Mae'r ddogfen hon ar gael yn Gymraeg

AWDURDOD TÂN AC ACHUB GOGLEDD CYMRU

NORTH WALES FIRE AND RESCUE AUTHORITY

A meeting of the **NORTH WALES FIRE AND RESCUE AUTHORITY** will be held **MONDAY 16 JANUARY 2023** at 09:30hrs virtually **via Zoom**.

Yours faithfully,
Gareth Owens
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. **Minutes of meeting held on 17 October 2022**

5. **Matters Arising**

6. **Chair's Report**

7. **Financial Outturn 202223**

8. **Medium Term Financial Strategy 2023/26 and Budget 2023/24**

9. **Capital Strategy and Treasury Management**

10. **Introduction to the Role of Audit Wales – Euros Lake, Audit Wales**

11. **Carbon Emissions Reduction Report – Audit Wales**

12. **Biodiversity Report for Approval**

13. **Improvement and Well-being Plan**

14. **Manchester Arena Inquiry**

15. Chief Fire and Rescue Advisor’s Thematic Review into Operational Training

16. 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.

17. Industrial Action Update

NORTH WALES FIRE AND RESCUE AUTHORITY

Minutes of the meeting of North Wales Fire and Rescue Authority held on Monday 17 October 2022 virtually via Zoom. Meeting commenced at 10.00am.

Councillor	**Representing**
Dylan Rees (Chair)	Anglesey County Council
Bryan Apsley	Wrexham County Borough Council
Marion Bateman	Flintshire County Council
Carol Beard	Conwy County Borough Council
Brian Blakeley	Denbighshire County Council
Tina Claydon	Flintshire County Council
Chrissy Gee	Flintshire County Council
John Brynmor Hughes	Cyngor Gwynedd
Marc Jones	Wrexham County Borough Council
Gwynfor Owen	Cyngor Gwynedd
Arwyn Herald Roberts	Cyngor Gwynedd
Austin Roberts	Conwy County Borough Council
Gareth A Roberts	Cyngor Gwynedd
Rondo Roberts	Wrexham County Borough Council
Dale Selvester	Flintshire County Council
Rob Triggs	Cyngor Gwynedd
Mark Young	Denbighshire County Council

Also present:

Dawn Docx	Chief Fire Officer
Stewart Forshaw	Deputy Chief Fire Officer
Richard Fairhead	Assistant Chief Fire Officer
Helen MacArthur	Assistant Chief Fire Officer
Stuart Millington	Assistant Chief Fire Officer
Shân Morris	Assistant Chief Officer
Dafydd Edwards	Treasurer
Gareth Owens	Clerk and Monitoring Officer
Lisa Allington	Executive Assistant
Helen Howard	Head of Finance and Procurement
Tracey Williams	Head of Corporate Communications
Steve Morris	ICT Technical Manager
Mike Whiteley	Audit Wales

1 **APOLOGIES**

Councillor	**Representing**
Neil Coverley	Conwy County Borough Council
Paul Cunningham (Deputy Chair)	Flintshire County Council
Alan Hughes	Denbighshire County Council
Chris Hughes	Conwy County Borough Council
Beverley Parry-Jones	Wrexham County Borough Council
Paul Rogers	Wrexham County Borough Council
Nigel Smith	Conwy County Borough Council

ABSENT

Councillor	Representing
Adele Davies-Cooke	Flintshire County Council
Jeff Evans	Anglesey County Council
Gareth Sandilands	Denbighshire County Council
Ken Taylor	Anglesey County Council

2 DECLARATIONS OF INTEREST

2.1 Cllr. Rob Triggs declared an interest in Item 16 (Part II) and would therefore be leaving the meeting prior to that item.

3 NOTICE OF URGENT MATTERS

3.1 There was no notice of urgent matters.

4 MINUTES OF THE MEETING HELD ON 20 JUNE 2022

4.1 The minutes of the meeting held on 20 June 2022 were submitted for approval.

4.2 **RESOLVED to approve the minutes as a true and correct record of the meetings held.**

5 MATTERS ARISING

5.1 6.1 Wild Fires – ACFO Millington confirmed that, following incidents that had taken place in the early part of the year, a Wild Fire review had been carried out. The recommendations arising from this review with regards to equipment and kit were being worked through by the Service Leadership Team.

5.2 7.4 (ii) - it was noted that the meeting of the Executive Panel diarised for 19 September did not take place due to the funeral service for the Monarch.

6 CHAIR'S REPORT

6.1 It was noted that a written report had been supplied for this meeting to provide Members with information on the meetings and events attended by the Chair and Deputy Chair of the Authority in their official capacities between June and October 2022.

6.2 The Chair highlighted the area of the report that noted the visits to various fire stations alongside the Deputy Chair. These visits had been valuable and had been positively received by staff. The visit to Deeside Fire Station had been postponed due to illness but that visit would take place in due course.

6.3 The Chair raised one item not included in the report, this being the funeral of Michelle Corbett-Jones, a serving member of the North Wales Fire and Rescue Service (the Service) who had died suddenly on 22 September. Michelle had been held in very high regard by her colleagues and it had been poignant to attend the ceremony.

6.4 **RESOLVED to note the information provided.**

7 FINANCIAL OUTTURN 2022-23

7.1 ACFO MacArthur presented the Financial Outturn 2022-23 report which provided members with an update on the revenue and capital expenditure position for 2022/23, as at 31 August 2022.

7.2 Members were advised that any forward-looking financial report given at this time should be regarded with caution given the uncertain economic and financial times.

7.3 At the end of 2021/22 a number of deferred items of expenditure had been carried forward and placed into earmarked reserves. In addition, the pay negotiations for 2022/23 had not yet been settled and would create a recurring cost pressure. The overall position was that expenditure would exceed budget but cost pressures from the 2022/23 financial year would be managed by using reserves rather than applying an additional levy on local authorities.

7.4 The overview of spend by type and the projected year end position was noted. A growing area of concern related to capital finance charges which included the cost of borrowing. The significant increase in interest rates in recent weeks would need to be monitored closely.

7.5 The Service was congratulated in being prudent in building up reserves.

7.6 It was noted that the biggest variance was in staffing costs. In December 2021, the estimate had been a 2% uplift for the pay award but since then there had been an offer of 5%. This would mean the budget setting process for 2023-24 will have to be more prudent as the reserves will have been depleted due to the 2022-23 pay award.

7.7 **RESOLVED 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.**

8 ENERGY CONTRACT RENEWAL

8.1 ACFO MacArthur presented the Energy Contract Renewal report, which provided Members with an update on the energy contracts for the supply of gas and electricity across the estate of North Wales Fire and Rescue Authority (the Authority).

8.2 ACFO MacArthur was congratulated on the actions that had been taken in order to obtain the best possible deal.

8.3 **RESOLVED to note the:**

- **(i) contractual arrangements for the purchase of gas and electricity; and**
- **(ii) associated risk and cost implications from 1 October 2022.**

9 NEW TRAINING CENTRE

9.1 DCFO Forshaw presented the report on the new training centre which detailed the work undertaken to date on the production of a detailed business case for the option of a new training and development centre for the Service. This would enable better service delivery and ensure firefighter safety for at least the next 25 years.

9.2 The opportunity was provided for Members to ask questions following the presentation and it was noted that a new training and development centre would help to fulfil the eight core competency areas for firefighters.

9.3 It was agreed that inter-agency training and the hire of the facility out to other fire and rescue services and emergency services would be seriously considered.

9.4 **RESOLVED to:**

- **(i) note the content of the report;**
- **(ii) authorise release of expenditure up to a maximum of £250,000 from reserves to develop the next stage of a detailed business case for the option/s of a new training and development centre for the Service.**

10 BUDGET SETTING 2023-24

10.1 ACFO MacArthur delivered a presentation on Budget Setting which outlined the budget process, planning assumptions and timescales for setting the Fire and Rescue Authority's revenue budget for 2023/24.

10.2 It was noted that 15 January 2023 was the latest date that the budget could be submitted to local authorities. All local authority treasurers have recently been contacted about this draft budget.

10.3 It was highlighted that there had been a great deal of pressure on the 2022/23 budget due to the current economic situation. Pressure on the Fire Authority would result in an increased levy to the local authorities and Members would need to be accountable to their own local authority in order to explain this increase, which could be up to 15%. The possibility of a similar increase in the following financial year was also noted.

10.4 Members were given the opportunity to ask questions in relation to this report and one member felt that it was important that it be publicised that the increase in levy was not down to an overspend, what the public would be receiving for the extra spend and that the Authority would be using reserves in order to alleviate budget pressures for the current financial year.

10.5 The risk of £1.1m in relation to employer pension contributions for firefighters, previously financially supported by the Welsh Government and highlighted in paragraph 15 of the report, was raised and it was confirmed that the position has not yet been confirmed for 2023/24 onwards but that the Welsh Government would be clarifying this in due course. It was asked that it be noted that this could potentially be an additional cost pressure.

10.6 **RESOLVED to:**

(i) note the planning assumptions being used to set the revenue budget for 2023/24; and

(ii) note the proposal to provide initial budget estimates to the Executive Panel at its meeting of 12 December, and to seek approval for the 2023/24 revenue budget by the Authority at its meeting of 16 January 2023.

11 ANNUAL GOVERNANCE STATEMENT

11.1 ACO Morris presented the Annual Governance Statement and Members were asked to note that the draft of this report had already been before the Authority in June. The report presented the revised draft Annual Governance Statement 2021/22 to the Authority for approval.

11.2 It was noted that the changes made since the initial draft report had been issued were listed in Paragraph 12.

11.3 The External Auditor confirmed that they were happy with the amended statement.

11.4 **RESOLVED to:**
- **(i) note the amendments made to the draft Annual Governance Statement 2021/22; and**
- **(ii) approve the revised draft Annual Government Statement 2021/22.**

12 ANNUAL PERFORMANCE ASSESSMENT

12.1 DCFO Forshaw presented the Annual Performance Assessment. This report assessed the performance of the Service during 2021/22 in relation to its progress towards achieving its long-term Improvement and Well-Being Objectives, and medium-term Equality Objectives, along with its compliance with applicable Welsh Language Standards.

12.2 It was noted that this report was very comprehensive and contained many excellent examples of good practice. It was also highlighted that a huge challenge for the Service was the availability of on-call firefighters.

12.3 Congratulations were given on the Service's achievements in regards to the promotion of the Welsh Language. It was asked that statistics be included in the future on the development of Members' Welsh language skills and the support offered to them.

12.4 **RESOLVED to:**
- **(i) approve the draft assessment of the Authority's performance in 2021/22 (subject to minor additions and corrections if required) for publication on the Authority's website by 30/09/2022; and**
- (ii) **note the Service's intention to publish a simple summary version of the key elements of the assessment report.**

13 **STATEMENT OF ACCOUNTS 2021-22**

13.1 The Treasurer, Dafydd Edwards, presented to Members the audited Statement of Accounts for 2021/22. The report also presented the findings of the Auditor General for Wales which confirmed an unqualified audit opinion.

13.2 The Treasurer asked for his thanks to be given to ACFO MacArthur, Helen Howard, Head of Finance and representatives from Audit Wales for all of the work that had gone into these papers.

13.3 It was noted that paragraph 12 outlined the changes requested by Audit Wales.

13.4 **RESOLVED to:**

(i) note the audited outturn position and performance as detailed within the 2021/22 Statement of Accounts (Appendix 1);

(ii) note the report of the Auditor General for Wales which confirms an unqualified audit opinion (Appendix 2);

(iii) note the proposed letter of representation; and

(iv) approve the final audited 2021/22 Statement of Accounts.

14 COVID-19 INQUIRY PREPARATION

14.1 ACO Morris gave a presentation on the Covid-19 Inquiry Preparation paper which had been compiled in order to inform Members of work being undertaken by the Service to collate and archive evidence of the Service's preparations and response to the COVID-19 pandemic. It was noted that this item was for information purposes.

14.2 **RESOLVED to note the information contained in the report.**

15 URGENT MATTERS

15.1 There were no urgent matters to discuss.

At the end of Part I of the agenda, Cllr. Rob Triggs left the meeting and it was then agreed to move into Part II of the meeting.

16 FIREFIGHTER PAY NEGOTIATION AND POTENTIAL INDUSTRIAL ACTION

16.1 The CFO presented the report which updated Members of the progress regarding national pay negotiations, the potential for industrial action and the business continuity arrangements being put in place.

16.2 Since the report had been written, a further unconditional pay offer of 5% had been made. The FBU had decided to ballot members as to whether to accept this, with the recommendation that it be rejected. Any industrial action may now take place in late December.

16.3 Members were asked to note that this was a fast-moving situation which would have significant implications for fire cover across North Wales. Members were assured that they will be regularly updated with regards to this situation.

16.4 RESOLVED to note the report.

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 6**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Not applicable**
Contact Officer	**Members Services** (members.services@northwalesfire.gov.wales)
Subject	**Chair's Report**

PURPOSE OF REPORT

1 This report provides Members with information on the meetings and events attended by the Chair and Deputy Chair of the Authority in their official capacities between October 2022 and January 2023.

EXECUTIVE SUMMARY

2 The Chair and/or Deputy Chair have attended several meetings and events, both internally and externally on behalf of the Authority.

RECOMMENDATION

3 That Members note the information provided.

OBSERVATIONS FROM EXECUTIVE PANEL/AUDIT COMMITTEE

4 This report has not previously been considered.

INFORMATION

5 In addition to the Authority-related meetings, the Chair and Deputy Chair have met with the Chief Fire Officer (CFO) on a regular basis. They have also met with FBU representatives prior to the Executive meeting held on the 12 December 2022.

6 On the 17 October, the Deputy Chair attended the presentation of certificates for completion of the Phoenix course held at Denbigh Fire Station.

7 On 19 October, the Chair met with Llinos Morris, the Service's Voluntary Chaplain, to learn more about her role.

8 On the 21 October, the Chair represented the Authority at a meeting of the North Wales Regional Partnership Board.

9 The postponed Fire Service Awards Ceremony was held on the 27 October and the Chair participated in the presentation of awards. The Deputy Chair also attended.

10 On the 31 October, the Chair, Deputy Chair and the CFO attended a virtual meeting with the other Welsh Chairs/Deputy Chairs and CFOs to discuss recent correspondence received from the Deputy Minister.

11 On the 11 November, the Deputy Chair attended the presentation of certificates for completion of the Phoenix course held at Flint Fire Station. He was accompanied by the Mayor of Flint – Councillor Michelle Perfect.

12 On 17 November, the Chair, Deputy Chair, CFO and other members of the Authority attended the funeral of former Authority Member Councillor Brian Blakeley.

13 On the 21 November, the Chair and the Deputy Chair were interviewed via Zoom by members of the Wales Audit Office to discuss the review into 'Reducing False Alarms'.

14 On the 22 November, the Deputy Chair attended a retirement presentation at Flint Fire Station for Station Manager Tommy Probert. Also present was the CFO and the Mayor of Flint – Councillor Michelle Perfect.

15 On the 23 November, the Chairs and Deputy Chairs of the Authority met with the Clerk and the Chair of the Standards Committee.

16 On the 28 November, the Chair, Deputy Chair and the CFO attended a virtual meeting of the Fire & Rescue Panel of the WLGA together with the other Welsh Chairs/Deputy Chairs and CFO's.

17 On the 2 December, the Chair attended the switching on of the Christmas Lights in Llangefni and met with the local crew who were participating in the event.

