

Report to	Executive Panel	
Date	12 December 2022	
Lead Officer	Dafydd Edwards, Authority Treasurer	
Contact Officer	Helen Howard, Head of Finance	
Subject	Medium Term Financial Strategy 2023/26 and Budget 2023/24	

PURPOSE OF REPORT

- 1 To present to Members the Medium-Term Financial Strategy (MTFS) 2023/26 and the draft revenue and capital budgets for 2023/24. The report also sets out the significant risks and uncertainties faced at this time.

EXECUTIVE SUMMARY

- 2 The Fire and Rescue Authority (the Authority) is required to set a balanced budget each financial year and confirm provisional contribution figures to each constituent authority by the end of the December preceding the start of the financial year.
- 3 This report sets out the draft revenue and capital budget for 2023/24 and the Medium-Term Financial Strategy (MTFS) to March 2026. The funding required from each constituent local authority is also confirmed.
- 4 The budget for 2023/24 and the MTFS include a number of key assumptions, risks and uncertainties which have been identified during the budget planning process

RECOMMENDATIONS

- 5 Members are asked to:
 - (i) endorse the capital and revenue budgets for 2023/24 based on an increase in contributions from constituent authorities of £5.32m;
 - (ii) note the key risks and uncertainties identified during the budget planning process;
 - (iii) endorse the Medium-Term Financial Strategy; and
 - (iv) recommend approval by the Fire and Rescue Authority at its meeting on 17 January 2023.

OBSERVATIONS FROM OTHER COMMITTEES AND MEMBER PLANNING DAYS

- 6 The proposals set out in this paper are consistent with the budget setting approach outlined to the Fire and Rescue Authority meeting of 17 October 2022, including the associated risks and uncertainties.
- 7 The members' induction and planning meetings held on 13 June and 6 October 2022 provided an overview of the service delivery models and the associated challenges being faced by the Authority.

BACKGROUND

- 8 The Improvement and Wellbeing Plan for 2023/24 confirms the Authority's long-term well-being objectives:
 - Objective 1:** to work towards making improvements to the health, safety and well-being of people in North Wales
 - Objective 2:** to continue to work collaboratively to help communities improve their resilience
 - Objective 3:** to operate as effectively and efficiently as possible, making the best use of the resources available
 - Objective 4:** to continue to identify opportunities to encourage greater engagement with people, communities, staff and stakeholders
 - Objective 5:** to maintain a suitably diverse, resilient, skilled, professional and flexible workforce
 - Objective 6:** to develop ways of becoming more environmentally conscious in order to minimise the impact of our activity on the environment
 - Objective 7:** to ensure that social value and sustainability are considered, including during procurement processes.
- 9 The Chief Fire Officer's report to Members in September 2021 provided a situation assessment. This confirmed that the key challenges facing the Authority are maintaining sufficient availability of on-call fire crews; ensuring sufficient resources to maintain and develop firefighter skills; and having enough corporate capacity to meet current and future demands.
- 10 Following this assessment, the Authority approved a number of internal reviews including a fire cover review, a review of the retained duty system (on-call crews) and a training review to ensure firefighter safety. These reviews are ongoing, although the budget proposals for 2023/24 build on the initial assessments including developing capacity and addressing health and safety issues.
- 11 The budget setting proposals were set out to Members in the report to the Authority on 17 October 2022. The budget proposals set out in this report ensure a strategic approach is taken towards financial planning and funding to support achievement of the Authority's objectives.

DRAFT REVENUE BUDGET 2023/24

- 12 Detailed budget planning work has been undertaken and the key planning assumptions, risks and uncertainties are outlined in Appendix 1.
- 13 The planning process has confirmed a net expenditure requirement for 2023/24 of £44.72m which is a year on year increase of £5.30m.

£'m	2022/23	2023/24	Increase
Salaries	28.20	31.76	3.26
Non-pay (net of income)	11.21	12.95	2.04
Total	39.41	44.71	5.30

- 14 The table below provides a reconciliation between the 2022/23 revenue budget and the proposed budget for 2023/24. The contribution from each constituent authority is detailed within appendix 4.

