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SOUTH WALES FIRE & RESCUE SERVICE

AGENDA ITEM NO 7
19 DECEMBER 2024

FINANCE AND AUDIT COMMITTEE

REPORT OF THE TREASURER

REVENUE BUDGET CONSULTATION REPORT 2025/26

THIS REPORT IS FOR DECISION

REPORT APPROVED BY THE HEAD OF FINANCE, PROCUREMENT & PROPERTY

REPORT PRESENTED BY THE HEAD OF FINANCE, PROCUREMENT & PROPERTY, LISA MULLAN.

SUMMARY

This report presents budget information in preparation for consultation with Local Authorities and setting the 2025/26 revenue budget.

The report provides context and identifies potential options for budget setting considering the Fire Authority's increasing cost base, pressure on the current financial year's budget and the challenges faced by Local Authorities in funding this Authority, next year.

The report identifies significant financial risks in setting the budget both in the short and medium term.

RECOMMENDATIONS

It is recommended that Commissioners note:

Financial risks within the report and agree the 5.75% increase in budget as the basis for consultation.

1. BACKGROUND

- 1.1 This report presents a 5.75% increase on 2024-25 base contributions. The Authority is obliged under The South Wales Fire Service (Combination Scheme) Order 1995, to submit to each constituent authority before 31 December in any year, an estimate of its net expenses. This report discharges that obligation and further seeks to consult on the proposals prior to final budget setting, required before the 15 February.

- 1.2 The Authority follows appropriate codes of practice in managing its finances and is underpinned by its Treasury Management Strategy (TMSS) and Medium Term Financial Strategy (MTFS). The latest external audit report received by Commissioners 26 September 2024, confirms that its governance, reporting and financial management arrangements are appropriate and functioning well.
- 1.3 As a public sector body with a substantial workforce, inflationary cost pressures bear heavily on our budget. One of the key decisions for Commissioners will be to accurately estimate pay inflation for next year.
- 1.4 The Provisional Local Government Revenue and Capital Settlement for 2025/26 was released by Welsh Government (WG) 10 December and provided an indication of spending, taxation and financing plans. The scrutiny process continues with a published budget due 25 February and a final budget debate scheduled 4 March 2025 in the Senydd and until then a final position will not be known. The Cabinet Secretary has referenced a move towards multiyear settlements on the conclusion of the spending review planned for the first half of 2025 and until then, forward planning with any accurate assessment of external factors is challenging.
- 1.5 South Wales Fire and Rescue Service (SWFRS) is continuing discussions with WG regarding the completion of the operational thematic reviews. In addition, the development of the 'transformation and change programme' continues although details to base cost assumptions are unavailable and therefore not factored into budget proposals.

2. ISSUE / PROPOSAL

- 2.1 Finance and Audit Committee (FAC) are asked to consider the appropriate level of budget for 2025/26 in view of the risks and unknowns facing the Service.

2.2 LOCAL GOVERNMENT SETTLEMENT

- 2.2.1 WG indicated that resources for councils in Wales could increase by an average 4.3% for 2025/26. This is generally regarded as a better than expected settlement although it remains significantly less than the cost pressures faced by local government.
- 2.2.2 In previous years, the Fire Authority has been informed of the consistent pattern of increases in local taxation which assists in budget setting for council services which includes fire and rescue services. Average council tax increases in Wales for 2023-24 were 5.8% with council tax accounting for around one quarter of their net revenue to fund services.

2.2.3 Depending on council tax decisions, these resources combined could see average net revenue spending in councils rise by around 4.7%

2.3 WELSH GOVERNMENT FUNDING

2.3.1 The Authority relies on several streams of WG funding to support its budget. As in previous years, no forward commitment has been given to support these income streams. Pension costs, national resilience and community safety activities all rely heavily on grant funding and a lack of long-term commitment to fund these represents a risk to the Authority. Including the fire fighter pension (FFP) and PFI grant, funding equates to around £19m per annum, the equivalent of 19% of the contributions budget.

2.3.2 Previously, WG terminated its support for FireLink (the Airwave emergency communications system) resulting in a withdrawal of £600k of funding citing the case that such costs were part of the operational service delivery of the Authority. There is a risk that other grant cuts may follow.

2.3.3 There is a wider initiative underway within central government to reduce specific grants and thus reduce administration costs. Whether this will further impact grant funding for fire in 2025/26 is not yet known.

