



AGENDA ITEM: 8

NORTH WALES FIRE AND RESCUE AUTHORITY

17 June 2013

FINANCIAL PERFORMANCE 2012-2013

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 2012-13.
- 2 The report was presented to the Audit Committee on 3 June 2013 as it has been tasked with ensuring effective scrutiny of finance reports and based on findings make recommendations to the Fire and Rescue Authority. Members of 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 2012-13 to ensure Members are kept up to date with regard to the financial position of the Authority.
- 4 The first part of the report reviews the revenue expenditure for 2012-13 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 can be found in Appendix D.

Background

- 5 This financial year was the second year of a 3 year strategy agreed by Members to reduce the budget due to pressures from Central Government to meet one of their key policies; to reduce expenditure in the public sector. The savings target for 2012-13 was £815k, the majority of which was to come from front line fire cover (£500k) through changing the rostering system. It was expected that the reduction in front line firefighters could be achieved through natural wastage; mostly retirements. The strategy has been successful and the savings targets met along with additional savings due to careful budget management and the awareness that additional savings will be required going forward.

Revenue Activity

Employees

- 6 As can be seen from the graph, a large proportion of Fire and Rescue Service expenditure relates to pay; 67% for 2012-13. This is a lower proportion than in 2011-12 where pay made up 71% of expenditure and in 2010-11 73%. The reduction in pay costs over the three years demonstrates that the strategy agreed by Members to make savings by changing service delivery has been achieved. Overall the net pay budget was underspent by £1,177k which is slightly higher than the estimate of £923k provided to Members in March 2013. The additional saving is mainly due to reduced training costs where additional grant monies have offset expenditure in the last few months and a prudent approach being taken on the reporting of the outturn estimates for incident fees so 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 through redundancy.

- 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 underspend on retained firefighters is due to a reduction in training and incident fees due to the recruitment freeze that has been in place for most of the year. The reduction in the costs of retained firefighters has not impacted on front line services as cover on some retained stations has been provided by wholetime firefighters mainly from the 'Pool' (when the new rostering situation was introduced for wholetime firefighters a 'Pool' was set up in order to provide cover for absences with the pool being made up of posts that were not allocated a role on the roster; membership of the pool is on a voluntary basis).
- 10 The miscellaneous budget head is overspent due mainly to an increase in the employers' national insurance contribution due on lease car users following a review by HMRC.
- 11 The underspend on the Chief Officers budget relates to the vacant Assistant Chief Officer post which has not been filled following the retirement of the previous post holder.

Premises

- 12 The deficit on the Rhyl Community Fire Station trading account is posted to revenue at the end of the financial year. The deficit on the account has decreased by £18k compared to last year due to a staffing re-structure and income due that had not been recognised in previous years. The trading account for the Rhyl Community Fire Station is budgeted to break even over the year and this is the first year that the operation has come close to breaking even.
- 13 The repair and maintenance budget and the fixtures and fittings budget are 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.

- 14 Energy costs have increased significantly and whilst there are plans in place to reduce consumption the increase in cost per unit is greater than the savings achieved on reduced consumption. The overspend on NNDR can mainly be attributed to the increase in rates payable for Llangefni following a revaluation of the premises after the recent refurbishment.
- 15 The underspend on Rent is due to the recent purchase of Headquarters which has resulted in savings on rent but additional costs under Capital Financing. The net position is a saving to the Authority on an annual basis and ownership of the building vested in the Authority.

Transport

- 16 Overall the Transport budget is slightly underspent with overspends on some budget heads being offset by underspends elsewhere. The increases in the price of fuel, insurance and components have been offset by reduced travelling costs due to the decrease in the work force.

Supplies

- 17 Under the Supplies and Services heading Operational Equipment is underspent due to an increase in stock levels where the change in the value of the stock is offset against revenue. The value of stock has increased due mainly to a requirement to hold higher levels of some items in order to deal with service demands.
- 18 Expenditure on Printing and Stationery has reduced due to changes in working practices and smarter procurement.
- 19 The overspend on Computer Costs is due to the decision taken by the Senior Management Team to invest in additional computer equipment specifically for front line service personnel. This equipment will assist in service delivery and save costs on capital repayments in future years.

- 20 There is an underspend on Communications costs due to a delay in the roll out of the development work which has resulted in a saving on Firelink costs and line rentals in the current year.
- 21 There has been a reduction in insurance premiums following a competitive tendering process.
- 22 Members agreed to fund the fees associated with the purchase of Headquarters from the revenue budget to save on capital repayments in future years.

Support Services

- 23 The overspend on Facilities Management is partly offset by an increase in income from capital fees which is shown in the income section on the last page of the appendix. However, not all the additional costs will be recovered due to slippage on the capital programme resulting in facilities staff working more on the annual maintenance programme which cannot be recharged out.
- 24 The costs associated with employment legal advice are higher than the original budget as it has been necessary to consult them on a number of issues that have arisen during the year.

Capital Financing

- 25 The debt charges associated with the capital programme are less than the original budget due to the prevalence of low interest rates and the use of short term borrowing outside the PWLB and the delay on some major projects such as Wrexham, Tywyn and Nefyn.
- 26 Leasing charges are higher than budget due to a re-structuring of the leasing portfolio to enable the Authority to save money in the long term with leasing costs reducing in the future.

Income

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

- 28 The income from Special Service calls is less than budget due to a reduction in the number of incidents that the Authority could charge for. There has also been a decrease in income earned from outside training courses as a decision was taken that a more effective use of the resources is to deliver the community fire safety message.
- 29 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.
- 30 Other income received is for an insurance claim for damage to vehicles, the cost of repair is included under transport costs.

