

Report to	North Wales Fire and Rescue Authority
Date	16 October 2023
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Subject	Provisional Outturn 2023/24



PURPOSE OF REPORT

- 1 To provide Members with an update on the revenue and capital expenditure forecast for 2023/24, as at 30 November 2023.

EXECUTIVE SUMMARY

- 2 The net budget requirement was approved by the North Wales Fire and Rescue Authority (the Authority) at its meeting of 16 January 2023. This confirmed a net requirement of £44.394m to be funded by the constituent local authorities. In addition, the Authority approved non-recurring measures to address the underlying deficit which included deferring expenditure and utilising reserves.
- 3 Actual expenditure is forecast to be £45.331m which includes costs relating to various projects, national pay settlements above the budget provision, and general inflationary pressures. The use of earmarked reserves, the general fund, and provisions will mitigate the additional costs and it is not anticipated that a supplemental levy will be required.
- 4 The Authority approved the 2023/24 capital budget of £6.532m, on 16 January 2023. This included £3.00m for the purchase of land relating to the proposed training centre, which is anticipated to complete during the final quarter of 2023/24. In addition, there is rollover funding of £0.625m from 2022/23. The capital programme is experiencing cost pressures and therefore schemes are being prioritised, in order to remain with the funding available. It is anticipated that expenditure will be £5.29m and a requirement to rollover funding of £1.42m.

RECOMMENDATIONS

- 5 Members are asked to:
- (i) note the draft revenue and capital outturn projections for the 2023/24 financial year as detailed within the report;
 - (ii) note the risks associated with inflation and supply chain issues; and
 - (iii) approve the use of earmarked and general fund reserves.

OBSERVATIONS FROM EXECUTIVE PANEL/AUDIT COMMITTEE

- 6 This report has not previously been considered by Members.

BACKGROUND

- 7 Each year the Authority is required to set a balanced revenue budget which must be approved by the full Authority. The final budget for 2023/24 was approved by the Authority at its meeting of the 16 January 2023. This confirmed a net revenue budget requirement of £44.394m to be funded by the constituent local authorities. This included changes to the funding flow of £1.08m of Welsh Government support for firefighters' pensions. Previously this had been directly funded to the Authority but from 1 April 2023 this was funded via constituent local authorities.
- 8 When setting the budget, Members also approved a range of non-recurring measures necessary to achieve financial balance within 2023/24 which impacted on both service delivery and corporate capacity. These included deferring expenditure and the use of earmarked and general reserves; actions necessary to address the loss of grant income of £0.4m from the Welsh Government in respect of the Airwave contract, other known pressures and also uncertainty relating to national pay negotiations.
- 9 The capital budget requirement was assessed as £6.532m and approved by the Authority at the meeting of the 16 January 2023. Since that time, slippage in the 2022/23 programme has resulted in schemes of £0.625m being carried forward into 2023/24.
- 10 This report provides information on the draft revenue and capital expenditure outturn position for the 2023/24 financial year.

INFORMATION

REVENUE BUDGET

- 11 The employee costs represent 72% of gross expenditure. The 2023/24 staffing budget is £31.872m for 2023/24 and includes measures taken at that time to contain expenditure within the approved budget. However, it was also noted when setting the budget that the national pay negotiations for all staff were still ongoing; noting that this related to both 2022/23 and 2023/24 for staff employed on grey book terms and conditions (operational staff).
- 12 The budget setting process included an assumption that pay awards for 2023/24 would be 4% for all staff. The final agreed pay award for local government staff was confirmed in November 2023 as an uplift of £1,925 across all grades which equates to approximately 6.6%.
- 13 The firefighters' pay award was settled in February 2023. This confirmed that 7% had been accepted for firefighter and firefighter control roles from July 2022 with a further 5% from 1 July 2023 onwards. These settlements were above the 5% and 4% planning assumptions used when setting the budget.
- 14 The non-pay forecasts reflect the known unavoidable cost pressures that are being experienced in relation to ICT costs, building maintenance and repairs and fuel costs. However, further uncertainty remains due to general inflationary pressures and supply chain issues resulting in expenditure above anticipated budget.
- 15 Whilst the majority of expenditure is funded from the constituent authority levy, income is received from the Welsh Government for grant funded activities, as well as recharges from other bodies in relation to the use of our premises.
- 16 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. It is anticipated that this budget will be underspent due to the delays in completing capital projects.

REVENUE OUTTURN

- 17 The report is projecting an overspend of £0.937m. The breakdown is detailed below.

