

Report to	North Wales Fire and Rescue Authority
Date	16 October 2023
Lead Officer	Helen MacArthur, Assistant Chief Fire Officer Finance & Resources
Contact Officer	Helen Howard, Head of Finance
Subject	Provisional Outturn 2023/24



PURPOSE OF REPORT

- 1 To provided Members with an update on the revenue and capital expenditure forecast for 2023/24, as at 31 August 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 £44.39m to be funded by the constituent local authorities.
- 3 Actual expenditure is forecast to be £45.478m 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 has yet to be agreed. 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 £5.14m and a requirement to rollover funding of £2.02m.

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;
 - iii) note the risks associated with the ongoing pay negotiations; and
 - iv) 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 This report provides information on the draft revenue and capital expenditure outturn position for the 2023/24 financial year.

INFORMATION

REVENUE BUDGET

- 8 The net budget for 2023/24 of £44.394m was approved at the Authority meeting on 16 January 2023. It was noted that this budget includes measures that will impact on both service provision and corporate capacity.
- 9 Staff costs represent 72% of gross expenditure. The staffing budget of £31.826m for 2023/24 was set in January 2023 and included measures taken at that time to contain expenditure within the approved budget.
- 10 The budget setting process included an assumption that pay awards for 2023/24 would be 4% for all staff. The pay offer for local government staff is currently an uplift of £1,925 across all grades which equates to approximately 6.6%. This is above the planning assumption and remains a risk at this time.
- 11 A pay award of 7% has been accepted for firefighter and firefighter control roles from July 2022 and a 5% award has been agreed from July 2023. These settlements were above the 5% and 4% planning assumptions used when setting the budget.
- 12 The non-pay forecasts reflect the known unavoidable cost pressures that are being experienced in relation to ICT costs, building maintenance and fuel costs. However, further uncertainty remains due to general inflationary pressures and supply chain issues resulting in expenditure above anticipated budget.
- 13 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.

- 14 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

- 15 The report is projecting an overspend of £1.084m. The breakdown is detailed below.

	Budget (£m)	Forecast (£m)	Variance (£m)	Variance (%)
Employees	31.826	32.006	0.181	0.57%
Premises	3.516	3.835	0.319	9.07%
Transport	1.268	1.404	0.136	10.72%
Supplies	5.349	6.233	0.884	16.53%
Third Party Payments	0.305	0.323	0.017	5.69%
Capital Finance & Charges	3.129	2.756	-0.373	-11.92%
Income	-0.999	-1.079	-0.080	8.02%
Forecast Outturn	44.394	45.478	1.084	2.44%

EMPLOYEE COSTS

- 16 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 and limiting recruitment to RDS stations.
- 17 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.
- 18 Action continues to be taken to increase the number of retained duty firefighters to address and maintain availability issues, mindful of the budget constraints.
- 19 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 and has partially mitigated the gross overspend of £0.684m.

20 The net overspend in staffing costs amounts to £0.181m and includes the following:

- in year costs of pay awards;
- additional overtime to cover sickness and maintain availability;
- additional holiday pay;
- temporary posts to deliver specific projects; less
- reductions arising from current vacancies;
- refund received from Clwyd Pension Fund.

NON-PAY COSTS

21 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.

22 A review of non-pay expenditure is undertaken by budget holders to ensure that the projections continue to be reasonable.

Premises

23 Premises costs are projecting an overspend of £0.319m. This is largely due to an increase in relation to servicing and maintenance costs.

24 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).

25 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.

Transport

26 The transport budget is projecting a variance of £0.136m. Increasing costs in relation to fuel and vehicle parts are causing pressures on this budget. This relates to an increase in oil and fuel prices and vehicle lease costs.

Supplies

- 27 The net supplies budget is £5.349m, a current forecast overspend of £0.884m, which includes in year initiatives that will be funded from earmarked reserves.
- 28 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.
- 29 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 North Wales Fire and Rescue Service (the Service), including the Emergency Cover Review.

Third Party Payments

- 30 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.
- 31 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

- 32 The capital financing budget sets aside revenue funding to finance capital expenditure.
- 33 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 Authorities' 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.
- 34 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). The MRP for 2023/24 is £1.99m. Following discussions with the Treasury Advisors, work is currently being undertaken to review this.

