

Report to	<b>Fire and Rescue Authority</b>
Date	<b>17 October 2022</b>
Lead Officer	<b>Dafydd Edwards, Treasurer</b>
Contact Officer	<b>Helen MacArthur, Assistant Chief Fire Officer</b>
Subject	<b>Budget Setting 2023/24</b>



## PURPOSE OF REPORT

- 1 This report is to present to Members the budget process, planning assumptions and timescales for setting the Fire and Rescue Authority's (the Authority) revenue budget for 2023/24.

## EXECUTIVE SUMMARY

- 2 The Authority is required to set the revenue budget for 2023/24 at its meeting on 16 January 2023. The preliminary work required to establish the base budget has commenced which includes a review of current expenditure levels, key planning assumptions and risks. A summary is provided in Appendix 1.

## RECOMMENDATIONS

- 3 Members are asked to:
  - (i) note the planning assumptions being used to set the revenue budget for 2023/24; and
  - (ii) note the proposal to provide initial budget estimates to the Executive Panel at its meeting of 12 December and to seek approval for the 2023/24 revenue budget by the Authority at its meeting of 16 January 2023.

## BACKGROUND

- 4 Each year the Authority is required to set a balanced revenue budget which must be approved by the full Authority before the commencement of the financial year. Although the term "balanced" is not formally defined in the legislation, the Chartered Institute of Public Finance (CIPFA) recognises that organisations should have financial plans which demonstrate how expenditure will be funded over the short and medium term.

- 5 The Authority's financial sustainability in the short, medium and longer term is underpinned by knowledge and understanding of key cost drivers including the evaluation of risks and uncertainties. Pivotal to this is an understanding of service demands, resources available and the future strategic vision.
- 6 The Chief Fire Officer's report to Members in September 2021 provided a situation assessment. This confirmed that the key challenges facing the Authority are maintaining sufficient availability of on-call fire crews; ensuring sufficient resources to maintain and develop firefighter skills; and having enough corporate capacity to meet current and future demands.
- 7 Following this assessment, the Authority approved a number of internal reviews including a fire cover review, a review of the retained duty system (on-call crews) and a training review to ensure firefighter safety. These reviews are ongoing and are being supplemented through further work in key areas such as wildfire tactical assessments and decontamination of appliances, kit and equipment.
- 8 In addition to these specific areas of challenge, the Authority is also facing the uncertainties common to all public sector bodies due to the uncertain economic situation. In particular, the need to manage the impact of inflation, supply issues and wage inflation being the key priorities.
- 9 Although the initial budget assessment for 2023/24 presented to the Authority in December 2021 indicated a net budget requirement of £40.913m, it will be necessary to revise this to fully reflect the current assessment.
- 10 The budget planning for the 2023/24 financial year will focus on the issues identified above and discussed at the planning workshop held on 6 October 2022.
- 11 Further work will be undertaken with the constituent local authorities to ensure that the Authority's budget requirements are fully communicated.

## **INFORMATION**

- 12 The initial planning assessment contained within the medium-term financial plan is being revised and additional information is provided within Appendix 1. The 2023/24 draft revenue budget will be prepared and considered for approval by the Authority at its meeting on 16 January 2023.

- 13 The situational assessment has identified challenges in relation to availability of retained stations, corporate capacity and training of firefighters. Following approval from the Authority, detailed reviews are being planned to provide further insight for medium and longer-term planning. Short term actions are also required to address immediate pressures and this matter will be progressed with Members through planning workshops. The costs associated with the short-term imperatives will be included in the budget assessment for 2023/24.
- 14 Employee costs typically account for in excess of 72% of expenditure and the planning assessment for the medium-term financial plan assumed a pay award of 2% for all staff groups. However, the national pay negotiations for 2022/23 have not yet concluded and this, therefore, represents a significant risk for both the 2022/23 outturn position and the 2023/24 financial planning. It is estimated that in year, a further £0.25m would be required for each 1% above the planning assumption with a full year effect of £0.33m
- 15 A further risk to employee costs relates to the employer pension contributions for firefighters which increased during 2019/20 following a revaluation by the Government Actuary's Department. The valuation of pensions is a complex area involving long term projections. Following a change to the assumptions, the employer contributions for unfunded schemes increased significantly in 2019/20. Since that time, the Welsh Government has provided financial support. The position has not yet been confirmed for 2023/24 onwards and this represents a risk of £1.1m. At this time, the budget assumption is that funding will be received.
- 16 The UK Government has announced that the increase in employer's Class 1 National Insurance contributions that was applied in April 2022 to cover NHS and social care costs in the UK will now be reversed. This will reduce staff costs by circa £0.17m.
- 17 Although an inflationary increase has been applied to non-pay budgets a number of significant risks and uncertainties remain. These include fuel costs which remain unpredictable due to price and supply issues. In addition, the availability and costs of other commodities such as building supplies, ICT equipment and fleet parts are also of concern given the complexity of supply chains and global uncertainty.