	Budget (£m)	Forecast (£m)	Variance (£m)	Variance (%)
Employees	31.872	31.578	(0.294)	-0.92%
Premises	3.516	4.092	0.576	16.38%
Transport	1.271	1.416	0.145	11.46%
Supplies	5.419	6.806	1.387	25.59%
Third Party Payments	0.305	0.323	0.018	5.69%
Capital Finance & Charges	3.129	2.304	(0.825)	-26.36%
Income	(1.118)	(1.188)	(0.070)	6.32%
Forecast Outturn	44.394	45.331	0.937	2.11%

EMPLOYEE COSTS

- 18 Employee costs form a significant element of the budget (72%) and include pay, pension costs, cost of recruitment and training and employee services, such as occupational health services. As part of the final budget approval in January 2023 a range of measures were approved by Members to contain staff expenditure. These are not recurring in nature and included measures such as not filling vacancies within the approved structure and limiting the anticipated increase in recruitment to retained stations.
- 19 A new staffing structure was implemented in June 2023 and these posts remain critical to achieving the corporate objectives. The cost of the vacancy savings has partially mitigated the increased costs in relation to the pay awards and overtime.
- 20 Action continues to be taken to increase the number of retained duty firefighters to address and maintain availability issues, mindful of the budget constraints.
- 21 In addition, action has continued to fill specialist vacant posts and to maintain operational capacity. During 2023/24, although there have been savings due to ongoing vacancies and posts filled part way through the year, these have been utilised to maintain availability and address sickness in operational areas.
- 22 As is the case with other local government bodies, a one-off refund has been received in relation to employer pension contributions, from Clwyd Pension Fund, following the actuarial valuation. This amounted to £0.503m.
- 23 The net underspend in employee costs amounts to £0.294m, with a further breakdown below:

Employee Costs	£m
Pay award above budget	0.730
In year vacancy savings	(1.034)
Additional hours to cover operational duties - including sickness	0.620
Other employee costs	(0.089)
Projected pension costs	(0.521)
Projected Underspend	(0.294)

NON-PAY COSTS

- 24 The non-pay budget is experiencing significant pressures. 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.
- 25 Non-pay expenditure is subject to ongoing review by budget holders to ensure that the projections continue to be reasonable and to manage unavoidable costs.

Premises

- 26 Premises costs are projecting an overspend of £0.576m. This is largely due to an increase in relation to servicing and maintenance costs, as well as work being completed that was outstanding from 2022/23. Earmarked reserves will be used to offset the costs of the 2022/23 works.
- 27 The budget figures include the preliminary costs agreed at a previous meeting in relation to the site surveys for the proposed land purchase and developing the business case for a new training centre (£0.25m).
- 28 The market instability and increased costs of gas and electricity are a major financial challenge for the Authority. The current projected costs are within budget and costs are monitored as part of the service level agreement with North Wales Police.
- 29 The Authority has benefited from a reduction in national non-domestic rates following successful rating appeals. The underspend in this area is £0.18m.

Transport

- 30 The transport budget is projecting a variance of £0.146m. Increasing costs in relation to fuel (oil, diesel and petrol) and the availability and costs of vehicle parts and repairs are causing pressures on this budget.

Supplies

- 31 The net supplies budget is £5.349m and current forecast overspend of £1.387m, which includes in year initiatives that will be funded from earmarked reserves. This area of expenditure includes business critical areas such as operational equipment and PPE purchase, essential ICT licences, the Firelink contract and insurances.
- 32 Significant inflationary pressures are being experienced in a number of business-critical areas and action is being taken to contain and mitigate these, where possible.
- 33 The largest element of expenditure relates to the national Firelink contract which has an annual cost of £0.84m. This is the emergency service contract which enables mobilisation to incidents, communication and interoperability between emergency partner. This will be replaced by the Emergency Services Mobile Communications Programme (ESMCP) to provide enhanced voice and data across the emergency services. However, at this stage an implementation date is not known for ESMCP and there is no alternative to the Firelink contract. Previously support of £0.42m was received from the Welsh Government but this was withdrawn from 1 April 2023 and remains an ongoing cost pressure.
- 34 The ICT costs have included pressures such as increased costs associated with telephone line rentals. In response to this financial challenge, ICT have strategically decided to mitigate costs by phasing out these outdated systems and embracing modern, cost-effective alternatives that align with current technological advancements. This proactive approach not only ensures financial efficiency but also positions the Service to benefit from the enhanced functionalities and savings offered by cutting-edge solutions. ICT costs have also increased due to the requirement to purchase additional hardware, including replacement alerters and laptops that have come to their end of life.
- 35 Significant expenditure has also been incurred to purchase additional fire kit, due to the ongoing contaminants review, which has resulted in a projected overspend of £0.474m.

