levels of reserves?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** No. Maybe at the moment we need to look at how we are using those reserves. I am presenting this to you as if I need to hang on to all of my money up to the £10 million, however if you look at the statement that I made on the adequacy of reserves they are partly there to cover the costs of this sort of business continuity event. Industrial relations is our one red corporate risk, therefore there would be a legitimate argument to say that we would dip in below this £10 million to cover this off, however that obviously creates pressure in future years, because we will want to top them back up.

**John Biggs AM (Chairman):** OK. We are in a sort of Old Mother Hubbard position, not that you are Old Mother Hubbard of course, however probably Martin Clarke is Old Mother Hubbard if you want to -- which is that the cupboard is sort of bare now. That means that there is de facto a sort of parent company guarantee from City Hall, and you accept that; that is implicit in the way the authority is structured.

**Martin Clarke (Executive Director of Resources, GLA):** We have that legal relationship between LFEPA and the GLA, having adequacy of reserves across the GLA group, is a fundamental part of the Mayor's budget. Therefore, as Sue has said, if there was action that caused those reserves to be drawn below what they

consider to be adequate, we would have to build it into the Mayor's budget plans; a strategy for getting up to what we think is appropriate.

**John Biggs AM (Chairman):** You could have just said yes.

**Gareth Bacon AM:** Directly related to that, I am not quibbling with the figure of £10 million at all, however who decides what is an adequate level of reserves?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** We do now.

**Gareth Bacon AM:** You, as the section 151 officer?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes. What we do, and I do this every year - you will see in the budget report, you will see it again in November - we take our corporate risk register and we take all the departmental risk registers and we look at the high/low/medium, short-term/long-term consequence, try to put a price on the things that we identify and try to add up all the short-term high-risk ones and say, "What does that broadly come to?" That is the justification behind what we do. To date, it has come to an answer that is manageable for us, which is this £10 million around about. There could be a time when that would shift and then we might have to top reserves up, however at the moment we do not.

**Gareth Bacon AM:** No, that is fine. You mentioned that, if you are obliged to drop below the £10 million, then you may have to come to the GLA and have a discussion about that. The Mayor has made his commitment for the next two years to protect LFEPA from budget reductions. Martin, is it conceivable that you could sit there and think, "I am a section 151 officer of the GLA and I do not agree with the section 151 officer at LFEPA about the appropriate level of reserves and so we are not giving them money."

**Martin Clarke (Executive Director of Resources, GLA):** I think it is conceivable because it is a judgement. People have different interpretations of the facts of the matter.

**Gareth Bacon AM:** You would probably talk to each other.

**Martin Clarke (Executive Director of Resources, GLA):** That is an important part of the relationship between the chief finance officers across the functional bodies.

**John Biggs AM (Chairman):** If you take the example of the London Legacy Development Corporation (LLDC) of course, the auditors sort of refused to sign off the business plan for the LLDC without there being what I call a 'parent company guarantee' from City Hall. Now, the relationship is not legally the same, however in reality the same situation could apply.

**Martin Clarke (Executive Director of Resources, GLA):** Yes, the LLDC is equivalent to a wholly-owned subsidiary of the GLA; it is a Mayoral development corporation. The GLA is its funder of last resort.

**John Biggs AM (Chairman):** OK, so where else could LFEPA get the money from? Stop putting out fires or raise the precept mid-year?

**Martin Clarke (Executive Director of Resources, GLA):** It has restricted options, however it can, as Sue said, take spending decisions.

**Gareth Bacon AM:** That is almost the 'Bank of Boris', is it not?

**John Biggs AM (Chairman):** I am not too sure I would ever open an account at the 'Bank of Boris' to be honest.

**Martin Clarke (Executive Director of Resources, GLA):** The statutory budget provisions do require - and it is the same with the GLA, any functional body - if it has a revenue account deficit that cannot be funded by any other means, that is the first port of call on next year's council tax requirements. There is that legal binding there. The GLA would expect LFEPA to try to take its own decisions first.