2.3.4 SCAPE grants paid directly to Fire Authorities were also withdrawn in 2023/24, £3m for SWFRS, causing a spike in the fire levy as funding was re-rooted through Councils. The Cabinet Secretary has outlined there will be a change to SCAPE funding arrangements to Councils in 2025/26. SCAPE funding supports increased employer costs related to unfunded schemes i.e. teacher and fire pensions. As an alternative to specific grants, as in 2024-25, funding has been baselined in the settlement to Councils on the premise funds will continue to be accessed by fire services through the levy.

2.3.5 Additional funding has recently been received from WG to support pay pressures following higher than planned NJC pay awards. £900k has been made available for Welsh FRS's, £371k for SWFRS and this funding will also be baselined into Council settlements in 2025-26.

2.3.6 In most years, Welsh Government provides a cash flat grant profile. This of course represents real terms cuts as costs have significantly increased. Likely pay inflation in 2025/26 will again erode the value of those grants which remain.

2.4 BASE BUDGET CONSIDERATIONS

- 2.4.1 There are two fundamental issues with the base budget going forward. Firstly, there is under-provision within the current year arising from inflationary pressures. Previous budget monitoring reports to this Committee indicates a significant overspend of £1.6m. Secondly, there is continued inflationary pressure in 2025/26 on top of planned expenditure requirements contained within budget submissions for the coming financial year. Each of these is outlined in the following paragraphs.
- 2.4.2 The most significant part of the Authority's budget is employee costs representing around 77% of spend. The Authority has faced a turbulent period in its budget setting resulting mainly from inflation.
- 2.4.3 Whilst inflation has followed a downward trajectory over the last year i.e. 2.3% per Bank of England (BoE), trade unions are pushing for pay awards exceeding inflation rates. The Authority's current year budget is under pressure with the difference between the budgeted pay uplift of 3% and a pay award for grey book (operational staff) of 4%; and green book (corporate) of a flat rate £1,290 which results in an average rate of 3.8%. These differences equate to a £500k shortfall which must be baselined into 2025/26.
- 2.4.4 Pay inflation for 2025/26 again must be estimated in this uncertain economic climate. A 3% provision has been modelled for the coming year equating to £1.8m of additional pressure.
- 2.4.5 Labours first Autumn Budget presented changes to National Insurance Contributions (NIC) and lowered the threshold for taxation and increased the rate, resulting in £1.7m of additional costs and a 1.7% increase on the contributions budget. Estimates from local government are that this is around £109m in total, and HM Treasury has confirmed it will provide additional funding to WG in the first half of 2025-26. As such, NIC funding is not included in the provisional settlement and will be provided as an addition.
- 2.4.6 In total, the base pay budget has increased by £4m, around a 3.95% increase on the contribution budget.
- 2.4.7 Each year, the employee budget is built up based on the full establishment as approved by the Fire Authority. In approving the budget last year, staff savings were assumed from a combination of vacancy provisions and reserve funding. This has been continued for 2025/26 and equates to an approximate 1% reduction on contributions.

- 2.4.8 The Premises budget is once again under pressure from inflationary increases mainly in energy costs. Estimated increases are in the region of 20 - 30% for gas and electricity, equating to £325k. Index linked contracts are subject to significant increases and a schedule of reprioritisation has been undertaken to offset these. The budget for Premises is modelled to increase by £500k or 8.3% next year.
- 2.4.9 There is a small increase in the operational equipment budget which maintains a mix of front line, training and R&D equipment lines across all operational departments. The budget strategy is to continue to fund technical refreshes for the front line from the Equipment Replacement Reserve (ERR), set up to drive efficiency and remove volatility from the budget. £100k has been budgeted to commence replenishment of this reserve which was set up two years ago. Other supplies budgets reflect inflationary increases and reductions according to planned activities. The Authority's insurance cover is anticipated to increase by £100k due to increased activity. Overall, Supplies costs are expected to increase by around £311k or 5.3% next year.
- 2.4.10 There is a small reduction in the Transport budget of £60k as we continue to reduce the use of fossil fuels across the fleet. The introduction of electric, hybrid and cleaner diesel vehicles underpin this.
- 2.4.11 Capital financing costs are the revenue consequence of capital investment and Commissioners are minded that SWFRS does not receive a share of the local government settlement, and is funded through borrowing, capital receipts and grants. Overall exposure to capital financing costs is monitored through the Authority's Treasury Management Strategy. Interest rate rises do not directly impact the Authority's budget as much of its debt is fixed and long term, however, there is a general upward pressure on interest costs as maturing loans are replaced. There are opportunities to increase returns on invested cash, but this will depend on the Treasury Management policy from year to year. Generally, the avoidance of borrowing is still more cost effective than investing although borrowing is scheduled to take place next year to support continued capital investment.
- 2.4.12 Reserves in the region of £1.4m will be deployed to fund investment priorities and reduce capital financing costs. Service priorities of decarbonisation, Diversity, Inclusion, Cohesion and Equality (DICE), and managing the long-term risks to firefighter health are essential in ensuring a sustainable, safe and diverse workforce.