- 36 The projected outturn position includes costs for the replacement of essential operational equipment and fire kit, updated HR software and project work in relation to the various reviews that are currently being undertaken throughout the Service including the Emergency Cover Review.

Third Party Payments

- 37 Third party payments relate to service level agreements with partners, including Conwy County Borough Council, Flintshire County Council, Carmarthenshire County Council and North Wales Police. The agreements include the provision of legal services, monitoring officer services, pension administration and facilities.
- 38 This expenditure is currently projected to be overspent by £0.017m. This is due to the additional work required regarding the legislative changes in relation to firefighters pensions.

Capital Financing

- 39 The capital financing budget sets aside revenue funding to finance capital expenditure and includes the minimum revenue provision and interest costs on borrowing.
- 40 The Minimum Revenue Provision (MRP) represents the minimum amount that must be charged to an authority's revenue account each year for financing of capital expenditure, which will have initially been funded by borrowing. It is part of all Authority's accounting practices, and is aimed at ensuring that the Authority can pay off the debts it has from buying capital assets, such as buildings and vehicles.
- 41 Regulations require the Authority to determine each financial year an amount of MRP, which it considers to be prudent by reference to a calculated capital financing requirement (CFR). Following discussions with the Treasury Advisors, Arlingclose, work has been undertaken to review the MRP policy and MRP calculation. This has resulted in the MRP reducing to £1.902m for 2023/24 compared to a budget of £1.999m.
- 42 The budget also holds the interest costs in relation to the Authority's loans. Due to the volatile economic position, the cost of borrowing has continued to increase. However, it has not been necessary to take out further borrowing as capital expenditure to date has been significantly slower than anticipated resulting in a forecast budget saving of £0.428m.

- 43 In addition, the Service has actively invested surplus funds, on a short-term basis. During the year rates have continued to rise and deposits have been placed in order to receive the greatest return, in line with the Treasury Management Strategy. The cash position is reviewed daily and any unused funds are transferred to various deposit accounts, in order to gain interest. To date interest received is £0.296m.
- 44 Due to the ongoing careful management of this budget, there are total savings of £0.825m.

INCOME

- 45 As well as the constituent authority levy, the budget also includes expected income for fees and charges and grants.
- 46 Fees and charges largely relate to the recharges for buildings shared with other bodies.
- 47 Other income has increased due to an increase in recharges to other bodies and proceeds from the disposal of vehicles and equipment.

	Budget (£m)	Projection (£m)	Variance (£m)
Grants	0.854	0.854	0.000
Fees and charges	0.264	0.334	0.070
Total	1.118	1.188	0.070

Grant Funding

- 48 2023/24 Welsh Government grant funding allocations totals £0.854m. A breakdown of grant funding, for 2023/24, is detailed below. All grants are carefully monitored throughout the financial year to identify any variances and to enable remedial action to be taken.

	Allocation (£m)
Arson Reduction	0.169
Home Safety Equipment	0.240
Youth & Young People Engagement	0.137
National Resilience	0.308
Total Grant Funding	0.854

CAPITAL PROGRAMME

- 49 The Authority approved a capital programme of £3.532m, in January 2023. In addition, there was an allocation of £3.00m for the purchase of land for the proposed training centre.
- 50 As per the final outturn report presented to the July 2023 meeting, the requirement for rollover funding was agreed at £0.625m, for schemes that were not completed in 2022/23.
- 51 Due to ongoing delays, capital expenditure to date totals £1.115m and the year end projection is forecast to be £5.290m.
- 52 As is the case with the revenue budget, the capital programme is experiencing cost pressures, with increased costs in relation to the purchase of vehicles and building works. This is being managed by prioritising the delivery of critical projects.
- 53 Rollover of funding has already been highlighted, as per below. A total of five fire appliances are on order, however stage payments are expected to extend into 2024/25, due to delays in the availability of build slots with the supplier.
- 54 All other schemes that have not commenced this year, have been reviewed and the ones included in the table form part of the capital planning for 2024/25.
- 55 Details of the schemes are below:

Scheme	Original Allocation £m	Revised Allocation £m	Forecast £m	Rollover £m
2023/2024				
Fire Appliance replacement	1.430	0.475	0.475	0.960
Multi- purpose vans	0.189	0.189	0.269	
Electric V an pilot	-	-	0.107	
Welfare Units	0.150	0.150	0.150	
Command & Control refresh	0.600	0.600	-	
Minor Building works	0.483	0.100	0.100	
Training Towers	0.250	0.250	-	0.250
Fleet - fall arrest system and roof works	0.100	0.126	0.126	
Appliance bay doors	0.180	0.180	0.180	0.057
Llandudno Heating upgrade	0.150	0.150	-	0.150
Dolgellau Smokehouse works	-	0.365	0.256	
Proposed training centre land	3.000	3.000	3.000	
Unallocated	-	0.947	-	
Total : Capital Plan	6.532	6.532	4.663	1.417
Rollover 2022/23				
Training Towers	0.307	0.307	0.307	
Multipurpose station vans	0.160	0.160	0.162	
Buildings - Minor works	0.158	0.158	0.158	
Total: Rollover	0.625	0.625	0.627	-
Total	7.157	7.157	5.290	1.417

56 The anticipated financing of the capital expenditure is set out below:

Funding	Amount £m
Borrowing	4.563
Earmarked Reserves	0.727
Total	5.290

BORROWING

57 Capital expenditure is largely funded via external borrowing but in the short term the Authority utilises surplus revenue cash, known as internal borrowing.

58 The Authority continues to utilise internal borrowing. This means that the capital borrowing needed, as calculated by the Capital Financing Requirement (CFR), has not been fully funded with external loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary expedient to fund capital spend and generate revenue savings. However, as reserves are utilised it becomes necessary to replace the internal borrowing with external borrowing.

USE OF THE GENERAL FUND AND EARMARKED RESERVES

- 59 The aim of the Authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges arising from activity demands or unforeseen pressures.
- 60 The Authority currently has earmarked reserves of £6.22m which have been built up in recent years due to slippage in recruitment and delivery of projects following the pandemic.
- 61 In 2022/23 earmarked reserves were set aside to fund costs that should have been incurred in 2022/23, but supply chain issues meant that these could not be completed and were delayed. In addition, there are reserves set up to fund interest rate rises, increases in inflation, system improvements and service improvements.
- 62 The provisional outturn assumes that earmarked reserves will be utilised in year, to offset the overspend of £0.937m. The use of reserves is kept under review as part of the budget monitoring process.

PRUDENTIAL INDICATORS – Q2 2023/24

- 63 The Authority measures and manages its capital expenditure and borrowing with references to the following indicators. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis. The Indicators are calculated based on the information in the 2023/24 Capital Strategy, that was approved by the Authority at its meeting on 24 March 2023.

Capital Expenditure

- 64 The Authority has undertaken and is planning capital expenditure as summarised below:

	2022/23 actual £m	2023/24 forecast £m	2024/25 budget £m	2025/26 budget £m
General Fund Services	3.366	5.290	5.834	5.658

- 65 Further details of the General Fund capital projects to date are detailed within the Capital Programme section of this report.

Capital Financing Requirement

- 66 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	31.03.23 actual £m	2023/24* forecast £m	2024/25* forecast £m	2025/26* forecast £m
General Fund Services	28.877	32.158	34.407	36.749

*The table above includes the costs for the proposed training centre.

Gross Debt and the Capital Financing Requirement

- 67 Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.03.23 actual £m	30.09.23 actual £m	2023/24* forecast £m	2024/25* Budget £m	2025/26* budget £m
Debt (incl. Finance Leases)	26.650	22.200	20.787	25.960	29.683
Capital Financing Requirement	28.877	32.158	32.158	34.407	36.749

Debt and the Authorised Limit and Operational Boundary

- 68 The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	Maximum debt Q2 2023/24 £m	Debt at 30.09.23 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied Yes/No
Borrowing	26.650	22.200	30.999	28.990	Yes

69 Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Proportion of Financing Costs to Net Revenue Stream

70 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from the levy and general government grants.

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget
Financing costs (£m)	2.351	2.605	3.626	4.410
Proportion of net revenue stream	5.96%	5.87%	7.58%	8.65%

Treasury Management Indicators

71 These indicators are within the Treasury Management Report Q2 2023/24.

IMPLICATIONS

Well-being Objectives	This report links to NWFRA's long-term well-being objectives. Funding for the Service benefits the communities of North Wales and ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually in accordance with the proposed service delivery which includes emergency response and prevention work.
Legal	It is a legal requirement that the Authority produces the Statement of Accounts in accordance with the prescribed standards.
Staffing	Effective financial management supports the long term workforce strategy to ensure that the Authority is able to discharge its responsibilities
Equalities/Human Rights/Welsh Language	None
Risks	Income and expenditure is closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members.