	£'000
2022/23 budget	39,410
Original pay assumption (per MTFP)	500
Pay awards above planning assumptions	1,700
Increased training provision	350
Increase in operational resilience	520
Corporate resilience and capacity	100
Business Fire Safety	100
Energy costs	890
Interest rate increases	600
Capital charges relating to land purchase	150
Other inflationary pressures	394
2023/24 budget requirement	44,714

15 Employee pay costs are in excess of 70% of net expenditure and the draft budget for 2023/24 is £31.76m. Due to outstanding pay negotiations and pay inflation the Authority is facing unavoidable additional commitments and this remains an area of significant uncertainty. The current planning assumption is that the 2022/23 pay claim is settled at 5%, and the pay award for 2023/24 is 5% for all staff. As national pay awards have not yet been finalised this remains a significant planning risk. Work continues to ensure the careful management of employee costs, including the continued management of variable pay.

16 A breakdown of the employee costs is provided below which confirms that over 78% of costs relate to employees working in service delivery roles.

Staffing Budget Analysis	2023/24 £'m	2024/25 £'m	2025/26 £'m
Response Services	22.229	23.068	23.852
Protection and Prevention Services	2.414	2.514	2.612
Corporate Services	7.114	7.358	7.618
Staffing Budget Requirement	31.757	32.940	34.082

17 Employer pension contributions for firefighters increased during 2019/20 following the 2016 revaluation by the Government Actuary's Department. The Welsh Government provided initial support and a decision on the longer-term position has not yet been finalised. The provision of support for 2023/24 onwards has not yet been concluded and this represents a risk of £1.1m. At this time, the budget assumption, following discussions with Welsh Government, is that the same level of funding will be received.

18 As part of the budget setting process, budget holders submitted departmental plans detailing their expected non-pay expenditure. The specific risks within each budget heading were considered resulting in a proposed budget for supplies, services and third-party payments of £12.95m.

19 This reflects the unavoidable cost pressures that are being experienced across all areas of non-pay. In particular it was noted in the report to the Authority on 17 October that energy cost pressures of £0.9m are being experienced and Government support is only guaranteed until 31 March 2022.

- 20 The requirement for the public sector to achieve net zero by 2030 has required a review of the energy efficiency of the estate and the level of vehicle emissions. Although a specific budget has not been allocated to energy reduction strategies, all procurement includes actions to reduce the Authority's carbon footprint.
- 21 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. A number of rises in the Bank of England base rates have been experienced during 2022/23 and borrowing rates are now 5.2%. This is a significant variance to the historically low rates experienced for a number of years and the capital financing budget has been increased by £0.866m to reflect the deteriorating position. Interest costs of £0.15m have been factored into the budget for 2023/24 in respect of a potential land purchase. This scheme will be subject to separate approval by Members.
- 22 The economic uncertainty arising from global supply chain issues and high inflation will be carefully monitored throughout the financial year. However, these create significant uncertainty and risks which may require budget allocations to be revised between budget headings to address changing priorities.

DRAFT CAPITAL PLAN 2023/24

- 23 The draft capital plan is outlined within Appendix 3 and proposes a capital requirement of £6.53m for 2023/24. The main element of the plan relates to the potential purchase of land to accommodate the new Training Centre and the essential investment in new fire appliances.
- 24 The plan includes a rollover of funding from 2022/23 of £0.375m, which relates to the replacement of existing training towers which are end of life. The tenders in relation to these works are currently being evaluated.
- 25 Only building schemes that can safely be completed in the current climate have been included in the plan. This will remain under review before funding is released.
- 26 Work is ongoing to reduce carbon emissions including the use of more environmentally friendly vehicles. Several electric and hybrid vehicles have been leased for duty officers, to replace diesel leased vehicles. Leasing currently remains the most cost-effective method of procurement, for these types of vehicles, and enables the Fleet Department to review their suitability and performance and take advantage of the latest technology.

- 27 The future capital expenditure includes provision for a new Training Centre to replace the existing arrangements. The provision of training has been identified by the Fire Advisory for Wales as a key area of focus and the current arrangements are not sustainable in the medium to longer term. The project is currently in the initiation phase and whilst financial provision has been made within the medium-term financial plan, the detailed proposals will be subject to separate approval arrangements. The initial capital estimates are included within Appendix 3.
- 28 The capital expenditure will have a consequential impact on the capital financing charges in future financial years which have been included within the medium-term financial plan detailed within Appendix 2.