18 On 5 December, the Deputy Chair attended the Combined Emergency Services Christmas Carol Service held at St Asaph Cathedral.

19 On Christmas Day the Chair visited Caernarfon, Bangor and Holyhead Fire Stations to meet with the crews on duty.

20 Since the last report the Chair has also engaged in correspondence with the Deputy Minister for Social Partnership on the following subjects:

- the Chief Fire and Rescue Adviser's Thematic Review into training;
- the independent culture review of London Fire Brigade; and
- arrangements for the inaugural meeting of the Social Partnership Forum for Fire and Rescue Services.

IMPLICATIONS

Wellbeing Objectives	Not relevant.
Budget	Any costs associated with meetings and events attended by members are reimbursed from the travel and subsistence budget.
Legal	No specific implications arise from approving the recommendation.
Staffing	No specific implications arise from approving the recommendation.
Equalities/Human Rights/ Welsh Language	No specific implications arise from approving the recommendation.
Risks	No specific risks arise from approving the recommendation.

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 7**

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 is 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 wholetime 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 wholetime 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.

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 8**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Dafydd Edwards, Authority Treasurer**
Contact Officer	**Helen MacArthur, Assistant Chief Fire Officer (Finance and Resources)**
Subject	**Medium Term Financial Strategy 2023/26 and Budget 2023/24**

PURPOSE OF REPORT

1 To approve the final 2023/24 revenue budget and relevant levies on constituent authorities, to approve the final 2023/24 capital budget, and to note the Medium-Term Financial Strategy (MTFS) 2023/26. The report presents three options, further to consultation with Members, and sets out the significant risks and uncertainties faced at this time.

EXECUTIVE SUMMARY

2 The North Wales Fire and Rescue Authority (the Authority) is required to set a balanced budget each financial year and confirm contribution figures to each constituent authority by the 16 February 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) note the planning work undertaken to reduce the budget requirement for 2023/24, including associated risks and uncertainties;
(ii) to approve the Authority's revenue budget for 2023/24, in accordance with the officers' recommendation with a total budget requirement of £44.7m (Option 2, +11.85%), or a total budget requirement of £43.31m (Option 3) with service changes bringing the increase down to 9.9% further to consultation with Members;
(iii) to approve the levies on billing authorities, based on an average increase in contributions from constituent authorities of £4.7m (11.85%) or £3.9m (+9.9%), in addition to the Pension Grant Contributions to be transferred into Councils' final RSG settlement, as set out in Appendix 4;
(iv) to approve the Authority's capital budget for 2023/24, as set out in Appendix 3; and
(v) endorse the Medium-Term Financial Strategy.

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 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.

8 The initial budget assessment indicated a budget requirement of £44.7m (+13.5%) and was presented to members of the Audit Committee and Executive Panel on the 12 December 2022. Members noted the assessment and requested further reductions.

9 An update was presented to the member planning meeting held on 3 January 2023. This noted further cost pressures of £0.4m arising from changes to grants received from the Welsh Government, and also a revised requirement of £44.081m (+11.85%). Members requested proposals to further reduce the budget requirement including changes to service provision.

BACKGROUND

10 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**.**

11 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.

12 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.

13 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.

14 Given the significant budget challenges and financial constraints being experienced it has been necessary to identify measures to further reduce the budget requirement. The scope for efficiency savings is limited given the scale of budget reductions over the last 15 years. The budget proposals set out in this paper include residual risks and uncertainties and measures which impact on service provision.

DRAFT REVENUE BUDGET 2023/24

15 Detailed budget planning work has been undertaken and the key planning assumptions, risks and uncertainties are outlined in Appendix 1. Following presentation of the initial planning assessment to Members on 12 December 2023 a revised budget requirement was presented to Member at the planning meeting on the 3 January 2023. At the request of Members, further work has been undertaken to put forward proposals for further reductions to the budget requirement, recognising that this will impact on service delivery. Accordingly, this paper sets out three options for Members. The contributions from each constituent local authority for each option are set out in Appendix 4.

Option	Presented to Members	£'m	Year on year increase %
1	12th December 2023	44.71	13.5
2	3rd January 2023	44.08	11.8
3	16th January 2023	43.31	9.9

Option 1

16 The planning assessment presented to Members on 12 December 2022 confirmed a net expenditure requirement for 2023/24 of £44.71m which is a year on year increase of £5.30m. This assessment included work undertaken across all expenditure headings to defer lower priority expenditure and remove items considered to be discretionary in nature.

£'m	2022/23	2023/24	Increase
Salaries	28.20	31.76	3.56
Non-pay (net of income)	11.21	12.95	1.74
Total	**39.41**	**44.71**	**5.3**

17 The table below provides a reconciliation between the 2022/23 revenue budget and the initial proposed budget for 2023/24.

	£'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 assessment	**44,714**

Option 2

18 A further planning meeting took place with Members on 3 January 2023 to review a revised budget proposal. This included the management of a further cost pressure arising from the removal of Welsh Government support of £0.4m in relation to the national emergency services network.

19 At this meeting, a revised estimate of £44.081m (+11.8%) was presented which included the use of reserves to mitigate the impact of the grant reduction. Other measures included reducing the planning assessment of pay awards during 2023/24 to 4% and a commitment to identify a further £0.2m within payroll costs.

20 Members noted the position and asked for further proposals which could be implemented in 2023/24 in order to bring the increase down to 9.9%.

Option 3

21 To achieve the year on year increase of £3.9m (+9.9%) it is necessary to reduce the original planning assessment by £1.4m and absorb the impact of £0.4m following the grant reduction. Given the budget reductions over the last 15 years, the opportunity for efficiency savings are limited and these measures will impact on service delivery and the corporate capacity during 2023/24.

22 Capping expenditure for 2023/24 at £4.31m will impact on service provision and corporate capacity. Further reductions would necessitate permanent structural changes for which detailed planning assessments and public consultation are required and cannot be implemented prior to 2024/25. A fire cover review is currently in progress and the findings will be considered by the Authority during April 2023. This will enable permanent structural changes to service delivery models which can be fully risk assessed and subject to public consultation during the Summer of 2023.

23 The table below contains proposals for reducing the budget to £43.31m (+9.9%). These proposals include measures that will impact on both service provision and corporate capacity. A full reconciliation between the original budget assessment of £44.71m (Option 1) and the option of capping expenditure at £43.31m (Option 3) is provided within Appendix 5.

Proposal	£'000	Risk
Prior to public consultation, pilot a maximum response time of 35 mins.	-300	The current standard is a maximum travel time of 30 mins. Extending the response time will increase the severity of fires, due to taking longer to attend. It will reduce the number of crews available across North Wales from 20 to 18 during daytime and 28 during night time.
Reduce the number of Home safety support workers from 14 to 11, reducing the number of Home safety Checks and advice from 20,000 per year to 17,500 per year	-100	An increase in domestic fires amongst the most vulnerable people in our communities

Defer the purchase of the wild fire personal protective clothing until 2024/25	-200	The health and safety recommendations from this year's debrief of wild fires will be deferred. North Wales is the only FRS in Wales without this PPE.
Continue to increase recruitment to vacancies on on-call stations but limit this to a net increase of 20 firefighters	-168	Continue with the challenge and cost of backfilling on-call stations to make them available to respond to risks in their area
Net 2023/24 budget requirement	**43,313**	**9.9% increase**

Overview of expenditure headings.

24 Employee pay costs exceed 70% of net expenditure. 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 4% for all staff. A two-year deal may be secured, but national pay awards have not yet been finalised, so this remains a significant planning risk. Work continues to ensure the careful management of employee costs, including the continued management of variable pay.

25 A breakdown of the employee costs (option 3) is provided below which confirms that over 89% of costs relate to employees working in service delivery roles.

Staffing Budget Analysis	2023/24 £'m	2024/25 £'m	2025/26 £'m
Response Services	24.661	25.974	26.846
Protection and Prevention Services	2.670	2.879	2.994
Corporate Services	3.061	3.354	3.486
Staffing Budget Requirement	**30.392**	**32.207**	**33.326**

26 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 of £1.1m paid directly to the Authority. The provision of support for 2023/24 has been confirmed, although this will be paid to local authorities via their Welsh Government final RSG settlement. This is in addition to the local authorities' draft settlement announcement on 13 December 2022, and if this sum is included in the Authority's levy, the impact will be cost-neutral for the local authorities.

27 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 the initial budget assessment for supplies, services and third-party payments of £13.04m. Since that time, the situation has deteriorated further as the Welsh Government has confirmed that the withdrawal of the grant of £0.4m to support costs associated with the emergency service network. These costs are essential and therefore this reflects a further cost pressure.

28 The unavoidable cost pressures that are being experienced across most areas of non-pay are common across the public sector. In particular, it was noted in the report to the Authority on 17 October 2022 that energy cost pressures of £0.9m are being experienced and Government support is only guaranteed until 31 March 2023.

29 The requirement for the public sector to achieve a net zero carbon footprint by 2030 has required a review of the energy efficiency of the Authority's 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.

30 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 to reflect the deteriorating position. Provisional 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.

31 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

32 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.

33 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.

34 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.

35 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.

36 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 Advisor for Wales as a key area of focus and the current arrangements are not sustainable in the medium to longer term. The initial capital estimates are included within Appendix 3 and ensure that the MTFP includes the potential impact but this does not constitute approval, and the figures are currently based on the worst-case scenario. 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 detailed analysis and approval arrangements including the affordability assessment.

37 The capital expenditure will have a consequential impact on the revenue budget in future financial years. Relevant capital financing charges have been included within the medium-term financial plan detailed within Appendix 2.

MEDIUM TERM FINANCIAL STRATEGY 2023/26 (MTFS)

38 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 4% pay award for 2023/24, reducing to 3% over the remaining planning period.

39 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 additional pension costs arising from the 2016 Government Actuary Department (GAD) valuation of the firefighters' pension scheme will continue to be centrally funded.

40 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

41 The proposed constituent Authority contributions are documented in Appendix 4 and provide the levy for each of the options outlined in this paper.

42 A further amount is due (to be included in the levy) in respect of the changes to the funding flows relating to the Pension Grant, although this will be cost-neutral for the local authorities.

IMPLICATIONS

Wellbeing Objectives	The budget enables the Authority to achieve its long-term well-being objectives.
Budget	The proposals set out in this report confirm three options for the revenue budget for 2023/24. Option 3 includes measures which would impact on both service delivery and corporate capacity.
Legal	The Authority has a legal duty to set a balanced revenue budget. Aligned to this the Authority must also comply with other legal duties including appropriate legal practices. Therefore, any structural changes will obligate the Authority to undertake appropriate staff consultation
Staffing	Each of the options set out in this report require careful management of staff expenditure. Option 2 includes measures to identify savings in existing staff budgets which may impact on staff workloads and capacity. Option 3 includes further proposals to implement further reductions in staff costs which will impact on both corporate capacity and service delivery.
Equalities/ Human Rights/Welsh Language	None

Risks and Uncertainties	The draft budget has been risk assessed and the following key risks noted: • A year on year increase of 9.9% has been achieved following measures which impact on the provision of services and corporate capacity; • the budget is based on an assumption that pay awards will be 5% for 2022/23 and 4% for 2023/24. National agreements have not yet been reached and this remains a key risk; • the planning assumption is that Welsh Government support for the increase in firefighters' pensions will continue. It has been confirmed that this will remain in place for 2023/24 but funded via the constituent local authorities (via the revenue support grant); • the original planning assumption was that Welsh Government funding of £0.4m would continue in respect of the national emergency service network. The Welsh Government has now withdrawn this grant support and this is now a cost pressure; • 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	• 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 4% 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.	• 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 pay awards for 2023/24 have not yet been finalised and the current planning assumption includes an increase of 4%. This is an area of uncertainty and risk. In the event that costs exceed the planning assumption then a supplemental levy may be required. • The budget planning assumes normal levels of activity. If spate conditions occur, budget pressures will be experienced.

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
	• 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. • 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.	• The Welsh Government has 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. However, this will no longer be paid directly to the Authority but instead the funding will be issued to constituent local authorities in addition to their existing funding (cost neutral to local authorities). • 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. • 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.

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
		• 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	• 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)	• 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. • 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 has historically received £0.4m from the Welsh Government towards the provision of the existing service. The initial assumption was that the revenue support will continue but the Welsh Government withdrew this on 14 December 2022.

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
		• 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	• 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.	• 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	• Income budgets have been reviewed and set in line with previous years.	• 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*	30.130	31.167	30.392	32.207	33.326
Other employee costs			1.432	1.342	1.345
Total Employee Costs	**30.130**	**31.167**	**31.824**	**33.549**	**34.671**
Increase in Employee Costs			**5.62%**	**5.42%**	**3.34%**
Premises	2.901	4.084	3.470	3.605	3.790
Transport	1.204	1.263	1.239	1.177	1.154
Supplies, Services and 3rd Party	5.370	5.871	5.676	6.350	6.081
Total Non-Pay Expenditure	**9.475**	**11.218**	**10.384**	**11.132**	**11.025**
Increase in Non-Pay Expenditure			**9.60%**	**7.20%**	**-0.96%**
Fees and Charges/Misc. Income	- 0.277	- 0.303	- 0.262	- 0.271	- 0.280
Grant Income	- 2.179	- 2.179	- 0.682	- 0.682	- 0.682
SCAPE Grant received by LA's in the RSG			- 1.080	- 1.080	- 1.080
Total Income	**- 2.456**	**- 2.482**	**- 2.024**	**- 2.033**	**- 2.042**
Capital Financing and Interest Charges	**2.263**	**2.513**	**3.130**	**4.670**	**6.936**
Utilisation of Reserves and Provisions		- 3.004			
Budget requirement	**39.412**	**39.412**	**43.314**	**47.318**	**50.590**
Increase in Budget			**9.90%**	**9.24%**	**6.92%**

* includes the pension costs associated with the SCAPE Grant

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 Option 1 (13.5%)	2023/24 Budget Requirement Option 2 (11.85%)	2023/24 Budget Requirement Option 3 (9.9%)	2023/24 Pension Grant Contributions paid into RSG
Anglesey Council	3,915,486	69,842	9.92%	4,434,413	4,371,637	4,295,515	107,106
Gwynedd Council	7,017,885	125,539	17.83%	7,970,731	7,857,893	7,721,066	192,520
Conwy County Borough Council	6,631,214	118,625	16.84%	7,531,747	7,425,123	7,295,832	181,917
Denbighshire County Council	5,381,432	96,198	13.66%	6,107,810	6,021,345	5,916,497	147,524
Flintshire County Council	8,813,821	157,626	22.38%	10,008,001	9,866,322	9,694,523	241,728
Wrexham County Borough Council	7,652,042	136,419	19.37%	8,661,525	8,538,907	8,390,222	209,205
Total	**39,411,879**	**704,249**	**100%**	**44,714,228**	**44,081,228**	**43,313,655**	**1,080,000**
Pension Grant	1,080,000			1,080,000	1,080,000	1,080,000	
Gross	**40,491,879**			**45,794,228**	**45,161,228**	**44,393,655**	

Appendix 5 – Reconciliation of options

	£'000	Assumptions
2022/23 budget	**39,410**	
Original pay assumption in MTFP	500	2% for 2022/23 and 2% for 2023/24
Pay awards above planning assumptions	1,700	5% for 2022/23 (already rejected by the FBU) and 5% for 2023/24
Energy costs	890	No governmental support 2023/24
Interest rate increases	600	On existing borrowings used to fund past replacement fire engines and buildings. (No capital is provided for FRAs)
Capital charges relating to land purchase	150	**If** the FRA approves the business case for the new real-fire training centre, this is to provide for purchasing the site in 2023/24
Increase in operational resilience	520	Strengthening of RDS capacity, five additional firefighter posts to address anticipated retirements, CPD payments and associated PPE for wildfires
Business Fire Safety	100	Additional regulation as a result of Grenfell Inquiry requires two extra posts to work with local authority inspectors to scrutinise plans and building work

Increased training provision	350	Two Crew Manager posts to ensure training is delivered to national standards and to pay part-time (RDS) firefighters to train at week-ends
Corporate resilience and capacity	100	Corporate planning officer, digital engagement officer and pension officer
Other inflationary pressures	394	
2023/24 budget requirement	**44,714**	**13.50%**
Welsh Government removal of grant towards running national communication system - Airwave	400	No emergency service can move away from Airwave until a nationally procured replacement is provided in 2027
Welsh Government removal of pension grant	1,080	Provided to compensate for Treasury's decision to reduce the SCAPE rate
Corporate and operational resilience and capacity	-200	Opportunity to combine some roles and delayed recruitment
Reduce pay assumptions	-333	Possible two-year settlement based upon 5% and 4%
Underpinning from reserves	-500	This defers the increase for 12 months
Pension grant moved into RSG	-1,080	
Net 2023/24 budget requirement	**44,081**	**11.85% increase**

Proposal		**Risk**
Prior to public consultation, pilot a maximum response time of 35 mins.	-300	The current standard is a maximum travel time of 30 mins. Extending the response time will increase the severity of fires, due to taking longer to attend. It will reduce the number of crews available across North Wales from 20 to 18 during daytime and 28 during night time.

