

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 20 November 2024

Subject: Revenue Budget Process 2025/26

Report by: Head of Corporate Financial Services (S112 Officer)

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For: Decision

Purpose

- 1 The purpose of this report is to address the current position of the Medium-Term Financial Plan (MTFP) and the planned approach to the budget setting process for 2025/26 through to 2027/28.
- 2 With known funding pressures and future resource constraints, it is important that the Combined Fire Authority (CFA) continues to take action to ensure financial stability. This includes having a clear and robust budget setting process as set out in this report.

Recommendations

- 3 The Corporate Governance Committee is requested to note the content of this report and comment on the proposed approach to updating the Medium-Term Financial Plan.

Executive Summary

- 4 This report provides an update on the outlook for the CFA's medium term financial plan (MTFP) to support the Corporate Governance Committee in its role to provide oversight and challenge to the process for developing the 2025/26 budget. It represents the first opportunity for the Committee to engage with the budget setting process.

Background

- 5 The CFA has a well-established process for annual budget setting and medium-term forecasting including recognition of demand and inflationary pressures and the development of deliverable savings plans. This gives the foundation for setting a balanced and sustainable budget. The allocation and prioritisation of resources provides the framework that enables the achievement of the organisation's key ambitions as set out in the Corporate Risk Management Plan (CRMP).
- 6 This report sets out the framework for how the CFA will approach budget setting for 2025/26. Uncertainty remains around some key funding sources and details of a proposed budget planning process for 2025/26 is presented. It recognises that there is a need for some flexibility to respond to these risks and uncertainties and

sets out a summary of key considerations to enable the setting of a balanced budget.

- 7 This report should be considered in the context of the 2023/24 outturn position presented to CFA on 2 October 2024, when an overspend of £71,000 was reported. Also, the budget monitoring report for the 6 months of 2024/25 to 30 September 2024 is being presented at this meeting, for both revenue and capital, to review how the financial position looks overall.
- 8 The Medium-Term Financial Plan (MTFP) approved by the CFA in February 2024 showed a forecast 2025/26 budget shortfall of £0.2 million, which increased to £0.3 million by 2026/27.

Current MTFP approved February 2024

- 9 As shown in Table 1, the CFA's February 2024 MTFP identified a small budget gap for 2025/26 and beyond, to be funded by the Budget Strategy Reserve. At the time there was considerable uncertainty around the level of government funding available for 2025/26 and the potential for additional pressures to emerge during the budget setting process.
- 10 These forecasts were based on reasonable assumptions around the likely level of resources available and forecast spending requirements. As always, the assumptions are subject to change as more up to date and robust information becomes available.

Table 1: Approved MTFP presented to CFA 14 February 2024

	2024/25 £m	2025/26 £m	2026/27 £m
Expenditure total	49.9	51.3	52.6
Council Tax	28.0	29.0	30.0
Revenue Support Grant	7.1	7.1	7.1
Business rates income	6.2	6.3	6.4
Business rates top-up	6.8	7.0	7.1
Actuarial Review Compensation Grant	0.5	0.5	0.5
Fire Authority Income	0.2	0.2	0.2
Service Grant	0.1	0.1	0.1
Other Grant	1.0	0.9	0.9
Income total	49.9	51.1	52.3
Budget Gap	0.0	0.2	0.3

National Context

- 11 The funding outlook for Fire and Rescue Services remains extremely challenging. In addition to dealing with the legacy of over ten years of austerity there are increasing service pressures, including abnormally high levels of inflation and the impact this has on CFA contracts and services.

- 12 Despite being one of the lowest funded Fire and Rescue Services per head of population in England, the CFA still has some financial resilience which is due to strong financial scrutiny and governance and robust annual budget setting. This is supported by the reserves strategy and controls around external borrowing. However, the CFA must not be complacent and continued vigilance and forward planning is vital to continue delivering balanced budgets and protect critical services for residents.
- 13 After the 2024/25 budget was set in February 2024, it was expected that a degree of uncertainty would continue due to the general election which was expected towards the end of 2024. As has been the case in recent years, it was and still is anticipated that the CFA will not receive any detailed information about funding allocations for 2025/26 until December 2024.

Proposed Budget Approach

- 14 A review of resources available is underway, taking account of the 2024/25 position and announcements to date from the new government around funding.
- 15 The government announced the Autumn Statement on 30 October 2024. Government funding for 2025/26 only will be announced in the provisional finance settlement, expected in late December 2024. A government Spending Review is due to report in Spring 2025, with a multi-year finance settlement planned from 2026/27.
- 16 In common with the rest of the sector the CFA's finances continue to be under pressure, with increasing inflationary pressures and other challenges, including climate change. A growing budget gap is anticipated in the future and action will be required to address it.
- 17 The CFA does hold usable reserves, which were £23.067 million at 31 March 2024, as shown in Table 2 below.
- 18 Two of these reserves provide a buffer for risks that emerge in year and provide some smoothing of over and underspends across financial years. The two main reserves that can support the budget are the General Reserve and Budget Strategy Reserve as all the other reserves are ear-marked. It is generally accepted that reliance on reserves is not a viable long-term option.
- 19 As reported to the CFA on 2 October 2024 in the Revenue and Capital Outturn 2023/24 report, it should be noted that the £23.067 million usable reserves are largely ear-marked. For example, the Estates Strategy Reserve includes £6.4 million for the new Learning and Development Facility and the Capital Fund Reserve is required to fund the Capital Programme. Also, some of the other reserves include government grants which are ring-fenced for specific purposes e.g. Grenfell and Emergency Services Network (ESN) reserves.

