



# Financial Resilience Assessment

## **North Wales Fire and Rescue Authority**

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# Status of report

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The team who delivered the work comprised Steve Barry and Ron Price.

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# Summary report

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## Summary

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. Good financial management:
  - helps authorities take the right decisions for the short, medium and long term;
  - helps authorities deliver services to meet statutory obligations and the needs of local communities;
  - is essential for good corporate governance;
  - is about managing performance and achieving strategic objectives as much as it is about managing money;
  - underpins service quality and improvement;
  - is the basis of accountability to stakeholders for the stewardship and use of resources; and
  - is a key management discipline.
2. Long-term financial management is not about predicting the future; it is about preparing for it. Authorities need to understand future demand, assess the impact of probable changes, review the gap between funding needs and possible income, and develop appropriate savings strategies.
3. Well-considered and detailed long-term financial strategies and medium-term financial plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning alone encourages an incremental and process-driven approach that can be ineffective in a period of rapid external change.
4. Financial resilience is achieved when an authority has robust systems and processes to effectively manage its financial risks and opportunities, and to secure a stable financial position.
5. Our April 2015 report 'The financial resilience of councils in Wales' was based on fieldwork carried out in all Welsh local authorities. From this work, and from other available material related to aspects of financial management, we have drawn together some key characteristics of good practice to assist practitioners in developing their arrangements. These characteristics can be found at [Appendix 1](#).
6. Given the continuing pressures on funding, we have considered whether the Authority has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term (typically three to five years ahead). While there may be more certainty for the Authority over an annual cycle, financial pressures impact beyond the current settlement period. We have considered evidence of the Authority's approach to managing its finances in the recent past and over the medium term when reaching our view on the Authority's financial resilience.
7. We undertook our assessment during the period May to October 2015, and followed up issues highlighted in the 2014-15 financial position work. The focus of the work was on delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

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The work focused on answering the following question: Is North Wales Fire and Rescue Authority (the Authority) managing budget reductions effectively to ensure financial resilience? We found that **the Authority's arrangements to achieve financial resilience are sound.**

- The Authority has reduced expenditure by eight per cent compared to 2011-12 and levels of reserves are increasing.
  - Financial planning is supported by a budget strategy together with an understanding of key risks and challenges.
  - Financial control is supported by effective budget monitoring and forecasting and the Authority has a good track record of managing budgets.
  - Financial governance is effective and supported by clear challenge from Authority members, accurate reporting and commitment at a senior level
8. This report gives a risk rating for each aspect; financial planning, financial control and financial governance. The descriptors for risk ratings are set out below:

<b>Low risk</b>	Arrangements are adequate (or better) with few shortcomings in systems, process or information. Impact on the Authority's ability to deliver its financial plan may be minimal.
<b>Medium risk</b>	There are some shortcomings in systems, process or information that may affect the Authority's ability to deliver the desired outcomes of its financial plan.
<b>High risk</b>	There are significant shortcomings in systems, process or information and/or there is a real risk of the Authority's financial plan not delivering the desired outcomes.

9. We rate the risk to the Authority for each of these elements as follows:

<b>Low risk</b>	Financial planning
<b>Low risk</b>	Financial control
<b>Low risk</b>	Financial governance

# Detailed report

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## The Authority's arrangements to achieve financial resilience are sound

### The Authority has reduced expenditure by eight per cent compared to 2011-12 and levels of reserves are increasing

10. The three Fire and Rescue Authorities (FRAs) in Wales have managed financial constraint since 2010-11 well. Numbers of fires and casualties have continued to fall without them requiring additional 'in year' funding, and within budgets established and agreed with the relevant constituent local authorities.
11. Savings have largely been achieved through reductions in staff costs at all three Welsh FRAs. Each FRA has protected and supported appliances and stations but made reductions through changes in crewing arrangements, non-uniform and senior managerial posts and central service costs. Maintaining stations and an operational response and presence, particularly in rural communities, is a challenge across Wales, but one which is valued by the public.
12. The financial framework under which Fire and Rescue Authorities in Wales work means that they engage with the constituent local authorities in their area on an annual basis to arrive at a budget settlement. The total budget that they arrive at is divided by the population in each local authority area to derive the actual figure that each must pay to the Authority. The cost of the Fire and Rescue Authority is funded by a levy to the constituent local authorities with some additional grant funding provided by Welsh Government. The Fire and Rescue Authorities have the power to levy additional sums if needed.
13. In December 2010 North Wales Fire and Rescue Authority (the Authority) adopted a three year budget strategy based on 'freezing' its budget to 2014-15. The exhibits below show that the impact of this strategy over the period.

