

| | |
|-----------------|--|
| Report to | Audit Committee |
| Date | 18 December 2023 |
| Lead Member | Cllr Mark Young |
| Lead Officer | Dafydd Edwards, Authority Treasurer |
| Contact Officer | Helen MacArthur, Assistant Chief Fire Officer |
| Subject | Budget Scrutiny Working Group |



PURPOSE OF REPORT

- 1 The purpose of this report is to provide members of the Audit Committee with an update on the work of the Budget Scrutiny Working Group (the Group) and to seek endorsement of the current financial planning assessment to set a balanced budget for 2024/25.

EXECUTIVE SUMMARY

- 2 The Authority is required to set the revenue budget for 2024/25 at its meeting on 22 January 2024. The Budget Scrutiny Working Group has provided scrutiny of the budget setting process and confirms a current planning assessment of £49.194m (£44.4m for 2023/24) which is an annual increase of 10.8%.

RECOMMENDATIONS

- 3 Members are asked to:
 - (i) Note and endorse the findings of the Budget Scrutiny Working Group; including
 - (ii) the planning assumptions being used to develop the revenue budget for 2024/25;
 - (iii) the current financial planning assessment of a budget requirement of £49.194m for 2024/25;
 - (iv) the proposal to seek further work to identify opportunities for the further reductions in expenditure for the 2024/25 financial year and/or utilisation of reserves; and
 - (v) the proposed work programme for 2024/25 onwards.

BACKGROUND

- 4 Each year the Authority is required to set a balanced revenue budget which must be approved by the full Authority. The Chartered Institute of Public Finance (CIPFA) recognises that organisations should have financial plans which demonstrate how expenditure will be funded over the short and medium term.

- 5 The Authority's financial sustainability in the short, medium and longer term is underpinned by knowledge and understanding of key cost drivers including the evaluation of risks and uncertainties. Pivotal to this is an understanding of service demands, resources available and the future strategic vision.
- 6 As part of the work for the emergency cover review an initial high-level planning assessment was undertaken during February 2023 which estimated the year on year budget increase at circa £6m. This represents 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 are not sustainable as they require the use of reserves on an ongoing basis.
- 7 As part of the Emergency Cover Review (the ECR), the Fire and Rescue Authority (the Authority) 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.
- 8 Although the final budget approved by Members will be based on the final outcome of the ECR, the work of the Budget Scrutiny Working Group has been predicated on option 1, or a cost-equivalent variant thereof, being the final option.
- 9 The Group was established to provide scrutiny of the budget setting process, including all areas of income and expenditure. With membership from each local authority, the Budget Scrutiny Working 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.
- 10 The current financial planning assessment for 2024/25 will be presented to the Executive Panel at its meeting on 18 December 2023. Meeting papers on 18 December will also include sensitivity analysis setting out the impact of the emergency cover review options considered by the Authority.
- 11 The 2024/25 draft revenue budget, drawn up in accordance with the Committees' guidance on 18 December, will be presented for approval by the Authority at its meeting on 22 January 2024.

INFORMATION

- 12 The Budget Scrutiny Working Group was established by the Authority with representation from each constituent local authority. The Group has met on four occasions and considered all areas of the Fire and Rescue Service's expenditure.

- 13 The first meeting took place on 4 October when the Terms of Reference were agreed (Appendix 3) and the programme of work set out. Members requested that the Authority's internal auditor was invited to future meetings to provide oversight of the process and this was facilitated from meeting 2 onwards.
- 14 The Group received an overview of the financial operating environment including key dates in the budget cycle, the Authority's responsibilities, the internal governance arrangements and applicable regulations. Members also received an overview of the budget structure by expenditure type, an analysis of service delivery and departmental costs and capital expenditure. An overview of the funding arrangements was also provided, including the local authority levy, the use of Welsh Government grants and the Authority's reserves.
- 15 The meeting of the 19 October focussed on the internal staffing structure and associated payroll costs. Members received a detailed breakdown by station/department which confirmed that the budget was set on 971 staff which included growth of 30 retained duty firefighters and the filling of vacancies. The budget is based on individual posts and normal activity levels for operational response staff.
- 16 Members discussed the planning assumption for a pay award of 4% year on year and sought clarification on the reasonableness of this and the implications should the actual pay award vary from the planning assumption. The Group received confirmation that the planning assessment of 4% for pay awards was reasonable and noted that the percentages used by constituent local authorities ranged from 3.5% to 5%. It was noted that a 1% increase in the assumption would equate to £340k and this remains a risk for the Authority.
- 17 Members also noted the unresolved outcome arising from the revaluation of the firefighters' pension scheme and consequential risks and uncertainty associated with anticipated increases to the employer contributions.
- 18 Members noted that the proposed staff structure and planning assumptions would require a £3.9m increase in direct staff costs. At the request of Members, further work was undertaken and presented to meeting 3 (6th November) which included the removal of six posts, including two senior posts which were currently vacant, the removal of the proposed direct entry scheme post and the proposed digital media officer. The removal of the two senior posts was discussed and benchmarked against other organisations within the sector. Whilst the Group acknowledged that it was difficult to assess the reasonableness given the complexity of each organisation and the differences in individual roles, the Group was clear that constituent local authorities expected efficiency savings and was satisfied that the Chief Fire Officer supported the proposals to remove these management and support service posts.

