

AWDURDOD TÂN AC ACHUB GOGLEDD CYMRU



NORTH WALES FIRE AND RESCUE AUTHORITY

An **EXTRAORDINARY MEETING** of the North Wales Fire and Rescue Authority will be held **MONDAY 25 JANUARY 2016** at **CONWY COUNTY BOROUGH COUNCIL CHAMBER, BODLONDEB**. The meeting will start at **10.00am**.

Yours faithfully

Colin Everett
Clerk

AGENDA

1. Apologies

2. Declarations of Interest

3. Notice of Urgent Matters

Notice of items which, in the opinion of the Chair, should be considered at the meeting as a matter of urgency pursuant to Section 100B (4) of the Local Government Act, 1972.

4. Medium Term Financial Strategy 2016-2019 and Budget 2016-17

5. Urgent Matters

To consider any items which the Chair has decided are urgent (pursuant to Section 100B (4) of the Local Government Act, 1972) and of which substance has been declared under item 2 above.

PART II

It is recommended pursuant to Section 100A (4) of the Local Government Act, 1972 that the Press and Public be excluded from the meeting during consideration of the following item(s) of business because it is likely that there would be disclosed to them exempt information as defined in Paragraph(s) 12 to 18 of Part 4 of Schedule 12A of the Local Government Act 1972.

No items



AGENDA ITEM: 4

NORTH WALES FIRE AND RESCUE AUTHORITY

25 January 2016

MEDIUM TERM FINANCIAL STRATEGY 2016-2019 AND BUDGET 2016-17

Report by Ken Finch, Treasurer

Purpose of Report

- 1 To present to Members the Medium Term Financial Strategy (MTFS) for 2016-17 to 2018-19 which includes the draft budget for 2016-17.

Background

- 2 An effective organisation needs to have in place a number of corporate plans to ensure the Authority's overall strategy and improvement plans are delivered. The MTFS supports these plans and ensures that resources are directed at the areas that have been prioritised in the Improvement Plan. Production of a MTFS ensures a strategic approach is taken towards planning budgets and funding over a longer term so any proposed changes can be managed over time to ensure a smooth transition.
- 3 The annual Improvement Plan sets out how the Fire and Rescue Authority intends to deliver its statutory and non-statutory responsibilities to the people it serves. It is updated annually in consultation with stakeholders and sets out the main objectives for the year ahead and, as such, the document is a key element of the MTFS.

- 4 The objectives set out how the Authority can maintain and improve on operational service delivery whilst recognising the need to limit additional budget requirement due to the continued reduction in funding for public services.
- 5 The draft Improvement Objectives approved for 2016-17 and subsequent years are; to maintain the current level of fire prevention work; to re-balance resources to match risk for emergency responses; to diversify the role of the firefighter to offer additional service to the public and absorb any unavoidable costs, so setting a zero increase budget.
- 6 For the last five financial years the Authority has made savings of £3.5m by effectively reducing the net budget requirement by 0.65% 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; management re-structures; a review of aerial appliance cover; community fire safety staffing and support services staffing. Overall the workforce has reduced by 9% over this period. Despite these reductions the Authority has successfully delivered against its objectives.
- 7 Members have agreed the strategy included in the Improvement Plan to try to set a frozen budget for the next 3 financial years commencing 2016/17 and, if necessary, use reserves in the short term until strategies have been developed to reduce costs and produce a balanced budget.

Welsh Government Provisional Settlement

- 8 North Wales Fire and Rescue Service is funded from contributions from the six constituent authorities in North Wales. Funding for local authorities in Wales is through Aggregate External Finance (AEF) (comprising Revenue Support Grant and redistributed Non-Domestic Rates), and local taxation revenues. The funding split for most authorities is 75% AEF, 25% council tax. This means that for a 2% reduction in AEF council tax would need to increase by 6% to maintain the same level of funding.

