



AGENDA ITEM: 7

NORTH WALES FIRE AND RESCUE AUTHORITY

15 December 2014

DRAFT BUDGET 2015-16

Report by Ken Finch, Treasurer

PURPOSE OF REPORT

- 1 To present to Members the draft budget for 2015-16 for approval.

INTRODUCTION

- 2 This report contains proposals to the Authority in respect of the draft budget for 2015-16, the forecasts for 2016-17 and 2017-18, and the papers attached set out the:-
 - (i) draft revenue budget (Appendix A);
 - (ii) provisional contributions required by the constituent authorities (Appendix B);
 - (iii) draft capital programme (Appendix C).
- 3 The Treasury Management Annual Strategy and the Prudential Indicators have not been included as they will be presented to the Audit Committee which has been tasked with ensuring effective scrutiny of the treasury management strategy and policies. Based on its findings it will make recommendations to the Fire and Rescue Authority.

BACKGROUND

- 4 For the last four financial years the Authority has made savings of £3m by effectively reducing the net budget requirement by 1% and absorbing any increases such as pay awards, capital financing costs and general inflationary increases. To achieve these savings the Authority delivered on a number of options chosen by Members which included changes to the rostering system; a

management re-structure; a review of Aerial Appliance cover; Community Fire Safety staffing; and Support Services staffing. Overall the workforce reduced by 9% over this period but despite these reductions the Authority continues to successfully deliver against its objectives.

- 5 The Improvement Objectives for 2014-15 were to deliver the current target of 30,000 Home Fire Safety checks and optimise fire and rescue cover in North Wales by finding alternative options to the Retained Duty System (RDS). The document represents the service delivery commitments to the general public. Members agreed to deliver on the objectives set out in the Improvement Plan and maintain the current level of Fire and Rescue Service in North Wales. In order to maintain services at the current level it was agreed that any increase in budgetary provision would be underpinned by the use of one off reserves. This meant that the Authority was able to set a frozen budget for 2014-15.

BUDGET PLANNING 2015-16

- 6 For 2015-16 Members agreed that the Improvement Planning Working Group should consider the balance between budget pressures, service provision and the public risk. The Working Group concluded that any large scale savings could only be achieved from reductions in service provision.
- 7 The draft Improvement Objective approved for 2015-16 and subsequent years was to maintain the current level of Fire and Rescue Service in North Wales and any increase to the budget should be no more than an additional £1 per year per head of population in North Wales – the equivalent of £699k based on the population estimates for 2015.
- 8 The provisional local government settlement for 2015-16 was issued by Welsh Government on 8th October 2014. For the Constituent Authorities in North Wales the average **reduction** in funding was 3.7%.

- 9 Members of the Executive Panel were presented with a budget report on 27th October 2014 setting out the costs of maintaining the same level of service provision over the next 5 years; an additional budgetary requirement of £3.3m. If the budget increases are to be absorbed, the current service provision could not be maintained. To deliver these savings would require cuts equivalent to 25% of the operational establishment and could only be achieved by closing stations, removing appliances and reducing community safety work. Members agreed to recommend to the Fire Authority to maintain the current level of service provision and, if necessary, increase the budget by no more than £1 per head of population in North Wales.
- 10 However, in light of the financial settlements imposed on the Constituent Authorities it was requested by Members that some options for savings that would not require the removal of fire engines or the closure of Fire stations, be presented to the Fire Authority in order to offset the £750k of unavoidable budgetary pressures for 2015-16.
- 11 At an extraordinary meeting of the Fire Authority on 2nd December 2014, Members were presented with the savings options available to them. Members were firstly informed that the £750k of unavoidable budgetary pressures had now decreased to £628k due to the timing of construction work at Wrexham impacting on the capital financing costs (£87k) and the closure of Atal Tan, saving on the services contribution (£35k).
- 12 The savings options presented were as follows:-

Potential Savings	Amount
Ceasing Non-Statutory Service - Rope Rescue	£8k
Ceasing Non-Statutory Service - Large Animal Rescue	£8k
Ceasing Non-Statutory Service - Water Rescue	£75k
Reduced Attendance at Automatic Fire Alarms	£25k
Further Reduce Operational Managers Posts	£250k

- 13 Members confirmed that all the options should be implemented in 2015-16 with the exception of 'Water Rescue' due to the risks associated with withdrawing this high profile service, and that a report on the Water Rescue Service be considered in 2015-16. The budget increase recommended for approval for 2015-16 was agreed at £337k, equating to less than 50p per head of population.

ACTUAL – 2013-14

- 14 The actual expenditure for 2013-14 is included in the first column of the Appendix to aid comparison with the current and proposed budgets. Under employee costs there has been a re-structuring of the establishment for 2014-15 to include the new WDS Rural Firefighters. The Improvement Plan for 2014-15 listed as one of the objectives 'finding alternative options to the Retained Duty System (RDS)', the new posts have been established to provide fire cover on RDS stations and are also being utilised to provide cover on Wholetime stations when required. The budget for the new posts has been transferred from the RDS budget so there are no additional costs to the Authority. The Chief Officers actual expenditure was less than subsequent year's budgets due to the retirement of one post holder with the vacancy not being filled at this time. Expenditure on Local Government Services Staff was less in 2013-14 as a number of vacant posts had not been filled at that time. Expenditure on computer costs in 2013-14 was less than current budgets due to the re-negotiation of some contracts and the full effect of Firelink costs not arising until the following year. Other expenditure compared to future budgets is fairly static and where there are increases this reflects changes due to inflationary pressures.