- 19 The Group discussed and recognised the need for the growth of 30 posts within the retained duty staff structure to be included, and also supported maintaining resilience of 18 personnel within the wholetime watch system to ensure capacity in the event of sickness and retirements. The Group supported the proposal to retain the overtime budget for wholetime personnel at £100k, rather than increasing the overtime budget to £200k to reflect current expenditure. The action taken has resulted in a reduction of £0.5m and the current proposed budget for employee costs is £35.2m.
- 20 At the third meeting on the 6 November, the Group focussed on non-pay expenditure, noting the significant cost pressures in this area. The initial bids submitted indicated an increase of 18% to £13.4m with pressures within a number of departments including ICT, technical operations, facilities and fleet. The Group received detailed updates from three heads of departments and noted the pressures including inflationary increases, health and safety imperatives to address contaminant risks for operational staff and demand pressures.
- 21 Following further work, the Group received revised non-pay budget assessments of £12.7m at its meeting on 24 November. The Group further considered these alongside the capital financing, interest payable on borrowing, and lease costs (in respect of land and buildings, vehicles, and equipment) giving a total budget assessment of £15.054m.
- 22 The meeting of the 24 November considered the proposed capital financing budget for 24/25 which amounted to £2.8m including interest costs of £0.9m. The underlying assumption was that interest rates would remain similar to current levels through most of 2024, and the planning assessment was for future loans to include interest at 5.25%, based on the advice of the Authority's treasury management advisors. The Group noted that the interest cost included the need to refinance loans reaching maturity in the next financial year, as previously reported via the Treasury Management update reports. A budget of £1.9m was included for the minimum revenue provision (MRP), which is less than forecast following an internal review of the detailed calculations. The Group noted that the capital financing costs in relation to the training centre had been removed. Furthermore, slippage in the capital programme during 2022/23 and 2023/24 had resulted in reduced budget requirements in this area.
- 23 Following a request from the Emergency Cover Review Working Group further scrutiny was undertaken in relation leases which confirmed that the Authority has leased properties and 54 leased vehicles. The leased property includes the joint control centre occupied with North Wales Police, which provides interoperability. The Group acknowledged the ongoing commitments and requested that a review of non-emergency vehicles and leased properties is included in the future work programme for 2024/25 to further understand these areas of expenditure.

SUMMARY

- 24 The initial planning assessment undertaken during February 2023 indicated that an increase of £6m to £50.4m would be required for the 2024/25 financial year. The table below confirms that the initial work undertaken as part of detailed budget planning had identified further unavoidable pressures, which have since been mitigated through the thorough and conscientious work of the Group. The final draft assessment is a budget requirement of £49.194m, representing a 10.8% increase in the local authority levy. At the request of the Group, work is ongoing to identify further savings to reduce the budget requirement or available reserves which can be utilised to fund non-recurring expenditure.
- 25 The table below confirms the reductions of £1.912m identified through the work of the Group.

| £'m | 23/24 | Feb-23 | Oct-23 | Dec-23 | Reductions via Budget Scrunity |
|--------------------------------------|---------------|---------------|---------------|---------------|--------------------------------|
| Employees | 31.826 | 35.312 | 35.729 | 35.209 | -0.520 |
| Non-Pay and Capital Financing | 13.567 | 16.055 | 16.321 | 15.054 | -1.267 |
| Income | -0.999 | -0.944 | -0.944 | - | -0.125 |
| Total | 44.394 | 50.423 | 51.106 | 49.194 | -1.912 |
| % Increase | | 13.5% | 15.1% | 10.8% | |

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 Fire and Rescue 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 outlined in Appendix 2. |

