

Budget Monitoring Sub-Committee – 15 July 2015**Transcript of Item 9 – Quarter 4, 2014/15 GLA Group Monitoring Reports
Session Two – London Fire and Emergency Planning Authority**

John Biggs AM (Chairman): We are now moving on to the London Fire and Emergency Planning Authority (LFEPA) part of the meeting, and this is when Gareth Bacon leaves the room. I cannot remember what we do now. Let us see. We have questions. Sue Budden, Director of Finance and Contractual Services at the Fire Authority.

Can we, by the way, welcome our delegation from Nairobi, who were in the Assembly meeting this morning. They are here to keep an eye on how we do things properly here: you have come to the wrong Committee for that, friends, I tell you! First we have heard from TfL, who spend lots and lots of money and are not very transparent; now we are going to speak to the Fire Authority about their finances and they are a lot more transparent, apart from today.

I will start with this question then, which is: how have you managed to stay -- welcome, by the way. How have you managed to stay within budget, or so close to budget, in spite of the expected industrial action and implementation costs of the Fifth London Safety Plan (LSP5)?

Sue Budden (Director of Finance and Contractual Services, LFEPA): On both of those, we knew that we were facing those additional costs so it was not as if everything --

John Biggs AM (Chairman): You budgeted for industrial action?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No, but we knew that we would face that additional expenditure, so we could start our budget monitoring off knowing that we would probably end up in an overspend position but start managing it right from the start of the year. It gave me a bit of leverage to try and encourage people to declare things that they would probably underspend on earlier, because one of the things we wanted to avoid was taking action to stop doing things sooner than we needed to.

John Biggs AM (Chairman): What was the thing you were anticipating happening which you needed to achieve underspends on, which was not strike action?

Sue Budden (Director of Finance and Contractual Services, LFEPA): Strike action was the main cause of the overspend.

John Biggs AM (Chairman): I asked you, "Did you budget for strike action?" and you said no.

Sue Budden (Director of Finance and Contractual Services, LFEPA): No, we did not budget for strike action but we anticipated that it would cost us additional money during the year.

John Biggs AM (Chairman): I see. It was a technical answer: you knew you might have it but you did not budget for it.

Sue Budden (Director of Finance and Contractual Services, LFEPA): No.

John Biggs AM (Chairman): Nevertheless, you managed to balance your budget, anticipating it might have happened.

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes. That was more by action during the year, identifying --

John Biggs AM (Chairman): That is a linguistic somersault really. Let us be honest: you basically budgeted for strike action. You said, "We are going to have a ding dong this year with our unions: let us make a few savings. Let us mothball a few fire engines. Let us do this, let us do that".

Sue Budden (Director of Finance and Contractual Services, LFEPA): We did not set a budget that covered the cost of strike action when we set the budget last March.

John Biggs AM (Chairman): Right. You had a below-the-table option on your budget, then, which said, "If this happens, we can manage our budget this way"?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No.

John Biggs AM (Chairman): No?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No, we had --

John Biggs AM (Chairman): You were just lucky?

Sue Budden (Director of Finance and Contractual Services, LFEPA): -- an ambition that we would do our best.

John Biggs AM (Chairman): We have had lucky people here today already.

Sue Budden (Director of Finance and Contractual Services, LFEPA): I can go through some of the detail, if that would help.

John Biggs AM (Chairman): It might do. Go on.

Sue Budden (Director of Finance and Contractual Services, LFEPA): One of the consequences of being prepared for the strike action, as everybody knows, is that we had a number of fire engines --

John Biggs AM (Chairman): Even though you did not budget for it?

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes. We had a number of fire engines off the run, therefore we had additional staff at stations and we saved costs around overtime and stand-bys. That was over £1 million. We had savings on operational staff pensions due to the employer's contribution rates being lower than we anticipated. We did a review of provisions: we looked very carefully at the money we had set aside for things that we thought might come up and we were able to release sums on legal insurance and also in respect of dilapidations on a building that we had been out of for quite a long time.