Reduce the number of Home safety support workers from 14 to 11, reducing the number of Home safety Checks and advice from 20,000 per year to 17,500 per year	-100	An increase in domestic fires amongst the most vulnerable people in our communities
Defer the purchase of the wild fire personal protective clothing until 2024/25	-200	The health and safety recommendations from this year's debrief of wild fires will be deferred. North Wales is the only FRS in Wales without this PPE.
Continue to increase recruitment to vacancies on on-call stations but limit this to a net increase of 20 firefighters	-168	Continue with the challenge and cost of backfilling on-call stations to make them available to respond to risks in their area
Net 2023/24 budget requirement	**43,314**	**9.9% increase**

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 9**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard – Head of Finance**
Subject	**Capital and Treasury Management Update**

PURPOSE OF REPORT

1 The purpose of this report is to:

i. Provide Members with an update on the treasury management activity for 2022/23; and
ii. present to members the proposed Capital Strategy and Treasury Management Strategy (the Strategies) incorporating the Minimum Revenue Statement for the period April 2023 – March 2024.

EXECUTIVE SUMMARY

2 The development of capital and treasury management strategies is the best practice approach to the longer-term planning of capital expenditure and funding. These Strategies provide an overview of the planned future capital expenditure, capital financing and treasury management activity necessary to achieve the objectives of the North Wales Fire and Rescue Authority (the Authority).

3 The Authority should also ensure that the revenue implications are fully considered and capital expenditure and financing decisions are financially sustainable. The Minimum Revenue Provision (MRP) Statement sets out the revenue consequences of the current capital planning assessments.

4 The Strategies also provide assurances on how associated risks are managed and the implications for future financial sustainability. They provide a summary of the overall processes and procedures that govern the purchase and financing of assets in order to enhance members' understanding of these, sometimes technical, areas.

5 These Strategies have been developed in conjunction with the draft revenue and capital budgets for 2023/24 and the Medium-Term Financial Plan.

OBSERVATIONS FROM THE AUDIT COMMITTEE

6 The Audit Committee considered the appendices contained within this report at its meeting of the 12 December 2022. The Audit Committee noted the content of the report but was unable to endorse the Capital and Treasury Management Strategies or Minimum Revenue Provision (MRP) Statement as the capital budget for 2023/24 remained in draft form at that time.

RECOMMENDATIONS

7 Members are asked to:

i. note the mid-year position for the treasury management activities for 2022/23;
ii. approve the Capital and Treasury Management Strategies and the Minimum Revenue Provision Statement for 2023/24, subject to any amendments necessary, following approval of the final revenue and capital budgets for 2023/24; and
iii. in the event of amendments to the draft revenue and capital budgets for 2023/24 delegate approval of these Strategies and MRP Statement to the Executive Panel at its meeting of 20 March 2023.

BACKGROUND

5 The Authority is required to approve the Treasury Management and Capital Strategies and the Minimum Revenue Provision Statement prior to the commencement of the financial year.

INFORMATION

6 Appendix 1 to this report confirms the capital and treasury management activity for the period 1 April 2022 – 30 September 2022. A full year update will be provided to the Authority at its meeting in July 2023.

7 The Capital and Treasury Management Strategies and the Minimum Revenue Provision Statement are contained within Appendices 2 – 4. The capital expenditure and subsequent borrowing requirements contained within the appendices include the proposed capital expenditure set out in the draft capital and revenue budgets for 2023/24. In the event that the revenue and capital budgets for 2023/24 require further revision, it will be necessary to amend the strategies and MRP Statement.

8 The Capital Strategy sets out the future plans for the Authority's capital expenditure and funding requirements and is laid out in Appendix 2 of this report. It is noted that future plans include major investment in a new training centre for the provision of essential training to our staff. This scheme will be developed over the forthcoming year and will be presented to Members at a future Authority meeting. The business case will include the financial implications, including the governance and long-term affordability of the proposals

9 The Treasury Management Strategy (the Strategy) is contained within Appendix 3 and provides an overview of the Authority's approach to borrowing to fund the capital expenditure plans. The Strategy also incorporates the approach to the management of investments, although Members should note that this incorporates the management of short-term surplus cash only.

10 The Minimum Revenue Provision Statement provides further commentary on the revenue implications of capital expenditure and funding plans and is set out within Appendix 4.

11 These documents are technical in nature and follow the recommended practice set out by the Chartered Institute of Public Finance (Cipfa). Although they are presented as separate documents they provide the governance arrangements covering capital expenditure, financing and the associated treasury management activity.

12 The Authority is supported through the use of professional advisors, Arlingclose, who provide advice and guidance in relation to treasury management activities.

IMPLICATIONS

Wellbeing Objectives	This report links to the Authority's long-term well-being objectives by ensuring that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. The Capital Strategy is designed to ensure that there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	The strategies link to the revenue and capital budget setting which considers longer term affordability
Legal	The regulatory framework is set out in the appendices to the report.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	The reports set out the financial risks associated with borrowing and investment activities.

Treasury Management Outturn Report 2022/23 (Appendix 1)

Introduction

In December 2003 the North Wales Fire and Rescue Authority (the Authority) adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2022/23 was approved at a meeting on 16 January 2022. As the Authority has borrowed substantial sums of money to fund its capital expenditure, it is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect, although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish, which the Authority has elected to do.

Treasury risk management at the Authority is conducted within the framework of the TM Code. This Code now also includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

External Context

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so, given ongoing strong rhetoric around tackling inflation, further Bank Rate rises should be expected.

On 23 September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.
Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor, but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review:

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local Context

On 31st March 2022, the Authority had net borrowing of £24.5m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.22 Actual £m
General Fund CFR	28.4
External borrowing	24.5
Internal borrowing	3.9
Less: Balance Sheet Resources	-6.4
Less: New Investments	2.5
New borrowing	**0**

* finance leases form part of the Authority's total debt

The treasury management position on 30 September 2022 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.22 Balance £m	**Movement £m**	**30.9.22 Balance £m**	**30.9.22 Rate %**
Long-term borrowing	10.76	3.00	13.76	1.87 – 4.90
Short-term borrowing	13.67	(4.05)	9.62	1.30 – 2.00
Total borrowing	**24.43**	**(1.05)**	**23.38**	
Long-term investments	0	0	0	
Short-term investments	0	0	0	
Cash and cash equivalents	(2.53)	(2.20)	(4.73)	*1.75%
Total investments	**(2.53)**	**(2.20)**	**(4.73)**	
Net borrowing	**21.90**	**(3.25)**	**18.65**	

*Only relates to balances held in the call account

Borrowing

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return, and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

Over the April-September period short term PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget', included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period, some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by over 1% for certain maturities. A truly wild and unprecedented period in fixed income markets, with a direct impact on PWLB rates.

Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%

This has meant that the cost of borrowing has rose significantly. Interest costs were expected to be £0.325m for 2022/23, however latest indications suggest costs will increase to £0.825m by the end of this financial year.

At 30 September the Authority held £23.38m of loans, a decrease of £1.05m to 31 March 2022, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30 September are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.22 Balance £m	**Net Movement £m**	**30.9.22 Balance £m**	**30.9.22 Weighted Average Rate %**	**30.9.22 Weighted Average Maturity (years)**
Public Works Loan Board	15.43	1.95	17.38	2.23	5.88
Local authorities (short-term)	9.00	(3.00)	6.00	1.30	1.00
Total borrowing	**24.43**	**(1.05)**	**23.38**		

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
PWLB Maturity Loan	2.3	4.80	29
PWLB EIP Loan	0.2	3.09	14
Total borrowing	**2.5**		

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

Treasury Investment Activity

The CIPFA revised Treasury Management Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £0 and £3m million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.22 Balance £m	Net Movement £m	30.9.22 Balance £m	30.9.22 Income Return %	30.9.22 Weighted Average Maturity days
Banks & building societies	2.53	2.20	4.73	1.75	on call
Total investments	**2.53**	**2.20**	**4.73**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12-month maturities.

The authority uses bank call accounts to deposit cash, for short periods, until it is required.

Treasury Performance
The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget in table 5 below.

Table 5: Performance

	Actual £m	**Forecast £m**	**Budget £m**	**Over/ under**
Minimum Revenue Position	1.93	1.93	1.93	0
Financing Costs	0.29	0.82	0.32	0.50
Total borrowing	**2.22**	**2.75**	**2.25**	**0.50**
Call Account	0.01	0.02	0	0.02
Total treasury investments	**0.01**	**0.02**	**0**	**0.02**

Compliance

The Assistant Chief Fire Officer (Finance and Resources) reports that all treasury management activities undertaken during the six months complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 6: Debt Limits

	30.9.22 Actual £m	**2022/23 Operational Boundary £m**	**2022/23 Authorised Limit**	**Complied?**
Borrowing	23.38	28.99	30.99	Yes
Total debt	**23.38**	**28.99**	**30.99**	

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 7: Investment Limits

Institution	Description	Limit	30.09.22 Actual	Complied
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m	£4.73m	Yes
Central Government	Debt management Office	Unlimited	0	Yes
Money Market Funds (MMF)	Only in conjunction with advice from Arlingclose.	£1m per fund	0	Yes
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992.	£2m	0	Yes
Building Societies	Building societies with a rating (as for the banking sector).	£2m	0	Yes
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1billion or more.	£2m/ 9 months	0	Yes

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. [This indicator covers the risk of replacement loans being unavailable, not interest rate risk.] The upper and lower limits on the maturity structure of all borrowing were:

	30.9.22 Actual	Actual Limit	Upper Limit	Lower Limit	Complied?
Under 12 months	5.11	29%	60%	0%	Y
12 months and within 24 months	1.42	9%	45%	0%	Y
24 months and within 5 years	8.12	47%	45%	0%	N
5 years and within 10 years	0.23	1%	75%	0%	Y
10 years and above	2.30	14%	100%	0%	Y

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26 September 2022 interest rate forecast)

Arlingclose expects Bank Rate to continue at current levels, 5%, until the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

Background:

Monetary policymakers are behind the curve having only raised rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government’s shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government’s plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a “circuit breaker” which stops rates rising much beyond 5.0%, but this remains an uncertainty.

Capital Strategy Report 2023/24 (Appendix 2)

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these, sometimes technical, areas.

Decisions made this year on capital and treasury management will have financial consequences for the North Wales Fire and Rescue Authority (the Authority) for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as land, property, equipment or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Authority is planning capital expenditure of £3.832m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
General Fund services	1.175	2.516	3.832	5.834	5.658
New Training Centre			3.000	25.000	20.000
Total	1.175	2.516	6.832	30.834	25.658

IFRS16 accounting for Leases will be introduced in 2024/25. Work is ongoing to determine the impact of this and therefore leases have not been included in the above figures.

The main General Fund capital projects include minor building works, specialist vehicles, equipment and information technology. Included separately is the potential new training centre. The training centre requires significant investment over the next 3 years, which accounts for the increase in capital expenditure from 2023/24 onwards. The Authority does not incur capital expenditure on investments.

Governance: In September each year, managers submit bids to include projects in the Authority's capital programme. Bids are collated by the Head of Finance who calculates the financing requirement and cost. The Service Leadership Team appraises all bids based on a comparison of strategic priorities against financing costs and makes recommendations for schemes to be included in the capital plan. The final capital programme is then presented to the Executive Panel in December and to the Authority in January each year.

- Full details of the Authority's capital programme are within the MTFP Report

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/22 actual	**2022/23 forecast**	**2023/24 budget ***	**2024/25 budget**	**2025/26 budget**
Capital receipts	0.015	0.015	0	0	0
Revenue resources	0.148	0.165	0	0	0
Debt	1.012	2.336	6.832	30.834	25.658
TOTAL	**1.175**	**2.516**	**6.832**	**30.834**	**25.658**

The above debt includes the new training centre, as detailed in Table 1.

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Minimum revenue provision (MRP)	2.000	1.937	1.999	2.077	3.049
Capital receipts	0.015	0.015	0	0	0
TOTAL	**2.015**	**1.952**	**1.999**	**2.077**	**3.049**

- The Authority's full minimum revenue provision statement is available as part of the Treasury Management Strategy

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £4.833m during 2023/24. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2022 actual	**31.3.2023 forecast**	**31.3.2024 budget***	**31.3.2025 budget ***	**31.3.2026 budget***
General Fund services	28.396	28.999	33.832	62.589	85.198

The above debt includes the new training centre, as detailed in Table 1. It is assumed that this will be fully funded by the Authority.

Asset management: To ensure that capital assets continue to be of long-term use, the Authority is developing an updated asset management strategy.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority is not planning to receive any capital receipts in the coming financial year.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. This includes the management of borrowing to fund capital expenditure as well as the day to day management of revenue cash. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Authority currently has £20.46m borrowing at an average interest rate of 2.23%.

Borrowing strategy: The Authority's main objective when borrowing is to achieve a low but certain cost of finance, while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	**31.3.2023 forecast**	***31.3.2024 budget**	***31.3.2025 budget**	***31.3.2026 budget**
Debt (incl. Finance leases)	24.435	21.960	27.626	55.895	77.285
Capital Financing Requirement	28.396	28.999	33.832	62.589	85.198

*The above debt includes the new training centre, as detailed in Table 1. It is assumed that this will be fully funded by the Authority.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £2m at each year-end. This benchmark is currently £24m and is forecast to rise to £33.3m over the next three years.

The liability benchmark does not include the cost of the potential new training centre. This indicator will be updated if the scheme is approved.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 actual	**31.3.2023 forecast**	**31.3.2024 budget**	**31.3.2025 budget**	**31.3.2026 budget**
Outstanding borrowing	24.5	24.1	21.7	18.3	15.0
Liability benchmark	24.0	24.6	27.1	30.2	33.3

The table shows that the Authority expects to remain borrowed below its liability benchmark.

