



## **AGENDA ITEM: 8**

### **NORTH WALES FIRE AND RESCUE AUTHORITY**

**16 June 2014**

#### **FINANCIAL PERFORMANCE 2013-2014**

**Report by Ken Finch, Treasurer**

#### **Purpose of Report**

- 1 This report is to provide Members with a review of the financial performance of the Authority for 2013-14.
- 2 This report was presented to the Audit Committee on 2 June 2014 so that it could review the contents before submission to the Fire Authority. The Audit Committee had no major observations or could find any major risks in the report and would recommend it be approved by the Authority.

#### **Introduction**

- 3 This report details the financial activity for the year 2013-14 to ensure Members are kept up to date with regards to the Authority's financial position.
- 4 The first part of the report reviews the revenue expenditure for 2013-14 against budget with the financial breakdown included in Appendix A. The second part of the report comments on reserves and provisions held by the Authority; the provisions, and the proposed changes, are detailed in Appendix B. The next section of the report looks at the schemes that were grant-funded with a detailed breakdown in Appendix C. The final part of the report discusses capital activity for the year, the details of which can be found in Appendix D.

## **Background**

- 5 This financial year was the final year of a 3 year strategy agreed by North Wales Fire and Rescue Authority which was to freeze the budget from 2011-12 to 2013-14. This was decided in response to pressures from central government to reduce expenditure in the public sector. The effect of the decision was that any inflationary increases and pay awards would have to be met from within the current budgetary provision. This was estimated to be £2.4 million or 7.5% of the budget. In addition, in this final year, it was also decided that there would be a reduction of 1%. The majority of the savings have been achieved by reconfiguring and changing working practices across the Service, from operational staff to those involved in the control function, community safety and support. After extensive consultation with staff and their representative bodies, changes were introduced to operational officer cover, reducing the number of posts by 20% and to the rostering of wholetime firefighters for duty, reducing the number of posts by 10%. This was achieved without the need for any redundancies. Overall the pay budget has reduced from £22.95m in 2010-2011 to £20.55m in 2013-14, a saving of £2.4m. The strategy has been successfully implemented and the savings targets met, along with additional one-off savings due to careful budget management and the piloting of a new flexible system for RDS stations. Officers are aware that additional savings will be required going forward as the budget set for 2014-15 is a standstill budget with £406k to be met from the general reserve.

## **Revenue Activity**

### **Employees**

- 6 As can be seen from the graph, a large proportion of Fire and Rescue Service expenditure relates to pay; 68% for 2013-14. The reduction in pay costs over the three years demonstrates that the strategy agreed by Members to make savings by changing the means of service delivery has been achieved. Overall the net pay budget was underspent by £959k which is slightly higher than the estimate of £929k provided to Members in March 2014. The additional saving is due to a prudent approach being taken on the reporting of the outturn estimates for incident fees, so that any possible contingencies would be covered.

- 7 The pensions' budget is overspent due to some ill-health retirements in the year. These had not formed part of the original estimate and are not funded through the pensions' account. The overspend on local government pensions is due to the payment made by the employer in to the pension fund to cover the costs of employees that have taken early retirement to vacate their posts and allow for the restructuring exercise to be implemented.
- 8 The underspend on support staff can be attributed to a re-structuring exercise which has resulted in vacant posts being filled later than estimated and a number of posts not being filled at this time. With the need to make savings in future years it is expected that a number of these vacant posts will be deleted.
- 9 The majority of the underspend on pay relates to retained firefighters, £696k. Members have been made aware of the difficulties of recruiting firefighters to the retained duty system and, despite a recruitment drive, the establishment is still less than budgeted which has resulted in savings on retaining and drill fees. To mitigate the impact, the Service has been piloting a new flexible system where cover on some retained stations is being supplemented by wholtime firefighters providing additional hours as and when required.
- 10 As a result of the low number of recruits during the year the training budget is underspent by £44k.
- 11 The slight underspend on the Chief Officers budget relates to the vacant Assistant Chief Fire Officer post which has not yet been filled.

### **Premises**

- 12 The repair and maintenance budget is overspent due to the reclassification of some smaller items of spend from capital to revenue. This will result in some savings in future years on capital financing charges as the revenue costs will be reduced.