There was additional money on the Metropolitan Fire Brigade Act, which there is in a number of years, so we took that into account. We had savings as a result of our new fleet and vehicle and equipment contract. We had savings in property rates and also in energy costs. Pulling all those things together, plus the money that we had from the Greater London Authority (GLA) to cover the cost of the additional staff we had as a result of

LSP5, which was the other cause of unbudgeted additional cost, we were able to bring ourselves within £1 million. However, we did still overspend by about £1 million.

John Biggs AM (Chairman): You were hoping to replenish your reserves during this year, then, and underachieved on that? I am just trying to work out what happened.

Sue Budden (Director of Finance and Contractual Services, LFEPA): At the end of the 2013/14 year when we got our funding from the GLA, right at the very end, they gave us an additional £3 million which was linked to additional tax revenues. We were able to put that in reserves at the start of the year. We knew we had that so we knew that was a potential buffer; in the end obviously we have drawn about £900,000 out of that to offset the overspend that we had. Overall, reserves have gone up slightly but we knew we had that £3 million at the start of the year.

John Biggs AM (Chairman): Having gone through the previous reorganisation the Mayor did agree to indemnify you, did he not?

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes.

John Biggs AM (Chairman): That was the £3 million in the first instance?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No.

John Biggs AM (Chairman): No?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No, the £3 million was additional permanent money to do with additional tax revenues.

John Biggs AM (Chairman): Right, OK.

Sue Budden (Director of Finance and Contractual Services, LFEPA): Separately, we had our own £6 million from the GLA to cover the cost of natural wastage. With LSP5, we did a voluntary severance trawl and some people chose to go, but you cannot sack a firefighter or make them redundant so we did the rest of it through natural wastage.

John Biggs AM (Chairman): That is redundancy payments, basically?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No, the actual wastage was carrying people over establishment. We were about 138 people over establishment on average during the course of the year.

John Biggs AM (Chairman): OK. Do you expect further industrial action in 2015/16?

Sue Budden (Director of Finance and Contractual Services, LFEPA): The pension scheme is now in place, but the strike mandate is also still in place so we still have our preparations in place in case there is strike action. We know now that the Fire Brigades Union (FBU) have started the process of legal challenge on the transitional protections in the scheme. They have initially gone to Advisory, Conciliation and Arbitration Service (Acas) as part of that. I cannot say one way or the other, although we did have a representative from the FBU at the last Appointments and Urgency Committee and when asked by Members he indicated that he thought perhaps it would be unlikely that there would be further strike action on the pensions issue. However, obviously the mandate is in place and they can call strike action under that mandate.

John Biggs AM (Chairman): OK. Being a prudent financial officer in the climate we are in, you would have to have some thoughts in your mind about how you would manage financially if there was additional industrial action.

Sue Budden (Director of Finance and Contractual Services, LFEPA): The way we have in the past accounted for industrial action as a risk is by having that as part of the amount of reserves that we set aside in our general reserves. We do not budget for strike action but we say that is one of our biggest financial risks because of the contingency arrangements we have in place. That is part of us coming to our conclusion that we need around £10 million in reserves.

John Biggs AM (Chairman): OK. Shall we move on, then, to this other question about LSP5 total implementation costs? How much did it cost, in total?

Sue Budden (Director of Finance and Contractual Services, LFEPA): Our total overrun for the year, as a result of being, on average, 138 people over, is £7.2 million. We had £7.1 million provided from City Hall but £900,000 was to fall back into the previous year because it was to cover voluntary trawl costs, so we had just over £6 million to cover off those costs. However, as I said at the start, our costs were also offset by the fact that we had reduced over time allowances and stand-by costs. Overall, it balances out. We have been touch with officers here throughout the year to let them know how we were doing against them.

John Biggs AM (Chairman): You have a continual overhang of £7.2 million which is chiselled away as people leave?

