

Report to	<b>North Wales Fire and Rescue Authority</b>
Date	<b>16 October 2023</b>
Lead Officer	<b>Dafydd Edward, Treasurer</b>
Contact Officer	<b>Helen MacArthur, Assistant Chief Fire Officer</b>
Subject	<b>Budget Setting 2024/25</b>



## PURPOSE OF REPORT

- 1 This report is to present to Members the budget process, planning assumptions and timescales for setting the North Wales Fire and Rescue Authority's (the Authority) revenue budget for 2024/25.

## EXECUTIVE SUMMARY

- 2 The Authority is required to set the revenue budget for 2024/25 at its meeting on 22 January 2024. The preliminary work required to establish the base budget has commenced which includes a review of current expenditure levels, key planning assumptions and risks. A summary is provided in Appendix 1.

## RECOMMENDATIONS

- 3 Members are asked to:
  - i) note the planning assumptions being used to develop the revenue budget for 2024/25;
  - ii) note the remit of the budget scrutiny working group established by the Audit Committee and the proposed reporting timetable;
  - iii) note the proposal to provide initial budget estimates to the Executive Panel at its meeting of 18 December 2022; and
  - IV) note the proposal to seek approval for the 2024/25 revenue budget by the Authority at its meeting of 22 January 2024.

## BACKGROUND

- 4 Each year the Authority is required to set a balanced revenue budget which must be approved by the full Authority. Although the term "balanced" is not formally defined in the legislation, the Chartered Institute of Public Finance (CIPFA) recognises that organisations should have financial plans which demonstrate how expenditure will be funded over the short and medium term.

- 5 The Authority's financial sustainability in the short, medium and longer term is underpinned by knowledge and understanding of key cost drivers including the evaluation of risks and uncertainties. Pivotal to this is an understanding of service demands, resources available and the future strategic vision.
- 6 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.
- 7 Following this assessment, the Authority approved a number of internal reviews including an emergency cover review, a review of the retained duty system (on-call crews) and a training review to ensure firefighter safety. These reviews have been supplemented through further work in key areas such as wildfire tactical assessments and decontamination of appliances, kit and equipment.
- 8 In addition to these specific areas of challenge, the Authority is also facing the uncertainties common to all public sector bodies due to the uncertain economic situation. In particular, the need to manage the impact of inflation, supply issues and wage inflation being the key priorities.
- 9 Although the initial budget assessment for 2023/24 presented to the Authority in December 2022 indicated a net budget requirement of £44.7m (£45.8m including the pension funding adjustment), the budget was not approved at that time.
- 10 Subsequent to that meeting and at the request of the Authority, further work was undertaken to identify opportunities to reduce the net expenditure. The final budget to be met through the levy from constituent local authorities was approved by the Authority in January 2023 and was £44.4m. This included £1.1m of funding previously received directly from the Welsh Government and included within the revenue settlement grant to local authorities for 2023/24.
- 11 When setting the 2023/24 budget, the Authority recognised the actions taken to reduce the levy on constituent local authorities. These included deferring expenditure including the purchase of essential wildfire kit, the reduction in daily emergency cover, the reduction in the target for home safety checks and one-off use of reserves. In addition, the Authority noted that the national pay negotiations for 2023/2024 financial year had not concluded and the situation was further complicated by the fact that the 2022/23 pay negotiations for firefighters were outstanding and subject to possible industrial action.

- 12 When setting the final 2023/24 budget the pay assumptions for firefighters were 5% and 4% for the 2022/23 and 2023/24 financial years respectively. Subsequently the pay negotiations were settled at 7% and 5% which created a significant additional cost pressure.
- 13 The actions taken during the budget setting processes for 2023/24 are not sustainable as they require the use of reserves on an ongoing basis. The regulators have been clear in advising authorities that “*financing recurrent expenditure from reserves would not normally be appropriate*”, thus NWFRA needs to recalibrate for 2024/25, “*seeking more sustainable approaches, which often involve making unpopular decisions*” (quotes from para 1.8 of ‘*Meeting the Financial Challenges*’, 2014, Audit Wales). The emergency cover review has, therefore, included an initial financial planning assessment against each option.

