

Report to	North Wales Fire and Rescue Authority	
Date	22 January 2024	
Lead Officer	Dafydd Edwards, Authority Treasurer	
Contact Officer	Helen MacArthur, Assistant Chief Fire Officer	
Subject	2024/25 Budget Setting and Medium-Term Resource Strategy	

PURPOSE OF REPORT

- 1 The purpose of this report is to provide Members of the North Wales Fire and Rescue Authority (the Authority) with a detailed budget overview contained within the Authority's Medium-Term Resource Strategy (MTRS) 2024/25 – 2026/27, including associated risks and uncertainties.
- 2 The report also confirms the estimated revenue budget requirement for 2024/25 and the 10-year capital programme. In accordance with the Combination Scheme Order the report seeks approval of the Service's net expenditure to be met by the constituent local authorities via the levy.

EXECUTIVE SUMMARY

- 3 The Authority is required to provide indicative figures for the 2024/25 financial levy to constituent local authorities by 31 December 2023, and confirm the final figures by 16 February 2024. The budget planning process has been subject to scrutiny by the Budget Scrutiny Working Group and an indicative planning assessment of £49.194m was presented to the Executive Panel, on 18 December 2023 (£44.394m for 2023/24).
- 4 The final indicative revenue budget for 2024/25 is £49.263m which reflects a further reduction in Welsh Government grant funding announced in December 2023 and also action taken to further reduce expenditure. This includes the utilisation of £0.924m of earmarked reserves, during 2024/25 giving a net amount of £48.322m to be met from the local authority levy. This represents a budget increase of 8.85%.

RECOMMENDATIONS

- 5 Members are asked to:
- i. Note the findings of the Budget Scrutiny Working Group, including the planning assumptions used to develop the revenue budget for 2024/25;
 - ii. approve the final financial planning assessment of a net budget requirement of £48.322m for 2024/25 including the use of earmarked reserves of £0.924m;
 - iii. note the requirement to review the arson reduction activity during 2024/25 to consider the future provision following the grant reductions;
 - iv. note the residual risks and uncertainties faced by the Authority in 2024/25 in respect of nationally agreed pay awards and financial support for the anticipated pension increases;
 - v. approve the final planning assessment of £5.676m for the capital programme for 2024/25;
 - vi. note the 10-year capital plan and the separate requirement to consider the business case for the new training centre during 2024/25; and
 - vii. endorse the communication of the financial levy to each constituent local authority.

OBSERVATIONS FROM OTHER COMMITTEES AND MEMBER PLANNING DAYS

- 6 The proposals set out in this paper are consistent with the budget setting approach outlined to Members at a meeting of the Authority on 16 October 2023.
- 7 The Authority's Budget Scrutiny Working Group (the Group) met on four occasions between October 2023 and December 2023. The results of the work of the Group were reported to the Audit Committee at its meeting of the 18 December 2023. The Audit Committee endorsed the work of the Group and confirmed the initial planning assessment of £49.194m and the proposal for further work to be undertaken to identify opportunities for further reductions and/or the use of reserves.
- 8 The Executive Panel meeting of the 18 December considered the initial draft planning assessment and noted the work of the Budget Scrutiny Working Group including the draft planning assessment and the further work to be undertaken.

BACKGROUND

- 9 Each year the Authority is required to set a balanced revenue budget which must be approved by the full Authority. The indicative financial levy must be communicated to constituent local authorities by the 31 December each year and the final levy confirmed by the 16 February before the commencement of the financial year.
- 10 The Chartered Institute of Public Finance (CIPFA) requires that organisations have financial plans which demonstrate how expenditure will be funded over the short and medium term. The Authority's financial sustainability is, therefore, underpinned by knowledge and understanding of the key cost drivers and evaluation of risks and uncertainties.
- 11 To support the development of the strategic vision and service delivery models, the Authority is currently undertaking an Emergency Cover Review (ECR), which will continue into 2024/25. As part of this work, an initial high-level financial assessment was undertaken during February 2023 which estimated the year on year budget increase at circa £6m. This represented a 13.5% increase, 5% of which addresses the underlying deficit arising from the 2023/24 budget setting process. The actions taken during the budget setting processes for 2023/24 were not sustainable as they required the use of reserves on an ongoing basis.
- 12 As part of the ECR, the Authority originally approved a number of options for consultation including two options with structural changes that reduced expenditure on a recurring basis by up to £2.4m. Following the outcome of the consultation exercise, the Authority confirmed that Option 1 was the preferred option which required a budget uplift of £6m.
- 13 The budget setting process has assumed the current service delivery model, whilst the ECR continues.
- 14 The budget setting process has been overseen by the Budget Scrutiny Working Group (the Group), a sub group of the Audit Committee which was established to provide scrutiny of the budget setting process, including all areas of income and expenditure.
- 15 The Group was established by the Authority with representation from each constituent local authority. The Group has met on four occasions between October and November 2023, with a further feedback session to all Members as part of the Emergency Cover Review Working Group meeting on 4 December. The Group considered all areas of the North Wales Fire and Rescue Service's (the Service) expenditure. The meetings focused on direct pay expenditure, non-pay expenditure, capital financing, interest and leases.