- 9 The general election held in May 2015 prompted a subsequent comprehensive spending review by the UK Government. The distribution of public sector financial resources through the UK Government's budget was announced on the 25 November 2015. This distribution included the announcement of the Welsh Block Grant, which in turn allowed Welsh Government (WG) to determine its priorities and produce the draft budget from which the settlement has been determined for 2016/2017.
- 10 The financial resources allocated to local government through the settlement represents around 26% of the overall public sector budget for Wales. The overall AEF for Wales has been cut by 1.4% with the distribution process producing a range of cuts from -0.1% to -4.1%. However, the reduction in AEF is not as high as anticipated due to additional funding provided in the settlement for education and social services.
- 11 The provisional reductions in AEF for the North Wales authorities for 2016/17 is as follows:

| <u>Unitary Authority</u> | <u>% Change</u> |
|--------------------------|-----------------|
| Isle of Anglesey | -2.0 |
| Gwynedd | -1.7 |
| Conwy | -2.2 |
| Denbighshire | -1.2 |
| Flintshire | -1.5 |
| Wrexham | -1.3 |
| Average Reduction | -1.65 |

- 12 Members will note that WG is unable to provide an indication of the AEF beyond 2016/2017.
- 13 There is no official cap imposed on council tax increases but most authorities do not go beyond a 'self-imposed' cap of 5%. The average increase across the North Wales authorities for the previous year was 3.95%.

- 14 The WG had indicated previously that the settlement would include a decrease in funding for local government. Members were aware of these pressures and, in order to reduce the burden on the constituent authorities, have agreed to set a frozen budget.

Operational Issues

- 15 In order to set a frozen budget and maintain service delivery at current levels it will be necessary to absorb unavoidable cost pressures through changing the way services are delivered and, in the short term, by the use of one-off contribution from reserves.
- 16 The Improvement Plan includes an objective to look at re-balancing resources to match risk for emergency responses. Changes to the planning and management of fire crews will provide savings in future as there will be a more efficient use of resources.
- 17 There are a number of initiatives that will be important in assisting in maintaining operational service delivery in light of the necessity to reduce costs. These include the National Issues Committee and collaborative working with the other emergency services in North Wales.
- 18 The MTFS does not, at this stage, take account of any changes which may flow from the Williams Report, or the Silk Commission. On this basis the MTFS assumes no financial impact from such external influences at this stage.

Medium Term Financial Strategy

- 19 In developing this MTFS the following have been taken into account:
- operational service demands based on the Service's strategic plans
 - the resources available from Welsh Government
 - the impact on the constituent authorities of an increase in the contributions
 - the level of inflationary pressure on key budgets such as pay

- the impact of the changes to the Employer's National Insurance contributions in 2016
- delivery of transformation change projects.

20 The impact of general inflation is managed each year by projects aimed at improving efficiency by reducing usage. However, there are additional costs that are unavoidable and can't be managed downwards such as pay awards; indexation on service level agreements; insurance increases and costs associated with having a capital programme. The assumptions used for the MTFs where the precise increase is not known at this stage are as follows:

| Expenditure Type | 16/17 | 17/18 | 18/19 |
|----------------------|-------|-------|-------|
| Pay award | 1% | 1% | 1% |
| Energy | 1% | 1% | 1% |
| Fuel | 1% | 1% | 1% |
| Insurance - Vehicles | 3% | 3% | 0% |

21 From the 1 April 2016 the UK Government is introducing changes to the state pension. Previously, as an employer who offered a salary-related pension scheme, the Authority was entitled to a National Insurance rebate of 3.4%. As a result of the changes this rebate is no longer available. The estimated additional cost to the Authority for 2016/17 is £329k.

22 The revenue costs associated with having a capital programme are calculated based on the type of spend on assets, the repayment period, and an estimate of the interest payable on the additional borrowing required to fund the programme.

Base Budget Position

23 The estimated additional costs as outlined above have been added to the previous years' base budget. Operational changes such as the impact of the change to the attendance to automatic fire alarm policy, which was agreed by Members last year, provision of in-house training and other known changes have also been applied to the base budget. The position after these changes is as follows:-

| Adjusted Base Budget £m | 15/16 Actual | 16/17 | 17/18 | 18/19 | Total |
|----------------------------|-----------------|--------|--------|--------|-------|
| Net Expenditure Base | 31.886 | 32.776 | 33.376 | 33.787 | |
| Frozen Budget | 31.886 | 31.886 | 31.886 | 31.886 | |
| Budget Shortfall | 0 | 0.890 | 1.490 | 1.901 | 4.281 |

- 24 For the Authority to set a frozen budget for the next three years it will have to find savings as detailed in the table above. By 2018/19 the savings needed will be nearly £2m if the Authority is to set a balanced budget.
- 25 At this stage in the process it is too late to plan operational changes for 2016/17 that would yield the full saving of £0.890m. Members have agreed to use reserves to underpin the budget in the short term but will have to make decisions in the future that would make savings whilst minimising the impact on service delivery.

