



Safest People, Safest Places

AUDIT AND FINANCE COMMITTEE

23 JANUARY 2025

REVENUE AND CAPITAL BUDGETS 2025/26 AND MEDIUM-TERM FINANCIAL PLAN

REPORT OF DEPUTY CHIEF EXECUTIVE

Purpose of Report

1. The purpose of this report is to set out details of the provisional local government finance settlement for 2025/26 and to consider the revenue and capital budgets and medium-term financial plan (MTFP). Following consideration of the report, members will be requested to agree a firm recommendation on the level of council tax to the meeting of the Fire Authority on 17 February 2025.

Background

2. The current MTFP was approved at the meeting of the Authority on 16 February 2024 and was based on several assumptions which are set out in table 1 below:

Table 1: Current MTFP Assumptions

	2024/25	2025/26	2026/27	2027/28
Income Assumptions				
Council Tax Base	+0.79%	+0.90%	+0.90%	+0.90%
Council Tax Level	+2.99%	+1.99%	+1.99%	+1.99%
Government Funding	+6.70%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+3.00%	+3.00%	+2.00%	+2.00%
Inflation	+3.00%	+2.00%	+2.00%	+2.00%

3. The current MTFP is set out in Table 2 below:

Table 2: Current MTFP

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Net Expenditure	35.450	36.117	37.809	38,344
Government Funding	11.962	12.202	12.446	12.695
Local Non-Domestic Rates	1.549	1.549	1.549	1.549
Council Tax	21.492	22.118	22.766	23.432
Services Grant	0.050	0.050	0.051	0.052
Funding Guarantee	0.530	0.198	0.198	0.198
Deficit on Collection Fund	(0.133)	0	0	0
Total Funding	35.450	36.117	37.010	37.926
Surplus/ (Shortfall)	0	0	(0.799)	(0.418)

4. The current MTFP has been revised to incorporate the latest available information on government funding, council tax, pay awards and inflation. This report sets out a draft budget for 2025/26 together with a draft MTFP for the four-year period covering 2025/26 to 2028/29. There are many significant factors affecting the MTFP which are difficult to quantify including: the level of government funding beyond 2025/26, the level of future pay awards, the level of inflation and the level of employer's pension contributions. The draft MTFP is therefore based on assumptions which could have a significant impact on the Authority's overall financial position should the actual position turn out to be different.

Provisional Settlement 2025/26

5. The government announced the provisional settlement on 18 December 2024 which once again is a one-year funding settlement for 2025/26, compounding the uncertainty surrounding future funding.
6. The Services Grant that was introduced in 2022/23 will be discontinued in 2025/26 along with the Funding Guarantee which was introduced in 2024/25 to ensure that all local authorities see at least a 3% increase in Core Spending Power before any council tax decisions locally. The Authority received £580,000 from these two funding sources in 2024/25 which will not continue in 2025/26.
7. The provisional Settlement Funding Assessment has been calculated by formula and is the government's assessment of the financial resources to be provided from a combination of revenue support grant, local business rates income and top-up grant. Table 3 below sets out the settlement figures for 2025/26 and the current year (2024/25).

Table 3: Provisional Settlement

Description	2024/25 £m	2025/26 £m
Government Funding	11.962	12.132
Local Non-Domestic Rates	1.549	1.547
Settlement Funding Assessment	13.511	13.679
Services Grant	50	0
Funding Guarantee	530	0
Total	14.091	13.679
Change in Funding	+0.887	-0.412
% Change in Funding	+6.7%	-2.9%

8. The Authority's funding from government will decrease by £0.412M (2.9%) in 2025/26.
9. Alongside the Provisional Settlement MHCLG has published a consultation on funding reform. The Autumn 2024 Budget announced the Government's intention to pursue a comprehensive set of reforms to place local government in a more sustainable position. The government is committed to allocating funding where it is needed most using the best available evidence to assess differences in need (including deprivation) and the resources available to individual authorities. It is intended that reform of funding allocations will begin at the 2026/27 Settlement which will be a multi-year settlement.
10. Whilst it hoped that the Authority will see an increase in funding following the reform this is not certain. In view of this uncertainty the Authority will need to continue to prepare for the possibility of further reductions in funding going forward.