2.4.13 In drafting this budget, a prudent view of the capital programme completion rate has been applied which in the past has shown an aspirational trend. A reassessment of both the Minimum Revenue Provision (MRP) and borrowing costs resulted in a £200k efficiency and results in a year on year increase of £566k or 10.7%.

2.5 WORK ON MITIGATION

2.5.1 The Authority has been working with North Wales FRS and Mid & Wales FRS to arrive at broadly consistent planning assumptions. Our initial planning work shows a consistent pattern of budget pressures across Wales.

2.5.2 The initial draft position presented an 8.54% increase in contributions although considerable work has been undertaken in arriving at the consultation budget. In reviewing the draft budget, a rationalisation has been undertaken resulting in the following 'net changes';

- the assumptions underpinning the budget -£839k vacancy factor.
- the bids submitted by service areas -£1.2m rationalisation.
- options for funding costs other than from the base budget -£565k.
- savings that can be secured both this and next year -£100k.

2.6 CONSULTATION BUDGET

2.6.1 A theme from previous consultations has consistently emerged and that is the availability of usable reserves and the extent to which the Fire Authority could deploy these reserves to mitigate or smooth any budget increases. Paragraph 2.4.13 above, outlines such an approach.

2.6.2 The Authority must be particularly mindful of the availability, commitment and sustainability of usable reserves in accordance with the Financial Management Code. The following table summarises the position of usable revenue reserves considering known and projected commitments.

	Balance	Use	Balance	Use	Balance	Use	Balance
Reserve	31/3/24	24/25	31/3/25	25/26	31/3/26	26/27	31/3/27
General	3,000		3,000		3,000		3,000
General reserves equate to 3.14% of 24-25 revenue budget							
Change Management	3,438	-1,183	2,255	-1,332	923	-600	323
Required to fund forecast overspend in 23/24 plus budget reductions in 24/25							
Carbon Reduction	3,000		3,000	-700	2,300	-2,300	0
Reserve maintained to fund projects as identified							
Contamination Facility					0	2,900	2,900
Committed to complete the contamination facility @ CG							
Equality, Diversity & Inclusion	2,000		2,000	-577	1,423		1,423
Reserve maintained to fund projects as identified							
Equipment Renewals	1,982	-140	1,842	-559	1,283	200	1,483 *
Reserve used to fund equipment renewals and one off costs avoiding impact on revenue budget							
PFI Equalisation	2,727	-596	2,131	-731	1,400	-818	582 *
Fully committed to match reductions in grant v expenditure to mitigate impact on revenue budget							
FireLink CMA	425	-425	0		0		*
Fully committed to fund the repayment of service credit, subject to national dispute							
Managed Underspends	44	-44	0		0		*
Fully committed to meet known liabilities							
Joint Control Lease	100	-100	0		0		*
Fully committed to meet known liabilities							
Total	16,716	-2,488	14,228	-3,899	10,329	-618	9,711

2.6.3 Approximately £2.9m of the above will be required during 2026-27 to 2027-28 to fund the completion of the contamination project at Cardiff Gate.

2.6.4 Except for the general reserve, all reserves are earmarked although some reprioritisation can be achieved. Reserves marked with a * are committed and have limited, if any, flexibility for this purpose.

2.6.5 There is a clear downward trend in reserve balances, most notably is the impact on the change management reserve which is funding the impact of change since the WG intervention, 6 February 2024. This represents a mix of staffing and service contracts that are not included in the base budget. This approach has a finite timespan as reserves deplete and work needs to be undertaken to review and consider service delivery options on a sustainable basis.

2.6.6 Similarly, should Commissioners be minded to utilise reserves to mitigate or smooth the increase in budgets, it would have to put in place a plan to remove the ongoing use of reserves. This could be through the identification and delivery of savings or increases in the base budget in future years or a combination of both.

2.6.7 For illustrative purposes only, each 1% reduction in the budget increase would require the use of £958k in reserves.

