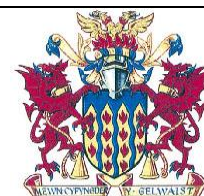


Report to	North Wales Fire and Rescue Authority
Date	16 January 2023
Lead Officer	Helen MacArthur Assistant Chief Fire Officer (Finance & Resources)
Contact Officer	Helen Howard
Subject	Provisional Outturn 2022/23



PURPOSE OF REPORT

- 1 To provided members with an update on the revenue and capital expenditure position for 2022/23, as at 30 November 2022.

EXECUTIVE SUMMARY

- 2 The net budget requirement was approved by the Fire and Rescue Authority (the Authority) at its meeting of 20 December 2021. This confirmed a net requirement of £39.41m to be funded by the constituent local authorities. Actual expenditure is forecast to be £42.42m which includes projects deferred during the Covid pandemic, estimates of national pay settlements above the 2% budget provision and general inflationary pressures. The use of earmarked reserves, the general fund and provisions will mitigate the additional costs and it is not anticipated that a supplemental levy will be required.
- 3 The Authority approved the 2022/23 capital budget of £2.91m on 20 December 2021. The capital programme is experiencing cost pressures, and if all expected works are completed, there will be an overspend of £0.120m.

RECOMMENDATIONS

- 4 Members are asked to:
 - (I) note the draft revenue and capital outturn projections for the 2022/23 financial year as detailed within the report;
 - (II) note the risks associated with inflation and supply chain issues;
 - (III) note the risks associated with the ongoing pay negotiations; and
 - (IV) approve the use of earmarked and general fund reserves.

OBSERVATIONS FROM EXECUTIVE PANEL/AUDIT COMMITTEE

- 5 This report has not previously been considered by members.

BACKGROUND

- 6 This report provides information on the draft revenue and capital expenditure outturn position for the 2022/23 financial year.

INFORMATION

REVENUE BUDGET

- 7 The net budget for 2022/23 of £39.412m was approved at the Authority meeting on 20 December 2021. Following further planning work, the overall net budget requirement was confirmed at the Authority meeting on the 20 June 2022 and at this time it was also noted that expenditure deferred from 2021/22 would be met from earmarked reserves. In addition, the specific risk associated with pay awards was noted as the national pay awards were outstanding.
- 8 Staff costs represent 76% of gross expenditure. The budget is set on the approved staffing establishment and anticipated activity.
- 9 The budget setting process included an assumption that pay awards would be 2% for all staff. The pay offer for local government staff was finalised and agreed comprising of an uplift of £1,925 across all grades. This equates to approximately 6.6% compared to the planning assumption of 2%.
- 10 A pay award of 5% has been offered for firefighter and firefighter control roles. This has been rejected by the FBU Membership and staff are currently being balloted for strike action. The ballot closes 30 January 2023.
- 11 The non-pay forecasts reflect the known unavoidable cost pressures that are being experienced in relation to utility costs, building maintenance and fuel costs. However, further uncertainty remains due to general inflationary pressures and supply chain issues resulting in expenditure above anticipated budget.
- 12 Whilst the majority of expenditure is funded from the constituent authority levy, income is received from the Welsh Government for grant funded activities, as well as recharges from other bodies in relation to the use of our premises.
- 13 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. When the budget was set, the significant rise in the Bank of England base rates was not anticipated during 2022/23. The subsequent increase has resulted in a detrimental impact on the position which is factored into the forecast.

REVENUE OUTTURN

- 14 The report is projecting an overall balanced position but given the inflationary pressures it has been necessary to include transfers from earmarked reserves. The breakdown is detailed below.

	Budget (£000)	Forecast (£000)	Variance (£000)	Variance (%)
Employees	30,130	31,167	1,037	3.44%
Premises	2,901	4,084	1,183	40.78%
Transport	1,204	1,263	59	4.90%
Supplies	4,919	5,420	501	10.18%
Third Party Payments	451	451	-	0.00%
Capital Finance & Charges	2,263	2,513	250	11.05%
Income	-2,456	-2,482	-26	1.06%
Forecast Outturn	39,412	42,416	3,004	7.62%
Transfer from Earmarked Reserves		-1,959	-1,959	
Transfer from Provisions		-345	-345	
Transfer from General Fund		-700	-700	
Use of reserves		-3,004	-3,004	
Forecast Position	39,412	39,412	-	

EMPLOYEE COSTS

- 15 Employee costs form a significant element of the budget (76%) and include pay, pension costs, cost of recruitment and training and employee services, such as occupational health services.
- 16 A new staffing structure was implemented in April 2022. Significant progress has been made in recruiting to vacancies, although the jobs market is proving challenging to recruit to specialist posts. However, these posts remain critical to achieving the corporate objectives.
- 17 A recent wholtime recruitment exercise has resulted in 24 new recruits being appointed - 12 commenced in September and 12 started in January. These new posts will address known and anticipated retirements although due to the required period of training it has been necessary to exceed the normal establishment levels to ensure continuity of service. Action continues to increase the number of retained duty firefighters and is a significant area of focus to address and maintain availability issues.

