

Report to	<b>North Wales Fire and Rescue Authority</b>
Date	<b>October 2022</b>
Lead Officer	<b>Helen MacArthur Assistant Chief Fire Officer (Finance and Resources)</b>
Contact Officer	<b>Helen Howard, Head of Finance</b>
Subject	<b>Provisional Outturn 2022/23</b>



## **PURPOSE OF REPORT**

- 1 To provided members with an update on the revenue and capital expenditure position for 2022/23, as at 31 August 2022.

## **EXECUTIVE SUMMARY**

- 2 The net budget requirement was approved by the Fire and Rescue Authority (the Authority) at its meeting of 20 December 2021. This confirmed a net requirement of £39.41m to be funded by the constituent local authorities. Actual expenditure is forecast to be £42.5m which includes projects deferred during the Covid-19 pandemic, estimates of national pay settlements above the 2% 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.
- 3 The Authority approved the 2022/23 capital budget of £2.91m on 20 December 2021. The capital programme is experiencing cost pressures, and if all expected works are completed, there will be an overspend of £0.20m.

## **RECOMMENDATIONS**

- 4 Members are asked to:
  - (I) note the draft revenue and capital outturn projections for the 2022/23 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**

- 5 This report has not previously been considered by members.

## **BACKGROUND**

- 6 This report provides information on the draft revenue and capital expenditure outturn position for the 2022/23 financial year.

## **INFORMATION**

### **REVENUE BUDGET**

- 7 The net budget for 2022/23 of £39.412m was approved at the Authority meeting on 20 December 2021. Following further planning work, the overall net budget requirement was confirmed at the Authority meeting on the 20 June 2022. At this time it was also noted that expenditure deferred from 2021/22 would be met from earmarked reserves. In addition, the specific risk associated with pay awards was noted as the national agreements were outstanding.
- 8 Staff costs represent 72% of gross expenditure. The budget is set on the approved staffing establishment and anticipated activity.
- 9 The budget setting process included an assumption that pay awards would be 2% for all staff. The latest pay offer for local government staff is an uplift of £1,925, across all grades which equates to approximately 6.6%. The current position is that Unison members have voted to accept the offer. However, the results of the ballot from the other unions representing local government staff are not yet known, although we are anticipating receiving them by the end of the month.
- 10 An initial pay offer of 2% for firefighters and control staff was rejected by the employee side negotiators (Fire Brigades Union) and staff were to be balloted for strike action. A further offer of 5% has been made and although the Fire Brigades Union has indicated that this is not adequate, it is currently undertaking a consultation with its members.
- 11 The non-pay forecasts reflect the known unavoidable cost pressures that are being experienced in relation to utility costs, building maintenance and fuel cost. However, further uncertainty remains due to general inflationary pressures and supply chain issues resulting in expenditure above anticipated budget.
- 12 Whilst the majority of expenditure is funded from the constituent authority levy, income is received from the Welsh Government for grant funded activities and recharges from other bodies in relation to the use of our premises.

- 13 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. When the budget was set, the significant rise in the Bank of England base rates was not anticipated during 2022/23. The subsequent increase has resulted in a detrimental impact on the position which is factored into the forecast.

## REVENUE OUTTURN

- 14 The report is projecting an overall balanced position, but given the inflationary pressures it has been necessary to include transfers from earmarked reserves. The breakdown is detailed below.

	<b>Budget (£000)</b>	<b>Forecast (£000)</b>	<b>Variance (£000)</b>	<b>Variance (%)</b>
Employees	30,120	31,553	1,433	4.8%
Premises	2,901	3,896	995	34.3%
Transport	1,204	1,204	-	0.0%
Supplies	4,919	5,391	472	9.6%
Third Party Payments	451	451	-	0.0%
Capital Finance & Charges	2,263	2,513	250	11.0%
Income	-2,456	-2,482	-26	1.1%
<b>Forecast Outturn</b>	<b>39,402</b>	<b>42,526</b>	<b>3,124</b>	<b>7.9%</b>
Transfer from Earmarked Reserves		-2,128	-2,128	
Transfer from Provisions		-296	-296	
Transfer from General Fund		-700	-700	
<b>Use of Reserves</b>		<b>-</b>	<b>-</b>	
		<b>3,124</b>	<b>3,124</b>	
<b>Forecast Position</b>	<b>39,402</b>	<b>39,402</b>	<b>-</b>	

## EMPLOYEE COSTS

- 15 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 physiotherapy and occupational health services.

- 16 A new staffing structure was implemented in April 2022. Significant progress has been made in recruiting to vacancies, however the jobs market is proving challenging when recruiting to specialist posts. These posts remain critical to achieving the corporate objectives.
- 17 A recent wholetime recruitment exercise has resulted in 24 new recruits being appointed; 12 commenced in September and 12 are starting in January. These new posts will address known and anticipated retirements although, due to the required period of training, it has been necessary to exceed the normal establishment levels to ensure continuity of service. Action continues to increase the number of retained duty firefighters and is a significant area of focus to address and maintain availability issues.
- 18 Expenditure of £0.29m has been incurred in respect of backdated holiday pay awards. This was necessary following a national legal case in relation to the elements of pay that should be included in the holiday pay calculation and will be funded via a provision established in 2021/22.
- 19 The anticipated overspend in staffing costs amounts to £1.43m and includes the following:
- anticipated in year costs of pay awards;
  - backdated holiday pay;
  - additional wholetime firefighters;
  - temporary posts to deliver specific projects; less
  - reductions arising from current vacancies.
- 20 The anticipated in year cost of pay awards remains uncertain at this time, although any pay award over 2% is a financial risk. This was noted during the budget setting process and it is proposed that for 2022/23 the reserves should be utilised for nationally agreed pay awards.