- 13 Energy costs have increased significantly over the years and, in order to reduce consumption and costs, measures have been put in place which are overseen by an energy monitoring officer ( a post shared with North Wales Police). The measures have resulted in energy costs coming in under budget and less than the expenditure incurred for the previous year (£13k lower than last year).

### **Transport**

- 14 Overall, the transport budget is underspent by £138k. This has occurred because of the prudent decision to extend the lease term on vehicles in the car hire scheme which has resulted in a reduction in the annual lease payments. Expenditure on fuel has significantly reduced this year because of a reduction in miles travelled and the roll out of the speed limiter to the majority of the vehicles in the fleet. The planned workstreams for the fleet department have also had to be extended because of having to prepare for industrial action and, as a result of this, there has been a reduction in repair and maintenance costs. These costs will have to be incurred in the next financial year.

### **Supplies**

- 15 Under the supplies and services heading operational equipment is overspent due to the higher than expected cost of the external hydraulic contracts and the renewal of some fitness equipment which is a one off payment. Next year the hydraulic works will be undertaken in house to reduce costs
- 16 The underspend on uniforms is due to the low number of recruits during the year resulting in the need for fewer uniforms and less equipment. Expenditure on printing and stationery has reduced due to changes in working practices and smarter procurement.
- 17 The "Fire Safety General" budget is underspent due mainly to an overpayment on hydrant repairs in the previous year which has been offset against expenditure in this year.
- 18 There is an underspend on Communications costs due to negotiated savings on line rentals.

- 19 The Authority has a duty to ensure that there are resources in place to provide a sufficient level of fire cover at all times. As a result of the industrial action it has been necessary to have contingency plans in place should there be a requirement to call on additional resources. The cost to the Authority for ensuring that there were resources available was £151k for which no budget had been set.
- 20 The Welsh Fire and Rescue Services' National Issues Committee (NIC) was established in 2012 to improve collaborative working, service delivery and sustained service improvement. The Authority has agreed to contribute towards the cost of the NIC co-ordinator's salary which will be offset by the savings generated by the NIC.

### **Support Services**

- 21 The underspend on grounds maintenance costs is due to the re-tendering of the contract in partnership with North Wales Police resulting in lower costs.
- 22 The costs associated with employment legal advice are higher than the original budget as it has been necessary to consult employment lawyers on a number of issues that have arisen during the year.

### **Capital Financing**

- 23 The debt charges associated with the capital programme are less than the original budget due to the prevalence of low interest rates, the use of short term borrowing outside the PWLB and the delay on some major projects such as Wrexham, Tywyn and Nefyn fire stations.
- 24 Leasing charges are lower than budget due to a re-structuring of the leasing portfolio last year that has resulted in reduced revenue costs.

### **Income**

- 25 Sales income has increased due to the sale of a number of vehicles that have been de-commissioned.

- 26 The income from special service calls is less than the budget due to a reduction in the number of chargeable incidents that the Service attended.
- 27 Interest on balances is also less than the original estimate due to the prevalence of low interest rates. However, this is more than compensated for by the corresponding reduction in interest paid on borrowing.
- 28 Emergency planning income is the re-imbusement of costs incurred for schemes promoted by Welsh Government. Expenditure incurred will vary in line with the income received.

## **Underspend**

- 29 At the meeting of the Fire and Rescue Authority on 16 December 2013, Members agreed, in principle, to use the revenue budget to finance part of the capital programme in the current year. This will reduce the future debt charges arising from the current programme and reduce the budget increases required in coming years. To further reduce future debt charges it was agreed at the meeting of the Fire and Rescue Authority on 17 March 2014 that any remaining underspends over and above those previously reported be used to offset these charges.
- 30 Retained Duty System (RDS) firefighters were awarded back pay associated with their claim under the Part-Time Worker (Prevention of Less Favourable Treatment) Regulations 2000. The agreement reached did not extend to the pension claim. Negotiations have now been concluded between the FBU and the DCLG which would grant retrospective access to the fire fighter's pension scheme. An assessment has been made of the costs to the Authority of backdating the employer's contribution for those RDS firefighters with service between 1 July 2000 and 5 April 2006, and it is estimated that the maximum cost to the Authority could be in the region of £960k. £300k was set aside in to a provision last year to offset some of the liability. It is therefore considered prudent to use some of the underspend to add to this provision so that the Service will have the funds available to meet this liability when settlement is made.