- 18 The overtime costs associated with maintaining service availability and to cover sickness are expected to be £0.900m at year end.
- 19 Expenditure of £0.301m has been incurred in respect of backdated holiday pay awards. This was necessary following a national legal case in relation to the elements of pay that should be included in the holiday pay calculation. Changes to apprentices' pension contributions following the transfer from the LGPS to the firefighters' scheme resulted in additional employer contributions totalling £0.044m. These costs will be funded via the provisions established in 2021/22.
- 20 The anticipated overspend in staffing costs amounts to £1.037m and includes the following:
- anticipated in year costs of pay awards;
 - additional overtime to cover sickness and maintain availability;
 - backdated holiday pay;
 - additional wholtime firefighter recruitment;
 - temporary posts to deliver specific projects; less
 - reductions arising from current vacancies.
- 21 The anticipated in year cost of the pay award for firefighter and firefighter control staff remains uncertain at this time although any pay award over 2% is a financial risk. This was noted during the budget setting process and it is proposed that for 2022/23 the reserves should be utilised for nationally agreed pay awards. This is currently estimated at £0.700m, including LGPS staff.

NON-PAY COSTS

- 22 The non-pay budget is experiencing significant pressures. These include fuel and energy costs which remain unpredictable due to price and supply issues. In addition, the availability and costs of other commodities such as building supplies, ICT equipment and fleet parts are also of concern, given the complexity of supply chains and global uncertainty.
- 23 A review of non-pay expenditure is undertaken by budget holders to ensure that the projections continue to be reasonable.

Premises

- 24 Premises costs are projecting an overspend of £1.183m, which includes the preliminary costs agreed at the last meeting, in relation to the development of the business case for a new training centre (£0.25m).

- 25 The market instability and increased costs of gas and electricity are a major financial challenge for the Authority. The current projected overspend for utilities is £0.15m. The UK Government has announced support for businesses including public sector bodies until 31 March 2023. The costs of energy are monitored as part of the service level agreement with North Wales Police.
- 26 The projection also includes the cost of works that were delayed in 2021/22. Funding is available for these works from the earmarked reserves.

Transport

- 27 The transport budget is projecting a variance of £0.059m. Increasing costs in relation to fuel and vehicle parts are causing pressures on this budget, which at present are mostly being managed internally.

Supplies

- 28 The net supplies budget is £4.919m and current forecast overspend of £0.501m, which includes in year initiatives that will be funded from earmarked reserves.
- 29 Significant inflationary pressures are being experienced in a number of business-critical areas and action is being taken to contain and mitigate these, where possible.
- 30 The projected outturn position includes costs for new Fire Safety software, the replacement of essential operational equipment and project work in relation to the various reviews that are currently being undertaken throughout the Service. These were planned following the closure of the 2021/22 financial year and will be funded from earmarked reserves.

Third Party Payments

- 31 Third party payments relate to service level agreements with partners, including Conwy County Borough Council, Flintshire County Council and North Wales Police.
- 32 This expenditure is currently projected to budget.

CAPITAL FINANCING

- 33 The capital financing budget sets aside revenue funding to finance capital expenditure.
- 34 The Minimum Revenue Provision (MRP) represents the minimum amount that must be charged to an authority's revenue account each year for financing of capital expenditure, which will have initially been funded by borrowing. It is part of all Authority's accounting practices, and is aimed at ensuring that the Authority can pay off the debts it has from buying capital assets, such as buildings and vehicles.
- 35 Regulations require the Authority to determine each financial year an amount of MRP, which it considers to be prudent by reference to a calculated capital financing requirement (CFR). The MRP for 2022/23 is £1.94m.
- 36 In addition, the budget holds the interest costs in relation to the Authority's loans. Due to the volatile economic position, the cost of borrowing has now increased significantly, which has resulted in a current budget pressure of £0.25m.
- 37 This situation is being monitored carefully but there is a risk of further increases as new loans are required in the final quarter of the year to replace maturing loans and to fund capital expenditure.
- 38 Currently, there is a reserve of £0.30m to offset increased interest costs.

INCOME

- 39 As well as the constituent authority levy, the budget also includes expected income for fees and charges and grants.
- 40 Fees and charges largely relate to the recharges for buildings shared with other bodies.