Council Tax Base

11. The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2025/26 and are set out in table 4 below:

Table 4: Council Tax-base Information

	Durham County Council	Darlington Borough Council	Total
2024/25 Tax-base	146,645.30	35,300.80	181,946.10
2025/26 Tax-base	148,760.60	35,904.50	184,665.10
Change	+2,115.30	+603.70	+2,719.00

12. The increase in the council tax base of 1.5% generates an additional £321,168 of council tax revenue based on the current Band D council tax of £118.12

Council Tax and Business Rates Collection Funds

13. The Authority has been notified by Durham County Council and Darlington Borough Council of forecast surpluses/deficits on the council tax and business rates collection funds for 2024/25. The Authority's estimated share of the 2024/25 net surplus on the collection funds is £77,000.

14. The estimated surplus on the collection funds in 2024/25 will be included in the budget requirement for 2025/26.

Local Council Tax Referendum

15. The Government has also announced details of the local council tax referendum principles for 2025/26.
16. Fire and rescue authorities will have flexibility to increase Band D council tax by up to £5 (4.23%). Any fire and rescue authority that wishes to increase Band D council tax in 2025/26 by more than £5, as compared to the 2024/25 council tax level will be required to hold a referendum.

Budget Pressures

17. The following budget pressures have been identified some of which have been incorporated into the revised MTFP:

Pay Awards

18. The current MTFP includes an allowance for pay increases of 2% in each year however there is a great deal of uncertainty surrounding the level of pay awards going forward. Each additional 1% increase in pay for the whole workforce costs in the region of £298,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

Inflation

19. In addition to the increase in general inflation, there have been significant increases in the cost of gas and electricity during 2024/25 and further increases are possible going forward. For 2025/26, the budgets for gas and electricity have been increased to reflect current prices and an allowance of 2% has been added to other non-pay budget headings. A further allowance to cover exceptional inflationary pressures has been made within the contingencies budget which can be allocated to budget holders on an exceptional basis should the need arise.

Employers National Insurance Contributions (NICs)

20. The Autumn Budget included an increase to employer's NICs and corresponding compensation for local authorities. The Provisional Settlement confirmed that there would be £515m for local government (excluding police and education services, which are being treated separately). The majority of this funding will be distributed via the final settlement. We do not expect the compensation to fully cover the cost of the changes to employer NICs which is estimated to be £462,000 in 2025/26. Initial indications are that the compensation grant may only cover half of the additional cost. At this stage we have assumed that the compensation grant will not continue beyond 2025/26.

Firefighters Pension Scheme (FPS)

21. The results of the latest actuarial valuation of the Firefighters Pension Scheme were published on 19 December 2023. Following the valuation, the revised employer contribution rate will be 37.6% of pensionable pay from 01 April 2024, an increase of 8.5%. The Home Office have provided a new pensions grant to fire and rescue services in 2024/25 and 2025/26 in relation to the additional employer contributions along with a further grant towards additional pension administration costs. This is a one-off grant at this stage and the Home Office will need to bid for funding in the forthcoming Spending Review to secure the grant for future years.

Efficiency Savings

22. The 2025/26 revenue budget has been constructed with an emphasis on the identification of efficiency savings. Where savings have been identified based on historic and predicted future spend the relevant amount has been removed from the 2025/26 budget.

Medium Term Financial Plan 2025/26 to 2028/29

23. The MTFP incorporates 2025/26 and future year's expenditure and income estimates. We are still awaiting confirmation of some figures which are likely to change before the final version of the MTFP is presented to the Fire Authority for approval. Any changes are expected to be marginal and will not impact on the proposed level of council tax for 2025/26.
24. The estimates for 2026/27 onwards are less robust as they are based on assumptions therefore there is a significant risk that the actual position could turn out to be different.
25. The MTFP is based on assumptions which are set out in table 5 below. At this stage the assumptions are believed to be reasonable based upon the information that is available.