- 18 The market instability and increased costs of gas and electricity are a major financial challenge for the Authority and the planning assumption at this time is a cost pressure of £0.9m. The UK Government has announced support for businesses including public sector bodies until 31 March 2023 but the longer-term support available is unknown at this time.
- 19 There are a number of further risks within non-pay budgets including uncertainty over Welsh Government funding for the national Emergency Services Network (communication).
- 20 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. Interest rate increases, inflationary pressures and supply chain issues are a challenge to the capital programme. Further reviews are ongoing to ensure the long-term affordability of the capital plan.
- 21 The ongoing training review will consider the provision of training facilities to provide safe and sustainable arrangements. These plans will have a capital and revenue impact in future years although no provision is required in 2023/24.

## 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 assessment of £40.913m contained within the medium-term financial plan approved by Members during December 2021 will be revised to reflect the current assessment.
Legal	The Fire and Rescue 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 2023/24 budget have been outlined in Appendix 1.

## Summary of planning assumptions and risks

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
Employee costs	<ul style="list-style-type: none"> <li>• The staffing budgets will be formulated on existing service delivery models and updated to address the risks identified within the Chief Fire Officer's 2021 situational assessment. It is anticipated that additional provision will be required to address the training needs of staff and to ensure that corporate capacity is maintained.</li> <li>• The initial planning assessment presented to members in December 2021 assumed national pay awards of 2%. This assessment is no longer valid and significant provision is required to address 2022/23 pay awards (not yet finalised) and 2023/24 awards.</li> <li>• The increase of 1.25% in national insurance contributions applicable from April 2022 have now been reversed following the outcome of the September 2022 mini budget.</li> <li>• It is assumed that the increases to the employer pension contribution rates arising from the last Government Actuary's Department valuation will continue to be grant funded by the Welsh Government.</li> </ul>	<ul style="list-style-type: none"> <li>• The National Joint Council (NJC) has not yet reached agreement on the firefighter pay award for 2022/23 although settlements above the budget provision are anticipated at the time of writing this report.</li> <li>• The National Joint Council (NJC) for Local Government Services has not yet reached agreement on the pay award for staff on LGPS contracts for 2022/23. The current offer exceeds the budget provision and creates a recurring pressure of £0.25m.</li> <li>• 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.</li> <li>• The Welsh Government has not yet confirmed that the grant to support the increase in employer contributions for the firefighter pension scheme will continue at its current level of £1.1m.</li> <li>• In December 2018, the government lost its appeal to the legal challenge of the transitional pension arrangements for firefighters. The remedy will apply across the public sector pension schemes. The financial outcome is unknown and no provision has been made.</li> </ul>

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
	<ul style="list-style-type: none"> <li>Following the public inquiry into the Grenfell disaster the Fire Safety Act (2021) has introduced changes to building regulations. The budget proposals will reflect revised staffing and training for staff to ensure that the Authority is able to respond to these changes.</li> </ul>	<ul style="list-style-type: none"> <li>The pension scheme for staff employed on local government terms and conditions is subject to a four-yearly valuation. The latest valuation is being finalised and will take effect from April 2023. It is not known whether this will impact on the employer contributions and this remains a risk at this time.</li> <li>The pension scheme for firefighters is subject to a four-yearly valuation. The results inform the employee and employer contribution rates which are set by the Welsh Government. The next valuation outcome will be applicable from April 2024 and is expected to increase employer contribution rates from their current level of 27.3% of pensionable pay. Although this will not impact on the 2023/24 financial year it remains a key risk and uncertainty over the medium-term planning cycle.</li> </ul>
Non-Pay	<ul style="list-style-type: none"> <li>The initial planning assessment has confirmed that the non-pay budgets will be formulated on existing service delivery models and updated to reflect imperatives arising from the Chief Fire Officer's situational assessment. The demands on the non-pay budget are further exacerbated by the inflationary impact and supply chain issues.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The cost of gas and electricity is a known cost pressure and current planning assumptions include an increase of £0.9m from the initial assessment in the medium-term financial plan.</li> </ul>

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
	<ul style="list-style-type: none"> <li>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 (e.g. energy)</li> </ul>	<ul style="list-style-type: none"> <li>The national procurement of an Emergency Services Network is progressing but significant delays are being experienced. The existing contract has been extended and the Authority currently receives £0.4m from the Welsh Government towards the provision of the existing service. The assumption is that the current revenue support will continue although this has not yet been confirmed.</li> <li>Although the Authority continues to work towards reducing its carbon footprint detailed plans have not yet been formalised. This work will progress during 2023/24 and no budget provision has been included.</li> </ul>
Capital Financing	<ul style="list-style-type: none"> <li>The capital financing requirement for 2023/24 is influenced by historical capital expenditure, the need to borrow for the 2023/24 capital programme and the impact of interest rate increases.</li> </ul>	<ul style="list-style-type: none"> <li>The increase in interest rates is a key risk area given the economic uncertainty at this time. Further financial modelling will be undertaken to assess the sensitivity of the Authority's financial position and performance to further increases in interest rates and reported as part of the budget setting.</li> </ul>
Income	<ul style="list-style-type: none"> <li>Income budgets have been reviewed and set in line with previous years.</li> </ul>	<ul style="list-style-type: none"> <li>No specific risks have been identified over and above the grant income from the Welsh Government referenced within this report.</li> </ul>