



AGENDA ITEM: 7

NORTH WALES FIRE AND RESCUE AUTHORITY

15 June 2015

FINANCIAL PERFORMANCE 2014-2015

Report by Ken Finch, Treasurer

Purpose of Report

- 1 This report is to provide Members with a review of the financial performance of the Authority for 2014-15.
- 2 The report was presented to the Audit Committee on 1 June 2015 as they have been tasked with ensuring effective scrutiny of finance reports and based on their findings make recommendations to the Fire and Rescue Authority. They had no major observations or could find any major risks in the report and would recommend it be approved by the Authority.

Introduction

- 3 This report details the financial activity for the year 2014-15 to ensure Members are kept up to date with regards to the financial position of the Authority.
- 4 The first part of the report reviews the revenue expenditure for 2014-15 against budget with the financial breakdown included in Appendix A. The second part of the report comments on Reserves and Provisions held by the Authority; the provisions and the proposed changes are detailed in Appendix B. The next section of the report looks at the schemes that were grant funded with a detailed breakdown in Appendix C. The final part of the report discusses capital activity for the year; the details of which can be found in Appendix D.

Background

- 5 Members agreed that the priority when setting the budget was to maintain the current level of service provision and also to deliver on the objectives set out in the Improvement Plan; delivering 30,000 Home Fire Safety Checks; and optimising fire and rescue cover in North Wales by finding alternative options to the Retained Duty System (RDS). However, given the impact of the local government settlement and the reduction in funding to the constituent authorities Members agreed to set a frozen budget with any inflationary pressures being met from other resources. At the time of setting the budget it was expected that these inflationary pressures would be around £406k so money from the general reserve was set aside to cover the budget shortfall.

Revenue Activity

Employees

- 6 As can be seen from the graph, a large proportion of Fire and Rescue Service expenditure relates to pay; 68% for 2014-15. For the previous three financial years the Authority has delivered £2.4m in savings. To achieve these savings the Authority delivered on a number of options chosen by Members which included changes to the rostering system; a management re-structure; a review of Aerial Appliance cover; Community Fire Safety staffing; and Support Services staffing. Overall the workforce reduced by 9% over this period but despite these reductions the Authority continues to successfully deliver against its objectives.
- 7 A large part of the underspend on pay relates to wholetime firefighters, £553k. Various factors have contributed to an underspend being reported for wholetime firefighters and include:-
- a number of staff that are part of the establishment but their full salary costs have been netted off against sickness or maternity pay;
 - reduced additional hours and other pre-planned overtime worked because this was withdrawn as part of the action short of a strike (ASOS) throughout 2014.
 - reduced working hours due to strike action throughout the year.

- 8 The pensions' budget is overspent due to some ill health retirements in the year; these had not formed part of the original estimate and are not funded through the pensions' account.
- 9 The underspend on Support Staff can be attributed to a number of vacant posts being filled later than estimated.
- 10 The majority of the underspend on pay relates to retained firefighters, £561k. Members have been made aware of the difficulties of recruiting firefighters to work the retained duty system and despite a recruitment drive the establishment is still less than budgeted which has resulted in savings on retaining and drill fees. To mitigate the impact the Fire and Rescue Service has employed 18 WDS rural firefighter posts to provide cover on retained and wholtime stations as and when required.
- 11 The 18 WDS rural firefighter posts are contracted to work for a minimum of 21 hours per week, with the original expectation that they would work on average 30 hours a week. However because they have had to cover the shortfall in additional hours which was caused by the FBU withdrawing additional hours as part of ASOS, the WDS rural firefighters have been working up to 42 hours a week. This has resulted in an overspend against the original budget, but this is off-set by savings on the wholtime budget.
- 12 As a result of the increased number of recruits during the year the training budget is overspent by £42k.
- 13 The underspend on the Chief Officers budget relates to the vacant Assistant Chief Officer post which has not been filled following the retirement of the previous post holder.