#### Exhibit 1 - Gross revenue expenditure 2011-12 to 2014-15

Since 2011-12 gross expenditure has fallen in two of the three FRAs

Authority	2011-12 £million	2012-13 £million	2013-14 £million	2014-15 £million
Mid and West Wales	£52.256	£45.243	£47.589	£44.250
<b>North Wales</b>	<b>£31.657</b>	<b>£31.678</b>	<b>£29.848</b>	<b>£30.647</b>
South Wales	£68.966	£73.400	£77.434	£73.173

Source: Annual Statements of Accounts

14. The figures in **Exhibit 1** can be modified to reflect inflationary pressures<sup>1</sup> to show the real terms changes since 2011-12. **Exhibits 2 and 3** show that, in real terms, the Authority reduced expenditure (as it had planned) by almost £3 million (8.2 per cent) since 2011-12.

#### Exhibit 2 - Real terms expenditure 2011-12 to 2014-15

Since 2011-12 real terms expenditure has reduced at Mid and West Wales FRA and North Wales FRA but increased marginally at South Wales FRA

Authority	2011-12 £million	2012-13 £million	2013-14 £million	2014-15 £million
Mid and West Wales	£55.111	£46.857	£48.270	£44.250
<b>North Wales</b>	<b>£33.387</b>	<b>£32.808</b>	<b>£30.275</b>	<b>£30.647</b>
South Wales	£72.735	£76.019	£78.542	£73.173

Source: Annual Statements of Accounts adjusted to reflect Treasury GDP deflators at November 2015

#### Exhibit 3 - Real terms expenditure changes 2011-12 compared with 2014-15

Authority	Real terms difference 2011-12 to 2014-15 £million	Percentage change
Mid and West Wales	-£10.86	-19.75%
<b>North Wales</b>	<b>-£2.740</b>	<b>-8.2%</b>
South Wales	+£0.438	+0.60%

15. **Exhibits 4 and 5** show that the amount of usable reserves and usable reserves as a percentage of gross revenue expenditure have been increasing over the period 2011-12 to 2014-15. Anything above 10 per cent is a good indicator of reserve strength. However, this does not mean that levels below this indicate weakness. The Authority follows expected practice by agreeing an appropriate level of reserves for its own circumstances, based on recommendations from its head of finance.

<sup>1</sup> As measured by the Treasury Gross Domestic Product deflators published November 2015

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#### Exhibit 4 - Usable reserves 2011-12 to 2014-15

The amount of usable reserves has increased over this period.

Authority	2011-12 £million	2012-13 £million	2013-14 £million	2014-15 £million
Mid and West Wales	£5.878	£7.360	£7.865	£9.168
<b>North Wales</b>	<b>£2.040</b>	<b>£2.033</b>	<b>£3.471</b>	<b>£3.384</b>
South Wales	£12.311	£14.319	£12.102	£14.839

Source: Annual Statements of Accounts

#### Exhibit 5 - Usable reserves as percentage of gross revenue expenditure

Levels of usable reserves held by the three Fire and Rescue Authorities vary

Authority	2011-12	2012-13	2013-14	2014-15
Mid and West Wales	11.23%	16.28%	16.54%	20.71%
<b>North Wales</b>	<b>6.44%</b>	<b>6.42%</b>	<b>11.63%</b>	<b>11.04%</b>
South Wales	17.85%	19.51%	15.63%	20.28%

16. In December 2013 the Authority set its budget for 2014-15. It took the opportunity of changes in the method of funding for a major project to make a £405,583 contribution from reserves.
17. The Authority has set out its approach to reserves in the Medium Term Financial Strategy which was agreed at the Full Authority meeting on the 25th January 2016.
18. The Authority does not currently have an income generation or charging policy in place. It is waiting for responses from stakeholders who are being consulted about future improvement objectives prior to making decisions about the introduction of income generation or charging policies.



