

Report to	Executive Panel
Date	18 December 2023
Lead Officer	Dafydd Edwards, Authority Treasurer
Contact Officer	Helen MacArthur, Assistant Chief Fire Officer
Subject	Budget Scrutiny Working Group



PURPOSE OF REPORT

- 1 The purpose of this report is to provide Members of the Executive Panel with an update on the current financial planning assessment to set a balanced budget for 2024/25, and to seek endorsement to confirm the indicative levy with constituent local authorities.

EXECUTIVE SUMMARY

- 2 North Wales Fire and Rescue Authority (the Authority) is required to provide indicative figures for the 2024/25 financial levy to constituent local authorities by 31 December 2023, and confirm the final figures by 16 February 2024. To achieve this, the Authority will consider the revenue budget for 2024/25 at its meeting on 22 January 2024. The budget planning process has been subject to scrutiny by the Budget Scrutiny Working Group and the current planning assessment of £49.194m (£44.4m for 2023/24) has been confirmed.

RECOMMENDATIONS

- 3 Members are asked to:
 - (i) Note the findings of the Budget Scrutiny Working Group, including the planning assumptions being used to develop the revenue budget for 2024/25;
 - (ii) Note the current financial planning assessment of a budget requirement of £49.194m for 2024/25;
 - (iii) Note the proposal to seek further work to identify opportunities for the further reductions in expenditure for the 2024/25 financial year and/or utilisation of reserves; and
 - (IV) endorse the communication of the draft financial levy to each constituent local authority.

BACKGROUND

- 4 Each year the Authority is required to set a balanced revenue budget which must be approved by the full Authority. The indicative financial levy must be communicated to constituent local authorities by the 31 December each year and the final levy confirmed by the 16 February before the commencement of the financial year. To achieve these timescales, the 2024/25 proposed revenue and capital budgets and the medium-term financial plan will be presented to the Authority at its meeting on 22 January 2024.
- 5 The Chartered Institute of Public Finance (CIPFA) requires that organisations have financial plans which demonstrate how expenditure will be funded over the short and medium term. The Authority's financial sustainability is, therefore, underpinned by knowledge and understanding of the key cost drivers and evaluation of risks and uncertainties.
- 6 To support the development of the strategic vision and service delivery models, the Authority has undertaken an Emergency Cover Review (ECR) during 2023. As part of this work, an initial high-level financial assessment was undertaken during February 2023 which estimated the year on year budget increase at circa £6m (Appendix 1). This represents a 13.5% increase, 5% of which addresses the underlying deficit arising from the 2023/24 budget setting process. The actions taken during the budget setting processes for 2023/24 are not sustainable as they require the use of reserves on an ongoing basis.
- 7 As part of the ECR, the Authority approved a number of options for consultation including two options with structural changes that reduced expenditure on a recurring basis by up to £2.4m. Following the outcome of the consultation exercise, the Authority confirmed that Option 1 was the preferred option which required a budget uplift of £6m.
- 8 Although the final budget approved by Members will be based on the final outcome of the ECR, the budget setting process has assumed a service delivery model based on costs associated with Option 1, or a cost-equivalent variant thereof, being the final option.
- 9 The process has been overseen by the Budget Scrutiny Working Group (the Group) which was established to provide scrutiny of the budget setting process, including all areas of income and expenditure. With membership from each local authority, the Group has met on four occasions between October and November 2023, with a further feedback session to all Members as part of the Emergency Cover Review Working Group meeting on 4 December.

INFORMATION

- 10 The Group was established by the Authority with representation from each constituent local authority. The Group has met on four occasions and considered all areas of the North Wales Fire and Rescue Service's (the Service) expenditure. The meetings focused on direct pay expenditure, non-pay expenditure, capital financing, interest and leases.
- 11 The detailed budget planning work has been undertaken in accordance with the key planning assumptions, risks and uncertainties outlined in Appendix 1.
- 12 The initial planning assessment undertaken during February 2023 indicated that an increase of £6m to £50.4m would be required for the 2024/25 financial year, including addressing the deficit brought forward from 2023/24.
- 13 The initial work undertaken as part of detailed budget planning identified further unavoidable pressures, which have since been mitigated through the work of the Group. The final draft assessment is a budget requirement of £49.194m, representing a 10.8% increase in the local authority levy. A draft breakdown by each constituent local authority is set out within Appendix 2.
- 14 Work is ongoing to identify further savings to reduce the budget requirement or identify reserves which can be utilised to fund non-recurring expenditure.
- 15 The table below confirms reductions of £1.912m identified through the work of the Group. This includes the removal of posts including two senior roles and the planned direct entry scheme. Further reductions were achieved within the non-pay expenditure headings and revised capital financing assessments.