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2022/23 limit	**2023/24 limit**	**2024/25 limit**	**2025/26 limit**
Authorised limit – borrowing	31.396	30.999	35.832	64.589
Operational boundary – borrowing	28.396	28.999	33.832	62.589

- Further details on borrowing are in the treasury management strategy

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority’s policy on treasury investments is to place short term cash surpluses into bank call accounts until required. The Authority dos not have long term investments. Cash that is likely to be spent in the near term is invested securely, with selected high-quality banks, to minimise the risk of loss.

Risk management: The effective management and control of risk are prime objectives of the Authority’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- The treasury management prudential indicators are included in the treasury management strategy

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Chief Fire Officer (Finance and Resources) and staff, who must act in line with the treasury management strategy approved by the Authority. Reports on treasury management activity are presented to committee. The audit committee is responsible for scrutinising treasury management decisions.

Liabilities

In addition to debt of £24.5m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £328m). It has also set aside £0.737m for provisions to cover specific risks. The Authority is also at risk of having to pay for changes in the regulations relating to firefighter pensions, but has not put aside any money because the remedy is still ongoing.

Governance: Decisions on incurring new discretional liabilities are taken by the Head of Finance in consultation with the Assistant Chief Fire Officer (Finance and Resources). The risk of liabilities crystallising and requiring payment is monitored by the Head of Finance and reported annually to the Authority. New liabilities exceeding £1m are reported to the Authority for notification as appropriate.

- Further details on liabilities are on pages 37 and 60 of the 2021/22 statement of accounts consolidated-nwfra-soa-2021_2022-signed-as-at-17_10_22.pdf (gov.wales)

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from the levy and general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Financing costs (£m)	2.29	2.75	3.1	4.7	6.9
Proportion of net revenue stream	6.3%	7.0%	7.0%	9.8%	13.5%

- Further details on the revenue implications of capital expenditure are detailed within the 2023/24 revenue budget

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The inclusion of the new training centre will be financially challenging due to the scale and cost of the project, which will mean that the Authority will need to borrow significant additional funds over the next 3 years. This will have an impact on the revenue position, which is funded via the levy, over the longer term. Although the high-level financial implications have been calculated and included within the capital and treasury management strategies, for awareness the business case has not yet been considered or approved by the Authority. This will be finalised during 2023/24 and presented to Members for full consideration, including long term affordability.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer, Assistant Chief Fire Officer (Finance and Resources), and Head of Finance and Procurement are qualified accountants with many years' experience. In addition, there is consultation with facilities staff via a Service level Agreement, and the Environment and Climate Change Manager.

Use is also made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Treasury Management Strategy Statement 2023/24 (Appendix 3)

Introduction

Treasury management is the management of the North Wales Fire and Rescue Authority's (the Authority's) cash flows, borrowing and investments, and the associated risks. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

External Context

Economic background:

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

The Authority's treasury management adviser, Arlingclose, forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside, should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new long-term loans will be borrowed at an average rate of 5%.

Local Context

On 30 November 2022, the Authority held £19.46m of borrowing and £1.0m of treasury investments (cash in bank). This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Capital Financing Requirement (CFR) is set out in the table below:

	2021/22 Actual £m	2022/23 Revised £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Opening CFR	29.4	28.4	29.0	33.9	62.6
Closing CFR	28.4	29.0	33.9	62.6	85.2
Movement in CFR	(1.0)	0.6	4.9	28.7	22.6
Movement in CFR represented by					
Net financing need for the year (Capital expenditure)	1.0	2.5	6.9	30.8	25.6
Less MRP/VRP	(2.0)	(1.9)	(2.0)	(2.1)	(3.0)
Movement in CFR	(1.0)	0.6	4.9	28.7	22.6

*These figures include the potential borrowing requirement for a new training centre (expected costs: 2023/24: £3m, 2024/25: £25m, 2025/26: £20m), which is subject to a separate business case.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £85m over the forecast period, which includes £48m for the potential training centre.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2023/24.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This does not include the potential costs of the new training centre as detailed in table 1 above, but that cash and investment balances are kept to a minimum level of £2.0m at each year-end to maintain sufficient liquidity but minimise credit risk.

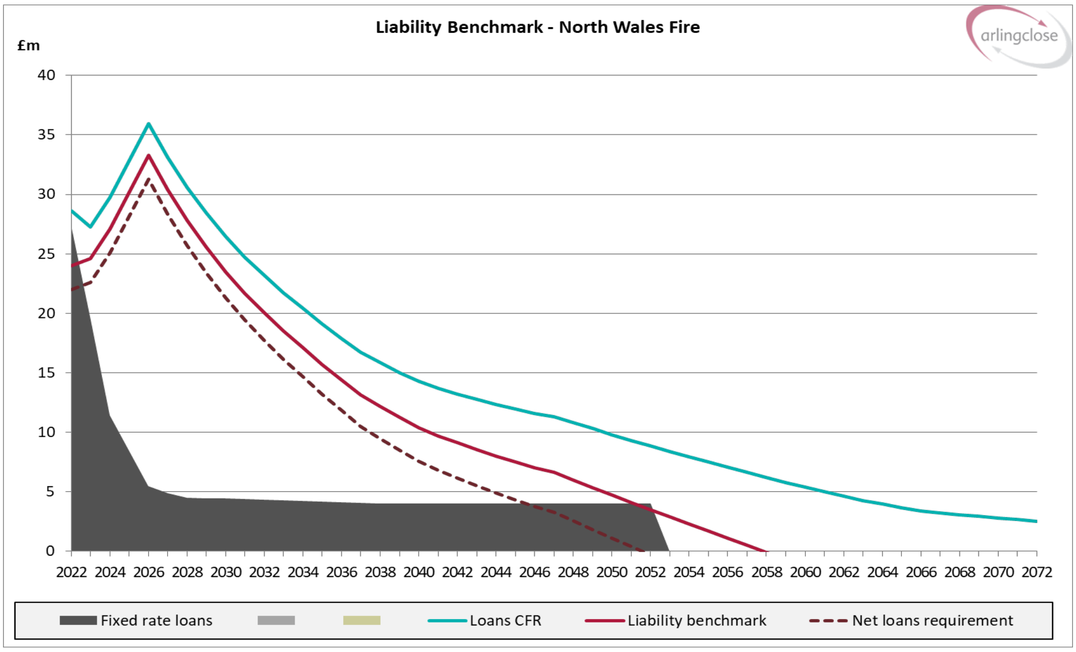
The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

This is the first year the liability benchmark has been calculated and has been devised in association with the treasury advisors. However, it will be developed further throughout the year, to take account of developments that have not been included below. It does not include the cost of borrowing to fund the potential new training centre. This indicator will be updated on an ongoing basis.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	**28.4**	**27.0**	**29.5**	**32.6**	35.7
Less: Balance sheet resources	-6.4	-4.4	-4.4	-4.4	-4.4
Net loans requirement	22.0	22.6	25.1	28.2	31.3
Plus: Liquidity allowance	2.0	2.0	2.0	2.0	2.0
Liability benchmark	**24.0**	**24.6**	**27.1**	**30.2**	**33.3**

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes estimated capital expenditure, not including the cost of the proposed new training centre funded by borrowing, and minimum revenue provision on new capital expenditure based on various asset lives, as per the accounting policies, and is dependent on the asset and income, expenditure and reserves all increasing by inflation of 3% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



The blue line represents the need to fund capital expenditure through borrowing (the Capital Financing Requirement or CFR). The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need. The graph shows the authority is expecting to need to borrow in future years. The Authority will always have a borrowing requirement as it does not hold significant cash or reserves and only has limited access to capital grant funding.

Borrowing Strategy

The Authority currently holds, £19.46m of loans, a reduction of £4.97m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £28.99m in 2023/24. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £30.99m.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the Authority's long-term plans change, is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised all of its long-term borrowing from the PWLB (formerly the Public Works Loan Board) but will consider long-term loans from other sources including banks, pensions and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except your local Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Authority.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The Authority does not hold invested funds. Cash is placed temporarily in a call account until it is required.

Objectives: Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategy: As demonstrated by the liability benchmark above, the Authority does not expect to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Description	Counterparty limit	Sector limit
The UK Government	Debt Management Office	Unlimited	n/a
Local authorities & other government entities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992.	£2m	Unlimited
Banks (unsecured)*	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent).	£5m	Unlimited
Building societies (unsecured) *	Building societies with a rating	£2m	Unlimited
Money Market Funds (MMF)	Only in conjunction with advice from Arlingclose.	£1m	Unlimited

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Liquidity management: The Authority monitors the cash flow on a daily basis and forecasts known income and expenditure in order to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	45%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Government Guidance: Further matters required by the WG Guidance are included in Appendix C.

Financial Implications

The budget for investment income in 2023/24 is nil. The budget for debt interest paid in 2023/24 is £1.2m million, based on an average debt portfolio of £25 million at an average interest rate of 4.6%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2022

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.

- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.

- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.

- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.

- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.

- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.

- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.

- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position

	30 Nov 2022 **Actual portfolio £m**	30 Nov 2022 **Average rate %**
External borrowing:		
Public Works Loan Board	13.46	2.37
Local authorities	6.00	1.30
Total external borrowing	**19.46**	
Total gross external debt	**19.46**	
Treasury investments:		
Banks (unsecured)	1.0	2.25
Net debt	**18.46**	

Annual Minimum Revenue Provision Statement 2023/24 (Appendix 4)

Annual Minimum Revenue Provision Statement 2023/24

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- For capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.

Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31 March 2023, the budget for MRP has been set as follows:

	31.03.2023 Estimated CFR £m	2023/24 Estimated MRP £m
Total General Fund	**29.0**	**2.0**

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 11**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Stuart Millington, Assistant Chief Fire Officer**
Contact Officer	**Stuart Millington, Assistant Chief Fire Officer**
Subject	**Audit Wales – Carbon Emissions Reduction Report**

PURPOSE OF REPORT

1 To provide an overview of the Audit Wales Carbon Emissions Reduction Report following their audit of North Wales Fire and Rescue Authority (the Authority), as well as to describe the progress made in response to their findings.

EXECUTIVE SUMMARY

2 Between November 2021 and January 2022, Audit Wales sought to determine the Authority's progress towards becoming net carbon zero by 2030. Specifically, the question posed was '*Is the Authority making good progress in reducing its carbon emissions and fully contributing to Wales's public sector becoming carbon neutral by 2030?*'

3 Audit Wales determined that, '*It is unlikely that the Authority will meet its statutory obligations and become net carbon zero by 2030, unless there is a step change in performance*'.

4 In order to assist in achieving the necessary step change, Audit Wales made five recommendations which North Wales Fire and Rescue Service (the Service) has been addressing and has made significant progress towards during 2022.

RECOMMENDATION

5 That Members:

(i) Note the content of the report; and
(ii) support the Service as we continue to strive towards achieving net carbon neutrality by 2030.

BACKGROUND

4. In September 2021 the UK Government published a five-year Climate Change Strategy document with targets to achieve net zero carbon emissions by 2050.

5. Wales shares the ambition of achieving net zero status by 2050, with an additional aspiration to achieve net zero status across the public sector by 2030.

6. In Wales, these aspirations are backed by legislation with the Environment (Wales) Act 2016 (as amended) and the subsequent three Climate Change (Wales) Regulations 2021 that describe the necessity for Welsh Government and all public sector partners, including Fire and Rescue Services (FRS), to demonstrate their commitment towards achieving carbon neutrality.

INFORMATION

7. An examination of whether the '*Authority is making good progress in reducing its carbon emissions and fully contributing to Wales's public sector becoming carbon neutral be 2030*' was undertaken between November 2021 and January 2022.

8. In March 2022 Audit Wales determined that, '*It is unlikely that the Authority will meet its statutory obligations and become net carbon zero by 2030, unless there is a step change in performance*'.

9. In order to assist in achieving the necessary step change, Audit Wales made five recommendations. These were that we should:

   - develop an accurate carbon baseline;
   - develop a specific plan for carbon reduction;
   - revise the Vehicle Replacement Programme policy and agree the Authority's strategy for replacing diesel appliances and improving the charging infrastructure across the Service area;
   - engage and involve staff in planning for carbon emissions reduction to ensure that they take ownership of the Authority's plans for improvement and are fully contributing to delivery of key actions; and
   - strengthen how progress in delivering actions to reduce carbon emissions and delivery against Welsh Government targets are progressing and resulting in improvement.

10. At the time of audit, progress towards achieving carbon net zero status was at various different stages of maturity across the public sector, and this was dependent upon the resources or expertise available to each agency.

11. Prior to the audit it was recognised that the Service did not have any subject matter expertise and that it would be necessary to recruit an Environment and Sustainability Manager. The need for this expertise was reinforced further with the Audit Wales findings.

12. In August 2022 a subject matter expert was appointed and significant progress has already been made towards putting the Authority in a far stronger position towards achieving net carbon zero in line with Welsh Government targets.

13. Good progress has been made to gather the correct evidence to provide an accurate carbon baseline, and the drafting of a strategy and action plan for Authority approval is nearing completion. This will be presented to members at the next meeting.

14. Proposals for the reduction and removal of the use of diesel in our vehicles are being considered and there has been a significant investment in 2022 to improve the vehicle charging infrastructure across the Service's estate.

15. A new Environment and Sustainability group that reports to the Land and Property Committee, and which in turn reports to the Service Leadership Team, has been developed and brings together employee representatives from across the Service, improving ownership and reviewing progress and performance.

16. The Environment and Sustainability group that is chaired by the Environment and Sustainability Manager has developed a clear Terms of Reference document and has set improvement targets to put the Authority in the best position to achieve net carbon zero by 2030.

17. Whilst there is still extensive work to be done to achieve our objectives, the Authority has begun this work in earnest and is in a much stronger position today than it was at the time that the audit findings were published.

IMPLICATIONS

Well-being Objectives	Progress towards achieving carbon neutrality is supportive of a more resilient, healthier and globally responsible Wales.
Budget	There will be a cost in achieving carbon neutrality that has to be balanced against the much higher cost of doing nothing. Opportunities to access grant funding have already been successful and both revenue and capital costs are being developed for future financial years as part of the medium-term planning assumptions.
Legal	The Environment (Wales) Act 2016 (as amended) and the subsequent three Climate Change (Wales) Regulations 2021place a legislative responsibility on the Authority to achieve carbon neutrality by 2030
Staffing	The Authority now employs a subject matter expert with extensive experience and qualification in the environment and climate change industry.
Equalities/Human Rights/ Welsh Language	N/A
Risks	The risk of not achieving the required position by 2030 is significantly reduced as the result of a clear direction and draft strategy now being in place.

Archwilio Cymru
Audit Wales

Carbon Emissions Reduction – North Wales Fire and Rescue Authority

Audit year: 2021-22

Date issued: March 2022

Document reference: 2860A2022

This document has been prepared for the internal use of North Wales Fire and Rescue Authority as part of work performed/to be performed in accordance with Section 15 of the Well-being of Future Generations Act (Wales) 2015.

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae’r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

Contents

It is unlikely that the Authority will meet its statutory obligations and become net carbon zero by 2030 unless there is a step change in performance.

Summary report

Summary

What we reviewed and why

1 Human behaviour is a major contributing factor to the long-term shift in average weather patterns. Widely recognised as humanity's biggest challenge, addressing climate change requires individuals, communities, organisations, regions and countries to all play their part. The Paris Agreement, a legally binding treaty on climate change, was adopted in 2015 by 196 parties (including the UK) and reflects an international commitment to achieve the economic and social transformation required to reduce greenhouse gas emissions[1].

