Section 25 Report from the Chief Financial Officer

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Authority when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The Authority is required to have regard to this report in approving the budget and council tax. Section 25 concentrates primarily on the risk, uncertainty, and robustness of the budget for the next financial year rather than the greater uncertainties in future years. Given the continued lack of a multi-year settlement, the well documented issues of financial sustainability in the sector and the challenging position in later years of the Medium Term Financial Plan, this report considers not only the short term position but also the position beyond 2024/25.

Robustness of Estimates in the Budget

The budget setting process within the Fire Authority has been operating effectively for many years and is based on incremental changes to budgets each year allowing for pay and price inflation and other marginal base changes in the cost or levels of service. For the 2024/25 process, necessary increases to budgets resulting from delivery pressures were identified and robustly challenged by the Executive Group, before being presented to the Fire Authority for initial approval over the course of the financial year. These pressures either relate to necessary service enhancements or to market pressures increasing the price of existing services.

The Executive Group also considered the ability of the service to deliver efficiencies, to manage the budget gap and ensure value for money in service delivery. Our productivity and efficiency plan sets out how cashable savings have been delivered and how other savings have been used for reinvestment in service improvement.

Inflation remains high although is no longer forecast to increase. Pay costs make up more than 71% of the budget, so uncertainty about pay ultimately has a negative impact on the robustness of estimates contained within the budget. Prudent assumptions about pay and non pay inflation plus the inclusion of a general contingency mitigate these concerns.

The accounts process for the 2022/23 accounts has been delayed and has only recently commenced. However, I have no reason to believe that this delay has any impact on the robustness of estimates contained within the budget.

As Chief Financial Officer for the Authority I have a close involvement in the budget setting process, and I am content that the estimates are robust based on the knowledge we have available to us currently.

Risks in the Budget 2023/24

The most significant financial risks to the Authority relate to the uncertainty of the medium term position and specifically to the risk that Government funding may reduce, and that pay and price inflation may outstrip the Authority's resources.

a) Government Funding and Policy. The provisional local government settlement was announced in December 2023. This settlement confirmed a 3% referendum limit, as opposed to the £5 (6.2%) that had been the limit in the previous two years. As an Authority that is heavily reliant on Council Tax this had a significant negative impact on the position for 2024/25. The budget gap for 2024/25 has been closed, in large part due to one off funding in the form of the Funding Guarantee Grant, as well as a result of some changes to inflation assumptions. In addition, in February the Home Office confirmed a grant of £2.6m to recognise the additional costs as a result of the triennial valuation of the Firefighters Pension Scheme. This grant is lower than the forecast costs of the pension rate increase for the Authority. These changes are illustrative of the challenges in forecasting funding. Any risk of funding changes is now low for 2024/25.

b) Pay and Price Risk. This risk remains, although inflation has slowed and is forecast to continue reducing. It has been necessary to draw on some of the risk related funding held in the Capital and Investment Risk Reserve as part of the budget setting process. This is as a result of specific and significant inflation on the capital programme. Reasonable allocations for inflation have been built into the budget and some risk related amounts remain in the Budget Equalisation Reserve and the Capital and Investment Risk Reserve. Pay awards for 2024/25 have not yet been agreed. Should these be higher than assumed, this would create an in year pressure that would need to be managed from the contingency, any in year underspends or risk reserves. In light of these mitigations, it would take a major departure from the Authority's assumptions to create a financial problem that could not be managed in year.

c) Treasury Risk. The Authority has limited exposure to interest rate risk as most long term borrowing is undertaken on a fixed rate basis. As a result of the significant prudential borrowing required for the Station Investment Programme, the Authority will need to start borrowing externally. Decisions on when best to take out this borrowing will need to be considered to limit the ongoing revenue liabilities that this will create. The Authority continues to hold some pooled funds, although some holdings were sold during 2023/24. The budget includes very prudent forecasts for investment returns, and the Capital and Investment Risk Reserve remaining balance provides a mitigation against losses on the capital value of pooled funds.

d) Economic uncertainty. There are significant financial challenges in the local government sector, the wider public finances and the economy generally. Although there are no immediate risks to the Authority from these concerns, there is likely to be an impact on the medium term position, as well as on partners and the communities we serve.

The Adequacy of Reserves

The Authority's policy on general balances is to hold a minimum prudent level which is currently set at £2.5m. This balance has remained constant since the start of period of austerity. The projected level of general fund balances will be 2.5% of net expenditure at the beginning of 2024/25 and it is considered that this remains a comfortable level. It is worth noting that the authority has never needed to dip into its general fund balance.

In line with its Asset Management Policy and financial principles, the Authority continues to make annual contributions to earmarked reserves for investment in capital assets and for the refresh of ICT and operational assets. The balance on these reserves has reduced considerably in the last two financial years as significant progress in the delivery of the capital programme has been made. These reserves are essential in ensuring that the Authority is able to invest in assets to ensure that its estate, equipment and vehicles are of a reasonable standard and that the Authority is not creating an unsustainable burden of asset replacement for future years. Regular reviews on the adequacy of these reserves are undertaken.

During the setting of the 2023/24 budget, risk reserves were strengthened. It has been necessary to draw from the Capital and Investment Risk Reserve to fund inflationary increases on the capital programme. An additional one-off contribution has been made to the Budget Equalisation Reserve to provide a mitigation against the risk of a delay in delivering the efficiencies needed to balance the budget in 2025/26 as well as to deal with any unforeseen inflationary pressures in year.

Although the total balances on risk reserves are relatively low, they strengthen the Authority's ability to withstand financial shocks. Should the Authority face financial issues greater than can be managed from these reserves, it would be possible to reduce revenue contributions to earmarked reserves while plans were developed to address budget gaps as a last resort.

Budget 2024/25 – Conclusion

Provided that the Authority considers the above factors and accepts the budget recommendations, especially the recommendation to increase Council Tax by the proposed maximum allowable amount, a positive opinion can be given under Section 25 on the robustness of the estimates in the budget and level of reserves for 2024/25.

The Position Beyond 2024/25

Given the announcement of a further one-year spending round for 2023/24 the Authority is still in the position of not knowing what its financial prospects are beyond a one-year planning horizon. In the absence of concrete information, the Medium Term Financial Plan has been built on a series of prudent assumptions.

The plan indicates that there is a significant deficit forecast for 2025/26. During 2024/25 plans to address this shortfall will be developed and implemented. Should there be necessary delays to plans or should the deficit position be worse than forecast, risk reserves will be used to balance the position, with reductions in contributions to other reserves used as a last resort.

There are significant risks within the Medium Term Financial Plan. Prudent planning assumptions, reserves and a drive to deliver cashable efficiencies within the Service mitigate these risks. It would take a significant change in the funding regime to create a scenario which the Authority could not cope with in the Medium Term.

Catherine Edgecombe

Chief Financial Officer

9 February 2024