£'m	23/24	Feb-23	Oct-23	Dec-23	Reductions via Budget Scrutiny
Employees	31.826	35.312	35.729	35.209	-0.520
Non-Pay	13.567	16.055	16.321	15.054	-1.267
Income	-0.999	-0.944	-0.944	- 1.069	-0.125
Total	44.394	50.423	51.106	49.194	-1.912
% Increase		13.5%	15.1%	10.8%	

- 16 The employee costs are in excess of 70% of net expenditure and the draft assessment for 2024/25 is 35.2m. This includes £34.2m of direct payroll costs relating to 971 staff with the current planning assessment of a 4% in year pay awards. However, this remains a key area of uncertainty and risk with a cost pressure of £0.34m for each 1% increase. The planning assessment also assumes an additional net cost pressure of £0.4m in relation to employer contributions towards the Firefighters' Pension Scheme. The actual increase is expected to be in the region of £0.7m and although financial support from the Welsh Government is anticipated it is not yet confirmed.
- 17 The analysis of the direct payroll costs is provided below which confirms that £34.392m relate to employees working in service delivery roles. The budget planning includes provision to support the growth in the retained duty personnel to support operational response capacity and resilience.

Analysis of Direct Pay Costs	2024/25 £'m
Response Services	28.915
Protection and Prevention Services	2.779
Corporate Services	2.698
Staffing Budget Requirement	34.392

- 18 The draft budget assessment for non-pay is £15.054m including £2.8m for capital financing costs including interest. The remaining non-pay elements have been subject to scrutiny across all departments to reduce and contain expenditure. Significant inflationary pressures are being experienced in a range of expenditure headings including technical operations, ICT, fleet and facilities. Further work continues to be undertaken in this area to identify opportunities to contain costs and utilise reserves for non-recurring items.
- 19 The current planning assessment includes capital financing costs of £2.8m, made up of interest costs £0.9m and a £1.9m minimum revenue provision. Interest rates are anticipated to remain similar to current levels through most of 2024. The planning assessment for future loans is an interest rate of 5.25%, based on the advice of the Authority's treasury management advisors. Interest costs include the need to refinance loans reaching maturity in the next financial year, as previously reported via the Treasury Management update reports. The capital financing costs in relation to the training centre have been removed from the original assessment giving rise to a reduction of £1.1m against the initial planning assessment.

FURTHER WORK

- 20 The draft financial planning assessment will be subject to further review and refinement and updated in the final assessment presented to the Authority at its meeting on 22 January 2024. This includes identifying further opportunities for budget reductions and potential non-recurring expenditure that can be funded from useable reserves.

IMPLICATIONS

Well-being Objectives	This report links to the Authority's Improvement and Well-being Objectives. It reports on the financial viability of the Authority.
Budget	The initial planning assessment indicated a budget requirement of £50.4m. Following the detailed planning work, the current assessment is £49.194m.
Legal	The Authority has a legal duty to set a balanced budget based on realistic planning assumptions.
Staffing	Over 70% of expenditure relates to staff costs and therefore is a material factor when considering future financial stability. The risks identified by the Chief Fire Officer include ongoing pay negotiations as well as the need to recruit further retained duty staff and build corporate resilience.
Equalities/Human Rights/Welsh Language	These issues will be factored into budget setting proposals.
Risks	The key risks and uncertainties to the 2024/25 budget have been outlined in Appendix 2.

Initial financial planning assessment 2024/25

£'m	2023/24	Deficit	Pay Award	FPS Provision	Inflation & Growth	Interest Rates	Training Centre	2024/25 Total
Pay	31.824	1.745	1.343	0.400				35.312
Non-Pay	10.384	0.200			0.741			11.325
Capital Financing and Interest	3.130					0.500	1.1	4.730
Income	-0.944							-0.944
Levy	44.394	1.945	1.343	0.400	0.741	0.500	1.100	50.423

Summary of planning assumptions and risks

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
Employee costs	<ul style="list-style-type: none"> The staffing budgets have been formulated on the staffing models required to deliver Option 1. At the time of setting the budget for the 2023/24 financial year, the national pay awards for firefighters for the 2022/23 & 2023/24 financial years had not been finalised. The final budget for 2023/24 assumed 5% and 4% respectively but the actual pay award was settled at 7% and 5%. The increased costs associated with this have been built into the base budget and a planning assessment of 4% for national pay awards in 2024/25 has been made for all staff. 	<ul style="list-style-type: none"> The nationally agreed pay awards for 2024/25 have not been agreed but for each percentage point above the 4% planning assessment the financial risk is circa £0.34m The budget planning assumes normal levels of activity. If spate conditions occur budget pressures will be experienced. The working assumption is that the General Fund would be utilised in the first instance. The valuation of the firefighters' pension scheme was undertaken during 2020 and the provisional results indicate a significant increase with a potential cost pressure of £0.7m. The current planning assessment anticipates that financial support will be received to partially mitigate this increase although this is not yet confirmed. A residual financial risk of £0.3m exists.

