



AGENDA ITEM: 9

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

6 June 2016

FINANCIAL PERFORMANCE 2015-2016

Report by Dawn Docx, Interim Treasurer

Purpose of Report

- 1 This report is to provide Members with a review of the financial performance of the Authority for 2015-16.
- 2 The Audit Committee has been tasked with ensuring effective scrutiny of financial reports and based on their findings make recommendations to the Fire and Rescue Authority.

Introduction

- 3 This report details the financial activity for the year 2015-16 to ensure Members are kept up to date with regards to the financial position of the Authority.
- 4 The first part of the report reviews the revenue expenditure for 2015-16 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 of which can be found in Appendix D.

Background

- 5 Members agreed that the priority when setting the budget was to maintain the current level of service provision 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.
- 6 The unavoidable budgetary pressures for 2015-16 were £750k and Members agreed to implement a number of options that would produce savings without impacting on service delivery. The budget increase was approved at £337k but in order to reduce the impact on the constituent authorities this was reduced to £114k, a 0.36% increase on the previous year. It was agreed that the additional one off funding to cover the shortfall of £223k would be met from reserves.

Revenue Activity

Employees

- 7 A large proportion of Fire and Rescue Service expenditure relates to pay; 70% for 2015-16. One of the savings options presented was to reduce operational manager posts which has been achieved within the year with no impact on service delivery following a restructuring exercise to use the available resources more efficiently.
- 8 The majority of the underspend on pay relates to retained firefighters, £568k. Members have been made aware of the difficulties of recruiting firefighters to work the retained duty system and despite a recruitment drive the establishment is still less than budgeted which has resulted in savings on retaining and drill fees. To mitigate the impact the Service has employed a number of WDS rural firefighters to provide cover on retained and wholetime stations as and when required.

- 9 The new WDS rural firefighters are contracted to work for a minimum of 21 hours per week, with the original expectation that they would work on average 30 hours a week. However, there has been an increased requirement for the WDS rural firefighters to provide cover on wholetime stations due to retirement and to cover maternity leave. This has been required whilst seeking to recruit and train new firefighters. In order to provide this cover the WDS rural firefighters have been working up to 42 hours a week. The additional hours and the new posts have resulted in an estimated overspend against the original budget; the additional costs are covered by savings on the RDS and wholetime firefighter budgets.
- 10 The wholetime firefighters budget is showing an underspend of £276k against the original budget. As firefighters have left or retired there has been a time delay between their departure and the recruitment of replacement firefighters. As mentioned above this cover has been provided by WDS rural firefighters.
- 11 The underspend on the chief officers budget relates to the currently vacant Assistant Chief Fire Officer post.
- 12 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.
- 13 The staff training budget is overspent due to additional pressures following the recruitment of 10 apprentices and the co-responding pilot. The recruitment of additional staff has also meant that advertising costs have exceeded the original budget.
- 14 The overspend on the engineering craftsmen budget is due to the employment of an apprentice mechanic, so the Service has the additional resources to undertake more vehicle maintenance in-house.

Premises

- 15 The repair and maintenance budget is 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. It has also been prudent to write off the costs for the re-location of Conwy Court, this accounts for £60k of the overspend.
- 16 Energy costs have increased significantly over the years and, in order to reduce consumption and costs, measures have been put in place which are overseen by an energy monitoring officer (a post shared with North Wales Police). The measures have resulted in energy costs coming in under budget and lower than the expenditure incurred for the previous year (£30k lower than last year).
- 17 There has also been an increase in the use of cleaning materials following the employment of contractors to carry out the cleaning on fire stations and the cost of refuse collection has increased.

Transport

- 18 Overall the transport budget is underspent by £159k. The overspend on the repair and maintenance budget is due to an increase in tooling works which has necessitated the purchase of additional equipment. More work is being undertaken in-house but there has been a cross-over period where it has been necessary to use external contractors to ensure the work is completed within the deadlines set. The additional costs are offset against savings on fuel and travelling expenses due to lower fuel prices and less travelling following the changes to the delivery of home safety checks.