BUDGET 2015-16

- 15 To set a balanced budget the starting point is to include known commitments such as the revenue funding for the capital programme and unavoidable inflationary increases.
- 16 For a number of years there was a pay freeze on public sector pay. This is no longer the position and the recent pay awards have been equivalent to 1% per annum. To cover possible pay awards in 2015-16, 1% has been factored in to the budget for all employed staff.

- 17 Some budget lines have been increased where it is known that there will be an inflationary increase e.g. energy costs, fuel, national non domestic rates and service level agreements. Other lines have been increased where there has been a change in service delivery e.g. Firelink support costs and change in line rental contract. Computer costs have decreased due to the re-negotiation of some contracts. Other budget lines have been maintained at their current level and any inflationary increases will have to be met from savings or reserves as will any increases in activity levels.
- 18 The increase in capital financing charges has been kept to a minimum as some capital expenditure will be funded from the Capital Reserve in order to reduce revenue costs. All remaining leases relating to operational assets have now been bought out so there is no longer a requirement to hold a leasing budget.
- 19 As detailed in paragraph 13 the budget increase after applying the agreed savings is £337k.
- 20 In 2014-15 in order to set a frozen budget the budget was underpinned using £406k from reserves. The outturn position for 2014-15 currently estimates that only £20k of this will be utilised due to underspends across a number of budget heads. The balance on the General Reserve currently stands at £1.812m so Members may consider the option of setting a frozen budget again for 2015-16 and underpinning it with a contribution from reserves. The Treasurer advises that extreme caution should be used when contemplating the use of reserves to underpin the budget as the effect is to increase budget pressures by that amount in the subsequent year. Members need to keep in mind that there is a possibility of the balances still being needed in 2014-15 if activity/incidents increase between now and 31 March 2015.
- 21 Members may wish to note that the Minister for Public Services instigated some research in to reserves held by local government and has indicated that some thought might be given to using them to offset reductions in funding. In considering the option of using reserves Members need to keep in mind that there is a risk to using 'one off' funding as it cannot be used again and adds to the need to find savings in a subsequent year or years. It is not considered to be prudent to reduce reserves to less than 3% of

net revenue expenditure (£953k) and a generally accepted target is 5% of net revenue expenditure (£1,588k). If Members do wish to approve the option of using reserves for 2015-16 based on the proposed budget in this report so that the budget is 'frozen' at a cash standstill for a fourth year, £337k would be required. This would leave the General Reserve at an estimated £1,455k at 31 March 2016 – 4.53% of net revenue expenditure with a consequential 'net pressure' of 1.05% for 2016-17.

- 22 Members are reminded that the Authority holds some earmarked reserves to fund specific projects/schemes. They are reviewed from time to time as to their adequacy for the purpose that they were created. They are not considered to be in the scope of general use to underpin the budget for 2015-16. They will be reviewed as part of the revenue expenditure outturn for 2014-15.
- 23 Finally, there are also two provisions held by the Authority – Firefighters' Pensions and Equal Pay – which are not to be considered as being available for the purpose of this aspect of the report.

BUDGET 2016-17 and 2017-18

- 24 To assist with the planning process, budget forecasts for 2016-17 and 2017-18 are included in the appendix to this report.
- 25 Known commitments have been factored in to the budgets for the 2 years and include the increased revenue costs of capital based on the capital programme detailed in appendix C. A pay award of 1% has been factored in to the budget for these 2 years. The impact of known commitments has increased the budget by 3.87% in 2016-17 and 1.4% in 2017-18. The large increase in 2016-17 is due to the pay awards and the increase in capital charges due to the level of capital expenditure in 2015-16.
- 26 The budgets for 2016-17 and 2017-18 reflect the cost of maintaining the current level of service provision.

CONTRIBUTIONS

- 27 Appendix B sets out the provisional contributions for 2015-16 from the constituent authorities. The first table shows the increase in contributions if the budget is increased by £337k. The second table shows the contributions if a frozen budget is set.
- 28 Members will wish to note that because population estimates from the Office for National Statistics are used to allocate both contribution and RSG, those authorities with a larger change (+/-) in population estimate will see a correspondingly larger increase or decrease in their contribution, the change will also have been reflected in their RSG settlement.

CAPITAL PROGRAMME

- 29 The draft capital programme for 2015-16 is set out in Appendix C and amounts to £10.8m. Of this figure, £7.4m is for new or continuing schemes and £3.4m for schemes that have rolled over from previous years such as the Wrexham scheme which was approved in 2009/10 but due to site issues has experienced a number of delays. The purchase of new appliances and ancillary vehicles is ongoing as per the vehicle replacement programme. In 2014-15 the estimated outturn for capital expenditure is £8m and it is proposed to finance this from borrowing and a contribution from the Capital Reserve. As mentioned previously financing of the capital programme from the Capital Reserve will reduce future debt charges arising from the current programme and help mitigate budget increases for future years.

RECOMMENDATIONS

- 30 It is recommended that:
- (i) Members approve the draft budget for 2015-16;
 - (ii) Members confirm the strategy to be followed to achieve a balanced budget for 2015-16;
 - (iii) Members note the budget position for 2016-17 and 2017-18;

- (iv) Constituent authorities be advised of the provisional contributions required for 2015-16;
- (v) The draft capital programme and associated methods of financing for 2015-16 be approved;
- (vi) If any savings transpire before 15 February 2015 the powers for altering the budget level be delegated to the Treasurer in consultation with the Chairman, Chief Fire Officer and Clerk.