	Budget £000	Projection £000	Variance £000
Grants	2,299	2,299	0
Fees and charges	277	303	26
Total	2,455	2,466	26

- 41 Other income increased due to the proceeds from a vehicle disposal (£10k) and temporary investment income (£16k).

Grant Funding

- 42 2022/23 grant funding allocations total £2.299m (2021/22: £2.397m). A breakdown of grant funding, for 2022/23, is detailed below. All grants are carefully monitored throughout the financial year to identify any variances and to enable remedial action to be taken.

	Allocation £000
Arson Reduction	157
Home Safety Equipment	223
Youth & Young People Engagement	148
All Wales National Resilience	154
Firefighters Pension Contributions	1,081
Firelink Service Fees	416
EV Charging Points	120
Total Grant Funding	2,299

CAPITAL PROGRAMME

- 43 The Authority approved a capital programme of £2.916m, in December 2021. In addition, £0.167m of expenditure will be funded from reserves due to slippage in a previously approved scheme.
- 44 The projection assumes that only 3 training towers will commence this year, instead of the 4 budgeted for.
- 45 In addition, a further £0.02m is required to replace a van, that has irreparable accident damage.
- 46 Grant funding relates to improved training facilities at Dolgellau and Rhyl. This was received in 2021/22 but works have commenced this year. Further work has been required, which is currently expected to cost an additional £0.096m
- 47 As is the case with the revenue budget, the capital program is experiencing cost pressures, with increased costs in relation to the purchase of vehicles and building works. This has resulted in the need for an additional £0.024m of funding.
- 48 Details of the schemes are below:

Scheme	Budget £000	Forecast £000	Variance £000
Fire Appliance Replacement	1,248	1,248	-
Multi-Purpose Station Vans	160	170	10
Workshop Equipment	20	12	-8
Replacement Van	-	20	20
Training Tower Replacement	160	85	-75
Buildings - Minor Works	245	260	15
Total 2022/23	1,833	1,795	-38
Rollover - Fire Appliances	923	923	-
Rollover - Training Towers	160	222	62
Total Rollover from 2021/22	1,083	1,145	62
ICT - Server	167	167	-
Total Funded from Reserves	167	167	-
Operational Equipment	92	92	0
Building Works	146	242	96
Total Funded from Grant	238	334	96
Total: Capital Programme	3,321	3,441	120

49 The financing of the capital plan is as follows:

Funding	Amount £000
Borrowing	2,916
Grant Funding	238
Earmarked Reserves	167
Total	3,321

BORROWING

- 50 Capital expenditure is largely funded via external borrowing. In the short term the Authority utilises surplus revenue cash, known as internal borrowing.
- 51 The Authority continues to utilise internal borrowing. This means that the capital borrowing needed, as calculated by the Capital Financing Requirement (CFR), has not been fully funded with external loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary expedient to fund capital spend and generate revenue savings. However, as reserves are utilised it becomes necessary to replace the internal borrowing with external borrowing.

52 The Authority's borrowings are projected to be £22.26m at 31 March 2023. This includes £6.0m of temporary short-term loans, from other public sector bodies and £16.26m of loans from the Public Works Loans Board. This is dependent on the availability of internal funds and remains a risk area for the Authority.

USE OF EARMARKED RESERVES

53 The aim of the Authority's financial reserves is to provide funding for investment in future activities, and to act as a safety net in case of short-term financial challenges arising from activity demands or unforeseen pressures.

54 The Authority currently has earmarked reserves of £5.57m which have been built up in recent years due to slippage in recruitment, and activities due to the Covid pandemic.

55 In 2021/22 earmarked reserves were set aside to fund costs that should have been incurred in 2021/22, but supply chain issues meant that these could not be completed and were delayed. In addition, there are reserves set up to fund interest rate rises, increases in inflation, system improvements and service improvements.

56 The provisional outturn assumes that reserves of £2.0m will be utilised in year. The use of reserves is kept under review as part of the budget monitoring process.

IMPLICATIONS

Well-being Objectives	This report links to NWFRA's long-term well-being objectives. Funding for the Service benefits the communities of North Wales and ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually in accordance with the proposed service delivery which includes emergency response and prevention work.
Legal	It is a legal requirement that the Authority produces the Statement of Accounts in accordance with the prescribed standards.
Staffing	Effective financial management supports the long-term workforce strategy to ensure that the Authority is able to discharge its responsibilities
Equalities/Human Rights/Welsh Language	None
Risks	Income and expenditure is closely monitored to ensure that deviations from the approved budget are properly identified and reported to Members.