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes. We do not need it now: we managed to get back on the establishment just at the start of this financial year.

Tom Copley AM: Can you tell us how much of the £7.5 million net capital underspend in 2014/15 is due to products being deferred into future years?

Sue Budden (Director of Finance and Contractual Services, LFEPA): About £5 million of that underspend was down to three things. One was the new control mobilising project, which has been delayed by a year. It was originally due to go live July last year and the latest date is that it will go live in September. That does not affect the total cost of it; it affects the cash flow of the spend.

Tom Copley AM: It just puts it into future years.

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes. Another large project that we have deferred is the Plumstead refurbishment or relocation. There was about £1.5 million for that. We would prefer to build a new Plumstead Fire Station because the site is very constrained, but we are struggling to find anywhere. We wanted to make sure we had made the right choice on that before we put our efforts into just refurbishing what is there, so we are still looking at that.

Then another significant part was on the fleet replacement programme, and it is fair to say we were probably being optimistic in our budget-setting on that. The new contract with Babcock for fleet replacement and maintenance did not go live until November but we had assumed that we would spend over £2 million on fleet replacement in-year. Given it falls to them to go to the market, get a contract and get a prototype, it was never going to happen. That money will start being spent in this year. That makes up the bulk of it, and then there were a range of other, smaller projects.

Tom Copley AM: We are looking, essentially, for deferrals for this, not savings?

Sue Budden (Director of Finance and Contractual Services, LFEPA): The large part of that £5 million is, yes. There were some savings but they are smaller sums.

Tom Copley AM: OK. Do you think therefore we should be looking at more over-programming? This is a 21% underspend. Should you be looking at that?

Sue Budden (Director of Finance and Contractual Services, LFEPA): We have an element of over-programming. We also had quite an unusual year last year. One of the things that was not in our line of sight when we set the capital programme was the project to create 78 electric vehicle charge points. We have been able to get Office for Low Emission Vehicles (OLEV) funding for that. That was a project that we got approval to start in July. That took a lot of property effort into getting the surveys done and getting those charge points in place, which has proved really worthwhile. We have a paper going to the Resources Committee now to ask whether the Authority would be interested in going for electric vehicles to replace our car fleet, the red [Vauxhall] Astras you see flying around. That will be our first opportunity to use the charge points ourselves, operationally. That was something that was not in the capital programme when we started. In terms of the wider workload --

Tom Copley AM: Sorry, was that added in for this year?

Sue Budden (Director of Finance and Contractual Services, LFEPA): It was added in for 2014/15 as a workstream but it was grant-funded. We were not using the capital programme to create the charge points, but we were using our staff resources.

Tom Copley AM: OK. It did not come into any of what you had budgeted for capital?

Sue Budden (Director of Finance and Contractual Services, LFEPA): No, but it comes into our ability to do all the schemes we have on the table because it was a new thing. Then we have opened five new fire stations since last March: four Private Finance Initiative (PFI) stations and West Norwood. The two new training centres opened. We have sold or exchanged on seven of the former fire station sites. We have had our new fleet-purchasing arrangements in place from November. We have been doing a business case around the future of the protective equipment group and logistics: there is a paper on that going to the Resources Committee tomorrow. We also went through an additional soft market test process for the sale of 8 Albert Embankment.

Tom Copley AM: Sorry, say that again?

Sue Budden (Director of Finance and Contractual Services, LFEPA): An additional soft market test for the sale of 8 Albert Embankment. All of those things, which are not in the capital programme *per se*, put a stretch on the total resources we had for projects but at the end of the year we had some great new investments. We have new facilities. As an overall position, I am satisfied we have done a good job with the resources that we have at our disposal.

Tom Copley AM: OK.

John Biggs AM (Chairman): Will we get away with that? What do you reckon?

Tom Copley AM: What do you think, Chair?