**Gareth Bacon AM:** I will be speedy because I know we are pressed for time. Sue, a question for you, what steps are you taking to produce a balanced budget for 2015/16?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** We have already had one informal discussion with Members cross-party, we did that after the Authority meeting on 2 October, and we are due to present our proposals through formally to the Resources Committee on 13 November. We are working obviously with this commitment that there will be no need for major 'frontline realignment', I think that was the phrase, for next year. It looks like that will be possible. It looks like we will be able to pull together a package of savings that are not impacting on the cost of stations and the people that work at stations. However, it is all subject to me pulling that all together and presenting it through our normal course of business. Then it becomes a budget submission to the GLA, and then you get it as part of your process.

**Gareth Bacon AM:** You referred earlier to the one-off cost of the implementation of LSP5 and the requirement to go and talk to the GLA about funding that. That was a successful discussion?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes.

**Gareth Bacon AM:** That has been fully covered?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes, at the moment.

**Gareth Bacon AM:** Obviously part of LSP5 was reducing the fire estate and disposing of assets. Is it being considered to use the capital receipts to somehow support the revenue programme going forward? I appreciate that is not a direct transfer; however there are ways of doing that. Are you considering that, and, if so, what are the details?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** I have not factored that in yet to the numbers that I will be presenting in November, therefore at the same time in November there will be a report on options for the disposal of those properties. Depending on what Members choose to do, it will have some impact on the timing of the capital receipts. For example, if Members were interested in maybe a higher price for something that was subject to planning, and they wanted to take the planning risk associated with that, then the capital receipt would be further out.

We have quite good context for considering that position, therefore depending on that. Then, there is an explicit part of what we do is how we would then use those capital receipts. We took a report in January that showed all the options, and that did show at that time that using the money to fund our existing capital programme gave the best return. Members were also interested in invest-to-save options. Therefore one of the things that we are looking at is that we currently lease the 169 Union Street headquarters building and certainly some Members are interested in us looking at alternative accommodation options that would avoid us paying rent. That is something we are going to look at as part of that report.

Then obviously also play out how we could fund the capital programme with the capital receipts. We have fleet replacement as ours to fund; we have quite a big information and communications technology (ICT) work programme next year, we have a new wide area network coming on, we are replacing the mobile data terminals; and we have the control and mobilising system that will see more spend in the next year. Therefore my immediate preference would be to say it makes most sense not to borrow and to use this money to fund what we are already planning to do.

**Gareth Bacon AM:** Therefore the financing costs will be saved.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes, and that looks like the biggest saving. However, I think I need to play that alongside how it could be an invest-to-save; doing something in addition to what might have already been planned, and could we save money. Looking at maybe the headquarters accommodation might be one of those things.

**Gareth Bacon AM:** That could kick off an entire discussion that could take a long time, therefore I will not go down there.

**John Biggs AM (Chairman):** You can briefly ask Martin [Clarke]; presumably he was an architect of the budget guidance because the budget guidance asked LFEPA to look at these proposals. Whether he has any further thoughts on it.

**Martin Clarke (Executive Director of Resources, GLA):** Not any more.

**John Biggs AM (Chairman):** There must have been some logic when you asked them to go away and look at this.

**Martin Clarke (Executive Director of Resources, GLA):** Yes, and we have had discussions. The other aspects we will look at is, what options do we have around on treasury management. At the moment, if any authority wanted to repay its debt, the arrangements are that **PWB** charge a premium and therefore you would restructure your debt and repay your debt at the current time; this does not deliver long-term savings. We are going to explore - and I do not want to put too much, so I can manage expectations - is there anything in the fact that we pool investments and borrowing, is there anything there that could use accountancy --

**John Biggs AM (Chairman):** Corporate debt management across the GLA family.

**Martin Clarke (Executive Director of Resources, GLA):** -- that in a way will deliver lower revenue costs to LFEPA.

**John Biggs AM (Chairman):** The answer is, "Not yet".

**Martin Clarke (Executive Director of Resources, GLA):** No, because it is something we are still looking in.

**Gareth Bacon AM:** You have put two bids in to the Department for Communities and Local Government's (DCLG) transformation fund and you are due to hear back on that around about now I think. Have you heard back yet?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Yes.

**Gareth Bacon AM:** You have?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** Friday, yes.

**Gareth Bacon AM:** Were you successful?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** We were successful on one.