Supplies

- 19 The Authority has purchased new uniform and operational equipment under the NIC all-Wales uniform procurement framework and, as such, some items have been purchased in advance in order to achieve savings on procurement. This has resulted in an overspend of £25k on uniform and £25k on operational equipment.

- 20 The overspend on computer costs is mainly due to the additional costs associated with the new national contract for a radio communications system. Members will be aware of the project from the paper presented to the Executive Panel on the 20 July 2015. In this paper the details of this UK wide communications project were explained, along with the potential for significant risks to the Authority. Last year Members agreed to set aside £300k to cover some of the additional costs of the transition to the new system. However, the additional costs in-year have been funded from the revenue budget. It would be prudent to retain the earmarked reserve to cover further costs that will be incurred on the project.
- 21 The underspend on communication costs is due to lower costs of the mobile phone contract, landlines and communications hardware.
- 22 Conference and subsistence expenses is overspent due partly to the accounting treatment for the Rhyl community fire station (RCFS), which is set up as a trading account. Any excess of expenditure over income is then charged to the revenue account. This year it is £2k. There has been an increase in the eligibility for subsistence claims due to the additional distances travelled and hours worked by firefighters providing cover for rural stations.
- 23 Bank charges have increased significantly due to the increased use of short term loans to fund the capital programme. The use of short term market loans has resulted in significant savings on interest payments but in order to secure these loans it is necessary to incur some brokerage fees.
- 24 Expenditure on corporate communications is higher than budget due to the increased cost of translation by the outside agencies employed to cover for staff on maternity leave.
- 25 Expenditure on special projects such as the 'Joint Emergency Services Group' (JESG), NIC initiatives, national operational guidance programme and the co-responding pilot is overspent by £78k. The overspend is primarily due to the costs associated with the co-responding pilot. This is a new initiative so no budget was

allocated during the budget setting process as the costs at this time were unknown. Due to underspends elsewhere these costs have been accommodated within the overall budget.

Agency

- 26 The cost to the Authority for building cleaning has increased as a cleaning contract has been let to clean all stations. Previously, cleaning at some RDS stations was carried out by RDS firefighters who were paid an allowance to undertake these duties. Part of the additional costs have been met by savings on cleaning allowances.

Capital Financing

- 27 The debt charges associated with the capital programme are less than the original budget due to the use of short term borrowing in lieu of Public Works Loan Board (PWLB) loans and the re-scheduling of the capital programme for building works in 2014/15. The capital charges for repayment of debt are less than the budget as the budget was set based on the outturn position as at December 2014. Lower interest costs have also been achieved by 'internally borrowing', where reserves and balances have been used to fund the programme rather than taking out new borrowings.

Income

- 28 Overall income is higher than the original budget. A refund of £34k has been received due to changes in the tax allowances for operating leases. This relates to former leases held by the Authority. Additional income has also been received for funded posts to work with two local authorities in North Wales. The income for special service calls has increased due to the re-charge to the Trunk Road Agency for a major incident attended by the Service in March 2016.
- 29 Interest on balances was less than the original budget due to the low interest rates and the use of reserves and balances to fund the capital programme.

Underspend

- 30 In order to reduce costs in future years it was agreed to fund some of the capital expenditure on short term assets through a contribution from revenue, in particular light vehicles and equipment for fleet. The savings realised will be on debt repayment and borrowing costs. Members agreed at the March meeting of the Fire and Rescue Authority to use any underspends to fund the capital programme. This amounted to £641,158 for 2015-16.
- 31 The original budget included a contribution from reserves of £223k. Due to the overall position, it will not be a requirement at this time to use that reserve.

Earmarked Reserves

- 32 The balance on earmarked reserves as at 31 March 2016 has not changed. These reserves will be carried over to the next financial year as they will still be required. The major schemes to be funded are detailed below.
- 33 A report was presented to the Executive Panel on the 27 October 2014 informing Members of the potential risks associated with the new national contract for radio communication. Some of the project costs have been funded from the revenue budget in 2015-16. However, as the project is still ongoing, it is necessary to have funding available to cover the risk of the Service incurring additional costs as previously reported to Members in the following areas:-
- a. If the timescales for transition are not met it may be necessary to extend the current contract which could be significantly more expensive.
 - b. The current system is partially funded by a grant from the Welsh Government and it is not guaranteed that this will continue.
- 34 Members agreed to set aside £300k to cover any additional costs. This reserve will be carried forward as part of earmarked reserves.