John Biggs AM (Chairman): Albert Embankment has been going on for years, has it not? Will it ever happen?

Sue Budden (Director of Finance and Contractual Services, LFEPA): We had to go and do a soft market test against the Mayor's London Development Panel so that added some time on to what we did, but we have a paper, again, going to the Resources Committee tomorrow - it is quite a busy agenda - setting out the process to try and go to the market again. We will then get it developed.

John Biggs AM (Chairman): It is a super-prime site but there are conservation issues and so on.

Valerie Shawcross CBE AM: Yes. It was the planning issues that killed the original project.

Tom Copley AM: About Invest to Save. You have underspent on several of the Invest to Save and efficiency programmes. How is this going to impact on your future savings plans?

Sue Budden (Director of Finance and Contractual Services, LFEPA): We do not have a direct link between the delays on these and the savings we have into the current year. You can see from the outcome for last year that we had a significant underspend on energy costs. The big refit programme was agreed in March - that is the Building Energy Efficiency Programme, as it was called. In March the Authority agreed that we could award a contract of £1.8 million over three years to do a whole range of energy efficiency schemes. It took us longer than we hoped to get the paper to the Authority because we went through quite a detailed tendering process, putting new contractors onto the framework, and now we are ready to go. I do not see that £7.5 million slippage having a direct impact on the revenue savings that we need to find over the next couple of years.

John Biggs AM (Chairman): OK. Shall I move on to the final question, then, which is about your budget gap for 2016/17. What is your current budget for 2016/17?

Sue Budden (Director of Finance and Contractual Services, LFEPA): We are reporting currently £12.3 million as a budget gap for 2016/17.

John Biggs AM (Chairman): Can you answer the obvious question?

Sue Budden (Director of Finance and Contractual Services, LFEPA): What are we going to do about it?

John Biggs AM (Chairman): Yes.

Sue Budden (Director of Finance and Contractual Services, London Fire and Emergency Planning): We are in our budget process at the moment. The first budget paper goes to the Resource Committee tomorrow setting out what we know about our current projections and our medium-term forecast for three years. This all assumes that the funding from the GLA stays at the same level it is for the current year. We have not seen the budget guidance yet.

Then we have kicked off our internal budget-setting process: all the departmental heads are sitting down on 27 July to go through all their savings ideas and we have a range of operational ideas hanging over from the budget process last year that we want to put into the mix. Obviously there will be a debate about the 13 fire engines as well.

John Biggs AM (Chairman): You have limited options because you are actually quite a small service in terms of the range of things you do, even though you are critical. To achieve those levels of savings, do you need to mothball further fire engines? Discuss.

Sue Budden (Director of Finance and Contractual Services, LFEPA): We want to put our range of options together. Support services have borne the brunt of the savings to date and it would be fair to say it would be difficult to assume that that full £12 million could come just from support services, but there were other operational ideas that the Authority considered last November around command units and operational support units. What we want to do is put all our ideas in the mix, take it through the budget process, which the Chair of the Resources Committee will lead, and report through in November. It is early stages for the detail.

John Biggs AM (Chairman): OK, so some savings on support costs but you cannot achieve these levels of savings without affecting the front line?

Sue Budden (Director of Finance and Contractual Services, LFEPA): I do not know that for sure yet because I have not seen all the ideas. We are still working through that.

John Biggs AM (Chairman): This is like fishing for a marlin or something.

Sue Budden (Director of Finance and Contractual Services, LFEPA): It is July; so --

John Biggs AM (Chairman): You get it on the line and then it runs away and then it comes back again. It is going to be very difficult for you to balance your budget without it affecting the front line.

Sue Budden (Director of Finance and Contractual Services, LFEPA): As I have said, last November we put options up that the Authority as a whole is interested in looking at. You are getting to those definitions of, "What is the front line?"

John Biggs AM (Chairman): It is good.

Sue Budden (Director of Finance and Contractual Services, LFEPA): We are going to put those back on the table and see what we can pull together.