- 16 An update on the budget setting process was reported to Members of the Authority through the Audit Committee and Executive Panel meetings of the 18 December 2023. These reports confirmed a budget assessment of £49.194m noting a number of risks and uncertainties at that time. The indicative budget of £49.194m represents a year on year increase of 10.8%.

INFORMATION

- 17 The Authority's draft Medium-Term Resource Strategy (MTRS) is set out in Appendix 1 and provides a framework for the financial planning and management of the Authority for the period 1 April 2024 – 31 March 2027. The MTRS provides confirmation of the planning assumptions used including known risks and uncertainties.
- 18 The detailed budget planning work for the 2024/25 financial year has continued in accordance with the key planning assumptions, risks and uncertainties previously reported to Members and confirmed in Section 13 of the Medium-Term Resource Strategy (MTRS).
- 19 Since the meetings of the 18 December 2023, the Welsh Government has announced the reduction in grant funding for the Authority's arson reduction work and youth and young person work totalling £0.183m. This has been partially mitigated through further internal review and the final draft assessment is a budget requirement of £49.263m. In addition, it is recommended that £0.924m of reserves are utilised during 2024/25 giving a net budget requirement of £48.322m to be met from the local authority levy, representing an 8.85% increase.
- 20 It has been necessary in the short term to manage the reduction in grant income from the Welsh Government for arson reduction work. However, as this area of activity has not previously been considered a core function it be reviewed during 2024/25 to develop proposals for future years.
- 21 The table below confirms the movements between the draft budget reported to Members on 18 December 2023 and the final planning assessment.

	2023/24	Dec 2023	Further Review	Final Levy Requirement
Employees	31.826	35.209	0.248	35.457
Non-Pay	13.567	15.054	-1.248	13.806
Income	-0.999	-1.069	0.128	-0.941
Total	44.394	49.194	-0.872	48.322
% Increase		10.80%		8.85%

- 22 The employee costs are in excess of 70% of net expenditure and the draft assessment for 2024/25 is £35.457m. This includes £34.192m of direct payroll costs relating to 971 staff with the current planning assessment of a 4% in year pay awards. However, this remains a key area of uncertainty and risk with a cost pressure of £0.34m for each 1% increase. The planning assessment also assumes an additional net cost pressure of £0.4m in relation to employer contributions towards the Firefighters' Pension Scheme. The actual increase is expected to be in the region of £0.7m and although financial support from the Welsh Government is anticipated it is not yet confirmed.
- 23 The analysis of the direct payroll costs is provided below which confirms that £34.192m relate to employees working in service delivery roles. The budget planning includes provision to support the growth in the retained duty personnel to support operational response capacity and resilience.

Analysis of Direct Pay Costs	2024/25 £'m
Response Services	28.715
Protection and Prevention Services	2.779
Corporate: Professional Support	2.698
Staffing Budget Requirement	34.192

- 24 The draft budget assessment for non-pay is £13.086m including £2.8m for capital financing costs. The remaining non-pay elements have been subject to scrutiny across all departments to reduce and contain expenditure. Significant inflationary pressures are being experienced in a range of expenditure headings including technical operations, ICT, fleet and facilities.
- 25 The current planning assessment includes capital financing costs of £2.8m, made up of interest costs £0.9m and a £1.9m minimum revenue provision. Interest rates are anticipated to remain similar to current levels through most of 2024. The planning assessment for future loans is an interest rate of 5.25%, based on the advice of the Authority's treasury management advisors. Interest costs include the need to refinance loans reaching maturity in the next financial year, as previously reported via the Treasury Management update reports. The capital financing costs in relation to the training centre have been removed from the original assessment giving rise to a reduction of £1.1m against the initial planning assessment.