Underspend

- 31 The underspend against budget has been carefully managed to ensure there are sufficient funds available to cover possible expenditure on professional fees that have been incurred due to some ongoing issues with the capital programme (for further details see paragraph 44). It was also recommended by the Audit Committee that some of the underspend be set aside to cover a possible rise in interest rates in case interest payments on the loans portfolio could not be met from the current budgetary provision.
- 32 It was also agreed by members during the year that in order to make savings in the future the purchase of land at Deeside be funded from the revenue underspend (Fire Authority meeting 17 December 2012).
- 33 Members agreed to set aside £300k to offset the costs to North Wales Fire and Rescue Authority of backdating the employer's pension contribution for those RDS firefighters with service between 1 July 2000 and 5 April 2006 (Fire Authority meeting 17 December 2012).
- 34 To ensure senior staff members have the necessary skills to cover future needs Members agreed to set aside money from the underspend for Incident Command courses which were not provided for in the original budget (Fire Authority meeting 17 December 2012).

35 Members were also in favour of building up a General Reserve to provide some assurance that there are funds available to assist in future years and will mean that the Authority can draw on these funds rather than having to request supplementary contributions from the Constituent Authorities.

Reserves

36 A Reserve is defined 'as a voluntary action by the Authority to set resources aside for future schemes'. The Authority held £1,143k in a general reserve as at 1 April 2012 and, due to effective budget management, has not had to use this reserve to fund expenditure in 2012-13.

37 It is prudent for the Authority to build up a General Reserve and it is anticipated that the areas where it will be used will be:-

- possible transitional costs when the new 3 year financial strategy is introduced;
- to offset fuel increases not budgeted for; and
- to cover any contingent liabilities that may arise.

38 With the transfer of the balance of the underspend and the Earmarked reserves set aside last year that are no longer needed the balance on the general reserve will be £1,609k. The balance on the reserve is not substantial when compared to the general reserves held by the other Welsh Fire and Rescue Authorities.

39 Earmarked Reserves approved by Members are £216k and are as follows:-

- Incident Command Courses (paragraph 33) – £116k
- Interest Reserve (paragraph 30) – £100k

Provisions

40 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'. The Authority had two Provisions at the

start of the year and at year end it has been necessary to create additional provisions to cover possible contingent liabilities. Details of the provisions held are discussed below.

- 41 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 this year from the revenue budget.
- 42 The bulk of the settlement of the back pay for retained firefighters has been made during 2012-13. Payments are still being made in 2013-14 and it is expected that the provision will be sufficient to cover any outstanding back pay due.
- 43 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 are currently on going 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 North Wales Fire 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. Given this possibility it is prudent to set money aside from the underspend to offset any future liabilities should a settlement be reached. It is therefore proposed that £300k be set aside to offset these costs.
- 44 As Members are aware there are currently some issues with the Capital Programme, in particular the Wrexham project, and at this stage officers have been informed that the Authority owes £880,400 in professional fees for work undertaken in 2012-13. As the issues have not yet been resolved it is prudent to set this money aside in to a provision as it is unclear as to whether these costs could be allocated to the capital programme.

Grant Funded Schemes

- 45 The Authority has received funding for a number of schemes mainly from the Welsh Government; the total funding received is £2.3m. Members will be aware of a number of the schemes and the benefits to the community created from operating them. The larger schemes funded by grant are Phoenix, Interventions, Arson Reduction Team, New Dimensions, Firelink and Third Sector Co-ordinator. A comprehensive list of the schemes is detailed in Appendix C.

Capital Activity

- 46 The original capital budget was set in December 2011 and was based on new spend and rollovers from previous years.
- 47 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 for a Wrexham scheme.
- 48 The budget for planned maintenance was underspent as £143k of smaller items of capital spend on maintenance was transferred to revenue for the reasons explained in paragraph 12 above.
- 49 The budget for DDA works was increased during the year due to rollover of budget from the previous financial year. The revised budget for the year was £663k; the surplus budget will be rolled forward in to the next financial year.
- 50 The land required for the new Nefyn Fire Station has been purchased. Plans have been drawn up and work will commence on site in late July/early August 2013. The capital budget will be rolled over in to 2013-14 to ensure the scheme can be completed.
- 51 The land for the new Tywyn Fire Station has been secured. The budget will be rolled forward so the scheme can be completed.

- 52 The Executive Panel approved the purchase of NWFRS Headquarters St Asaph on 6 February 2012 following a report advising Members of the savings that could be made if the building was owned by the service rather than leased. The sale was completed in November 2012 and the capital financing for the scheme will be met from the savings on the rental payments.
- 53 The purchase of the land adjoining Deeside Fire Station has now been completed. The funding for the scheme was from the revenue underspend as outlined in paragraph 31 above.

CONCLUSION

- 54 In 2011-12 Officers have 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) is £835k. Strict budgetary control has meant that further savings have been made in year 2 to ensure the Authority is in a good position to meet the agreed savings targets in the subsequent year and following the issues on the capital programme have sufficient funds to meet these liabilities. Strict budgetary control has ensured that the Authority has been able to build up a General Reserve of £1.6m. Whilst £1.6m may seem high it does ensure there are funds available to assist in future years and will mean that the Authority can draw on these funds rather than having to request supplementary contributions from the Constituent Authorities. Members should be aware of the possible future pressures ahead, for example:
- pay increases,
 - fuel increases,
 - Revenue Support Grant cuts,
 - increase in the Employers Pension Contributions,
 - decrease in grant funding.

RECOMMENDATION

- 55 Members approve the transfer of the underspends in to Reserves and Provisions as detailed on page 3 of Appendix A.