2 In Wales, our legislative framework to reduce greenhouse gas emissions was strengthened through the Environment (Wales) Act 2016. The Act sets a legal target of reducing emissions by 95% by 2050 and sets out a system of five-yearly carbon budgets and interim objectives to progress towards this[2]. As part of this, the Welsh Government has committed to achieving a net carbon zero public sector by 2030, and its climate emergency declaration in 2019 reaffirmed its ambition of increasing the pace of change towards a low carbon economy.

3 There is a cost to reducing carbon emissions, but this must be balanced with the much higher cost of doing nothing. The Well-being of Future Generations (Wales) Act 2015 is therefore key to how Welsh public bodies are addressing these challenges. By implementing the sustainable development principle and contributing to the national wellbeing goal of a Globally Responsible Wales, North Wales Fire and Rescue Authority (the Authority) can demonstrate its contribution to addressing the climate emergency.

What we found

4 We undertook the review during the period November 2021 to January 2022. Our review sought to answer the question: 'Is the Authority making good progress in reducing its carbon emissions and fully contributing to Wales's public sector becoming carbon neutral by 2030?' Overall, we found that: **It is unlikely that the Authority will meet its statutory obligations and become net carbon zero by 2030 unless there is a step change in performance**.

5 We reached this conclusion because:

- the Authority does not have an accurate baseline position on all its carbon emissions;
- the Authority does not have a comprehensive plan to reduce its carbon emissions and become net carbon zero;

[1] The Paris Agreement, United Nations Climate Change

[2] Wales' commitment to tackling climate change, Welsh Government

- the Authority has made some progress in some areas but needs a step change in activity to meet Welsh Government targets; and
- the Authority does not have appropriate arrangements in place to monitor and evaluate its progress to becoming net carbon zero.

Recommendations

6 The table below sets out the recommendations that we have identified following this review.

Recommendations
R1 Develop an accurate carbon baseline by: • creating a database to accurately capture all Scope 1, 2 and 3 emissions data; • introducing a collection process to regularly update the baseline; • auditing information in the baseline to ensure it is accurate; • ensuring gaps in information in respect of water metering, the impact of carbon offset work and data on buildings are captured; • ensuring the impact of the pandemic and the switch to more home and agile working are reflected in the carbon baseline.
R2 Develop a specific plan for carbon reduction that sets out the actions that the Authority will take to become net carbon zero and to meet Welsh Government targets covering: • Energy consumption and waste • Estates • Fleet and vehicle infrastructure • Workforce • Procurement and supply chain • Organisational working • Collaboration and partnership • Offsetting

Recommendations	
R3	Revise the Vehicle Replacement Programme policy and agree the Authority's strategy for replacing diesel appliances and improving the charging infrastructure across the Service area. As part of this process the Authority should: • review the notional lifespan of electric and hybrid vehicles to better inform future planning assumptions; • review current capital spending on fleet replacement and electric charging infrastructure to ensure the Authority has sufficient funding set aside to support the transition to a low carbon fleet; and • identify opportunities and introduce reciprocal agreements to access and make the best use of electric charging points owned by the public sector across the North Wales region.
R4	Engage and involve staff in planning for carbon emissions reduction to ensure they take ownership of the Authority's plans for improvement and are fully contributing to delivery of key actions.
R5	Strengthen how progress in delivering actions to reduce carbon emissions and delivery against Welsh Government targets are progressing and resulting in improvement by: • regularly reviewing progress in delivering agreed actions for reducing CO_2e in Authority plans; • comparing performance with others to benchmark and identify opportunities to support improvement; • focussing on reporting and evaluating how the Authority is progressing to becoming net carbon zero by 2030; and • monitoring progress in delivering Welsh Government targets of reducing overall carbon emissions by 63% by 2030; 89% by 2040; and at least 100% (net zero) by 2050.[3]

[3] Climate change targets and carbon budgets, Welsh Government website, November 2021

Detailed report

It is unlikely that the Authority will meet its statutory obligations and become net carbon zero by 2030 unless there is a step change in performance

The Authority does not have an accurate baseline position on all its carbon emissions

7 A carbon baseline is an inventory of sources of carbon emissions from business activities. This is typically a one (or more) year snapshot that serves as a reference point for organisations to understand and track their changing emissions over time. In order to plan and budget for reducing carbon emissions and becoming net carbon zero, public bodies need to confidently understand the extent of their emissions by developing and keeping up to date a carbon baseline. This will then be used as a foundation for a carbon roadmap which can show the pathways that are available to practically meet Welsh Government targets.

8 The Authority has some key information related to activity relating to emission of carbon dioxide (CO_2) and other greenhouse gases (measured in carbon dioxide equivalents or CO_2e). For instance, the Authority reported in 2019-20 that its CO_2e as KW hrs were 1,318,794 for electricity, 2,965,006 for gas and Liquefied Petroleum Gas (LPG), and 18,796 for renewable electricity.

9 This is a helpful starting point, but the Authority acknowledges that the data it has collated is not accurate, being more of a broad estimate which cannot be compared with any accurate carbon baseline. In addition, there are also some gaps. For instance, water metering, estates and measuring and capturing the impact of offsetting activity. Consequently, the Authority does not know how well it is currently performing and what else it needs to do.

10 Historically, the Authority used the Carbon Trust Carbon Footprint Calculator to record CO_2e data[4]. The Authority also participated in the Welsh Government's Public Sector Net Zero Carbon Reporting pilot and Public Sector Route Map for decarbonisation. It is not a mandatory requirement for public bodies to use this method to measure emissions but, overall, the Authority sees it as a helpful framework to support its work.

[4] The Carbon Trust Standard is a certification scheme. Applicants are awarded certification if they meet three sets of criteria relating to carbon measurement, carbon reduction and effectiveness in managing emissions.

11 While the Authority has brought together some data, most recently reported in the Energy Consumption Reduction and Decarbonisation Report in March 2021, this does not cover Scope 3 emissions. The Carbon Trust[5] categorises emissions into three categories or 'Scopes', defined as:

- **Scope 1** – covers direct emissions from owned or controlled sources such as fuel combustion and emissions from fleet;
- **Scope 2** – covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the Authority; and
- **Scope 3** – includes all other indirect emissions that occur in the Authority's procurement, supply and value chain. This would cover for instance purchased goods and services, business travel, employee commuting, waste disposal, use of sold products and investments.

12 The importance of addressing the purchased goods and services element of Scope 3 is underlined by research that shows that these can account for around 60% of an organisation's total CO_2e footprint[6]. Going forward, and in a very short timeframe, the Authority will need to develop a comprehensive recording system to accurately capture and report on Scope 1, 2 and 3 emissions to help it develop its strategy for reducing carbon emissions.

13 The Authority cannot effectively plan or deliver against the decarbonisation agenda without understanding its starting point. Creating a more accurate baseline is therefore a priority for the Authority. However, this will prove challenging given that no single officer is dedicated to managing carbon emissions reduction activity and staff feel they are doing what they can 'on top of the day job'. The Authority has recently appointed a Member Champion for sustainability but lacks a dedicated lead for sustainability. The Authority has recognised this gap and is planning to address it.

The Authority does not have a comprehensive plan to reduce its carbon emissions and become net carbon zero

14 Despite not having an overarching strategy to reduce carbon emissions, the Authority has some wider plans in place. For example, the Authority adopted a Sustainable Development Action Plan in 2008 that ran until 2020. Over this 12-year period the plan aimed to reduce energy and fuel consumption by 60%; greenhouse gas emissions (CO_2e) by 60%; and waste sent to landfill by 75%. However, performance at March 2018 showed that energy and fuel consumption had fallen by 19% and CO_2e by 27%. No information was reported on waste sent to landfill.

[5] https://www.carbontrust.com/resources/briefing-what-are-scope-3-emissions

[6] Welsh Procurement Policy Note WPPN 12/21: Decarbonisation through procurement – Addressing CO_2e in supply chains, Welsh Government, December 2021.

15 Since the conclusion of this plan, the Authority has not developed a dedicated or single plan for carbon reduction. Rather, it has focussed activity on a range of supporting strategies that provide direction on improving sustainability more broadly. For instance, the Improvement and Wellbeing Plan 2020-21 includes an objective to develop ways of becoming more ‘environmentally conscious’ in order to minimise the impact of the Authority’s activity on the environment. Likewise, the Authority undertook a public consultation in 2019 to help shape and develop an Environment and Sustainability Strategy. This work has not progressed given that the Authority’s priority was to respond to the pandemic.

16 Whilst the Improvement and Wellbeing Plan 2020-21 broadly sets out the Authority’s priorities for action, the scale of planned activity falls short of reducing carbon emissions. For example, it focuses on establishing a Strategic Board with responsibility for developing the Authority’s work in this area, commits to exploring opportunities to reduce single use plastics and to identify ways to reduce and make better use of water, waste, energy and fuel. However, we found that too many of the planned actions are at the ‘exploring’ and ‘understanding’ stage rather than meaningful, outcomes-focused actions that support the Authority’s journey to becoming net carbon zero.

17 As a minimum we would expect the Authority to focus on five core areas; the big-ticket items that will make a significant contribution to reducing CO_2e.These are:

- **Buildings** – improving energy efficiency and insulation in buildings, using sustainable materials such as green roofs and water harvesting systems in redevelopment and new build and developing and/or using renewable energy sources such as photovoltaic cells (PVC) and wind turbines on sites.
- **Procurement** – estimating value chain emissions by mapping out the high emission areas of procurement and identifying ways to reduce emissions when procuring goods and services.
- **Fleet** – reviewing current fleet performance, setting thresholds and creating optimised routes for standard travel. Consider alternatives to diesel and petrol vehicles and set out plans to go electric that cover vehicle replacement and charging infrastructure. Updating fleet replacement programmes and ensuring sufficient resources are set aside to meet the increased costs in switching to a low carbon fleet.
- **Land** – delivering carbon offsetting[7] and promoting environmental and biodiversity initiatives.
- **Ways of working** – reviewing operational policies and budgets to ensure carbon emissions are reduced in the way the Authority delivers its services. Using the Authority’s wider influence to encourage others, and its own staff, to reduce carbon emissions in what they do and how they do it.

[7] Carbon offsetting comes from projects that reduce the amount of greenhouse gases entering the atmosphere and soaking up CO_2e directly from the air. They must lead to real reductions or sequestration of carbon which needs to be measured and quantified. To ensure the validity of the projects they must meet rigorous conditions.

18 Importantly, the new Chief Fire Officer, who took up post in the summer of 2021, is bringing fresh impetus to the carbon emissions reduction agenda. In her first 100 days she has completed a root and branch strategic review and identified four core priorities for the future, one of which is improving and prioritising how the Authority will deliver its carbon emissions responsibilities and become net carbon zero by 2030. This leadership is crucial in making the step change needed to tackle this challenging agenda.

19 The engagement of employees in energy and carbon saving is an effective way to motivate staff and successfully achieve the Authority's environmental goals. We found that while staff have a broad understanding of the challenges that need to be addressed in how estates, fleet and energy usage contribute to CO_2e, the majority of those who responded to our survey (63%) did not know the Authority's starting point for reducing CO_2e and whether the Authority had an accurate baseline.

20 Positively, 79% of survey respondents are aware of the Welsh Government target for the public sector to reduce carbon emissions to net zero by 2030. However, fewer than half of survey respondents (46%) are aware of the Authority's priority actions for reducing carbon emissions. Only 26% of those members of staff responding to our survey strongly agreed or agreed that the Authority is measuring progress to reduce carbon emissions. However, only 36.2% were aware of the targets that had been set to reduce carbon emissions and only 15% believe that the Authority will meet Welsh Government targets.

21 The Authority acknowledges that there is more work to do to effectively communicate why carbon emissions reduction is important and the vital contribution individuals can make to helping to promote, lead and deliver the Authority's responsibilities.

The Authority has made some progress in some areas but needs a step change in activity to meet Welsh Government targets

22 Within an organisation, carbon is generated by both people, through their actions, and assets, through their design and use. In order to reduce emissions, it will be necessary for the Authority to target both asset design and behaviour. We found pockets of good work that the Authority is already doing to help it become net carbon zero.

23 For instance, several stations have benefited from investment in energy efficiency measures such as Passive Infrared Sensors, PVCs and electricity generation schemes. The Authority has also completed a window and door replacement programme and roughly 90% of its estate has benefitted from the installation of energy efficient UPVC double glazed windows and doors. In addition, 27 of the 44 stations' appliance bay doors have also been replaced and the Authority has also upgraded boiler systems at many stations and in its headquarters building.

24 The world of fleet has never seen such a period of change and reducing CO_2e from the Authority's fleet is a big priority. We found that the Authority has leased several electric non-operational support vehicles and is piloting these to determine options for becoming fully electric in the future. While this demonstrates the Authority's commitment to reduce emissions from fleet, some significant risks remain, particularly around heavy vehicles, which make up the majority of frontline fire appliances.

25 Due to their specialist nature, these heavy vehicles have long life policies and are more challenging to decarbonise. Switching to alternative models, while theoretically feasible in some locations, has to be balanced with the potential impact on operational capability. It is not always appropriate to move to smaller vehicles if this impinges on the Authority's ability to respond to an emergency.

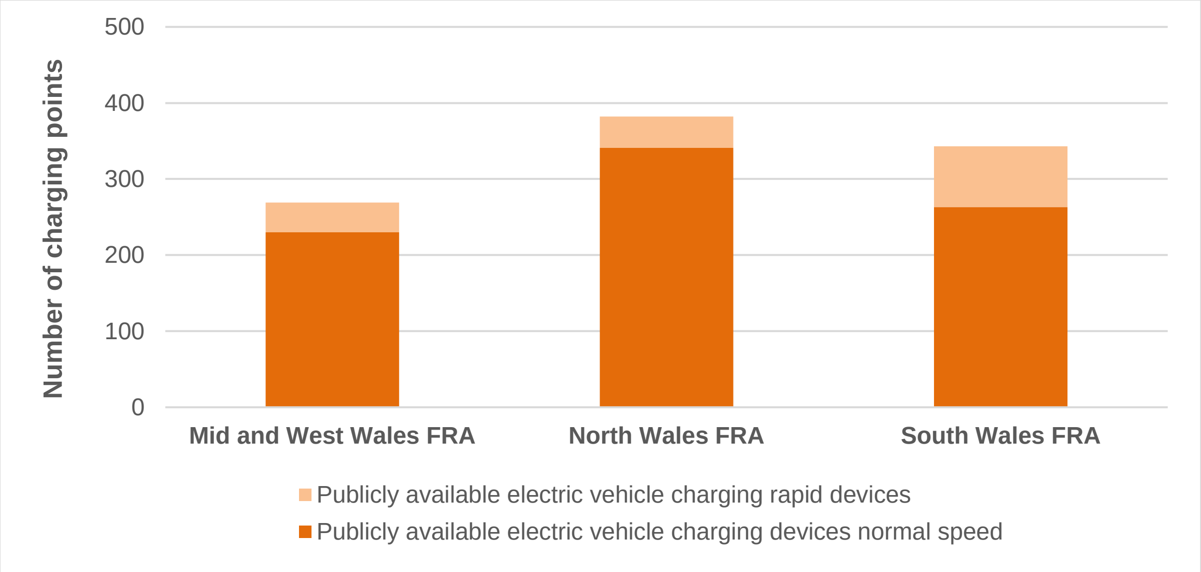
26 There are some significant challenges to overcome in switching to a primarily electric fleet. For instance, through our audit work we understand that there are only two electric fire engines on the market, but they cost in the region of £600,000 per vehicle. This is significantly higher than the amount usually spent on replacing diesel appliances. In addition to having to spend much more on electric vehicles, there is also a likelihood that the electric vehicles will need to be replaced more frequently and the notional 15-year lifespan of a diesel appliance will need to be reduced in future planning assumptions. Hydrogen vehicles, which could offer a workable solution, are in development but are not considered a realistic option at present.