Reserves

- 26 The appropriate management and use of reserves is part of good financial management and planning. The fire and rescue authorities in Wales have only been able to hold reserves since 2009 following the enactment of 'The Combined Fire and Rescue Services Schemes (Variation) (Wales) Order 2009'. The change in legislation came about in recognition of the possible burden on council budgets should the authorities require an additional contribution in any year. From 2009 onwards the use of reserves has been a critical component in managing the financial affairs of the Fire and Rescue Authority and has ensured that, in any year, there would be no need for revised contributions.
- 27 The anticipated usable revenue reserves of the Fire and Rescue Authority as at 31 March 2016 are shown below.

| Reserve | Value £m | Purpose |
|---|----------|---|
| General Reserve | 1.817 | To cushion the impact of unexpected events, emergencies and uneven cash flows. To cover the transitional costs of schemes that could not be funded from the revenue budget. Used to temporarily underpin the revenue budget. |
| Capital Reserve | 0.740 | Used as a contribution towards the cost of capital expenditure to reduce capital financing costs. |
| Earmarked Reserves | 0.625 | Money set aside for specific projects. Projects included are home fire safety check (HFSC) equipment, radio transitional costs and interest rate rises. |
| Retained Duty System Retrospective Pension Claims Provision | 0.667 | This provision was set aside to cover the possible employer's superannuation costs of the RDS personnel backdating their pension. To cover the additional costs the superannuation charges from 2019 will change following an actuarial review. This provision is therefore no longer needed. |

- 28 It is proposed to use the earmarked reserves and the capital reserve for the purpose for which they were set aside as these have been built in to the forward planning process and, if they are not used for this dedicated purpose, the Authority would incur additional costs.
- 29 The reserves available for general use are then estimated to be £2.48m
- 30 Given the challenges faced in reducing the base budget it is appropriate to utilise some of these reserves to assist in delivering future change projects. At this point it is not possible to estimate what those costs might be but it is prudent to ensure that funds are available to facilitate those changes.

- 31 The budget shortfall for 2016/17 is £0.890m. As detailed below there is a further opportunity to make savings that would reduce the shortfall to £0.760m. Given the reserves available it would be feasible to underpin the budget for 2016/17 from that source.

Revenue Budget 2016/17

- 32 The budget strategy for 2016/17 is to identify in year savings and to use reserves to underpin the budget which will provide time for the Fire and Rescue Authority to consider more challenging options for the 2017/18 year and beyond.
- 33 Reductions to the base budget have been applied as detailed in paragraph 23.
- 34 A further opportunity exists to reduce the budget requirement for capital financing charges. This is outlined below:
- The new Wrexham Fire Station will be completed this financial year and the cost of the scheme will be recharged to revenue over the life of the asset. The current policy is set to charge 4% of the outstanding balance of the capital spend to revenue each year. This equates to a repayment period of 25 years. However, the new build is unusual in that, although the Authority has paid its share of the capital costs, there will be a lease agreement with Welsh Ambulance Service Trust (WAST) for 50 years (no rent charged) as it retains ownership of the land. Given the lease agreement it would be reasonable to provide for the repayment period to be extended to the same as the lease. This would save the Authority £130k per annum in capital charges.
- 35 Introducing the above proposal would reduce the contribution from reserves to underpin the budget to £0.760m for 2016/17.

Financial Implications

- 36 Financial implications are addressed within the body of the report.

Equality Risk Assessment

- 37 The MTFS includes proposals for reducing costs in 2016/17 that would not need to be equality impact assessed as they do not involve changes to the provision of services to the public.

Recommendations

- 38 That Members:
- a) approve the budget for 2016/17 at the same cash limit as the current financial year i.e. £31,885,843 and utilise £0.760m from reserves to underpin it;
 - b) acknowledge the risk of the use of reserves in terms of future financial planning;
 - c) acknowledge the contents of the MTFS and, in particular, note the principle of setting the budgets for 2017/18 and 2018/19 at the same cash limit as 2016/17.