Premises

- 14 The repair and maintenance budget is overspent due to the reclassification of some smaller items of spend from capital to revenue. This will result in some savings in future years on capital financing charges as the revenue costs will be reduced. It has also been prudent to write off the costs for the re-location of Conwy Court, this accounts for £128k of the overspend.
- 15 Energy costs have increased significantly over the years and in order to reduce consumption and costs measures have been put in place which are overseen by an energy monitoring officer (a post shared with North Wales Police). The measures have resulted in energy costs coming in under budget and only slightly higher than the expenditure incurred for the previous year (£3k higher than last year).
- 16 On the premises budget there is an underspend on National Non Domestic Rates. The reduction in costs is due to changes to the rateable values of a number of premises following commissioning an external specialist to carry out a re-evaluation exercise. This was very beneficial with some refunds being backdated to 2010.

Transport

- 17 Overall the Transport budget is overspent by £11k. There are additional costs associated with trialling the use of flexible WDS rural firefighters to provide cover over a number of stations; the purchase of new equipment for fleet; and increased insurance costs. However, these additional costs are offset by savings on fuel and vehicle repairs as there has been an impact on work streams due to the industrial action.

Supplies

- 18 Under the Supplies and Services heading Operational Equipment is overspent due to the purchase of replacement Fireboots earlier than anticipated so that they could be procured with the other two Fire and Rescue Authorities in Wales, the cost of the Fireboots were £78k.

- 19 The underspend on Computer costs is due to the renegotiation of licences and maintenance contracts which has resulted in reduced costs compared to the original budget.
- 20 The overspend on Communication costs is due to the costs for Firelink being higher than anticipated due to an unexpected indexation charge which has now been agreed.
- 21 There has been an increase in the eligibility for subsistence claims due to the additional distances travelled and hours worked by firefighters providing cover for rural stations. The subsistence budget is overspent by £10k.
- 22 Expenditure on special projects such as the 'Joint Emergency Services Group' (JESG) will be less than budget due to activity levels being less than the previous year. However, the underspend is offset by a decrease in funding which is shown under the income heading 'Emergency Planning'.

Support Services

- 23 The underspend on Grounds Maintenance costs is due to the re-tendering of the contract in partnership with North Wales Police resulting in lower costs.
- 24 The cost to the Authority for Facilities Management has increased this year. An additional Project Manager has been assigned to the Fire and Rescue Service due to the increase in the capital projects managed by the team this year. However, the increase in costs has been partly covered by additional income charged to the capital programme as fees.

Capital Financing

- 25 The debt charges associated with the capital programme are less than the original budget due to the prevalence of low interest rates and the use of short term borrowing outside the PWLB and the necessary delay on the Wrexham Fire and Ambulance project and the planned rescheduling of the Tywyn and Nefyn projects. Lower interest costs have also been achieved by 'internally borrowing', where reserves and balances have been used to fund the programme rather than taking out new borrowings.

- 26 Leasing charges are lower than budget due to a re-structuring of the leasing portfolio last year that has resulted in reduced revenue costs and a buy out of the remaining leased vehicles.

Income

- 27 Overall income is slightly higher than the original budget. There has been a welcome reduction in special service calls but this has resulted in less income being raised than anticipated when the budget was set. A reduction in the Emergency Planning grant is offset by a reduction in costs under the JESG budget heading. And as mentioned previously income from Capital Fees has increased due to the additional work required on capital projects.

Underspend

- 28 At the September meeting of the Fire Authority Members agreed to set aside £300k of the underspend to fund the purchase of vehicles and equipment that is required for the new WDS Rural Firefighters. This has been reflected in the actual as part of the 'Direct Financing Capital Expenditure'.
- 29 The Authority has purchased Thermal Imaging Cameras and in order to make savings on future years' capital financing budgets it was agreed by members that this capital equipment is purchased from a contribution from revenue. The cost of the equipment is £102k and is shown as part of 'Direct Financing Capital Expenditure'.
- 30 To reduce the revenue budget in future years the remaining operating leases have now been bought out so in future the Authority will no longer incur any lease charges. The cost to the Authority of the 'buy out' is £131k and as we are now purchasing the vehicles it is capital expenditure. In order to make savings going forward on capital financing costs Members agreed to fund the vehicles from a revenue contribution.