- 35 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 £0.173m.
- 36 In addition, there has been capacity to invest funds in short term treasury deposits. 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 £0.160m.

INCOME

- 37 As well as the constituent authority levy, the budget also includes expected income for fees, charges and grants.
- 38 Fees and charges largely relate to the recharges for buildings shared with other bodies.
- 39 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	0.747	0.747	0.000
Fees and charges	0.252	0.332	0.080
Total	0.999	1.049	0.080

Grant Funding

- 40 The 2023/24 Welsh Government grant funding allocation totals £0.747m. 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	0.201
Total Grant Funding	0.747

CAPITAL PROGRAMME

- 41 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, if the proposed training centre gets approval.
- 42 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.
- 43 Due to ongoing delays, capital expenditure to date totals £0.732m and is projected to be £5.14m.
- 44 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.
- 45 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	0.189	
Welfare Units	0.150	0.150	0.150	
Command & Control refresh	0.600	0.600	0.000	0.600
Minor Building works	0.483	0.100	0.100	
Training Towers	0.250	0.250	0.000	0.250
Fleet - fall arrest system and roof works	0.100	0.126	0.126	
Appliance bay doors	0.180	0.180	0.168	0.057
Llandudno Heating upgrade	0.150	0.150	0.000	0.150
Dolgellau Smokehouse works	0.000	0.365	0.309	
Proposed training centre land	3.000	3.000	3.000	
Unallocated	0.000	0.947	0.000	
Total: Capital Plan	6.532	6.532	4.517	2.017
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	0.000
Total	7.157	7.157	5.144	2.017

- 46 Rollover of funding has already been highlighted, as per the above. Five fire appliances are on order; however, stage payments are expected to extend into 2024/25 due to delays in the availability of the chassis and build slots with the supplier.

- 47 The other schemes that have not commenced this year, are all under review and will be considered as part of the capital planning for 2024/25.
- 48 The anticipated financing of the capital expenditure is set out below:

Funding	Amount £m
Borrowing	4.521
Earmarked Reserves	0.623
Total	5.144

BORROWING

- 49 Capital expenditure is largely funded via external borrowing. In the short term the Authority utilises surplus revenue cash, known as internal borrowing.
- 50 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

- 51 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.
- 52 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.
- 53 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.

- 54 The provisional outturn assumes that earmarked reserves of £0.800m will be utilised in year. The use of reserves is kept under review as part of the budget monitoring process.
- 55 The measures identified during the budget setting process included the use of the Authority's General Fund. The current forecast assumes that £0.284m will be utilised.

PRUDENTIAL INDICATORS – Q1 2023/24

- 56 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.

Capital Expenditure

- 57 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	2.144	5.834	5.658
Proposed Training Centre	0	3.000	25.000	20.000
Total	3.366	5.144	30.834	25.658

- 58 Further details of the General Fund capital projects to date are detailed in Paragraph 45.

Capital Financing Requirement

- 59 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	31.751	62.589	85.198

*The table above includes the costs for the training centre as detailed in paragraph 57.

Gross Debt and the Capital Financing Requirement

- 60 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	30.06.23 actual	2023/24 budget	2024/25 budget	2025/26 budget
Debt (incl. Finance Leases)	26.650	23.230	27.626	55.895	77.258
Capital Financing Requirement	28.877	31.751	33.832	62.589	85.198

*The table above includes the costs for the training centre as detailed in paragraph 56.

Debt and the Authorised Limit and Operational Boundary

- 61 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 Q1 2023/24	Debt at 30.06.23	2023/24 Authorised Limit	2023/24 Operational Boundary	Complied Yes/No
Borrowing (£m)	26.650	23.230	30.999	28.990	Yes

- 62 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

- 63 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	2.756	4.700	6.900
Proportion of net revenue stream	5.96%	6.21%	9.80%	13.50%

*The table above includes the costs for the training centre as detailed in paragraph 56.

Treasury Management Indicators

64 These indicators are within the Treasury Management Report Q1 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.