## **NON-PAY COSTS**

- 21 The non-pay budget is experiencing significant pressures. These include fuel and energy 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 £0.99m.
- 24 The market instability and increased costs of gas and electricity are a major financial challenge for the Authority. The current projected overspend for utilities is £0.25m. The UK Government has announced support for businesses including public sector bodies until 31 March 2023. The costs of energy are monitored as part of the service level agreement with North Wales Police.
- 25 The projection also includes the cost of works that were delayed in 2021/22. Funding is available for these works from the earmarked reserves.

## **Transport**

- 26 The transport budget is projecting a nil variance; however, increasing costs in relation to fuel and vehicle parts are causing pressures on this budget, which at present are being managed internally.

## **Supplies**

- 27 The net supplies budget is £4.9m and current forecast expenditure is £5.4m, 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 new Fire Safety software, the replacement of essential operational equipment and project work in relation to the various reviews that are currently being undertaken throughout the Service. These were planned following the closure of the 2021/22 financial year and will be funded from earmarked reserves.

## **Third Party Payments**

- 30 Third party payments relate to service level agreements with partners, including Conwy County Borough Council, Flintshire County Council and North Wales Police.
- 31 This expenditure is currently projected to budget.

## 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 Authority's accounting practices and is about making sure 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 2022/23 is £1.94m.
- 35 In addition, the budget holds the interest costs in relation to the Authority's loans. Due to the volatile economic position, the cost of borrowing has now increased significantly, which has resulted in a current budget pressure of £0.25m.
- 36 This situation is being monitored carefully but there is a risk of further increases as new loans are required in the second half of the year to replace maturing loans and to fund capital expenditure.
- 37 Currently, there is a reserve of £0.3m to offset increased interest costs.

## INCOME

- 38 As well as the constituent authority levy, the budget also includes expected income for fees, charges and grants.
- 39 Fees and charges largely relate to the recharges for buildings shared with other bodies.

	<b>Budget £000</b>	<b>Projection £000</b>	<b>Variance £000</b>
Grants	2,299	2,1299	0
Fees and charges	277	303	26
<b>Total</b>	<b>2,576</b>	<b>2,602</b>	<b>26</b>

- 40 Other income increased due to additional government funding for apprentice training.

## Grant Funding

- 41 2022/23 grant funding allocations total £2.299m (2021/22: £2.397m). A breakdown of grant funding, for 2022/23, is detailed below. All grants are carefully monitored throughout the financial year to identify any variances and to enable remedial action to be taken.

	<b>Allocation £000</b>
Arson Reduction	157
Home Safety Equipment	223
Youth & Young People Engagement	148
All Wales National Resilience	154
Firefighters Pension Contributions	1,081
Firelink Service Fees	416
EV Charging Points	120
<b>Total Grant Funding</b>	<b>2,299</b>

## CAPITAL PROGRAMME

- 42 The Authority approved a capital programme of £2.916m in December 2021. In addition, £0.167m of expenditure will be funded from reserves due to slippage in a previously approved scheme.
- 43 The projection assumes that all schemes will be delivered by March 2023.
- 44 As is the case with the revenue budget, the capital program is experiencing cost pressures, with increased costs in relation to the purchase of vehicles and building works. This has resulted in the need for an additional £0.205m of funding.
- 45 Details of the schemes are below:

<b>Scheme</b>	<b>Budget £000</b>	<b>Forecast £000</b>	<b>Variance £000</b>
Fire Appliance Replacement	1,248	1,248	-
Multi-Purpose Station Vans	160	170	10
Workshop Equipment	20	20	-
Training Tower Replacement	160	250	90
Buildings - Minor Works	245	260	15
<b>Total 2022/23</b>	<b>1,833</b>	<b>1,948</b>	<b>115</b>
Rollover - Fire Appliances	923	923	-
Rollover - Training Towers	160	250	90
<b>Total Rollover from 2021/22</b>	<b>1,083</b>	<b>1,173</b>	<b>90</b>
ICT - Server	167	167	-
<b>Total Funded from Reserves</b>	<b>167</b>	<b>167</b>	<b>-</b>
<b>Total: Capital Programme</b>	<b>3,083</b>	<b>3,288</b>	<b>205</b>

46 The financing of the capital plan is as follows:

<b>Funding</b>	<b>Amount £000</b>
Borrowing	3,121
Earmarked Reserves	167
<b>Total</b>	<b>3,288</b>

## **BORROWING**

- 47 Capital expenditure is largely funded via external borrowing. In the short term, the Authority utilises surplus revenue cash known as internal borrowing.
- 48 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. Rather cash supporting the Authority's reserves, balances and cash flow have 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.
- 49 The Authority's borrowings are projected to be £22.26m at 31 March 2023. This includes £6.0m of temporary short-term loans, from other public sector bodies and £16.26m of loans from the Public Works Loans Board. This is dependent on the availability of internal funds and remains a risk area for the Authority.

## **USE OF EARMARKED RESERVES**

- 50 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.
- 51 The Authority currently has earmarked reserves of £5.57m which have been built up in recent years due to slippage in recruitment and activities due to the Covid-19 pandemic.
- 52 In 2021/22 earmarked reserves were set aside to fund costs that should have been incurred in 2021/22, 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.

- 53 The provisional outturn assumes that reserves of £2.13m will be utilised in year. The use of reserves is kept under review as part of the budget monitoring process.

## IMPLICATIONS

Well-being Objectives	This report links to NWFRAs 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 are closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members.