- 26 Lease costs amount to £0.452m in 2024/25. These have been reported separately whilst work continues to implement IFRS16, from 2024/25. IFRS 16 is a technical accounting requirement that takes a totally new approach to accounting for leases, called the 'right-of-use' model. This means that if the Service has control over, or right to use, an asset they are renting, it is classified as a lease for accounting purposes and, under the new rules, must be recognised on the balance sheet.

CAPITAL PROGRAMME

- 27 A 10-year capital plan has been devised, as part of the budget setting process. The Capital Programme has been critically reviewed resulting in the reprofiling of schemes and alternative funding options to carefully manage the impact on Capital Financing Charges. Priority has been given to schemes that are a statutory requirement.
- 28 Notably provision has not been made within the MTRS for the development of a new training centre. This will be subject to separate consideration by the Authority following the detailed planning and option appraisal.
- 29 The 10-year Capital Programme, set out in Section 10 of the MTRS, includes the Revised Programme for 2023/24, the estimate for 2024/25, and an indicative programme of projects for the period 2025/26 to 2033/34. The Capital Programme reflects the year in which a project will commence and not necessarily the year in which all the expenditure will be incurred, as this will depend on the life span of the project. Due to the longer lead-in times for appliances and vehicles being experienced, to deliver the fleet replacement programme, it may be necessary to place orders in advance of the financial year in which the replacement is due.
- 30 The revenue impact of funding the 10-year Capital Programme through borrowing has been factored into the Medium-Term Financial Plan. Due to affordability and the impact of the current economic climate, it has been necessary to review the delivery period of projects and include a revenue budget pressure, for 2025/26 onwards for Capital Financing Charges.

USABLE RESERVES

- 31 In order to contain the budget increase to 8.85%, it will be necessary to utilise £0.924m of earmarked reserves. The balance on Usable Reserves as at 31 March 2023 was £7.702m, comprising £1.480m General Fund Balance and £6.221m Earmarked Reserves.

- 32 The Authority's Financial Reserves Strategy provides that the Authority will seek to avoid using reserves to fund a general deficit in net revenue budget, as this represents an unsustainable financial position. As reported in the Medium-Term Resource Strategy for 2024/25, the impact of pay awards and inflationary pressures in 2023/24 will, as far as possible, be managed in year through robust budget management. As at 30 November 2023, the revenue budget forecast outturn position for 2023/24 is an overspend of £0.937m which, if it materialises, will need to be funded from Reserves.
- 33 As can be seen, the level of Earmarked Reserves is expected to reduce over the period of the Medium-Term Financial Plan as reserves are utilised in line with the intended purpose.

CONSTITUENT AUTHORITY LEVY

- 34 In accordance with the Combination Scheme Order the Levy per Constituent Authority is determined by population.
- 35 The Welsh Government's Distribution Sub-Group, who advise on how much revenue funding each local authority receives, has determined to use the mid-2022 population estimates sourced from the Office of National Statistics for the 2024/25 Local Government settlement. Based on this population dataset the updated contribution per Constituent Authority is shown in Section 15 of the MTRS.

FINANCIAL GOVERNANCE

- 36 This report forms part of the budget setting process. The Authority is obliged, in accordance with the requirements of the Combination Scheme Order, to submit an estimate of its net expenses for the following year to its Constituent Authorities by the 31 December annually, before determining the final budget by 15 February prior to the relevant financial year.
- 37 Members are reminded that it is the responsibility of the Constituent Authorities, through the Fire and Rescue Services Act 2004 and the powers contained within the Combination Scheme Order, to discharge their duties to maintain an effective Fire and Rescue Service in their areas, through the Combined Fire and Rescue Authority. Members' duty, while considering Fire Authority business, is to the Fire Authority, not to their constituent authorities.
- 38 Under the Constitution, approving the budget and issuing the levy is a function reserved to the Authority.

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 planning assessment indicated a budget requirement of £50.4m. following the detailed planning work the current assessment is £49.194m.
Legal	The 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 2024/25 budget have been considered and set out within the MTRS.