MEDIUM TERM FINANCIAL STRATEGY 2026/26 (MTFS)

- 29 The draft MTFS is provided within Appendix 2 and is an assessment of the costs associated with maintaining the current level of service provision. Employee related expenditure remains the main cost driver and the medium-term financial strategy is based on a planning assumption of a 5% pay award for 2023/24, reducing to 3% over the remaining planning period.
- 30 The key risks and uncertainties relating to the MTFS are outlined in appendix 1. The current planning assumption for the MTFS is that grant funding for the Airwave project will continue and the additional pension costs arising from the 2016 Government Actuary Department (GAD) valuation of the firefighters' pension scheme will continue to be centrally funded.
- 31 Capital expenditure in future years continues to be in relation to the replacement of fire appliances and special vehicles, as well as the replacement of ICT systems. The MTFS also includes provisional costs associated with purchasing land, and the building of a new Training Centre, noting that this will be subject to separate approval and affordability calculations.

CONSTITUENT AUTHORITY CONTRIBUTIONS

- 32 The proposed constituent Authority contributions are documented in Appendix 4.

IMPLICATIONS

Wellbeing Objectives	The budget enables the Authority to achieve its long-term well-being objectives.
Budget	The current estimate of the year on year increase in local authority contributions for 2023/24 is £2.34m.
Legal	The Fire and Rescue Authority has a legal duty to set a balanced revenue budget.
Staffing	None
Equalities/ Human Rights/Welsh Language	None
Risks and Uncertainties	<p>The draft budget has been risk assessed and the following key risks noted:</p> <ul style="list-style-type: none"> • the budget is based on an assumption that pay awards will be 5%. National agreements have not yet been reached; • the planning assumption is that Welsh Government support for the increase in firefighters' pensions will continue. If this is not supported there is a risk of £1.1m; • the planning assumption is that Welsh Government funding of £0.4m will continue in respect of the national emergency service network (Airwave grant); • the Authority plans to continue to develop an Environmental Strategy during 2023/24. An assessment of costs has not yet been made; and • the uncertainty surrounding general inflation and supply chain shortages remain and no additional costs have been factored into the 2023/24 budget.

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
Employee costs	<ul style="list-style-type: none"> • The staffing budgets are formulated on existing service delivery models and updated to address the risks identified within the Chief Fire Officer's 2021 situational assessment. This includes additional provision to address the training needs of staff and to ensure that operational and corporate capacity is maintained. • The initial planning assessment presented to members in December 2021 assumed national pay awards of 2%. This assessment is no longer valid and significant provision is required to address 2022/23 pay awards (not yet finalised for firefighters) and 2023/24 awards. The budget proposals assume that the firefighter pay dispute for 2022/23 is settled at 5%. A provisional estimate of 5% for 2023/24 has also been included. • The increase of 1.25% in national insurance contributions applicable from April 2022 has now been reversed following the outcome of the September 2022 mini budget. • It is assumed that the increases to the employer pension contribution rates arising from the last Government Actuary's Department valuation will continue to be grant funded by the Welsh Government. 	<ul style="list-style-type: none"> • The National Joint Council (NJC) has not yet reached agreement on the firefighter pay award for 2022/23, although settlements above the budget provision are anticipated at the time of writing this report. Provision has been made for the recurring costs of a 5% settlement for 2022/23. • The National Joint Council (NJC) for Local Government Services reached agreement on the pay award for staff on LGPS contracts for 2022/23. This was above the original planning assessment for 2022/23 and has resulted in a recurring budget pressure. • 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 Welsh Government has not yet confirmed that the grant to support the increase in employer contributions for the firefighter pension scheme will continue at its current level of £1.1m. • In December 2018, the government lost its appeal to the legal challenge of the transitional pension arrangements for firefighters. The remedy will apply across the public sector pension schemes. The financial outcome is unknown and no provision has been made.

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
	<ul style="list-style-type: none"> Following the public inquiry into the Grenfell disaster the Fire Safety Act (2021) has introduced changes to building regulations. The budget proposals will reflect revised staffing and training for staff to ensure that the Authority is able to respond to these changes. 	<ul style="list-style-type: none"> The pension scheme for staff employed on local government terms and conditions is subject to a four-yearly valuation. The latest valuation is being finalised and will take effect from April 2023. It is not known whether this will impact on the employer contributions and this remains a risk at this time. The pension scheme for firefighters is subject to a four-yearly valuation. The results inform the employee and employer contribution rates which are set by the Welsh Government. The next valuation outcome will be applicable from April 2024 and is expected to increase employer contribution rates from their current level of 27.3% of pensionable pay. Although this will not impact on the 2023/24 financial year it remains a key risk and uncertainty over the medium-term planning cycle.
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 and updated to reflect imperatives arising from the Chief Fire Officer's situational assessment. The demands on the non-pay budget are further exacerbated by the inflationary impact and supply chain issues. 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 cost pressures can be quantified these have been separately identified and included (e.g. energy) 	<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 is a known cost pressure and current planning assumptions include an increase of £0.9m from the initial assessment in the medium-term financial plan.