## **Reserves**

- 31 A Reserve is defined 'as a voluntary action by the Authority to set resources aside for future schemes'. The Authority held £1,609k in a general reserve as at 1 April 2013 and, due to effective budget management, has not had to use this reserve to fund expenditure in 2013-14.
- 32 It is prudent for the Authority to hold a general reserve and it is anticipated that the areas where it will be used will be:-
- to offset the budget for 2014-15; and
  - to cover any contingent liabilities that may arise.
- 33 With the transfer of earmarked reserves set aside last year that are no longer needed the balance on the general reserve will be £1,725k.
- 34 The remaining earmarked reserve approved by Members last year is the "Interest Reserve", £100k. This reserve was set up to offset the risk of an increase in interest rates and was specifically requested by the Audit Committee.
- 35 It is recommended that a new "Capital Reserve" is set up to be used to finance the capital programme when it is most advantageous to do so, so that the savings made by reducing debt charges for future budgets are maximised.

## **Provisions**

- 35 The Authority has always been able to hold provisions and a provision is defined as 'funds set aside when the Authority has a present obligation as a result of a past event (legal or constructive) and it is probable that a settlement will be made some time in the future'. Details of the provisions held are discussed below.
- 36 The "Pension Provision" is held by the Authority to cover payments in to the pension fund for ill- health retirements and cover the costs of any ill- health lump sum payments that are not covered by the pension scheme. There has been no movement on the provision this year as it has been possible to fund these costs from the revenue budget.

- 37 The bulk of the settlement of the back pay for retained firefighters was made during 2012-13 (£505k). Payments were still being made in 2013-14 and it is expected that there may still be some claims in 2014-15. The provision will be sufficient to cover any outstanding back pay due.
- 38 As mentioned in paragraph 30 it has been necessary to increase the provision for the RDS retrospective pension claim. The provision has been increased to £636k which should be sufficient to meet all the liabilities as it is not expected that all personnel who qualify will take advantage of the backdating of their pensionable service.
- 39 As Members are aware, there were some issues with the Wrexham project and last year it was necessary to set funds aside to cover the fees incurred up to 31 March 2013 in case these costs could not be allocated to the capital programme. The project has now progressed and the order has been placed with the contractor so it is no longer necessary to hold this provision. It is recommended that the balance of the provision be transferred to the new "Capital Reserve" (paragraph 35) to offset future debt charges.

### **Grant Funded Schemes**

- 40 The Authority has received funding for a number of schemes from the Welsh Government; the total funding received is £2.1m. Members will be aware of the benefits to the community resulting from these schemes. A comprehensive list of these schemes are detailed in Appendix C.

### **Capital Activity**

- 41 The original capital budget was set in December 2012 and was based on new spend and rollovers from previous years.
- 42 Further delays to the start of the Wrexham project meant that expenditure was less than estimated. The budget has again been rolled forward to ensure there is funding in place.



- 43 The budget for planned maintenance and minor building works was underspent as £54k of smaller items of capital spend was transferred to revenue for the reasons explained in paragraph 12 above.
- 44 There has been some expenditure on the new Nefyn and Tywyn fire stations. These projects were part of the 2012-13 programme so had not been included in the 2013-14 budget. It is expected that the majority of the spend on these two projects will be incurred in 2014-15.

## **CONCLUSION**

- 45 From 2011-12 officers implemented schemes to meet the future savings targets agreed by Members over a 3 year period. As a reminder the savings target for year 3 (2013-14) was £835k. Strict budgetary control and the planned changes to service delivery has meant that the agreed savings targets were met. Further savings have been made in year 3 to ensure the Authority is in a good position to cover any transitional costs which may be incurred when the new strategy is agreed.

## **RECOMMENDATION**

- 46 Members are asked to approve the:-
- (i) transfer of the underspend in to Reserves and Provisions as detailed on page 3 of Appendix A;
  - (ii) transfers between reserves and provisions as detailed in Appendix B .