Shropshire and Wrekin Fire and Rescue Authority
9 October 2019

Shropshire Fire Risk Management Services Ltd

Report of the Chief Fire Officer

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1 Purpose of Report

This report provides an update on the current status of Shropshire Fire Risk Management Services Ltd (SFRMS) and gives recommendation that the company should now be formally closed down.

2 Recommendations

The Fire Authority is asked to:

a) Note the current status and achievements of SFRMS;

b) Approve that the outstanding recharge costs from SFRMS to Shropshire and Wrekin Fire and Rescue Authority is written off; and

c) Consider, and decide upon, the recommendation, from members of the SFRMS Board, that the company should now be formally closed.

3 Background

In April 2013, Shropshire and Wrekin Fire and Rescue Authority (SWFRA) established a company, to be known as Shropshire Fire Risk Management Services Ltd. (SFRMS). This company was set up as a Local Authority Controlled Company (LACC), with SWFRA as the single shareholder.

An LACC can operate with more commercial freedoms, including profit-making, but it is important to recognise that when an authority operates an LACC the authority needs to be conscientious of avoiding the risk of providing “state subsidy” to the LACC. As such all costs incurred to the Service, in this case, need to be recognised in the accounts of the LACC including the benefit of association with the brand of the fire and rescue service.

The Fire Authority agreed SFRMS should have the objective of providing high quality fire risk management services that would both make Shropshire safer and provide a revenue stream to offset some of the anticipated impact of "austerity".

During its period of active operation SFRMS provided risk assessments and training to over 300 Shropshire companies – undoubtedly making living and working in the county safer. SFRMS was also able to offset the costs to Shropshire Fire and Rescue Service (SFRS) of one senior commander post; enabling workloads and references to be restructured. This eventually supported SFRS in being able to safely reduce by one senior post, whilst increasing capacity at middle manager level and make an ongoing saving of £13,000 per annum.

4 SFRMS Performance

Trading started with a "soft-launch" in July 2013 and built steadily. In September 2014 the position of "Company Manager", at that time facilitated by one of the four operational Area Managers, was increased to full time. This change benefited the management of the company, with improved transparency in the day-to-day running of the business and additional internal capacity to undertake much of the Fire Risk Assessment work that customers required, thereby reducing external contractor costs; but it did increase overheads. Additionally, and perhaps more importantly, it presented Shropshire Fire and Rescue Service with an opportunity to test how it could manage the Service with only three, rather than four, operational Heads of Service.

The negative side to this adjustment was that the additional recharge costs showed as increased overheads to the company; resulting in the company being in deficit by £44k by the end of the 2014/15 trading year.

Recognising this challenge, the Company Board agreed to the introduction of a Technical Sales Manager (TSM) to build and diversify the customer base who was recruited and started work in March 2015.

In April 2015 the existing Company Manager retired, and the role was reverted to part-time responsibility of an existing Fire and Rescue Service (FRS) manager.

At that time, the Service also took the opportunity to reduce the Area Manager numbers and increase its number of Group Managers. This resulted in a more agile management structure, as well as an ongoing £13k per annum saving for the Service.

Within the company, the new structure reduced overheads by £20k per annum and delivered the significant boost in sales that had been hoped for.

By the end of 2015, with the overheads significantly down and sales significantly up (twice that of previous years), the future of the company looked more promising but still carrying a deficit, incurred by FRS recharge, from the previous year's trading. The Company Manager and the Technical Sales Manager were employed by the Service throughout and recharged to SFRMS.

In October 2015 the Fire Authority approved the ‘Going Concern’ statement in relation to SFRMS but, in doing so, stipulated the following limitations and expectations with that ongoing support:

1. The level of SFRMS’ gross profit should be sufficient to cover the costs of the Technical Sales Manager, by no later than the end of 2016/17;
2. SFRMS should achieve net profit by no later than the end of 2018/19;
3. SFRMS’ cumulative losses should never be greater than £120k; and
4. All loans to SFRMS should be repaid in full within three years of it achieving a profitable position.

The Fire Authority would have benefited from income of £155k in recharges by the end of 2018/19.

In the 2015/16 trading year all the financial targets, specified in the revised Business Plan, were met but in March 2016 the TSM moved to a more lucrative position elsewhere.

The SFRMS Board recognised the challenge this posed and decided the company should focus on paying down its debt with the Fire Authority within 3 years and reduce overheads as much as possible.

However, after approximately 10 months of trying to get this approach to work, it became evident that without significant investment there was very little ‘spare capacity’, within the Service, to support the company and an increasing amount of FRS resource was needed to meet the Service’s own priorities of building capacity and resilience through collaboration.

At its meeting on 24 May 2017, the Board put the company into hibernation, reducing overheads to less than £6k per annum. It was anticipated the company should remain dormant until such time as the resources required to guarantee its success were available.

At that stage, the company was included as a debtor on the Fire Authority’s Balance Sheet with an outstanding figure of £75k for the rechargeable salary costs. It should also be noted that the Authority had already benefited from a little over £80k recharges that had already been paid by the company back to the Fire Authority.

The company has remained dormant since the end of the 2017/18 financial year.