Table 5: MTFP Assumptions

	2025/26	2026/27	2027/28	2028/29
Income Assumptions				
Council Tax Base	+1.49%	+0.92%	+0.92%	+0.92%
Band D Council Tax Level	+£5.00	+1.99%	+1.99%	+1.99%
Government Funding	-2.90%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+2.00%	+2.00%	+2.00%	+2.00%
Inflation	+2.00%	+2.00%	+2.00%	+2.00%

26. The Authority has been notified of an overall collection fund surplus in relation to 2024/25 which have been included in the 2025/26 budget. No surplus or deficit has been incorporated into the MTFP models for future years.

27. The MTFP in Table 6 below is based on the assumptions outlined in Table 5 including a £5 increase in Band D council tax.

Table 6: Medium Term Financial Plan 2025/26 to 2028/29

	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m
Net Expenditure	36.732	38.622	39.493	40.502
Government Funding	12,132	12.374	12.622	12.874
Local Non-Domestic Rates	1.547	1.547	1.547	1.547
Council Tax	22.736	23.402	24.086	24.792
Surplus on Collection Funds	77	0	0	0
NIC Compensation Grant	240	0	0	0
Total Funding	36.732	37.323	38.255	39.213
Surplus/ (Shortfall)	0	(1.299)	(1.238)	(1.289)

28. The MTFP in Table 6 above shows a balanced budget for 2025/26 and a shortfall in funding of £1.2M from 2026/27 onwards.
29. Due to the uncertainty around future funding and the number of assumptions which could turn out to be different, the figures for 2026/27 onwards are less robust and are for indicative purposes only at this stage.

Impact of Changes to Assumptions on the MTFP

30. Several assumptions have been made in relation to settlement funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are reasonable at this stage, there is a risk that the actual position could turn out to be different.
31. Table 7 below sets out the potential impact of changes to the main assumptions on the MTFP position:

Table 7: Impact of Changes to Expenditure and Income Assumptions

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	0.298
1% change in level of Inflation	0.086
1% change in level of council tax	0.218
1% change in level of settlement funding	0.137

Balancing the Budget over the Medium Term

32. At the Fire Authority strategic planning day on 21 November 2024, members received an update on the available options that have been modelled to shape the Service's Emergency Response provision in future years together with alternative options for service delivery. A summary of the savings options is set out in Table 8 below:

Table 8: Summary of Options to Balance the Budget

Option Number	Option	Saving £m	Response Standards Impact
1	Service Headquarters	0.200*	IMPLEMENTED
2	Phase 2 of the Service Structure	0.013*	IMPLEMENTED
3	Review of SLT and Middle Managers	0.445*	IMPLEMENTED
4	Ride with a crew of 4 on all appliances	0.780*	IMPLEMENTED
5	SRU Unit Crewed	0.499	LEAST
6	Remove 1 x station TRV	0.494	LEAST
7	1 X RDS station removal of second pump	0.143	GREATER
8	1 x station second pump to day crewing	0.317	GREATER
9	1 x station to day crewing	0.528	GREATER
10	1 x station 1 pump and 1 TRV	0.469	GREATER
11	1 x wholetime station removal of second pump	0.962	GREATER
12	1 x station to RDS only	1.251	GREATER

* Value of saving at the time of implementation

33. Options 1-4 in the table above are complete and the savings have been built into the budget and the MTFP. At this stage none of the other options have been incorporated into the budget for 2025/26 or the MTFP.