<p>Non-Pay</p>	<ul style="list-style-type: none"> • The initial planning assessment has confirmed that the non-pay budgets will be formulated on existing service delivery models, updated for the outcome of the Emergency Cover Review. The demands on the non-pay budget are further exacerbated by the inflationary impact inherent within existing and future contracts and supply chain issues in a number of business-critical areas. These include the supply of firefighting kit and the sourcing of replacement parts for operational vehicles. • Unavoidable costs associated with industry specific health and safety matters have been included within the non-pay budget. These include costs associated with the management of contaminants for our operational firefighters following national work. • Budgets have been formulated using the knowledge and professional judgement of budget managers and underlying contractual obligations but through necessity include a large degree of estimation. Where costs pressures can be quantified these have been separately identified and included. • During 2023/24 the Welsh Government removed its financial support of £0.4m for the existing national emergency services communication network (Firelink). The full contract price of £1m is now funded directly from core funding. Due to the fixed nature of this contract these costs are unavoidable and the contract includes an annual inflationary increase. 	<ul style="list-style-type: none"> • Whilst the Service continues to review non-pay costs and strives to manage cost pressures within the planned budget this remains an area of risk due to ongoing pressures within the supply chain arising from price rises and availability issues. This position is being carefully managed but due to significant volatility it is not possible to fully quantify the impact. • The cost of gas and electricity has been a known cost pressure since 2022/23 due to global cost pressures. The position appears to have stabilised and the budget for 2024/25 is predicated on best estimates at this time. However, volatility in the market continues and this remains a known uncertainty and risk. • Specific provision has not been made within the budget for carbon reduction but is included within anticipated non-pay costs. For example, the move away from diesel vehicles is included in future fleet costs.
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Heading	Planning assumptions used in budget setting	Risks/Uncertainties
Capital Financing	<ul style="list-style-type: none"> • The capital financing requirement for 2024/25 includes the revenue charge for the minimum revenue provision for existing assets and an estimate of the interest charges arising from borrowing. These costs are influenced by historical capital expenditure, the need to borrow for the 2024/25 capital programme and the impact of interest rate increases when re-financing maturing loans. • The initial planning assessment will assume that all future borrowing will be at the prevailing PWLB rate at the time of budget setting. • The capital plan now excludes potential costs associated with a new training centre. At this time the business case has not been considered by the Authority and, therefore, it is assumed that capital costs will be incurred from 2025/2026 onwards. 	<ul style="list-style-type: none"> • The increase in interest rates is a key risk area given the economic uncertainty at this time. Financial modelling will be undertaken to assess the sensitivity of the Authority's financial position and performance to existing interest rates and reported as part of the budget setting. • The timing of any costs associated with a new training centre are unknown at this stage as the business case has not been considered by the Authority. Although it is not anticipated that any building works will commence during 2024/25 it may be necessary to make provision for costs associated with detailed planning applications should approval be given.
Income	<ul style="list-style-type: none"> • Income budgets have been reviewed and set in line with previous years. • Welsh Government grant income reduced significantly during 2023/24 due to the removal of the Firelink Grant (£0.4m) and incorporation of the Scape Grant (£1.08m) into the RSG paid to local authorities. • The draft budget assumes that remaining Welsh Government grant funding will be received at 2023/24 levels. 	<ul style="list-style-type: none"> • No specific risks have been identified over and above the grant income from the Welsh Government for which inflationary uplifts are not anticipated.

Appendix 3

Draft financial levy by local authority

Authority	2023/24 Contribution £	Population*	Apportionment %	Budget Requirement £	Increase £	Increase %
Anglesey County Council	4,402,621	69,842	10.00%	4,878,683	476,062	10.8%
Gwynedd County Council	7,913,586	125,539	18%	8,769,293	855,707	10.8%
Conwy County Borough Council	7,477,749	118,625	17%	8,286,328	808,579	10.8%
Denbighshire County Council	6,064,021	96,198	14%	6,719,732	655,711	10.8%
Flintshire County Council	9,936,251	157,626	22%	11,010,670	1,074,419	10.8%
Wrexham County Borough Council	8,599,427	136,419	19%	9,529,295	929,868	10.8%
Total	44,393,655	704,249	100%	49,194,000	4,800,345	10.8%

Population estimates based on 23/24 figures (to be finalised)