John Biggs AM (Chairman): OK. That is as close as we are going to get to a yes.

Valerie Shawcross CBE AM: The Mayor has directed LFEPA to examine the decommissioning of 13 appliances to find £11 million of savings. Of course, it is not the appliances that cost the money; it is the staff that goes with them. I am not saying I want you to do it, but what numbers of staff are we talking about and, given that we are unable to make staff redundant, how would you propose to make the savings on staffing?

Sue Budden (Director of Finance and Contractual Services, LFEPA): If we were to do that - and we are a long way from a decision like that - I would be working on the assumption that we would do something similar to what we did after LSP5, which would be to work with City Hall. We cannot make staff redundant. We can offer voluntary redundancy. We would look, potentially, at doing a scheme like that again and then look to do natural wastage over the year, which is what helped us achieve the numbers for LSP5. City Hall has said in previous budget guidance that they would look to help us in the case of what they would term an Invest-to-Save type scheme. I would look to have that conversation with them again if we ever got to that point.

Valerie Shawcross CBE AM: Just off the top of your head, roughly how many firefighters are we talking about? Five around the clock, 365 days a year?

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes. From simple maths, we would say it was 260-265.

Valerie Shawcross CBE AM: OK. Are there any knock-on station closures, then? 13 appliances is more than 10% of the remaining stock, and that would presumably mean that there some stations which no longer have an engine.

Sue Budden (Director of Finance and Contractual Services, LFEPA): There is no station without a fire engine at the moment, and there is 13 are not on the run.

Valerie Shawcross CBE AM: You have to do some work on the location of those engines?

Sue Budden (Director of Finance and Contractual Services, LFEPA): I cannot comment on all that.

John Biggs AM (Chairman): We have had LSP5 and there has been talk of doing an LSP6, presumably, but that has not happened yet. Were you to make these savings, they would be outside the LSP framework.

Sue Budden (Director of Finance and Contractual Services, LFEPA): Potentially. LSP5 runs for a set period of time and it would be for the Authority to agree formally to extend the period of time that the London Safety Plan ran.

John Biggs AM (Chairman): Obviously we are not a fire authority, we are a budget performance committee. However, presumably there is a risk involved in this, which is that you can only normally deploy your fire engines according to your safety plan. If you are removing 13 of them outside the safety plan, for example, then you need to get the cover, in terms of your responsibilities to Londoners and so on, which allows you to justify removing that amount of fire cover outside of the consulted-on safety plan; something which says, "We have spoken to Londoners, we have looked at our budgets, and we reckon we can manage with 143 fire tenders or something, and we are going to get rid of 13 of them outside of that planning process". Presumably, as a finance officer, you have to think about that.

Sue Budden (Director of Finance and Contractual Services, LFEPA): Yes, but we are nowhere near that debate yet so I have not taken anything to Members on the detail.

John Biggs AM (Chairman): That debate would need to take place, we are suggesting, within the next six months.

Sue Budden (Director of Finance and Contractual Services, LFEPA): On any major change, whatever it was, there would have to be some sort of public consultation. You know how the process would work. However, I cannot comment at this point on how that would look.

John Biggs AM (Chairman): No. OK. I do appreciate that your job is to make the numbers work; but obviously there is a risk in that, is there not, in terms of the process?

Sue Budden (Director of Finance and Contractual Services, LFEPA): We're due to start conversations in earnest.

Valerie Shawcross CBE AM: To de-link budgeting from risk assessment.

John Biggs AM (Chairman): To turn it around the other way, you could say, “The Safety Plan says we need those 13 tenders and they have a cost associated with them”. Therefore you would need to go back to whoever the Mayor or London is and say, “You need to either do a very speedy instruction which says, ‘You can override your Safety Plan’ or, ‘Here is the extra money that helps you to fund those tenders’.” We thank you very much for coming. As always, it has been a joy to see you.

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