5 Benefits achieved through SFRMS

As detailed earlier, the original objectives of SFRMS were to:

1. Deliver high quality fire risk management services to businesses across Shropshire and beyond;
2. Help to make Shropshire’s businesses safer from fire; and
3. Provide a mechanism to achieve some measure of funding resilience for SWFRA.

In varying degrees all three objectives have been met. Over 300 Shropshire companies received support in assessing and reducing the risk that fire presents to their businesses and staff – this activity alone has made Shropshire safer.

The FRS was also able to safely experiment with restructuring its operational commanders in a way that has now reduced senior manager posts, bolstered middle management capacity and provided a year on year saving of £13k

6 Proposal to formally close down SFRMS.

The Board of SFRMS continue to feel that the "project" has been worthwhile but recognise that without significant investment the company will not be able to put itself in a position of financial sustainability in its current model.

The Directors of SFRMS recognise it is more important that the Fire and Rescue Service is now able to focus its limited resources on maintaining and improving delivery of its core functions. Collaboration with emergency services and other partners will bring about improved resilience and capacity in the longer term but that takes considerable resources in the early phases.

At a meeting of the SFRMS Board, on 12 September 2019, members of the Board agreed that a proposal to formally close the company should be put forward for consideration by the company's shareholders at the next meeting of the Fire Authority.

7 Financial Implications

The financial position between the Fire Authority and the company at the end of 2018/19 was as follows:

	£'000
Recharge of existing Fire Authority costs to the company during the period 2013/14 to 2015/16 – the financial statements reported these existing costs being fully covered by income from the company	122.5
Recharge of marginal costs incurred by the Authority on behalf of the company – these costs were additional and were fully recharged to the company	32.5
Total Recharges	**155.0**

Up until the end of the 2018/19 financial year, these recharges were shown as a debt in the Fire Authority's accounts, with the total amount now owed standing at £75k.

In 2018/19 the Authority's auditors highlighted the following issues, as they relate to SFRMS Ltd[1]:

[1] Page 8 of the Annual Audit Letter for S&WFRA https://www.shropshirefire.gov.uk/sites/default/files/06-annual-audit-letter-sept-2019.pdf

1. As the company is now dormant and there are no active plans for it to resume trading in the future, we do not consider this debt to be recoverable and therefore debtors would be overstated.

2. After discussion with management this debtor balance now has a full specific provision against it to reflect the risk around recoverability.

The company has no outstanding debt with any company or organisation other than the Fire Authority, its single shareholder.

The company currently has funds available to reduce the debt to the Authority to £70k.

The Fire Authority is asked to consider and approve the write off of the debt outstanding from the Company. As specified above, the debt has been fully provided for, in the 2018/19 accounts and therefore there will be no impact on the 2019/20 revenue budget.

The company's auditors, Dyke Yaxley, have indicated that the voluntary striking off process (see legal comment), including final preparation of accounts and filing of papers and returns will cost £400 plus VAT.

8 Legal Comment

In closing down the company it will be necessary to apply to have it dissolved and struck off the register of companies (Voluntary Strike Off).

The company must complete the necessary form and file it with the Companies Registrar (£10 fee). The application must be made on the company's behalf by at least a majority of its directors who make a declaration that there is no reason preventing the application from being made. On the basis that the company has not traded or otherwise carried on business for more than three months there should be no reason why the application cannot be made.

Once the company is dissolved, its liabilities will be effectively extinguished, hence legislation, therefore, requires a specific procedure to be followed to allow interested persons to object to the dissolution.

Within seven days from the day on which the application is made, a copy of it is given to every person who at any time on that day may have an interest.

This includes:
- shareholders
- creditors
- employees
- managers or trustees of any employee pension fund
- any directors who didn't sign the application form

A failure to follow this requirement can result in a fine and possible prosecution.

Any business assets must be passed to the shareholder(s) before the company is dissolved/voluntarily struck off. If this is not done, then they will pass to the Crown and the company will have to be restored to secure their return.

Final statutory accounts should be produced along with a Company Tax Return for sending to Her Majesty's Revenue and Customs (HMRC). When the accounts and tax return are filed HMRC should be advised that they are the final trading accounts and that the company will soon be dissolved.

At the same time all Corporation Tax and other outstanding tax liabilities will have to be paid. However, if there has been a loss in the final year of trading this may offset the tax against profits from previous years (terminal loss relief) which can be claimed on the final tax return.

Once an application has been registered, the company will technically still need to file documents, such as accounts, as there is no exemption for companies before they are dissolved. In addition, the potential criminal liability for directors of a company that default in filing accounts would still accrue.

The registrar will publish a notice in the Gazette:

- Stating that the registrar may exercise the power to strike off the company.
- Inviting any person to show cause why that should not be done

The registrar has a discretion, not a duty, to strike a company's name off the register upon its application. Any interested party may object to the application to the registrar, although an objection can only be considered by the registrar once notification has been published in the Gazette.

If there is no reason to delay, the registrar will strike the company's name off the register not less than two months after the date of publication of the notice in the Gazette.

9 Equality Impact Assessment

The company has been dormant since April 2017. With no staff employed by SFRMS and no jobs or services dependent on the company, there are no equality or diversity implications arising from this report. An e-EQIA is not, therefore, required.

10 Appendices

There are no appendices attached to this report.

11 Background Papers

There are no background papers associated with this report.