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## Financial planning

### Financial planning is supported by a budget strategy together with an understanding of key risks and challenges

19. In December 2010 the Authority adopted a three year budget strategy based on 'freezing' its budget to 2014-15. Having delivered this strategy the Authority reviewed its position during 2015-16 and adopted a new medium term financial strategy to cover the three year period 2016-19 on 25th January 2016.
20. The Authority has considered its statutory responsibilities during the last two years by undertaking a review of current operational services and the risk profile that communities face. The Authority faces particular challenges around the use of Retained Duty System (RDS) staff. These on-call staff members are difficult to recruit in certain locations and display a high staff turnover. The Authority has been addressing this through a more flexible use of full time staff. It is currently, within its improvement planning and consultation processes, considering how it can best address this challenge.
21. During engagement and working groups with members, and in the various strategic plans produced by the Authority, it has been clear what savings would be possible and how a balanced budget could be set. The largest item of expenditure within the budget is related to employee costs and the Authority has been clear about how it can best deploy its workforce to meet current demand in a cost effective way. For example, through crewing changes and operating a more flexible approach to fire cover during daytime hours.
22. Employee costs are key expenditure drivers, along with property, transport, insurance and pensions. The Authority has a good and clear understanding of the issues and challenges relating to each area of expenditure and provides a clear long-term view about possible cost savings and risks in each of these areas.
23. The Authority set a balanced budget for 2015-16 following consultation with the constituent local authorities. The revenue budget for 2015-16 is set at £32.78 million with forecasts of £33.96 million for 2016-17, and £34.39 million for 2017-18 being considered in its forecasting. This is subject to consultation processes.
24. The Authority makes reasonable assumptions based on previous experience and budget and outturn figures.
25. Senior staff at the Authority are mindful of setting realistic budgets with the constituent local authorities at the start of the year. This is to avoid having to request additional funds during the year, even though the Authority would have the power to do so. This is seen as enabling the local authorities to effect sound and clear financial budgeting during the whole financial year.

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## Financial control

### Financial control is supported by effective budget monitoring and forecasting and the Authority has a good track record of managing budgets

26. Effective budget management policies and procedures are in place. Financial budgeting and reports contain sound trend analysis and there is a good level of debate and challenge at Audit Committee in relation to the impact of changes within budgets. There is good understanding of the critical expenditure areas of employee costs, transport, premises, insurance and pensions.
27. A good track record of operating within budgets has existed for a number of years. There is effective control on budgets at both a senior strategic level and within devolved budgets across the organisation. Reporting and monitoring arrangements delivered through the service level agreement with Conwy County Council work well and is appropriate for the context in which the Authority operates.
28. The Authority delivered an underspend against its planned budget outturn position in 2014-15. The original 2014-15 budget was set at a 'contribution budget' of £32.47million. Gross revenue expenditure for 2014-15 was £30.647 million. The Authority achieved an underspend of £1.45 million which has largely been transferred to reserves. The largest element of the Authority's budget relates to pay. This consisted of 68 per cent of the Authority's total expenditure during 2014-15. It was within this budget that the underspend primarily occurred with an underspend of £553,000 on the whole time fire fighter pay budget, and an underspend of £561,000 on Retained Duty System (RDS) pay. Slight variations to other operational budgets also occurred but were not significant or substantial.
29. The Authority has set out its approach to reserves in the Medium Term Financial Strategy which was approved by Full Authority on 25th January 2016.

## Financial governance

### Financial governance is effective and supported by clear challenge from Authority members, accurate reporting and commitment at a senior level

30. The Authority has made progress on our previous proposals for improvement. It is working on a medium term financial plan and consulting on the likely content. It has taken an appropriate and effective response to establishing a reserves strategy, and is consulting with stakeholders around future charging policies and income generation controls. In the establishment of clearer links between financial plans and improvement objectives it has made some progress. It now needs to conclude these areas of improvement.