27 To fully realise the potential of electric fleet will also require adequate charging infrastructure across the Authority's area of operation. It is essential that there is a comprehensive and competitive electric vehicle charging network in place. If the charging network is perceived as inadequate, then this will be a major barrier to electric vehicle take-up by all public bodies. The scale of the shift to electric vehicles should not be underestimated. While it is difficult to know precisely how much charging will be needed, UK Government forecasts[8] suggest that at least 10 times more charge points will be needed by 2030 than currently exist.

28 To support this transition requires the Authority to work in partnership with other public sector bodies in its area of operation to make full use of the current charging infrastructure. We found that progress on this has been limited across North Wales to date and much work remains. ONS data shows that in October 2021 across the North Wales region there are 341 publicly available electric vehicle charging devices (all speeds), of which 41 are rapid charging units – **Exhibit 1**.

[8] https://www.gov.uk/government/publications/electric-vehicle-charging-market-study-final-report/final-report

Exhibit 1 – Publicly Available Electric Vehicle charging points by Welsh Fire and Rescue Authority area in October 2021



Source: ONS, Electric vehicle charging device statistics: October 2021

29 Given these challenges, it is unsurprising therefore that our survey of staff found that the main barrier to becoming net carbon zero is the cost of investment required in infrastructure, vehicles, offices and stations. We conclude that without significant investment by the Authority and partners in charging infrastructure and development of alternatives to diesel appliances, the Authority will find it difficult to deliver a net carbon zero fleet.

30 While avoiding and reducing emissions remains the Authority's priority, the ability to achieve Net Zero by 2030 will be extremely difficult without a form of offsetting due to the scale of technology and investment required. Carbon offset schemes allow public bodies to invest in environmental projects in order to balance out their own carbon footprints. The projects are most commonly designed to reduce future emissions and soaking up CO_2e directly from the air through the planting of trees and other biodiversity projects. Some organisations offset their entire carbon footprint while others aim to neutralise the impact of a specific activity.

31 The Authority has not delivered significant offsetting activities to date. A small number of initiatives have been rolled out at the headquarters building and include a butterfly garden, hedgerow and green amenity space for staff. Beyond this however, little work has taken place and there remain opportunities to widen out current approaches. The Authority will also need to ensure it is able to demonstrate the impact of its current initiatives and any additional activity it delivers in its revised baseline.

32 Changing how organisations work, consume products and services that come from natural resources, can measurably reduce CO_2e. We found that the Authority has focused on some good initiatives to both change behaviours but also the way it

delivers services. The Authority has a long history of upcycling materials and equipment – most notably as part of Operation Florian where the Authority has donated vehicles, equipment, supplies and expertise to help services in less well-off countries.

33 The shift to home working brought on by the pandemic also helped the Authority reduce carbon emissions although the long-term impact of this has not been worked through. The Authority is also continuing with online meetings (or hybrid meetings with some face-to-face) and recently adopted an Agile Working Policy which applies to eligible staff (mostly those in the corporate centre). Carbon reduction was one of the considerations during its development, mainly around reducing commuter miles, although the impact of take-up amongst staff is not monitored in this way.

34 The engagement of employees into energy and carbon saving is an effective way to motivate staff and successfully achieve environmental goals. By taking a strategic approach to engagement, public bodies can establish shared ownership of carbon and energy targets and ensure that leaders are held to account. A robust and clear sustainability strategy should have employee engagement at its core.

35 Our survey of staff found that the Authority needs to do more to engage with its workforce on the decarbonisation agenda. For example, one of the five main barriers identified by staff to help become net carbon zero relates to a lack of involvement of Fire and Rescue Service staff in planning and delivering priorities for reducing carbon emissions. The new Chief Fire Officer is engaging staff and Members in tackling the big risks facing the Authority, and is starting to bring them on this journey.

The Authority does not have appropriate arrangements in place to monitor and evaluate its progress to becoming net carbon zero

36 Fire Authority members receive six monthly updates on progress against the wellbeing objective and through the Annual Performance Assessment and forward planning processes, as well as broad updates on the Biodiversity Action Plan. However, officers and Members we interviewed acknowledge that at present the Authority is not scrutinising and evaluating sufficient data on carbon emissions nor the actions that are required to deliver improvement and become net carbon zero.

37 Reporting does not include any analysis against Welsh Government targets or retrospective performance against targets adopted by the Authority and there is no benchmarking or comparison of performance with others. We conclude that it is not possible for Members to monitor and hold officers to account for progress because of these weaknesses.

38 As a minimum we would expect the Authority to establish performance evaluation systems that allow it to:

- judge how it is making progress to becoming net carbon zero by 2030;
- show its improvement against Welsh Government targets of reducing overall carbon emissions by 63% by 2030; 89% by 2040; and at least 100% (net zero) by 2050;
- compare and benchmark its performance with other similarly sized Fire and Rescue Services to be able to identify opportunities for improvement; and
- monitor delivery of agreed actions for reducing CO_2e in adopted Authority plans.

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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 12**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Stuart Millington, Assistant Chief Fire Officer**
Contact Officer	**Anthony T Jones, Head of Operations and East Area**
Subject	**Biodiversity and the Environment (Wales) Act 2016**

PURPOSE OF REPORT

1. This report addresses North Wales Fire and Rescue Authority's (the Authority's) compliance with section 6 of the Environment (Wales) Act 2016. It also provides information on proposed future planning and reporting of actions by the Authority in relation to improving biodiversity within its estate.

EXECUTIVE SUMMARY

2. The Authority is required to plan for, and report on its actions to improve biodiversity within its estate. This report presents a Biodiversity Report and Action Plan 2022 for approval in accordance with section 6 of the Environment (Wales) Act 2016. This document was published on the Authority's website at the end of December 2022 following approval by the Executive Panel on 12 December.

RECOMMENDATIONS

3. Members are asked to approve the contents of the attached Biodiversity Report and Action Plan 2022.

BACKGROUND

4. Biodiversity relates to the variety of life found on earth. The economy and people's health and well-being depend on healthy, resilient ecosystems for food, clean water and air, raw materials, energy and protection against hazards such as flooding and climate change.

5. The Natural Environment and Rural Communities (NERC) Act 2006 placed a duty on public authorities to have regard to the conservation of biodiversity in the proper exercise of their functions.

6. In 2015 the Welsh Government launched a Nature Recovery Action Plan aimed at reversing the decline of biodiversity in Wales. This Plan set out how Wales would deliver the commitments of the EU Biodiversity Strategy and the UN Convention on Biological Diversity through short term actions up to 2020 and as longer-term commitments beyond 2020.

7. The Well-being of Future Generations (Wales) Act 2015 put in place seven well-being goals for Wales that public bodies listed in the Act must work to achieve. One of those goals relates to a 'resilient Wales', making Wales 'a nation which maintains and enhances a biodiverse natural environment with healthy functioning ecosystems that support social, economic and ecological resilience and the capacity to adapt to change'.

8. In 2016 public authorities in Wales became subject to the Environment (Wales) Act 2016 which introduced an enhanced biodiversity and resilience of ecosystems duty (the 'section 6 duty').

9. The section 6 duty requires public authorities – including fire and rescue authorities – to seek to maintain and enhance biodiversity so far as consistent with the proper exercise of their functions and, in so doing, to promote the resilience of ecosystems.

10. Public authorities should embed the consideration of biodiversity and ecosystems into all their activities including business planning, policies, programmes and projects. Specifically, each public authority must publish a plan setting out how it proposes to comply with the section 6 duty, and a report describing what it has already done in this regard. The first such retrospective report was published in 2019, with subsequent reports due every three years thereafter.

INFORMATION

11. The Service has been working to an action plan for managing the Authority's premises in ways that enhance the biodiversity of its estate by addressing the six objectives listed in the Nature Recovery Action Plan for Wales. Further details are provided in the attached draft Biodiversity Report and Action Plan (please refer to Appendix 1).

12. In addition to this, the Authority's draft objectives for 2022/23 include an intention to develop and adopt an Environmental Strategy. Future biodiversity action planning would therefore fall within the remit of this broader strategy.

13. The draft text of the Authority's second section 6 biodiversity report is contained within Appendix 1.

14. Although reporting against the section 6 duty under the Environment (Wales) Act 2016 is required only every three years, more frequent reporting can in future be incorporated into the Authority's Annual Performance Assessments.

IMPLICATIONS

Wellbeing Objectives	Direct implication for agreeing the steps towards meeting one of the Authority's long-term improvement and well-being objectives
Budget	The action plan items are already accounted for within existing budgets
Legal	Supports compliance with improvement planning, well-being and environment legislation
Staffing	No known impact on staffing levels
Equalities/Human Rights/Welsh Language	The impact of specific actions on these aspects will be assessed at the appropriate point in their development
Risks	Reduces the risks of legal non-compliance and of failing to budget and plan appropriately

Environment (Wales) Act 2016: Part 1 – Section 6

The Biodiversity and Resilience of Ecosystems Duty

Biodiversity Report and Plan

November 2022

Mae'r ddogfen yma ar gael yn y Gymraeg
This document is also available in Welsh

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1.0 BACKGROUND

1.0.1 Biodiversity (or biological diversity) is the variety of life found on earth. It includes all species of plants and animals, their abundance and genetic diversity; it underpins our lives and livelihoods and supports the functioning and resilience of ecosystems in oceans, wetlands, lakes, rivers, mountains, forests and agricultural landscapes. Our economy, health and well-being depend on healthy, resilient ecosystems, which provide us with our food, clean water and air, raw materials and energy and to protect us against hazards, such as flooding and climate change. It is vital to connect people with nature and the contribution its wildlife and habitats bring towards society's well-being, sense of place and cultural identity.

1.0.2 It is widely recognised that biodiversity is under pressure from a range of influences and that habitats and species continue to decline, therefore, it is vital that we maintain and enhance our biodiversity to ensure it remains healthy, resilient and capable of adapting to change. The effect of climate change on biodiversity over the coming decades is likely to be significant, including a further loss of habitat and a potential increase in invasive species.

1.0.3 Biodiversity management within NWFRS is an integral part of improving its overall environmental performance and the Service has previously addressed biodiversity issues on its estate through its Sustainable Development Action Plan, which covered the period 1st April 2007 to 31st March 2020. The Biodiversity Duty through the Natural Environment and Rural Communities Act (NERC) 2006 required all public authorities, including the Fire Services, to pay regard to the conservation of biodiversity in exercising their functions. This subject area is now reportable under the requirements of the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016, Part 1, Section 6 – The Biodiversity and Resilience of Ecosystems Duty.

1.0.4 The Well-being of Future Generations (Wales) Act 2015 recognises the importance that the Welsh Government places on nature and its biodiversity; along with six other goals for a sustainable Wales, the Act puts in place the 'Resilient Wales' goal (a nation which maintains and enhances a biodiverse natural environment with healthy functioning ecosystems that support social, economic and ecological resilience and the capacity to adapt to change).

1.0.5 The Environment (Wales) Act 2016 enshrines the principles of the UN's Convention on Biological Diversity in law by adopting an ecosystems approach to how Wales manages its natural resources in the future. The Act introduces an enhanced biodiversity and resilience of ecosystems duty (the section 6 duty) for public authorities (this includes Fire Services) in the exercise of functions in relation to Wales. The s6 duty requires that authorities 'must seek to maintain and enhance biodiversity so far as consist with the proper exercise of their functions and in so doing promote the resilience of ecosystems'.

1.0.6 To comply with the s6 duty public authorities should embed the consideration of biodiversity and ecosystems into their early thinking and business planning, including any policies, plans, programmes and projects, as well as their day to day activities.

1.0.7 Under the Act, all public authorities must, before the end of 2019 and before the end of every third year after 2019, publish a report on what they have done to comply with the s6 duty. The reporting duty should not be burdensome, and should be proportionate to the size and type of organisation, with regard to the action for biodiversity they can carry out. NWFRS published its first Biodiversity Report and Action Plan in November 2019.

1.0.8 Whilst protected sites and species are important, the s6 duty is also about taking steps to protect nature in our towns, cities, public places and wider landscape, both through practical action on the ground, and in the way all public functions are carried out. It is not just the large, landscape initiatives that are important, but also the smaller, every day, local scale actions that can make a difference and can contribute to helping biodiversity.

1.0.9 In addition to the legislation, the Welsh Government has produced a Nature Recovery Plan, which consists of the Strategy for Nature and the commitment to biodiversity in Wales, the issues needed to be addressed and the objectives for action; an Action Plan to meet the objectives to reverse the decline of biodiversity; and the governance structure, roles and responsibilities of everybody involved in the delivery of action for biodiversity in Wales.

1.0.10 Through the Nature Recovery Action Plan, a number of objectives have been identified to address issues that are driving the decline in biodiversity, and to support recovery:

Objective 1:	Engage and support participation and understanding to embed biodiversity throughout decision making at all levels.
Objective 2:	Safeguard species and habitats of principal importance and improve their management.
Objective 3:	Increase the resilience of our natural environment by restoring degraded habitats and habitat creation.
Objective 4:	Tackle key pressures on species and habitats.
Objective 5:	Improve evidence, understanding and monitoring.
Objective 6:	Put in place a framework of governance and support delivery.

1.0.11 The Welsh Government has produced Reporting Guidance for the section 6 duty, and this document has been used in the formation of this report.

2.0 INTRODUCTION AND CONTEXT

2.0.1 North Wales Fire and Rescue Service provide fire protection and prevention services to around 687,000 people over a geographical area of 2,400 square miles, as well as hundreds of thousands of tourists and visitors who come to North Wales every year. There are around 328,742 domestic properties and 33,820 non-domestic properties under NWFRS' protection and the Service employs almost 1,000 staff in operational and support roles.

2.0.2 The Service covers three geographical areas, Gwynedd and Anglesey, Conwy and Denbighshire and Wrexham and Flintshire, with an estate of 47 buildings, ranging from whole-time, day-crewed, retained and community fire stations, administration offices, a garage workshop to sharing premises with North Wales Police and the Welsh Ambulance Service Trust. Each area has a community safety office and a designated community safety manager; annually NWFRS attend around 1,879 fires, 958 Special Service Incidents, and around 2,517 false alarms of various kinds every year.

2.0.3 There is a large transport fleet including 54 fire appliances, one incident command unit and 31 'special' vehicles - such as all-terrain vehicles and foam carriers; there are also three aerial ladder platforms, portable power tools, lifting and winching and other specialist equipment to enable us to respond to many different types of incidents.

2.0.4 The Service carries out extensive work with schools, businesses and local communities to promote fire safety and prevention. The potential for serious damage to our environment, often in sensitive areas, by the impact of countryside fires is a serious concern, the impact of deliberate fire setting undermines social and economic confidence and draws on resources which could be utilised more effectively elsewhere.