## **INFORMATION**

- 14 As part of the work for the emergency cover review an initial high-level planning assessment was undertaken during February 2023 which identified a potential year on year budget increase of circa £6m. This is set out within Appendix 1. The budget setting process for 2024/25 has now commenced with the key planning assumptions provided within Appendix 2.
- 15 Although the 2024/25 budget setting process will be underpinned by the outcome of the emergency cover review, the preparatory work on the existing costs has commenced. A budget scrutiny working group has been established made up of members of the Audit Committee.
- 16 With members representing each local authority, the working group is scheduled to meet on four occasions between October and November 2023. A review will take place in respect of payroll, non-pay and capital financing costs to provide members with a greater understanding and an opportunity to provide scrutiny and challenge. This work will be reported to the Audit Committee at its December meeting and inform the budget setting process.
- 17 The planning work will also consider the Authority’s capital requirement over the medium-term planning cycle. This will consider the financial assessment and affordability of future plans and this work will include the provision of a new training facility. If approved, the new training facility will require significant financial investment although at this stage a business case has not been presented to the Authority.

- 18 The initial planning assessment for 2024/25 will be presented to the Executive Panel at its meeting on 18 December 2023. This will include sensitivity analysis setting out the impact of the emergency cover review options considered by the Authority and will incorporate the findings of the Audit Committee scrutiny.
- 19 The 2024/25 draft revenue budget will be prepared and considered for approval by the Authority at its meeting on 22 January 2024.

## IMPLICATIONS

Well-being Objectives	This report links to the Authority's Improvement and Well-being Objectives. It reports on the financial viability of the Authority.
Budget	The initial planning assessment has indicated a budget requirement of £50.4m. This will be updated as part of the detailed planning work including the outcome of the Authority's Emergency Cover Review.
Legal	The Fire and Rescue Authority has a legal duty to set a balanced budget based on realistic planning assumptions.
Staffing	Over 70% of expenditure relates to staff costs and therefore is a material factor when considering future financial stability. The risks identified by the Chief Fire Officer include ongoing pay negotiations as well as the need to recruit further retained duty staff and build corporate resilience.
Equalities/Human Rights/Welsh Language	These issues will be factored into budget setting proposals.
Risks	The key risks and uncertainties to the 2024/25 budget have been outlined in Appendix 1.

## Initial financial planning assessment 2024/25

£'m	Approved budget 2023/24	Unfunded costs 23/24	4% Pay award 2024/2025	Potential additional pension costs	Inflation & Growth	Interest cost increase	Training Centre	Total
Pay	31.824	1.745	1.343	0.400				35.312
Non-Pay	10.384	0.200			0.741			11.325
Capital Financing and Interest	3.130					0.500	1.1	4.730
Income	-0.944							-0.944
<b>Levy</b>	<b>44.394</b>	<b>1.945</b>	<b>1.343</b>	<b>0.400</b>	<b>0.741</b>	<b>0.500</b>	<b>1.100</b>	<b>50.423</b>