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- 31.** Governance arrangements to manage financial aspects of the Authority are sound, appropriate and well managed. Accurate and timely reporting and review of budgets occurred during the 2014-15 financial year and these practices continue. The final outturn budget position was reported to the Authority's Audit Committee on 1st June 2015 with a clear and concise statement of the outturn position and budget variance information.
  - 32.** Reporting is accurate and there is an adequate level of challenge at the main finance related committees – specifically the Audit committee and Executive Panel. Financial management and advice services are provided to the Authority through a Service Level Agreement (SLA) with Conwy County Council and this is an effective arrangement.
  - 33.** The Annual Governance Statement (AGS) of the Authority is contained annually within the Statement of Accounts. This is a clear statement of Governance issues and reflects the working of the Authority.
  - 34.** The Leadership team of the Authority understands the significant risks and challenges ahead. There is a good corporate understanding of strategic issues and a commitment to a regular dialogue and consultation with the constituent Local Authorities in North Wales.
  - 35.** Regular, transparent and accurate reporting to members is undertaken. The quality of reports and financial information to the Authority is sound and appropriate for the organisational needs. Members have been able to effectively scrutinise and challenge financial and other reporting and the Audit committee is objective, fair and knowledgeable in its interaction with officers.
  - 36.** Internal and external recommendations are dealt with effectively and in a timely manner. This has been the case in relation to recommendations by internal audit and by response to proposals for improvement by the Auditor General for Wales.

# Appendix 1

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## Key characteristics

### Key characteristics of good financial planning

The Authority's budget is set in the context of a longer-term financial strategy and a medium-term financial plan covering a three- to five-year horizon.

The Authority has clearly identified the savings it intends to make over a three- to five-year term. The savings plan is underpinned by detailed costing and delivery plans for individual savings (including transformation/change savings).

The Authority has a good track record of delivering on its savings plans.

Medium-term financial planning and annual budgeting reflect the Authority's strategic objectives and priorities for the year, and over the longer term.

Assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services are modelled and based on reasonable predictions.

The Authority understands its sources of income and the risks arising from these, and has reviewed its approach to fees and charges to ensure it achieves value for money.

Financial and corporate planning processes are integrated, link to risk management arrangements, and incorporate strategic planning for other resources including the capital programme and workforce planning.

The Authority uses financial modelling to assess likely impacts on financial plans and required savings for different scenarios, and to help ensure short-term fixes are not achieved at the expense of long-term sustainability.

The Authority models key expenditure drivers (for example, population changes and demand for services), sources of income (for example, income and government grant forecasts), revenue consequences of capital and resource requirements and balances.

The Authority operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces.

If the Authority is not at its target level for balances, there is planned action in place to achieve this, taking account of any associated risks to the organisation's financial position and delivery of its priorities.

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### Key characteristics of good financial control

The Authority has an appropriate and effective budget management policy that clearly sets out roles, responsibilities and accountability. The scheme of delegation is clear, and processes are set out to manage budget under and overspends.

Financial monitoring and forecasting is fit for purpose and accruals based, helping to ensure a clear link between the budget, in-year forecasts and year-end position.

The Authority analyses and extrapolates relevant trends, and considers their impact on the projected final out-turn.

The Authority takes timely action to address any budget pressures, for example by taking corrective action to manage unfavourable variances or by revisiting corporate priorities.

The Authority has a good recent record of operating within its budget with no significant overspends.

The Authority has agreed a clear policy on the use of its reserves. There is a clearly justified minimum level for its 'general fund' reserves balance. There is a clear rationale to explain transfer from, or between, reserves. Clear protocols explain how and when each reserve should be used. Decisions about reserves are underpinned by a comprehensive assessment of risk and current performance.

The reserves policy has been agreed by members and subject to scrutiny.

The Authority has a clear policy on income generation/charging. There is a register of charges across its services to help manage charges consistently. The Authority has corporate guidelines on how concessions should be applied. Charges are regularly reviewed and the policy updated.

The Authority does not write off significant levels of debt as uncollectable.

The Authority monitors its key financial ratios, benchmarks them against similar bodies and takes action as appropriate.

The annual governance statement gives a true reflection of the Authority.

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### Key characteristics of good financial governance

The leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation, and is taking appropriate action to secure a stable financial position.

The Authority has sufficient capacity and capability to promote and deliver good financial management.

The leadership team fosters an environment where there is good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position.

The leadership team provides constructive scrutiny and challenge on financial matters to ensure arrangements remain robust and fit for purpose.

There is regular and transparent reporting to members. Reports include detail of action planning and variance analysis.

Members scrutinise and challenge financial performance effectively, holding officers to account.

Internal and external audit recommendations are dealt with effectively and in a timely manner.

There is effective engagement with stakeholders on budget issues, including public consultations.



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