2.7 POPULATION CHANGES

2.7.1 The basis of distribution of the contributions budget amongst councils is the population of each area. The figures for the distribution are those published by Welsh Government in the Local Government Distribution Settlement formula. Fluctuations in contributions for each council are also caused by population and proportional changes, illustrated below;

Name	Contribution Budget 2024/25 £	Est Pop Mid-2022	Est Pop Mid-2023	Chg No	Contribution Budget 2024/25 (updated pop) £	Budget %	Proportion Change %	Contribution Difference £
Bridgend	9,088,632	146,136	146,743	607	9,014,184	9.41%	0.08%	74,448
Vale of Glamorgan	8,302,264	133,492	134,733	1,241	8,276,429	8.64%	0.03%	25,835
Cardiff	23,141,321	372,089	383,536	11,447	23,559,992	24.58%	-0.44%	-418,671
Rhondda Cynon Taf	14,865,240	239,018	241,178	2,160	14,815,172	15.46%	0.05%	50,068
Merthyr Tydfil	3,662,109	58,883	58,593	-290	3,599,273	3.76%	0.07%	62,836
Caerphilly	10,954,048	176,130	176,437	307	10,838,238	11.31%	0.12%	115,810
Blaenau Gwent	4,167,800	67,014	67,356	342	4,137,569	4.32%	0.03%	30,231
Torfaen	5,775,239	92,860	93,419	559	5,738,577	5.99%	0.04%	36,662
Monmouthshire	5,839,049	93,886	94,572	686	5,809,404	6.06%	0.03%	29,645
Newport	10,044,538	161,506	163,628	2,122	10,051,402	10.49%	-0.01%	-6,864
	95,840,240	1,541,014	1,560,195	19,181	95,840,240	100%	0	-0

2.7.2 Using updated population data and the current year budget, both Newport and Cardiff City Councils will pay more and the remaining eight less, due to the proportional change of the population in the South Wales area.

2.7.3 Adding in the budget uplift of 5.75% the change in each Local Authority's contributions are set out as follows;

Name	Contribution Budget 2024/25 £	Contribution Budget 2025/26 £	Uplift £
Bridgend	9,088,632	9,532,347	-443,715
Vale of Glamorgan	8,302,264	8,752,184	-449,920
Cardiff	23,141,321	24,914,295	-1,772,974
Rhondda Cynon Taf	14,865,240	15,666,795	-801,555
Merthyr Tydfil	3,662,109	3,806,170	-144,061
Caerphilly	10,954,048	11,461,254	-507,206
Blaenau Gwent	4,167,800	4,375,410	-207,610
Torfaen	5,775,239	6,068,449	-293,210
Monmouthshire	5,839,049	6,143,347	-304,298
Newport	10,044,538	10,629,188	-584,650
	95,840,240	101,349,438	-5,509,198

2.8 RISKS

2.8.1 The detail of the report highlights some of the financial risks in setting the budget for next year. It is important to highlight those key risks for Commissioners when they consider the appropriate consultation budget. These risks are

- The level of inflation for the coming year, in particular pay increases.
- The uncertainty of Welsh Government grant funding.
- The projected in year overspend which will be met from reserves and the continued draw on this.
- The need to set a sustainable budget beyond 2025/26.
- Failure to identify and / or deliver efficiencies in service delivery.

3. IMPLICATIONS

3.1 Community and Environment

3.1.1 The budget includes assumptions of savings derived from carbon reduction initiatives.

3.1.2 This report includes budget projections that will form the basis of consultation with the ten constituent authorities.

3.2 Regulatory, Strategy and Policy

3.2.1 The budget references detailed plans of the Authorities finances and is prepared in compliance with several regulatory codes of practice.

3.3 Resources, Assets and Delivery

3.3.1 This report will form the basis of the revenue and capital budget planning for the coming financial year.

4 EVALUATION & CONCLUSIONS

4.1 Following extensive work undertaken in reviewing the base budget for efficiencies, a like for like budget increase of 5.75% is projected. This is above the 4.3% average increase for councils by 1.45%. The Authority’s approach to budget setting is to track, if where possible, better council settlements and this would have been the case again in 2025-26 if not for the NIC changes discussed above. Financial support for NIC will be forthcoming to councils as part of the supplementary budget with advice to Fire Authorities to include in the annual fire levy.

<p>5.75% Contribution Budget Inc -1.70% NIC impact 4.05% without NIC</p>
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4.2 Lowering the budget further would require the temporary use of revenue reserves and commitment to the development of a sustainable and deliverable plan to address future budget levels acknowledging any consequential impacts on service delivery.

4.3 There are significant risks associated with the delivery of both the current year outturn and next year’s budget.

5 RECOMMENDATIONS

5.1 That Commissioners note the financial risks within the report and agree the 5.75% increase in budget as the basis for consultation.

Contact Officer:	Lisa Mullan Head of Finance, Procurement & Property
Background Papers	Welsh Government Draft Budget and Provisional LGF Settlement 2025-26