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
		<ul style="list-style-type: none"> • The national procurement of an Emergency Services Network is progressing but significant delays are being experienced. The existing contract has been extended and the Authority currently receives £0.4m from the Welsh Government towards the provision of the existing service. The assumption is that the current revenue support will continue although this has not yet been confirmed. • Although the Authority continues to work towards reducing its carbon footprint detailed plans have not yet been formalised. This work will progress during 2023/24 and no specific budget provision has been included.
Capital Financing	<ul style="list-style-type: none"> • The capital financing requirement for 2023/24 is influenced by historical capital expenditure, the need to borrow for the 2023/24 capital programme and the impact of interest rate increases. 	<ul style="list-style-type: none"> • The increase in interest rates is a key risk area given the economic uncertainty at this time. Further financial modelling will be undertaken to assess the sensitivity of the Authority's financial position and performance to further increases in interest rates and reported as part of the budget setting.
Income	<ul style="list-style-type: none"> • Income budgets have been reviewed and set in line with previous years. 	<ul style="list-style-type: none"> • No specific risks have been identified over and above the grant income from the Welsh Government referenced within this report.

Appendix 2 Medium Term Financial Strategy 2023/2026 – Revenue

	2022/23 Budget £m	2022/23 Projection £m	2023/24 Budget £m	2024/5 Budget £m	2025/6 Budget £m
Employee pay costs	30.120	31.553	31.757	32.940	34.082
Other employee costs			1.907	1.817	1.820
Total Employee Costs	30.120	31.553	33.664	34.758	35.903
Increase in Employee Costs			0.118	0.032	0.033
Premises	2.901	3.896	3.237	3.357	3.529
Transport	1.204	1.204	1.239	1.177	1.154
Supplies, Services and 3rd Party	5.370	5.842	5.831	6.285	5.856
Total Non-Pay Expenditure	9.475	10.942	10.307	10.818	10.539
Increase in Non Pay Expenditure			0.088	0.050	- 0.026
Fees and Charges/Misc. Income	- 0.277	- 0.303	- 0.262	- 0.271	- 0.280
Grant Income	- 2.179	- 2.179	- 2.124	- 2.124	- 2.124
Total Income	- 2.456	- 2.482	- 2.385	- 2.395	- 2.404
Capital Financing and Interest Charges	2.263	2.513	3.129	4.670	6.936
Utilisation of Reserves and Provisions		- 3.124			
Budget requirement	39.402	39.402	44.714	47.851	50.974
Increase in Budget			13.48%	7.02%	6.53%

Appendix 3 Medium Term Financial Strategy 2023/2026 – Capital

Scheme	2023/24 £m	2023/24 £m	2024/25 £m
Command and Control System Upgrade	0.600	0.500	
New Training Centre	3.000	25.000	20.000
Fire Appliance Replacement	1.430	1.400	3.550
Multi-Purpose Station Vans	0.189	0.513	0.608
Fleet Workshop Vans		0.201	
Specialist Vehicles	0.150	0.260	
Specialist Equipment		0.500	0.500
Fleet - new fall arrest system	0.100		
ICT Hardware		0.785	
Training Tower Replacement	0.250	0.250	0.250
Buildings - Minor Works	0.813	0.750	0.750
Total 2023/24	6.532	30.159	25.658
Rollover - Training Towers	0.375		
Total Rollover from 2022/23	0.375		
Total: Capital Plan	6.907	30.159	25.658

Appendix 4 – Constituent Local Authority Contributions 2023/24

Authority	2022/2023 Contribution £	Population	Apportionment %	2023/24 Budget Requirement £	Increase £
Anglesey Council	3,915,486	69,842	10%	4,434,413	518,927
Gwynedd Council	7,017,885	125,539	18%	7,970,731	952,846
Conwy County Borough Council	6,631,214	118,625	17%	7,531,747	900,533
Denbighshire County Council	5,381,432	96,198	14%	6,107,810	726,379
Flintshire County Council	8,813,821	157,626	22%	10,008,001	1,194,181
Wrexham County Borough Council	7,652,042	136,419	19%	8,661,525	1,009,483
Total	39,411,879	704,249	100%	44,714,228	5,302,349