

Report to	North Wales Fire and Rescue Authority
Date	21st October 2024
Lead Officer	Helen MacArthur, Assistant Chief Fire Officer
Contact Officer	Elgan Roberts, Head of Finance and Procurement
Subject	Budget Setting 2025/26



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 2025/26.

EXECUTIVE SUMMARY

- 2 The Authority is required to set the revenue budget for 2025/26 at its meeting on 20 January 2025. 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.

OBSERVATIONS FROM OTHER COMMITTEES

- 3 The budget setting process is subject to Member scrutiny through the Budget Scrutiny Working Group. This is a sub group of the Audit Committee with representation from each constituent local authority. The Budget Scrutiny Working Group has a forward work programme and aims to meet on six occasions between June and December 2024.

RECOMMENDATIONS

- 4 Members are asked to:
 - i) note the planning assumptions being used to develop the revenue budget for 2025/26;
 - 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 16 December 2023; and
 - IV) note the proposal to seek approval for the 2025/26 revenue budget by the Authority at its meeting of 20 January 2025.

BACKGROUND

- 5 Annually, 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.
- 6 The Authority's financial sustainability in the short, medium and longer term is underpinned by knowledge and understanding costs associated with delivering organisational objectives including the evaluation of risks and uncertainties. Pivotal to this is an understanding of service demands, resources available and the future strategic vision.
- 7 The key challenges facing the Authority were set out in the Chief Fire Officer's report to Members in September 2021 including 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.
- 8 To support the development of the strategic vision, the Authority undertook an Emergency Cover Review (ECR) during 2023/24. This included a number of proposed options to change the service delivery framework to address the known challenges associated with daytime availability within rural settings. Following the public consultation on the options contained within the ECR, Members acknowledged the need to build capacity and resilience in rural locations and supported the budget proposals to retain the current operational capacity without changes to duty systems or the number of retained stations. However, it did acknowledge that further work needed to be undertaken to address the rural challenges and this work is progressing.
- 9 The Authority is also facing risks and uncertainties specific to the fire sector including developments in health and safety of operational crews associated with contamination risks. The report into the tragic events in 2017 relating to Grenfell has highlighted further areas that the sector needs to consider including adequacy of response and training.
- 10 In addition and in common to all public sector bodies the Authority is also experiencing financial uncertainties from inflation in key areas including essential software and the impact of interest rate rises for new borrowing or refinanced loans.

INFORMATION

- 11 The 2025/26 budget setting process is underpinned by the outcome of the 2023/24 Emergency Cover Review and existing service delivery models. In

addition, the budget setting process is subject to Member oversight and scrutiny through the Budget Scrutiny Working Group.

- 12 With Members representing each local authority, the working group is scheduled to meet on six occasions between June and December 2024. 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.
- 13 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 including costs associated with the Training Centre project.
- 14 The initial planning assessment for 2025/26 will be presented to the Executive Panel at its meeting on 16 December 2024. This will include sensitivity analysis around risks and uncertainties and will incorporate the findings of the Audit Committee scrutiny.
- 15 The 2025/26 draft revenue budget will be prepared and considered for approval by the Authority at its meeting on 20 January 2025.

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 £50.9m. 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 2025/26 budget have been outlined in Appendix 1.
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Summary of planning assumptions and risks

Appendix 1

Heading	Planning assumptions used in budget setting	Risks/Uncertainties
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<p>Employee costs</p>	<ul style="list-style-type: none"> • The staffing budgets will be formulated on existing service delivery models and reflective of the decision of the outcome of the Fire and Rescue Authority's Emergency Cover Review in December 2023. • RDS expenditure has been based on the 2023/24 headcount. Budgeting for the full required establishment would result in an additional cost of approximately £3 million. • The initial planning assessment for pay awards for 2025/26 is an increase of 4% for all staff groups. • The 2024/25 firefighter settlement included an uplift of circa 50% in the retaining fee paid to firefighters on the retained and day crewing duty systems. The impact of this increase is an estimated £1m per annum. • During 2023/24 the Welsh Government revised the flow of funds in relation to financial support for increases to the employer contributions associated with the firefighters' pension scheme. Following the 2016 actuarial valuations £1.1m of support was provided to the Authority directly from the Welsh Government (known as SCAPE funding). From 2023/24 this has been included within funding to constituent local authorities. At the time of writing the financial support for the increase arising from the 2020 valuation has not yet been confirmed. For the purpose of budget setting all costs are included within expenditure to be met from the levy. 	<ul style="list-style-type: none"> • The National Joint Council (NJC) has not yet reached agreement on the firefighter pay award for 2025/26. • The National Joint Council (NJC) for Local Government Services has not yet reached agreement on the pay award for staff on LGPS contracts for 2024/25 or 2025/26. • 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.
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<p>Non-Pay</p>	<ul style="list-style-type: none"> • The initial planning assessment has confirmed that the non-pay budgets will be formulated on existing service delivery models. • 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. • Unavoidable costs associated with industry specific health and safety matters have been included within the non-pay budget. These include costs associated with the training of operational firefighters and the management of contaminants. • Budgets have been formulated by each relevant Head of Department based on their knowledge and professional judgement of expenditure necessary to achieve corporate objectives. This includes a review of underlying contractual obligations and estimates of activity. New requests for funding over £10,000 are subject to a business case which is subject to scrutiny. • 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 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 	<ul style="list-style-type: none"> • 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 and uncertainty. In particular, it has been noted that delays in the delivery of goods or services have impacted on the time profiles of expenditure. • Although cost inflation is generally more manageable than in recent years it is noted that some areas of concern remain. This includes increases in licences associated with software including business critical systems. • 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 2025/26 is predicated on best estimates at this time. However, volatility in the market continues and this is carefully managed throughout the financial year.
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Heading	Planning assumptions used in budget setting	Risks/Uncertainties
	<p>increase. Following a national legal challenge, the in year costs have reduced by £0.5m to £0.5m although it is uncertain whether the appeal by the supplier will succeed.</p>	
<p>Capital Financing</p>	<ul style="list-style-type: none"> • The capital financing requirement for 2025/26 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 2025/26 capital programme and the impact of interest rate increases when re-financing maturing loans. • The initial planning assessment assumes that all future borrowing will be at the prevailing PWLB rate at the time of budget setting, currently estimated at 4.5%. The Authority receives independent advice and guidance on this matter from Arlingclose, a specialist advisory company. • The capital plan includes potential costs associated with business cases submitted by each Head of Department. This includes some provision for initial costs associated with the Training Centre Project to enable a detailed business case and funding model to be developed. 	<ul style="list-style-type: none"> • The increase in interest rates in recent years is a key risk area and is exacerbated as a number of loans require refinancing during the 2025/26 financial year. Financial modelling will be undertaken to assess the affordability of all proposals during the budget setting process. • 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 the final business case and funding options will not be presented for approval until 2027 provision for costs associated with detailed planning applications will be included in the initial budget estimates.

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Income	<ul style="list-style-type: none"> • Income budgets have been reviewed and set in line with previous years, subject to inflationary increases. These largely relate to income from property where our sites are jointly occupied. • Welsh Government grant income reduced significantly in recent years and the budget setting will assume that remaining Welsh Government grant funding will be received at 2024/25 levels. 	<ul style="list-style-type: none"> • No specific risks have been identified over and above the grant income from the Welsh Government for which inflationary uplifts are not anticipated.