- 35 An earmarked reserve was set up last year following the Welsh Government's decision to reduce the grant for home safety checks. Funding for 2016-17 has reduced by 50% and it is not known if funding will continue after this year. It is, therefore, prudent to carry over this reserve to fund expenditure going forward.

General Reserves

- 36 A reserve is defined as 'a voluntary action by the Authority to set resources aside for future schemes'. The Authority held £1,817k in a general reserve as at 1 April 2015 and, due to effective budget management, has not had to use this reserve to fund expenditure in 2015-16.
- 37 Following a review of the provisions held by the Authority the majority of these funds have been transferred in to the general reserve. This is discussed in more detail below. As a result of this the general reserve has increased by £863k and the balance as at 31 March 20016 is £2,680k.
- 38 It is prudent for the Authority to hold a general reserve to cover any contingent liabilities that may arise and assist in future planning to mitigate budget increases.

Capital Reserve

- 39 The capital reserve was set up to be used to finance the capital programme when it is most advantageous to do so in that the savings made by reducing debt charges for future budgets is maximised. This year, £340k has been used to finance the capital programme to reduce future debt charges.

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'. Details of the provisions and changes to those provisions 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 from the revenue budget. The original provision was set at £269k but, following a review, this has now been reduced to £100k. The provision will be used to cover the Authority's contribution to the pension fund for ill-health retirements. It is expected that the majority of the ill-health lump sum payments will now be covered by the pension scheme as a larger majority of RDS firefighters are now members of the pension scheme so it is no longer a requirement to hold such a large provision.
- 42 The bulk of the settlement of the back pay for retained firefighters was made during 2012-13 (£505k). Payments were still being made in 2013-14 and there were some claims in 2014-15. There has been no movement on the provision in 2015-16 so the assumption is that all liabilities have now been met. The balance has therefore been transferred to the general reserve.
- 43 A provision of £667k was set up for RDS retrospective pension claims to cover the employer's contribution into the scheme for all personnel that took advantage of backdating their pensionable service. However, central government has now decided that the additional costs to the fire and rescue services will be met in future years by a change to the employer's contribution following an actuarial review. Increases to the employer's contribution to the pension scheme will be implemented in 2017-18. Due to the change in funding it is no longer a requirement to hold this provision and the balance has been transferred into the general reserve.

Grant Funded Schemes

- 44 The Authority has received funding for a number of schemes, mainly from the Welsh Government; the total funding received is £1.84m. Members will be aware of the benefits to the community created by these schemes including the Phoenix scheme, installation of free smoke alarms, and the Arson Reduction Team. A comprehensive list of these schemes is detailed in Appendix C.

Capital Activity

- 45 The original capital budget was set in December 2014 and was based on new spend and rollovers from previous years.
- 46 Following the closure of the accounts for 2014-15, the capital budget for 2015-16 was revised to incorporate any schemes that had been rescheduled from 2014-15. The budget was then increased by £1.38m to £12.18m.
- 47 The budget for planned maintenance and minor building works was underspent as some smaller items of capital spend were transferred to revenue for the reasons explained in paragraph 14 above.
- 48 A number of major projects on fire stations were completed, or neared completion, in 2015-16, i.e. Wrexham, Tywyn, Nefyn and Deeside. All works were completed within budget or close to the revised budget set. Appendix D details actual expenditure against budget.
- 49 The expenditure on light vehicles was higher than the budget set due to the additional vehicles required for the WDS Rural firefighters. The additional spend had been reported to Members previously and the additional capital financing costs will be offset by revenue funding.
- 50 In 2015-16, in order to reduce future capital financing costs, £340k of the capital reserve and £641k of the revenue underspend have been utilised.

RECOMMENDATIONS

- 51 That Members note:-
- (i) the previous decision to part-fund the capital programme from revenue as detailed on page 3 of Appendix A;
 - (ii) the transfers between reserves and provisions as detailed in Appendix B.