Initial financial planning assessment 2024/25

| £'m | 2023/24 | Deficit | Pay Award | FPS Provision | Inflation & Growth | Interest Rates | Training Centre | 2024/25 Total |
|--------------------------------|---------------|--------------|--------------|---------------|--------------------|----------------|-----------------|---------------|
| Pay | 31.824 | 1.745 | 1.343 | 0.400 | | | | 35.312 |
| Non-Pay | 10.384 | 0.200 | | | 0.741 | | | 11.325 |
| Capital Financing and Interest | 3.130 | | | | | 0.500 | 1.1 | 4.730 |
| Income | -0.944 | | | | | | | -0.944 |
| Levy | 44.394 | 1.945 | 1.343 | 0.400 | 0.741 | 0.500 | 1.100 | 50.423 |

Summary of planning assumptions and risks

| Heading | Planning assumptions used in budget setting | Risks/Uncertainties |
|----------------|---|--|
| Employee costs | <ul style="list-style-type: none"> The staffing budgets have been formulated on the staffing models required to delivery Option 1. At the time of setting the budget for the 2023/24 financial year the national pay awards for firefighters for the 2022/23 & 2023/24 financial years had not been finalised. The final budget for 2023/24 assumed 5% and 4% respectively but the actual pay award was settled at 7% and 5%. The increased costs associated with this have been built into the base budget and a planning assessment of 4% for national pay awards in 2024/25 has been made for all staff. | <ul style="list-style-type: none"> The nationally agreed pay awards for 2024/25 have not been agreed but for each percentage point above the 4% planning assessment the financial risk is circa £0.34m The budget planning assumes normal levels of activity. If spate conditions occur budget pressures will be experienced. The working assumption is that the General Fund would be utilised in the first instance. The valuation of the firefighters' pension scheme was undertaken during 2020 and the provisional results indicate a significant increase with a potential cost pressure of £0.7m. The current planning assessment anticipates that financial support will be received to partially mitigate this increase although this is not yet confirmed. A residual financial risk of £0.3m exists. |

| Heading | Planning assumptions used in budget setting | Risks/Uncertainties |
|---------|--|---|
| Non-Pay | <ul style="list-style-type: none"> • The initial planning assessment has confirmed that the non-pay budgets will be formulated on existing service delivery models, updated for the outcome of the Emergency Cover Review. The demands on the non-pay budget are further exacerbated by the inflationary impact inherent within existing and future contracts and supply chain issues in a number of business critical areas. These include the supply of firefighting kit and the sourcing of replacement parts for operational vehicles. • Unavoidable costs associated with industry specific health and safety matters have been included within the non-pay budget. These include costs associated with the management of contaminants for our operational firefighters following national work. • Budgets have been formulated using the knowledge and professional judgement of budget managers and underlying contractual obligations but through necessary include a large degree of estimation. Where costs pressures can be quantified these have been separately identified and included. • During 2023/24 the Welsh Government removed its financial support of £0.4m for the existing national emergency services communication network (Firelink). The full contract price of £1m is now funded directly from core funding. Due to the fixed nature of this contract these costs are unavoidable and the contract includes an annual inflationary increase. | <ul style="list-style-type: none"> • Whilst the Service continues to review non-pay costs and strives to manage cost pressures within the planned budget this remains an area of risk due to ongoing pressures within the supply chain arising from price rises and availability issues. This position is being carefully managed but due to significant volatility it is not possible to fully quantify the impact. • The cost of gas and electricity has been a known cost pressure since 2022/23 due to global cost pressures. The position appears to have stabilised and the budget for 2024/25 is predicated on best estimates at this time. However, volatility in the market continues and this remains a known uncertainty and risk. • Specific provision has not been made within the budget for carbon reduction but is included within anticipated non-pay costs. For example, the move away from diesel vehicles is included in future fleet costs. |