## Summary of planning assumptions and risks

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
Employee costs	<ul style="list-style-type: none"> <li>• The staffing budgets will be formulated on existing service delivery models and updated to reflect the decision of the Fire and Rescue Authority following the Emergency Cover Review.</li> <li>• At the time of setting the budget for the 2023/24 financial year the national pay awards for firefighters for the 2022/23 &amp; 2023/24 financial years had not been finalised. The final budget for 2023/24 assumed 5% and 4% respectively but the actual pay award was settled at 7% and 5%. The increased costs associated with this have been built into the base budget and a planning assessment of 4% for national pay awards in 2024/25 has been made for all staff.</li> <li>• The valuation of the firefighters' pension scheme was undertaken during 2020 and will set the employer contribution rates for the four-year period from April 2024. At the time of writing this report the updated valuation is not available but remains a key risk.</li> </ul>	<ul style="list-style-type: none"> <li>• The National Joint Council (NJC) has not yet reached agreement on the firefighter pay award for 2024/25 although settlements above the budget provision are anticipated at the time of writing this report.</li> <li>• The National Joint Council (NJC) for Local Government Services has not yet reached agreement on the pay award for staff on LGPS contracts for 2023/24 or 2024/25.</li> <li>• The budget planning assumes normal levels of activity. If spate conditions occur budget pressures will be experienced. The working assumption is that the General Fund would be utilised in the first instance.</li> </ul>

<p>Non-Pay</p>	<ul style="list-style-type: none"> <li>• The initial planning assessment has confirmed that the non-pay budgets will be formulated on existing service delivery models, updated for the outcome of the Emergency Cover Review. The demands on the non-pay budget are further exacerbated by the inflationary impact inherent within existing and future contracts and supply chain issues in a number of business-critical areas. These include the supply of firefighting kit and the sourcing of replacement parts for operational vehicles.</li> <li>• Unavoidable costs associated with industry specific health and safety matters have been included within the non-pay budget. These include costs associated with the management of contaminants for our operational firefighters following national work.</li> <li>• 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 costs pressures can be quantified these have been separately identified and included.</li> <li>• During 2023/24 the Welsh Government removed its financial support of £0.4m for the existing national emergency services communication network (Firelink). The full contract price of £1m is now funded directly from core funding. Due to the fixed nature of this contract these costs are unavoidable and the contract includes an annual inflationary increase.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The cost of gas and electricity has been a known cost pressure since 2022/23 due to global cost pressures. The position appears to have stabilised and the budget for 2024/25 is predicated on best estimates at this time. However, volatility in the market continues and this remains a known uncertainty and risk.</li> <li>• 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 budget provision has been included.</li> </ul>
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Heading	Planning assumptions used in budget setting	Risks/Uncertainties
Capital Financing	<ul style="list-style-type: none"> <li>• The capital financing requirement for 2024/25 includes the revenue charge for the minimum revenue provision for existing assets and an estimate of the interest charges arising from borrowing. These costs are influenced by historical capital expenditure, the need to borrow for the 2024/25 capital programme and the impact of interest rate increases when re-financing maturing loans.</li> <li>• The initial planning assessment will assume that all future borrowing will be at the prevailing PWLB rate at the time of budget setting.</li> <li>• The capital plan includes potential costs associated with a new training centre. At this time the business case has not been considered by the Authority and, therefore, it is assumed that capital costs will be incurred from 2025/2026 onwards.</li> </ul>	<ul style="list-style-type: none"> <li>• The increase in interest rates is a key risk area given the economic uncertainty at this time. Financial modelling will be undertaken to assess the sensitivity of the Authority's financial position and performance to existing interest rates and reported as part of the budget setting.</li> <li>• The timing of any costs associated with a new training centre are unknown at this stage as the business case has not been considered by the Authority. Although it is not anticipated that any building works will commence during 2024/25 it may be necessary to make provision for costs associated with detailed planning applications should approval be given.</li> </ul>
Income	<ul style="list-style-type: none"> <li>• Income budgets have been reviewed and set in line with previous years.</li> <li>• Welsh Government grant income reduced significantly during 2023/24 due to the removal of the Firelink Grant (£0.4m) and incorporation of the Scape Grant (£1.08m) into the RSG paid to local authorities.</li> <li>• Budget setting will assume that remaining Welsh Government grant funding will be received at 2023/24 levels.</li> </ul>	<ul style="list-style-type: none"> <li>• No specific risks have been identified over and above the grant income from the Welsh Government for which inflationary uplifts are not anticipated.</li> </ul>