Proposed Council Tax Increase 2024/25

34. The MTFP is based on a Band D council tax increase of £5.00 (4.23%) in 2025/26, and 1.99% in each of the following years. This is the maximum increase allowed without holding a referendum. Table 9 below sets out the effect of a £5.00 Band D council tax increase in 2025/26 on each of the property bands:

Table 9: Effect of a £5.00 Band D (4.23%) Increase in Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2024/25 Council Tax	Increase (per annum)	2025/26 Council Tax	Increase (per week)
Band A	6/9	£78.75	£3.33	£82.08	6.4p
Band B	7/9	£91.87	£3.89	£95.76	7.5p
Band C	8/9	£104.99	£4.45	£109.44	8.6p
Band D	'Basic Amount'	£118.12	£5.00	£123.12	9.6p
Band E	11/9	£144.37	£6.11	£150.48	8.1p
Band F	13/9	£170.62	£7.22	£177.84	13.9p
Band G	15/9	£196.87	£8.33	£205.20	16.0p
Band H	18/9	£236.24	£10.00	£246.24	19.2p

35. A £5.00 (4.23%) increase in the basic amount (Band D) council tax will generate an additional £923,000 of council tax income in 2025/26.
36. Members are requested to consider the level of council tax for 2024/25 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 16 February 2024.

Capital Programme 2025/26 to 2028/29

37. The capital programme includes provision for building works, vehicle and equipment renewals and ICT replacement. The revenue costs associated with the capital programme have been incorporated into the MTFP models set out in this report.
38. The Authority's capital programme is summarised in table 10 below.

Table 10: Capital Programme 2025/26 – 2028/29

	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m
Major Works	3.000	3.000	0	0
Minor Works	0.500	0.500	0.250	0.250
Vehicles	3.380	1.556	0.371	2.629
Equipment	0.493	0.470	0.223	1.256
ICT	0.558	0.150	0.150	0.150
Total Expenditure	7.931	5.676	1.244	4.285

Risks

39. There are several risks associated with the MTFP that need to be considered when setting the 2025/26 budget:

Local Business Rates Retention

40. The local business rates retention scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington. The Authority is also exposed to collection rate risk and if collection rates fall then there will be a direct impact on the Authority's available financial resources.

Local Council Tax Benefit Schemes

41. The local council tax benefit schemes administered by Durham County Council and Darlington Borough Council exposes the Authority to a further council tax collection rate risk.

Expenditure and Income Assumptions

42. Assumptions have been made in relation to government funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are reasonable at this stage, there is a risk that the actual position could turn out to be different.
43. The outcome of the last valuation exercise for the Firefighters Pension Scheme resulted in an increase of 8.5% in the average employer's contribution rate. The Home Office have stated that grant funding will be made available in 2025/26 towards the additional cost however there is a risk that the Home Office is unable to secure this funding in future years.
44. The above risks will be closely monitored, and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the MTFP.

Reserves

45. The National Framework document which sets out the priorities and objectives for fire and rescue authorities (FRA's) makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's MTFP.
46. The information which FRA's are required to publish includes:
- how the level of the general reserve has been set.
 - justification for holding a general reserve larger than five percent of budget.
 - whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is so committed; and
 - a summary of what activities or items will be funded by each earmarked reserve, and how they support the fire and rescue authority's strategy to deliver good quality services to the public.

47. The reserves held by the Authority are reviewed on an ongoing basis in accordance with the agreed reserves policy which states that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure currently £1.605M

48. The estimated reserves position at the end of 2024/25 and for the remainder of the MTFP period is set out in table 11 below:

Table 11: Estimated Reserves Position 2024/25 – 2028/29

Reserve	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
General Reserve	1.773	1.773	1.773	1.773	1.773
Earmarked Reserves	2.848	2.111	2.111	2.111	2.111
TOTAL RESERVES	4.621	3.884	3.884	3.884	3.884

Recommendations

49. Members are recommended to:

- (i) **consider** the information in this report
- (ii) **consider** the level of council tax for the 2025/26 financial year
- (iii) **note** the risks that have been identified as part of the budget setting process
- (iv) **agree** a firm recommendation on the 2025/26 level of council tax to be made to the Combined Fire Authority meeting on the 17 February 2025.