

Fire Service College

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

COMPLIANCE WITH AUTHORITIES

Introduction

1. The Fire Service College was established as a trading fund on 1 April 1992. Its financial objectives were laid before Parliament in a Treasury Minute dated 13 March 1992 which is reproduced at Annex B of this Annual Report.

Requirements of the Treasury Minute and Financial Restructuring

2. The Treasury Minute (paragraph 1) requires the College's revenue to consist principally of receipts in respect of goods and services provided in the course of funded operations. This revenue should not be less than sufficient, when taking one year with another, to meet the outgoings that are properly chargeable to the revenue account. Paragraph 4 of the Treasury Minute encourages the College to use revenue from wider market (non-Exchequer) customers to help reduce the price of courses to its Exchequer customers. The prices charged to UK fire authorities and other Exchequer customers must not exceed the full cost of courses provided for them. Full cost includes an amount of six per cent return on capital employed.
3. In April 1997, after a review of the College's financial performance, the Home Office made available to the College a grant of £13.5 million which was to be used to repay the loan element of its originating debt. The Home Office also agreed to make further annual grants available and these would reduce progressively to the extent that, by the end of 2001-02, financial support would cease and the College would then be expected to break even.

The College's Fees and Charges: Qualification of 1996-97 and 1997-98 accounts

4. In my reports on the College's accounts for 1996-97 (HC 12, 1999-2000) and 1997-98 (HC 89, 1999-2000), I noted that the College's management information system did not provide an integrated link between the costing of courses and the setting of fees and charges. The College was not able to support the methodology used to determine course costs, particularly the rate used to recover indirect costs; it was unable to identify separately direct, indirect, fixed and variable costs; and it did not have a mechanism for comparing prices charged for its courses with actual costs incurred.
5. My staff therefore concluded that, for 1996-97 and 1997-98, the College did not have a sufficiently reliable system for calculating the full cost of providing courses to its customers, and was unable to demonstrate whether it had complied with the Treasury Minute in relation to its charges to UK fire authorities. I qualified my opinion on those years' accounts in this respect.

Financial results for 1998-99

6. The College's account for 1998-99 shows an operating deficit, before grant and exceptional items, of £13,000, compared with £3,322,000 in 1997-98. The College continued to experience some cash flow difficulties during the year, but, in line with the expectation in the financial restructuring agreement with the Home Office, it received a reduced grant, of £900,000. This compares with £1,974,000 in 1997-98.

The College's New Costing System

7. Note 2b to the account sets out the turnover, costs and deficits arising on public sector training (UK fire authorities and other Exchequer customers) and private sector training

(non-Exchequer customers). As part of their audit of the account, my staff examined the information in this note.

8. For 1998-99, the College derived its information on charges in Note 2b from an activity based costing system which it had introduced to improve the reporting of course costs. This system uses estimates which each cost centre manager has made of the allocation of their costs to different activities, for example course delivery or the maintenance of specific assets. It avoids some of the weaknesses of the previous standard costing system that were identified in my Reports on the 1996-97 and 1997-98 accounts. In particular, it no longer needs the separate identification of fixed, variable, direct and indirect costs.
9. The College has been able to demonstrate how its costs have been allocated to each course by combining data from three different systems which it operates for course planning, course booking, and activity based costing. It is now possible, therefore, to compare course costs against prices charged. There is scope, however, for improving the flow of data back from the activity based costing system to the setting of course fees, once the College has more experience and data from the system.
10. My staff found that, for 1998-99, there had been a need to refine the allocation of costs within the activity based costing model. Some adjustments had been necessary to resolve anomalies in the cost allocations provided by cost centre managers but there were other adjustments that the College could not explain. My staff also found that the method for determining how activities are apportioned over particular courses was based on data taken from the College's course planning system, which only retains current data. The College did not retain the historical data to support the basis of apportionment used for 1998-99.
11. While there are still some weaknesses in the data underpinning the charges information in the account, the College has made progress in its ability to support its costing data. The cost of courses provided to UK authorities and Exchequer customers, shown in Note 2b to the account, is £17,000 less than the prices charged. However, after including a six per cent return on capital employed, the costs of courses exceed the prices charged. The requirement in paragraph 4 of the Treasury Minute, that the prices charged to UK fire authorities and other Exchequer customers must not exceed the full cost of courses provided for them, has therefore been met. I am satisfied that any remaining uncertainty in the underlying data would not have had a material impact on the charges information disclosed in the account.

Further improvements from 1999-2000

12. The College were aware that the system for allocating costs, introduced in 1998-99, needed to be refined, for instance to define more precisely the costs of individual courses and to improve the allocation of activity costs to individual courses. Particular improvements planned for 1999-2000 included the removal of unsupported adjustments to the cost allocations within the activity based costing system and the separate identification within the system of costs and revenues for activities other than courses, for example conferences and the College shop.
13. In addition, the College introduced new course prices from April 1999. This forms part of its strategy to move to full cost recovery and meet its duty to break even, taking one year with another, as laid down in paragraph 1 of the Treasury Minute, without the need for further support from the Home Office.

Prior Options Review

14. In December 1999, the Home Secretary published the results of a Prior Options Review of the Fire Service College. The Review considered a range of options for the future

provision of fire service training, some of which would have radical implications for the future of the College, but no decision has yet been taken on the way forward.

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19 July 2000

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