- 31 A report was presented to the Executive Panel on the 27 October 2014 informing Members of the potential risks associated with the new national contract for radio communication. The existing nationally procured contract is due to end in December 2016 and it is possible the service may incur additional costs in the following areas:-
- a. If the timescales for transition are not met it may be necessary to extend the current contract which could be significantly more expensive.
 - b. The current system is partially funded by a grant from the Welsh Government and it is not guaranteed that this will continue.
- 32 Some Fire and Rescue Authorities are providing for up to £1million to cover transitional costs. Given these risks Members agreed to set £300k in to a reserve to cover any additional costs which may be significant. This is shown as part of the 'Contribution to Reserves'.
- 33 Members have been made aware that in the coming year the grant for HFSC will significantly reduce. Due to the budget pressures for 2015-16 it was not possible to set aside additional revenue budget to offset the grant shortfall. It is therefore prudent to set aside some of the remaining underspend in to a specific earmarked reserve to cover the grant shortfall. This is included in the 'Contribution to Reserves'.

Reserves

- 34 A Reserve is defined 'as a voluntary action by the Authority to set resources aside for future schemes'. The Authority held £1,725k in a general reserve as at 1 April 2014 and, due to effective budget management, has not had to use this reserve to fund expenditure in 2014-15. A refund of an overpayment that was made in 2013-14 was received in year and this was added to the General Reserve. This has resulted in an increase in the General Reserve of £92k. It is prudent for the Authority to hold a General Reserve to cover any contingent liabilities that may arise.

- 35 The remaining Earmarked Reserve approved by Members last year is the Interest Reserve, £100k. This reserve was set up to offset the risk of an increase in interest rates and was specifically requested by the Audit Committee.
- 36 As outlined above the additional earmarked reserves, £525k, have been set up to cover the transitional costs for the radio project and the reduction in grant funding for HFSC.
- 37 The Capital Reserve was set up to be used to finance the Capital Programme when it is most advantageous to do so in that the savings made by reducing debt charges for future budgets is maximised. This year £700k has been used to finance the capital programme to reduce future debt charges.

Provisions

- 38 The Authority has always been able to hold Provisions and a provision is defined as 'funds set aside when the Authority has a present obligation as a result of a past event (legal or constructive) and it is probable that a settlement will be made some time in the future'. Details of the provisions held are discussed below.
- 39 The Pension Provision is held by the Authority to cover payments in to the pension fund for ill health retirements and cover the costs of any ill health lump sum payments that are not covered by the pension scheme. There has been no movement on the provision this year as it has been possible to fund these costs this year from the revenue budget.
- 40 The bulk of the settlement of the back pay for retained firefighters was made during 2012-13 (£505k). Payments were still being made in 2013-14 and there were some claims in 2014-15. The provision will be reviewed in 2015-16 to assess the outstanding liability.

- 41 The provision for the RDS Retrospective Pension claim has not been utilised in the year. It is expected that the first claims will be made during 2015-16. The provision of £636k should be sufficient to meet all the liabilities as it is not expected that all personnel who qualify will take advantage of the backdating of their pensionable service.

Grant Funded Schemes

- 42 The Authority has received funding for a number of schemes mainly from the Welsh Government; the total funding received is £1.78m. Members will be aware of the benefits to the community created by these schemes including the Phoenix scheme, installation of free smoke alarms, and the Arson Reduction Team. A comprehensive list of these schemes are detailed in Appendix C.

Capital Activity

- 43 The original capital budget was set in December 2013 and was based on new spend and rollovers from previous years.
- 44 Further delays to the start of the Wrexham project meant that expenditure was less than estimated. The budget has again been rolled forward to ensure there is funding in place for the Wrexham scheme. Members are also aware of the delays on the Deeside project. These issues have now been resolved and as with Wrexham the budget will be rolled forward.
- 45 The budget for planned maintenance and minor building works was underspent as some smaller items of capital spend was transferred to revenue for the reasons explained in paragraph 14 above. The DDA works were funded from budget that was rolled over from 2013-14 that was not shown as part of the 2014-15 original budget.
- 46 Work on the new Nefyn Fire Station is near completion and the additional spend against budget was part of the rollover budget from 2013-14.

47 Work has started on the Tywyn Fire Station and it is expected that the majority of the spend will be incurred in 2015-16. The budget will be rolled forward to cover the works in 2015-16.

RECOMMENDATION

48 Members are asked to approve:-

- (i) the transfer of the underspend in to Reserves and Provisions as detailed on page 3 of Appendix A;
- (ii) the transfers between reserves and provisions as detailed in Appendix B .