| Heading | Planning assumptions used in budget setting | Risks/Uncertainties |
|-------------------|--|---|
| Capital Financing | <ul style="list-style-type: none"> • The capital financing requirement for 2024/25 includes the revenue charge for the minimum revenue provision for existing assets and an estimate of the interest charges arising from borrowing. These costs are influenced by historical capital expenditure, the need to borrow for the 2024/25 capital programme and the impact of interest rate increases when re-financing maturing loans. • The initial planning assessment will assume that all future borrowing will be at the prevailing PWLB rate at the time of budget setting. • The capital plan now excludes potential costs associated with a new training centre. At this time the business case has not been considered by the Authority and, therefore, it is assumed that capital costs will be incurred from 2025/2026 onwards. | <ul style="list-style-type: none"> • The increase in interest rates is a key risk area given the economic uncertainty at this time. Financial modelling will be undertaken to assess the sensitivity of the Authority's financial position and performance to existing interest rates and reported as part of the budget setting. • The timing of any costs associated with a new training centre are unknown at this stage as the business case has not been considered by the Authority. Although it is not anticipated that any building works will commence during 2024/25 it may be necessary to make provision for costs associated with detailed planning applications should approval be given. |
| Income | <ul style="list-style-type: none"> • Income budgets have been reviewed and set in line with previous years. • Welsh Government grant income reduced significantly during 2023/24 due to the removal of the Firelink Grant (£0.4m) and incorporation of the Scape Grant (£1.08m) into the RSG paid to local authorities. • The draft budget assumes that remaining Welsh Government grant funding will be received at 2023/24 levels. | <ul style="list-style-type: none"> • No specific risks have been identified over and above the grant income from the Welsh Government for which inflationary uplifts are not anticipated. |

North Wales Fire and Rescue Authority
Budget Scrutiny Working Group

CYLCH GORCHWYL / TERMS OF REFERENCE

| | |
|--|--|
| 1. ENW'R CYFARFOD / NAME OF MEETING | North Wales Fire and Rescue Authority – Budget Scrutiny Working Group |
| 2. CADEIRYDD / CHAIRPERSON | Chair of the Audit Committee |
| 3. IS-GADEIRYDD / VICE-CHAIRPERSON | Vice Chair of the Audit Committee |
| 4. YN ATEBOL I / REPORTS TO | Audit Committee |
| 5. AMLDER CYFARFODYDD / FREQUENCY OF MEETINGS | Four specified meetings: - 04 October 2023 - 19 October 2023 - 06 November 2023 - 24 November 2023 |
| 6. FERSIWN A DYDDIAD / VERSION AND DATE | Version 1 1 October 2023 |

7. PWRPAS Y CYFARFOD / PURPOSE OF THE MEETING

The Budget Scrutiny Working Group is a Member led working group made up of Members from the Audit Committee, supported by the Authority's Treasurer.

With Members representing each of the constituent local authorities, the purpose of the group is to act as a scrutiny function in respect of the financial aspects of the Fire and Rescue Authority. In particular, the scrutiny will focus and consider the financial sustainability of the Authority and gain a common understanding of the financial assessment and risks.

8. AMCANION Y CYFARFOD / OBJECTIVES OF THE MEETING

- To provide scrutiny in respect of all areas of expenditure, seeking clarification and assurance as required.
- To gain sufficient understanding of the underlying issues relevant to the financial aspects of the Fire and Rescue Authority and its ability to deliver its objectives.
- To consider the completeness and reasonableness of the budget assessment for the 2024/25 financial year and the associated risks.
- Consider the robustness of the budget proposals and the Authority's ability to deliver savings against these budget proposals.
- To produce and publish a full report to the Audit Committee as part of the annual budget setting process.
- To cover key / contentious issues thoroughly enough to allow Working Group members to communicate thereon with wider NWFRA membership and their LAs' Cabinet members, etc.

| 9. AELODAU / MEMBERS | |
|---|--|
| Swydd / Position | Yn Cynrychioli / Representing |
| Chair, Cllr Mark Young Vice Chair, Cllr Gwynfor Owen Cllr Jeff Evans Cllr Austin Roberts Cllr Tina Claydon Cllr Bryn Apsley Treasurer, Dafydd Edwards | Denbighshire CC Gwynedd CC Ynys Mon CC Conwy CC Flintshire CC Wrexham CC Professional advisor to the Authority |

| 10. BUDD-DDEILIAID / STAKEHOLDERS |
|---|
| <ul style="list-style-type: none"> • Fire and Rescue Authority • Constituent local authorities • Service Leadership Team |

| 11. TREFNIADAU GWEITHREDU / OPERATING ARRANGEMENTS |
|--|
| <ul style="list-style-type: none"> • The initial work of the group will take place over four meetings scheduled for October & November 2023; • Dates have been scheduled in advance; • The Chair requests agenda items in advance; • Meetings can take place physically or online depending on the circumstances; • Actions and key decisions are noted and circulated for progression after the meeting. |

| 12. ADDASU'R CYLCH GORCHWYL / AMENDING THE TERMS OF REFERENCE |
|--|
| <ul style="list-style-type: none"> • The Terms of Reference will be reviewed following the conclusion of the first four meetings to determine any future requirement. |