2.0.5 In addition to the Operational response to attending fires or incidents in areas where biodiversity may be affected, the Arson Reduction Team (partnership between NWFRS and North Wales Police) helps to tackle the problem of deliberate fire setting so that people, communities, businesses, the environment and the area's heritage are not put at risk. The Team aims to reduce the number of countryside fires which are deliberately set; change the attitude of the community towards the deliberate setting of fires; take a multi-agency partnership approach to address this issue; ensure a consistent message is delivered to communities on countryside fires and to support the delivery of diversionary activities for both adult and young people, deter potential offenders and intervene early when anti-social behaviour begins.

2.0.6 Therefore, North Wales Fire & Rescue Service can be considered as a Group 2 Organisation in the s6 guidance with respect to the description of organisation relative to biodiversity. That being NWFRS are an organisation which (1) own, occupy or manage land at their own premises and (2) whose functions are connected with biodiversity and/or land management or that can influence those who own or manage land.

2.0.7 North Wales Fire & Rescue Service is subject to the Well-being of Future Generations Act and the production of well-being plans and is a member of the Gwynedd and Anglesey, Conwy and Denbighshire and Flintshire Public Service Boards in relation to biodiversity, climate change and environmental agenda working groups.

3.0 ACTIONS TAKEN

3.0.1 The Facilities Management Department are responsible for the delivery of biodiversity projects and the grounds maintenance contract at Service premises, following approval by the Assistant Chief Fire Officer (Finance & Resources).

3.0.2 The former grounds maintenance contract expired on 31st March 2020 and in developing the specification for the new contract (which is now in effect), biodiversity enhancement actions to be taken at sites, have being included.

3.0.3 The grounds maintenance contract involves a regime, whereby, between April and November each year, all grassed areas at sites are cut every two weeks; shrubs, hedges and trees trimmed as required; herbicide applied to control weeds to paved areas, kerbs and the base of buildings; and hard standings (car park, paths etc.) cleared of litter and all waste arising (grass, leaves, dead shrubs etc.) being removed off site. The control and management of invasive non-native species is included in the grounds maintenance contract, Japanese Knotweed is under strict management at 3 sites.

3.0.4 In addition to the three habitat creation schemes reported in 2019, the Service has undertaken four biodiversity protection or enhancement projects within the current reporting period:

Project 1: Dolgellau: Environmental action day

Project 2: Llantysilio and Ruabon Mountains: arson prevention campaign and hydroseeding

Project 3: Abergele, Chirk, Conwy, Flint, Harlech, Llanfairfechan, Prestatyn and Rhosneigr Fire Stations: Grass cutting regime reduction

Project 4: Harlech Fire Station: Swift box installation

These projects will be discussed below in the case studies.

3.0.5 The NWFRS estate can be grouped into 3 types of site:

Group 1: Grounds to site contain hard standings + grassed areas + shrubs, hedges, trees

Group 2: Grounds to site contain hard standings + grassed areas

Group 3: Grounds to site contain hard standings only

Each premise and their geographical location are summarised in Table 1: Site types and locations.

Table 1: Site Types and Locations

County Area	Group 1 sites with hard standings + grassed areas + shrubs, hedges, trees B = biodiversity project site JK = Japanese Knotweed control	Group 2 sites with hard standings + grassed areas	Group 3 sites with hard standings only
Conwy	Colwyn Bay FS Conwy FS Llanfairfechan FS Llanrwst FS Fleet & Stores ICT – Unit 8	Abergele FS Cerrigydrudion FS	Llandudno FS Betws y Coed FS
Denbighshire	Rhyl complex Corwen FS (JK) Ruthin FS Fire Service Headquarters (B)	Llangollen FS Prestatyn FS St Asaph FS	Denbigh FS
Flintshire	Deeside FS	Buckley FS Flint FS Mold FS	Holywell FS
Wrexham	Chirk FS Wrexham FS [Wrexham Ambulance & Fire Services Resource Centre] – grounds managed by Welsh Ambulance Service Trust	Johnstown FS	

Anglesey	Menai Bridge FS Rhosneigr FS	Holyhead FS Benllech FS Llangefni FS (JK)	Amlwch FS Beaumaris FS
Gwynedd	Caernarfon FS Bangor FS Abersoch FS Nefyn FS & PS (B) Pwllheli FS (JK) Porthmadog FS Tywyn FS & PS (B)	Llanberis FS Dolgellau FS Bala FS Blaenau Ffestiniog FS Harlech FS	Aberdyfi FS Barmouth FS
Total	**21** (22 if Wrexham included)	**17**	**8**

4.0 HIGHLIGHTS, KEY OUTCOMES AND ISSUES

4.0.1 The potential to address biodiversity considerations within the NWFRS estate is high, with 83% of sites having areas of soft landscaping (grassed areas) and 46% of those sites having additional areas within the grounds containing shrubs, hedges or trees; only 17% of sites are devoid of any vegetation.

4.0.2 Observations from previous site visits:

- Some grassed areas are too small to sustain a 'no-cutting April to August' regime.
- Some hedges source from neighbours' land, but form part of the NWFRS site's perimeter; where there are gaps in the hedge (preventing wildlife corridors and inter-connectivity), the area at ground level on the Service's side may be hard standings.
- Sites containing mature trees, tend to have Horse Chestnuts present and during the Autumn members of the public come into the grounds to collect conkers, therefore these sites already enable a means for the Service to contribution towards community engagement with nature. This behaviour was witnessed at the Porthmadog and Conwy fire station site visits.

4.1 Biodiversity Projects (Case Studies)

Project 1

4.1.1 In partnership with Adra and Gwynedd Council, Service Personnel participated in an Environmental Action Day in September 2021 in Dolgellau, within the Snowdonia National Park. This involved engagement with the public around the importance of protecting the local environment, and removal of litter.

Project 2

4.1.2 In partnership with Natural Resources Wales and North Wales Police, the Service undertook an arson prevention campaign in August 2022 at Llantysilio and Ruabon Mountains, following a wildfire at Llantysilio in 2018 which engulfed over 250ha within a designated Site of Special Scientific Interest (SSSI). In October 2021, following this fire, the Service provided logistical assistance to Natural Resources Wales to undertake a hydroseeding scheme in the area of the fire.

4.1.3 The arson prevention campaign involved public engagement and education around avoidance of high-risk activities such as discarding of cigarettes and/or glassware and the use and disposal of barbeques.

Project 3

4.1.4 In accordance with the Grounds Maintenance and Enhanced Biodiversity Contract, which came into force in April 2020, the grass cutting regime has been reduced to Spring and Autumn cutting only at Abergele, Chirk, Conwy, Flint, Harlech, Llanfairfechan, Prestatyn and Rhosneigr Fire Stations.

4.1.5 This has been undertaken with the aim of allowing the growth of a habitat for pollinators and herbivore insects.

Project 4

4.1.6 As part of a planned demolition and replacement of the training tower at Harlech Fire Station, located within Snowdonia National Park and the Coed Llechwedd SSSI, the Service has agreed to install a sparrow terrace nest box at the station.

5.0 ACTION PLAN

5.0.1 The following provides information on what actions North Wales Fire and Rescue Service are taking to meet the Nature Recovery Action Plan for Wales (NRAP) objectives, with regards to the management of their grounds and the maintenance and enhancement of biodiversity at their premises.

5.1 NRAP Objective 1

"Engage and support participation and understanding to embed biodiversity through decision making at all levels"

5.1.1 NWFRS is committed to addressing biodiversity on its estate, and is currently developing policy to replace the Sustainable Development Action Plan (SDAP), which covered the period 1st April 2007 to 31st March 2020.

5.1.2 Data, information and reports relating to subject areas relating to biodiversity are provided to Senior Officers and the Fire Authority, as required or requested.

5.1.3 To date, raising awareness on biodiversity issues has been mainly project-site based, for example the Fire Headquarters biodiversity project informed staff of the works being undertaken and why. There has been good engagement with the scheme, with staff photographing species (butterflies and other insects) and providing feedback on any issues to the Facilities Department.

5.2 NRAP Objective 2

"Safeguard species and habitats of principal importance and improve their management"

5.2.1 The Service does not have any protected sites within its estate.

5.2.2 The Fire Headquarters is located on the St Asaph Business Park, which contains Greater Crested Newt, any grounds disturbance works take into consideration the legislative requirements pertaining to the newts.

5.2.3 Where new-build development or major refurbishment work is undertaken by the Service, schemes are subject to BREEAM certification where feasible to do so. BREEAM is the world's longest established method of assessing, rating, and certifying the sustainability of buildings. Principles under which development work takes place include:

- Ensuring, where possible, that any construction takes place in sites defined as land of low ecological value
- Ensuring, were possible, that development work protects existing ecological features from substantial damage arising from its preparation or completion.
- To recognise and encourage actions taken to enhance the ecological value of development sites as a result of the development.

5.3 NRAP Objective 3

"Increase the resilience of our natural environment by restoring degraded habitat and habitat creation"

5.3.1 This objective is met through the implementation of the Grounds Maintenance and Biodiversity Enhancement Contract, which commenced 1st April 2020.

5.3.2 Each site under the control of the Service was assessed for its grounds maintenance requirements and habitat creation potential, with a site specific regime being written for each site, including site plans and measurements of vegetated areas.

5.3.3 Please refer above to Table 1: NWFRS Site types and locations.

5.3.4 The potential to address biodiversity considerations within the NWFRS estate is high, with 83% of sites having areas of soft landscaping (grassed areas) and 46% of those sites having additional areas within the grounds containing shrubs, hedges or trees; only 17% of sites are devoid of any vegetation.

5.3.5 The regimes put in place under the Grounds Maintenance and Biodiversity Enhancement Contract are:

Grassed Areas

5.3.6 Unless the grassed area needs to be maintained as a formal feature (i.e. front of Headquarters) or the area of grass is too small, the cutting regime has been reduced from every two weeks between April and August to one cut in the spring and one in the autumn; thus, allowing the grass to grow between April and August each year to increase the habitat area available to pollinators and other species.

5.3.7 Where grassed areas are left to grow between April and August, a strip along the edge of the grass next to hard standings will be cut regularly, to demarcate the biodiversity area, indicate the area is being managed and allow for any health and safety considerations for personnel using the site.

5.3.8 For areas of grass that are too small to leave to grow, these have been individually assessed for alternative 'pollinator friendly' habitats, such as flower-beds or planters.

Shrubs and Trees

5.3.9 All trees will be recorded in a Tree Inventory (ongoing), stating location, any tree protection orders, species, approximate age, condition (the health of the tree and risk assessments [to the tree from disease such as Ash die-back and the risk from the tree, such as the removal of dead branches which may fall on property or people]).

5.3.10 Where trees need to be removed, they will be replaced with suitable native species.

5.3.11 Where trees have been removed in the past and gaps in the habitat exist, where viable these gaps will be closed by planting new trees.

5.3.12 Hedges and shrubs will be trimmed at the appropriate time of year and take into consideration species that may be using them, such as nesting birds.

5.3.13 Where shrubs or hedges need to be renewed or repaired, flowering species (such as hawthorn) will be used as a feed stock for pollinators.

5.3.14 Log piles, bat, bird and insect boxes are to be installed at sites where viable.

Awareness Raising of Biodiversity

5.3.15 NWFRS personnel have been informed of the change of grounds maintenance regime and why.

5.3.16 Public explanation boards are displayed at sites where the front is subject to a specific biodiversity project, outlining what specific biodiversity measures have been taken and the reasons for doing so. At the locations of more significant projects (e.g. the rear garden at Headquarters in St. Asaph), a photographic log showing 'before' and 'after' is typically included.

5.4 NRAP Objective 4

"Tackle key pressures on species and habitats"

5.4.1 Japanese Knotweed Control is in place at 3 sites and is subject to ongoing status monitored.

5.4.2 A risk assessment to the Service's Ash Trees from Ash die-back disease was postponed due to the pandemic, and is now planned to take place by the end of 2023.

5.4.3 Where additional tree planting is undertaken, the biogenic sequestration value to the Service's carbon footprint as a result of tree carbon sequestration within the estate is reported as part of the annual carbon accounting report.

5.4.4 Where a green space for staff, visitors or community groups is created, seating will be sourced from sustainable and social sources.

5.4.5 The use of pesticides and herbicides; the Service already specifies to contractors to ensure the use of these substances is proportionate, they are not applied to wet foliage or when rain is expected, that all litter and arising are removed prior to spraying and that their equipment is fitted with approved guards to prevent spray drift.

5.4.6 Due to their bioaccumulative nature and high degree of ecotoxicity, the Service will end the use of long-chain (C6 and C8) fluorosurfactant firefighting foams and dispose of its existing stocks in accordance with manufacturer guidelines. These foams are to be replaced with fluorine-free alternatives.

5.4.7 The Service has a dedicated Wildfires lead officer, who provides consultation with landowners including farmers and local authorities, and partner authorities such as Natural Resources Wales and North Wales Police to help reduce the number and scale of wildfires within the Service area, thus protecting large and valuable habitats. Partnership work undertaken with farmers is of particular value as many wildfires requiring attendance by the Service begin as controlled burns undertaken by landowners. This work involves education around the requirements of The Heather and Grass Burning Code for Wales 2008, including the requirement to prepare a Burn Plan and provide sufficient notification to the Service.

5.4.8 The Service will continue its ongoing work around Arson Prevention, to help protect natural habitats.

5.5 NRAP Objective 5

"Improve our evidence, understanding and monitoring"

5.5.1 A Biodiversity Inventory of the NWFRS estate has been produced, containing site plans, measurements of grassed areas and habitats on site. A photographic log of all biodiversity areas within the estate was prepared in 2021.

5.5.2 The baseline year for the Inventory is the 2019-20 financial year, where sites have been subject to the former grounds maintenance regime, prior to the aforementioned changes to reflect the Service's biodiversity commitments.

5.5.3 The Inventory is updated each year, reflecting projects undertaken at each site and further works required.

5.5.4 All Inventories, data and information is accessible to the Local Environment Records Centre (COFNOD), the Wales Biodiversity Partnership, local Biodiversity Officers, Public Service Board partner organisations, North Wales Wildlife Trust and any other interested parties.

5.6 NRAP Objective 6

"Put in place a framework of governance and support for delivery"

5.6.1 The day to day delivery of biodiversity action at NWFRS sites is administered through the Environmental and Energy Conservation Section of the Facilities Management Department, in conjunction with the Environment and Climate Change Manager, reporting to the Head of Operations and the Assistant Chief Fire Officer responsible for Environment. The 'Biodiversity Report and Plan' reports prepared under the Environment (Wales) Act 2016: Part 1 – Section 6 every three years are presented to the North Wales Fire and Rescue Authority for approval prior to publication.

5.6.2 The Service seeks, on an ongoing basis, support from PSB partner organisations and local wildlife groups for the species identification at sites; for example, in conjunction with the Wildlife Trust, opening the grounds for the day to members of the public and ecological experts to help assess and record species found on site; with the results being recorded with COFNOD.

Mae'r ddogfen yma ar gael yn Gymraeg **Agenda Item 13**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Stewart Forshaw, Deputy Chief Fire Officer (Corporate Policy and Planning)**
Contact Officer	**Pippa Hardwick, Head of Corporate Planning**
Subject	**Review of Improvement and Well-being Objectives in the Authority's Corporate Plan 2021-24**

PURPOSE OF REPORT

1. To review the Fire and Rescue Authority's long-term objectives that are contained in its Corporate Plan 2021-24.

EXECUTIVE SUMMARY

2. Every March the Fire and Rescue Authority (the Authority) publishes a Plan for the following financial year, setting out its agreed improvement and well-being objectives and outlining the actions it proposes to take towards achieving those objectives during the year. The Authority published its most recent update against Corporate Plan 2021-24 earlier this year.