Table 2 Usable Reserves at 31 March 2024

	Balances at 31 March 2024 £000
General Reserve	3,408
Ear-marked Reserves	
Capital Fund Reserve	7,731
Estates Strategy Reserve	8,584
Budget Strategy Reserve	2,005
ESN Infrastructure Reserve	742
Recruitment Over - Establishment Reserve	346
Implementation of Grenfell Enquiry Recommendations	251
TOTAL RESERVES	23,067

20 The demand and cost pressures being incurred are outstripping any growth in resources, creating a widening financial gap which must be addressed. The 2024/25 Budget and Medium-Term Financial Plan agreed by the CFA in February 2024 provides a sound foundation upon which to develop the 2025/26 Budget. The proposed principles are as follows:

- For 2025/26 focus on reducing and mitigating pressures
- Savings options should be identified, particularly to support growth
- Ensure that use of government grants are maximised
- Avoid the use of one-off income to fund ongoing costs as that creates a financial cliff edge – maintain principles of smoothing reserve
- Balance budget cuts with use of smoothing reserves to remain sustainable but not to make cuts which aren't required

Next Steps

21 An indicative 2025/26 budget was set out in the February 2024 MTFP, with a forecast gap of £0.2 million. This will now be updated for current known funding, pressures, any growth items and savings. This work is underway, draft figures will be discussed with Officers and Members and the final MTFP 2025/26 will be presented to CFA in February 2025.

22 The proposed next steps are as follows:

Date	Action
October/November 2024	Budget bids for revenue growth, capital projects and savings proposals received back and reviewed/approved by Senior Leadership Team Finance working to produce the Budget/MTFP for 2025/26 plus 2 years
30 October 2024 Autumn Budget Statement	Received and reviewed
CGC 20 November 2024	Review of Revenue Budget Process 2025/26
December 2024	Draft Budget Report presented to Senior Leadership Team Draft Budget Report presented to CFA Chair and Deputy Chair
December 2024	Budget consultation starts with local business rates payers
10 December 2024	CFA Informal Briefing Budget 2025/2026 (Powerpoint presentation)
Wednesday 11 December 2024	SLT Away Day to consider budget
Late December	Finance Settlement expected
January 2025	Budget consultation ends with local business rates payers
January 2025	Finalisation of Budget
Wednesday 26 February 2025	Budget 2025/26 MTFP presented to CFA

Report Implications/Impact

23 Legal (including crime and disorder)

The CFA is required to set a balanced budget each year following the processes set out in the Local Government Finance Act 1992. The Treasurer as the statutory Chief Finance Officer under section 112 of the Local Government Finance Act 1988 has a number of duties relating the CFA's financial administration and resilience, including to report on the robustness of the CFA's budget estimates and the adequacy of its reserves.

There is a further duty to issue a formal report if the s112 Officer believes that the CFA is unable to set or maintain a balanced budget. The CFA is further charged with a duty to secure best value by making "arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This duty is supplemented by statutory guidance to which the CFA must have regard.

The CFA is also required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities under Part 1 of the Local Government Act 2003. The function of the CFA in setting its budget engages the public sector equality duty and the CFA as a major precepting authority is required to consult representatives of business rate payers with the outcome to be reported to the CFA when it meets to set the budget. There is a requirement for the precept to be approved by the CFA and notified to the billing authorities by no later than 1st March 2025.

24 Financial (including value for money, benefits and efficiencies)

This report considers the process of setting the Revenue Budget, some financial implications are discussed in this report, full financial implications will be considered as part of the budget setting process.

There are no capital financial consequences directly arising from this report.

25 Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)

- i) There are many reasons why councils need to set an annual budget, but the overriding objectives in doing so are to ensure that the council's financial plans are both sustainable and resilient.
- ii) Financial resilience means the budget provides for risks and uncertainties, enabling business continuity into the long-term future, including dealing with unforeseen eventualities.
- iii) Financial sustainability ensures that as much as possible the organisation can continue to deliver services and other benefits for the local area and a commitment to financial resilience ensures that it can do this in an uncertain world in which events may happen which cost the organisation more or financial parameters may change. The need for financial resilience requires the keeping of reserves.
- iv) The budget is a model of the organisation's finances and plan for the future in a complicated and dynamic environment and as such reflects a great deal of uncertainty and risk.
- v) It is important to understand the assumptions implicit in the budget and therefore how risky the budget is. Assumptions should be realistic rather than overly optimistic or overly pessimistic.
- vi) Some key assumptions include:
 - Economic forecasts, especially in relation to inflation and interest rates
 - Expectations about pay awards

- Changes in demand for services
 - Forecasts of government funding (grants from government)
 - Technical and political assumptions about the level of council tax
- vii) One way of looking at budget risk is to consider the major unknowns in terms of best case, worst case and most likely case scenarios.
- viii) The budget might then be constructed based on a most likely scenario, but with provision for the worst case, some or all of which may be available from reserves.

26 Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

There are no staff, service user or stakeholder implications arising from this report.

27 Environmental

There are no environmental implications arising from this report.

28 Impact upon “Our Plan” Objectives

The Finance and Resources strategic aim of demonstrating value for money is supported by effective strategic planning when setting the annual budget/MTFP.

Contact officer:

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Background documents

Budget Strategy 2024/25 to 2026/27 - Report to Combined Fire Authority Meeting 14 February 2024
<https://leics-fire.gov.uk/resources/2267>

Revenue & Capital Outturn 2023/24 - Report to CFA 2 October 2024
[Combined Fire Authority Meeting 2nd October 2024 | Leicestershire Fire and Rescue Service](#)

Revenue and Capital Budget Half Year Monitoring Report, 6 months to 30 September 2024 – Report to this meeting of Corporate Governance Committee 20 November 2024

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