**Gareth Bacon AM:** Which one?

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** The London Control Room and Co-ordination Centre bid, this was the bid between the Metropolitan Police Service (MPS), us, and the London Ambulance Service (LAS). Which John [Anthony] knows more about than I do.

**Gareth Bacon AM:** That was the smaller one.

**Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning Authority):** That was the smaller one.

**Gareth Bacon AM:** What will be the benefit of that bid?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** The main benefit is to take away the need for voice communication between our control rooms. At the moment every time we communicate between fire control, police and ambulance control rooms it is a manual telephone call, both ways. Therefore we take those out of the equation and that information is transferred by data automatically from system to system, which frees up the operators to continue to take emergency calls and deal with incidents, which should provide a better service to the public.

**Gareth Bacon AM:** What is the 'disbenefit' of the one that we were refused on?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** I would not say there was a 'disbenefit'. We did not score as highly as some others.

**Gareth Bacon AM:** What is the consequence of not succeeding?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** There is a manual fall-back system in place anyway between our control room and other control rooms. What we were trying to do

was look to put in a similar system as we were putting in London between three main fire control centres across England. That would have enabled a level of resilience and it would have also, into the future, enabled other perhaps smaller control rooms to come into that network. It was trying to provide a backbone across England really of a resilient network of control rooms that was tried under the fire control programme on a large scale that failed, and therefore it was like a small simpler version of that, but to provide proper resilience between the three major call-handling centres around England.

**Gareth Bacon AM:** Someone explain DCLG for me? Did I say that out loud?

**Roger Evans AM:** Let us talk about the 999 control and mobilising solution project. Why is it being delayed?

**John Biggs AM (Chairman):** It sounds exciting, does it not?

**Roger Evans AM:** I think it is what we call a switchboard, John.

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** Do not ever say that in a control room. It is a bit more than that. No, we awarded a contract to Capita for a replacement mobilising system. Capita are behind in the delivery of that system by a year. The reasons, I cannot answer for Capita, however I can tell you the reasons why I think they have failed. I think they underestimated the scale of scaling-up their product, which has been successful in small brigades, however not in a large one, therefore I think there are some troubles there. I think they have not planned it very well, not resourced it adequately, and I think they have come up with some robust management from officers in LFEP. All those have combined to be a challenge for them.

**Roger Evans AM:** It sounds like they have struggled. No doubt they are subject to some swingeing penalties under the contract?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** They are subject to swingeing contractual penalties that were in the original contract. They have failed to deliver when they should have done, which was July this year, and delay payments started being accrued at that time. We have had a commercial discussion with them since and they have agreed to pay all the delay payments that were due under the contract in full.

**Roger Evans AM:** All right, OK, *mea culpa*. What impact will a one-year delay have?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** It will delay some of the improvements to the service. Some of the things we were looking at doing that the new system would provide include the ability to mobilise the nearest appliance. At the moment we mobilise from fire station venues, however using automatic vehicle locations we will be able to mobilise the nearest resource. It is those, it is a complete refresh of the technical solution that we hope would work smarter and quicker into the future. Our existing system, the Motorola one, is ten years old and, although it is very stable, it is quite old technology now.

**Roger Evans AM:** Do the police not have something like that?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** Old technology?



**Roger Evans AM:** I am sure they have plenty of that, but a mobilising system that tells them where all their vehicles are. I would have thought that was the sort of thing you could buy off the shelf somewhere, it is a very common requirement.

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** It is, however it is not easy to put in an existing system, or to put it in a new system. To bolt it on to an existing system that is nearly out of contract would be very difficult and very expensive. You need to upgrade the whole system really.

**Roger Evans AM:** What is the backup plan if the factory testing does not work out?

**John Anthony (Head of Control and Mobilising Service, London Fire Brigade):** If the factory testing does not work out, we have been working with other suppliers to come up with an alternative plan. We have a robust one that would enable us to put another system in place in short order. I really would not want to go into the detail of it here because of the commercial sensitivities around it, however we are talking to alternative suppliers and we believe that we have ways of calling off those suppliers without going through a full procurement.

**Roger Evans AM:** OK.

**John Biggs AM (Chairman):** I am about to close the meeting. Can we thank you very much for your answers and for waiting so patiently.

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