3. Although the relevant legislation does not stipulate how often a public body must change its objectives, there is a requirement to undertake an annual review of its well-being objectives to assess whether or not they are still relevant and appropriate.

4. Over the coming months Officers will be revisiting the content of the Authority's Corporate Plan 2021-24 in order to update the lists of planned actions underpinning each strategic objective. To this end, the Authority is asked to consider whether it wishes to continue to pursue the same long-term objectives next year, or alternatively to suggest changes that can be written into next year's updated version of the Corporate Plan 2021-24.

RECOMMENDATION

5. Members are asked to:
   i) confirm the Authority's intention to continue to pursue its existing seven long-term objectives in 2023/24; and
   ii) request that an updated version of the Corporate Plan 2021-24 be prepared by Officers for approval in April 2023.

BACKGROUND

6. Fire and Rescue Authorities (FRAs) in Wales are required to publish improvement objectives in accordance with the Local Government (Wales) Measure 2009, and well-being objectives in compliance with the Well-being of Future Generations (Wales) Act 2015. For the purposes of the Authority's planning processes these are treated as one and the same.

7. Part 2 of the Well-being of Future Generations Act (the Act) places a duty on the Authority to carry out sustainable development, which must include:

   a) setting and publishing well-being objectives that are designed to maximise its contribution to achieving each of the well-being goals set for the whole of Wales; and

   b) taking all reasonable steps (in exercising its functions) to meet those objectives.

8. In the normal run of the planning cycle, the Authority outlines proposed objectives for the forthcoming year during the autumn/winter, and in March it approves a plan detailing shorter-term actions that support its longer-term objectives.

9. In 2023-24 Officers will be engaging with the Authority in relation to the next iteration of the corporate Plan for 2024 onwards with a view to it evolving into a 5 year plan for 2024-29.

INFORMATION

10. In March 2021 the Authority published seven long-term well-being objectives in its Corporate Plan for 2021-24. The objectives are:

   - **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 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.

11. Further to an annual review in March 2022, the previous Fire and Rescue Authority approved a revised and updated Corporate Plan for 2021-24 which recognised the continuance of some actions into future years due to external factors influencing the rate of progress in some areas and the impact of embedding internal governance changes which were due to take effect from April 2022.

12. Under the Act the Authority is required to review its objectives at least once a year, but it does not have to change them. In assessing whether its objectives continue to be appropriate, the Authority must consider to what extent:

- they contribute to achieving the well-being goals for Wales;
- they are consistent with the sustainable development principle – i.e. that they help to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs; and
- the Authority is taking all reasonable steps to meet those objectives.

13. If the assessment indicates a need to change any objectives, the Authority would be expected to explain what has changed, and why the change has happened.

14. At its meeting in October 2022 the Authority approved the Annual Performance Assessment 2021/22 for publication on its website. This Assessment describes progress and achievements last year in support of the Authority's objectives. It also explains how each of the Authority's objectives contributes to achieving the well-being goals for Wales and is consistent with the sustainable development principle.

15. The Annual Performance Assessment did not indicate a need to revise or change the existing set of seven long-term objectives.

16. Many of the actions in support of the objectives evidence the fact that the Authority continues to take a long term view through its community-based prevention role, helping to inform, educate and equip people to live safe and fulfilling lives. It also acts responsibly in relation to protecting natural habitats and the Environment more generally.

17. Some of the underpinning actions will necessarily be different in 2023/24 as cost saving efficiencies continue to be pursued and the Authority seeks to react to internal and external influences, but these will be included in the revised Corporate Plan 2021-24 for approval by the Authority in April 2023.

IMPLICATIONS

Well-being Objectives	Direct implication for confirming or revising the Authority's long-term well-being objectives.
Budget	There is a clear relationship between the Authority's plans for delivering the objectives within the 2021/24 Corporate Plan and the level of financial resources available.
Legal	Supports compliance with improvement planning and well-being legislation.
Staffing	No known impact on staffing levels at this time.
Equalities/Human Rights/Welsh Language	The impact of specific actions on these aspects will be assessed at the appropriate point in their development.
Risks	Reduces the risks of legal non-compliance and of failing to budget and plan appropriately.

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 14**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**ACFO Stuart Millington**
Contact Officer	**ACFO Stuart Millington**
Subject	**Manchester Arena Inquiry**

PURPOSE OF REPORT

1 To provide an overview of the contents and implications of the recently published Manchester Arena Inquiry - Volume 2 report.

EXECUTIVE SUMMARY

2 In November 2022, the second volume of the Manchester Arena Public Inquiry was published.

3 Volume 2 focused upon the emergency response phase and made 149 recommendations, distributed across all of the emergency response services who attended on the night of the attack.

4 Many of these recommendations are applicable to the fire and rescue sector across the UK and the completion of a gap analysis to fully understand the North Wales Fire and Rescue Service (the Service) position has already begun to be developed, with input from all relevant staff members and departments.

5 Progress against these recommendations will be managed and coordinated through the Organisational Learning Committee, which in turn reports to the Service Leadership Team.

RECOMMENDATION

6 That Members:

(i) Note the content of the report.

BACKGROUND

7 On 22 May 2017, a lone terrorist detonated an improvised explosive device in the foyer of the Manchester Arena, during the final encore performance of an Ariana Grande concert.

8 The explosion claimed twenty-two lives and severely injured more than one hundred others.

9 Since then there has been extensive scrutiny, not only with regards to the sequence of events that led to the attack, but also about the multi-agency emergency response.

10 Soon after the attack the Mayor of Manchester, Andy Burnham, commissioned Lord Kerslake to complete an 'Independent review into the preparedness for, and response to, the Manchester Arena attack'.

11 In March 2018 the review report that is now referred to as the Kerslake report was published. This review made 29 recommendations.

12 The Kerslake report criticised a significantly delayed Greater Manchester Fire and Rescue Service (GMFRS) response as well as highlighting a number of areas in which poor communication had led to confusion and a lack of shared situational awareness between attending agencies.

13 In North Wales we examined our position against these recommendations and identified 13 specific activities that were to be implemented to improve our position in the event of a similar attack taking place in North Wales.

14 Progress against these actions has been, and continues to be, monitored.

15 On the 22 October 2019, the Home Secretary established a public inquiry to investigate the deaths of the victims of the 2017 Manchester Arena attack, with hearings beginning on 07 September 2020.

16 In June 2021, Volume 1 of the inquiry report was published. Volume 1 focused on the security for the Arena and made a number of recommendations, 9 of which were to be monitored and required reporting against. These 9 recommendations were not relevant to fire and rescue services (FRS).

INFORMATION

17 On the 03 November 2022, the second volume of the public inquiry was published and this document focuses on the Emergency Response phase.

18 Volume 2 consists of 916 pages and contains 149 recommendations, of which 21 are to be monitored. Of those 21, four were applicable to GMFRS directly and 13 were considered to be multi-agency recommendations. Any recommendations made for specific organisations in inquiries of this type have a read across the entire sector, and so can be considered relevant for attention here in North Wales.

19 There was significant confusion on the night of the attack and the communication breakdown between emergency services was at the heart of a series of problems that developed.

20 The review also called into question how the role of a National Interagency Liaison Officer (NILO) should be utilised in the future, as on the night of the attack a decision taken with the safety of crews in mind to not collocate at an identified rendezvous point, was the catalyst for a number of other problems that followed.

21 Clearly there are some areas of similarity with the Kerslake report and as more than five years have passed since the attack, the Service is well on its way to ensuring that these problems would not occur here; however, we must never be complacent as recent exercises in other parts of the country have identified that similar issues and confusion continue to be prevalent today.

22 In a similar way to how we examined Kerslake in 2018, we have already begun to complete the gap analysis against the 149 recommendations through our established governance committee structure.

23 The Organisational Learning Committee has commissioned the Operational Learning sub group to complete a gap analysis, and to produce an action plan for implementation of any changes to policy, training or equipment. This will ensure that our staff would be able to respond professionally and safely to any large-scale multi-agency incident in North Wales.

24 In addition to this, work has begun with partners through the Local Resilience Forum (LRF) to ensure that collectively we are as prepared as we can be.

25 Also, work has commenced from a National Resilience perspective to ensure a consistent approach to terror attack response across Wales.

26 Both the work with the LRF and with National Resilience will result in an increase in boots on the ground and desktop multi agency exercises, and an increased profile for regular multi-agency training.

27 A progress report will be brought to a future Authority meeting.

IMPLICATIONS

Well-being Objectives	Work to achieve any changes that are required after the completion of the gap analysis will assist in striving towards a more resilient Wales.
Budget	Any additional equipment that is required as the result of this work will be procured from within existing departmental budgets. Funding for stretchers to be placed on every front-line fire appliance in North Wales has been secured from Welsh Government and they will be received before the end of the 2022/23 financial year.
Legal	The Fire and Rescue Services Act 2004 is directly relevant to this work, in that the Authority must make provisions for rescuing and protecting people at other emergencies. The Civil Contingencies Act 2004 requires Category 1 responders, of which the Service is one, to effectively train for, and respond to, multi agency incidents.
Staffing	There will be training implications for all operational staff.
Equalities/Human Rights/ Welsh Language	N/A
Risks	All operational learning and any recommendations regarding changes to operational policy, equipment or training are prioritised and implemented at the earliest possible occasion. Due to limited resources it can take varying periods of time for changes to be fully implemented. In the event of a similar event occurring in North Wales it will not be possible to fully mitigate all risk until all areas have been implemented and operationally assured.

Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 15**

Report to	**North Wales Fire and Rescue Authority**
Date	**16 January 2023**
Lead Officer	**Stewart Forshaw, Deputy Chief Fire Officer**
Contact Officer	**Stewart Forshaw, Deputy Chief Fire Officer**
Subject	**Chief Fire Advisor's Thematic Review into Operational Training**

PURPOSE OF REPORT

1 This report presents an update following the publication of the Chief Fire and Rescue Advisor (CFRA) for Wales' review into training in the Fire and Rescue Service, entitled 'Fire and Rescue Service Operational Training: Thematic Review'.

EXECUTIVE SUMMARY

2 On the 10 October 2022, the Deputy Minister for Social Partnership, Hannah Blythyn MS, made a statement to the Senedd following the publication of the CFRA's review into training in the Fire and Rescue Service (FRS) in Wales.

3 The primary objective of the CFRA's review was to examine the methodology adopted by the three Welsh FRS to determine allocation of time for skills maintenance training and exercising during the time on fire stations and across all duty systems.

4 A substantive component of the review included visits by the CFRA to fire stations in North Wales Fire and Rescue Service (the Service), and also the examination of information and documentation.

5 The review concluded with six recommendations. The Deputy Minister then wrote to the Chair of North Wales Fire and Rescue Authority (the Authority) requesting details of our plans to address the recommendations. A detailed response was provided to the Deputy Minister which was acknowledged in her oral statement to the Senedd on the 22 November 2022 entitled: 'Fire Service Training and Capacity to Broaden the Role'.

6 The recommendations have since been included in an action plan that will be considered and managed through the Service's Organisational Learning Committee, chaired by Assistant Chief Fire Officer Millington.

RECOMMENDATION

7 That Members:

(i) Note the contents of the report; and
(ii) note the action plan that has been put in place, to consider the recommendations of the CFRA's review within reasonable timescales.

BACKGROUND

8 The Fire and Rescue National Framework 2016, includes the provision for the CFRA to undertake reviews and provide information and findings to Welsh Ministers, Fire and Rescue Authorities (FRA) and Auditor General for Wales.

9 On the 10 January 2022, the CFRA wrote to the Chief Fire Officer advising of his intention to carry out a thematic review of training, setting out the methodology of how he intended to conduct the review along with the rationale.

10 He had chosen this theme because the role of a firefighter is highly technical and has evolved significantly over time as the complexities of the built environment have increased. In addition, the breadth of incidents that firefighters are required to respond to now extends well beyond fires.

11 Acquiring, developing and maintaining core competencies is of fundamental importance to achieve safe systems of work in the operational environment. This is especially important as the number of incidents have declined in recent years, resulting in fewer opportunities for firefighters to apply their skills and be exposed to the hazards associated with complex incidents.

12 The importance of operational training and providing firefighters with live-fire training facilities is therefore self-evident. A failure to train firefighters at a consistent high standard against evidence based operational guidance and learning, can compromise both firefighter and public safety.

INFORMATION

13 On the 10 October 2022, the Deputy Minister for Social partnership made a statement to the Senedd following the publication of the CFRA's review into training in the FRS, entitled 'Fire and Rescue Service Operational Training: Thematic Review'.

14 The review includes an examination by the CFRA into a number of areas regarding operational training. It starts with a consideration of the current arrangements and future options for the consideration of a strategic assessment of community risks, to inform capability development, which will in turn inform a training needs analysis in the FRS's in Wales.

15 The review also focuses on the methodology adopted by the FRS's in Wales, primarily for determining the allocation of time for training and exercising within fire station work routines, and for firefighters working the retained duty system (RDS).

16 The initial acquisition of firefighting skills and the maintenance of those core skills and other additional skills areas were reviewed. The eight core skill areas the CFRA has considered in his review include:

1. Breathing Apparatus
2. Casualty Care
3. Command and Control
4. Hazardous Materials
5. Pumps, ladders, knots and lines
6. Road traffic collision
7. Safe working at height
8. Water incidents.

17 The balance between theoretical training and the use of short films known as microteaches and practical training was also considered across the full range of likely incident types in any given area of Wales.

18 The review also looks at the training venues and the impact of travel distances for firefighters when attending training events. With regards to North Wales, the live-fire and breathing apparatus training facility at Dolgellau was considered to be some considerable distance from all of the large population centres in North Wales.

19 The CFRA also observed that, in his opinion, current compartment fire behaviour training does not reflect real-life fire conditions and the tactics and techniques included in compartment fire behaviour training should be reviewed and incorporated in light of international research.

20 The section on training facilities concludes the most appropriate solution to be a hub and spoke approach to combine existing facilities at stations with a new live-fire training facility. It was recognised that this would require substantial capital investment by Fire Authorities.

21 The amount of time available for training on all of our duty systems, and in particular the RDS, is also included with a recommendation subdivided into two areas on this theme, which will be considered in collaboration with the other two FRS's in Wales.

22 The report concludes with six recommendations which include the areas discussed in this report. The recommendations have been included in an action plan that will be considered and managed through the Service's Organisational Learning Committee, chaired by ACFO Millington.

23 The CFO has also provided a detailed response to the review to the Deputy Minister, as requested, with our plans for addressing the recommendations and a copy of our action plan included. This was acknowledged in the DM's oral statement to the Senedd on the 22 November 2022.

IMPLICATIONS

Well-being Objectives	This paper is aligned to all of the Well-being and Corporate Objectives 2022/23 as it includes firefighter safety, support of operational preparedness and ensures sustainability over the longer term.
Budget	N/A
Legal	The role of the CFRA is included in chapter 7, points 7.12 and 7.13 of the Fire and Rescue National Framework 2016 and Section 28 of the Fire and Rescue Services Act 2004.
Staffing	N/A
Equalities/Human Rights/ Welsh Language	N/A
Risks	All risks associated with the recommendations will be included in an action plan managed by the members of the Service's Organisational Learning Committee.