AGENDA ITEM

REPORT TO:	MERSEYSIDE FIRE & RESCUE AUTHORITY BUDGET MEETING
DATE:	17th FEBRUARY, 2011
REPORT NO.	CFO/016/11
REPORTING OFFICER:	ASSISTANT CHIEF EXECUTIVE & TREASURER
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OFFICERS CONSULTED:	EXECUTIVE LEADERSHIP TEAM

Merseyside Fire and Rescue Authority Budget and Financial Plan 2011/2012- 2015/2016

Merseyside FIRE & RESCUE SERVICE

Beacon Authority 2004-2005 Services for Older People

Beacon Authority 2006-2007 Early Intervention (Children at Risk)

Beacon Authority 2008-2009 Reducing Health Inequalities

APPENDIX 1
APPENDIX 2 CAPITAL
APPENDIX 2A
APPENDIX 2B
APPENDIX 3
ATTACHED – HARD COPIES

***A Glossary of Terms has been listed at the end of this report for your information.**

Purpose of Report

1. To present information to allow Members to set a medium term financial plan – both capital and revenue – that allocates resources in line with the Authority's strategic aims and ensures that the Authority delivers an efficient, value for money service. This will also allow the Authority to determine a budget for 2011/2012 and a precept level in line with statutory requirements.

Recommendation

2. Members consider this report and:-

   (a) Confirm their strategy on balances and the level of balances and reserves they consider appropriate for the forthcoming and future financial years.

   (b) Decide the level of precept they wish to set for 2011/2012 and any strategy for precepts they wish to adopt for future years.

   (c) Choose the growth and savings options they wish to support to deliver a balanced Medium Term Financial Plan.

   (d) Confirm the capital strategy and investment strategy they wish to adopt for 2011/2012 and future years.

   (e) Note the prudential indicators relating to the proposed capital programme and agree the Treasury Management indicators set out in the Treasury Management Strategy for:-

      (i) External Debt
      (ii) Operational Boundary for Debt
      (iii) Upper limits on fixed interest rate exposure
      (iv) Upper limits on variable rate exposure
      (v) Limits on the maturity structure of debt
      (vi) Limits on investments for more than 364 days

(f) Noting that these policies and parameters provide an approved framework within which the Officers undertake the day to day capital and treasury activities (the Authority is recommended to approve each of the key elements contained within this section of the report); and

(g) Approve the statement within this report that sets out the Authority's policy on the Minimum Revenue Payment (MRP) for 2011/12.

Introduction & Background

Information

3. The Authority is required to determine its budget and precept level for 2011/2012 by 1st March 2011.

4. This report will present all the necessary financial information in a single report. This report considers:-

Forecast Revenue Estimates
The Proposed Capital Programme
Savings and Growth Options
The Treasury Management Strategy
The Minimum Revenue Payment Policy for the Authority

5. Considering all the financial issues to be taken into account in a single report ensures that the Authority can:-

(a) Consider the borrowing freedoms available under the prudential code
(b) reflect best practice
(c) provide value for money
(d) focus on the link between capital investment decisions and revenue budgets
(e) continue developing their strategic financial planning

6. The following report structure will be adopted:-

Section	**Focus**	**Page**
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A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1st March 2011.

8. The budget and financial plan should allocate resources in line with corporate priorities. The key aims of Merseyside Fire and Rescue Authority are set out in its Integrated Risk Management Plan and may be summarised as

Our Vision – Making Merseyside a safer, stronger, healthier community

Our Aim – To work in partnership with others to provide an excellent, affordable service to all the diverse communities of Merseyside that will:

Reduce risk throughout the community by protective community safety services

Respond quickly to emergencies with professional staff who reflect the diverse communities we serve.

Restore and maintain quality of life in our communities

Resource the organisation in a manner which will provide an efficient, cost effective and sustainable service to the people of Merseyside.

9. The Authority has agreed a number of Value For Money Principles that have underpinned its approach to budgets and financial plans in recent years. They are:-

Principle 1 – Allocate resources In line with priorities

Principle 2 – Control Council Tax

Principle 3 – Acknowledging budget realities

The Authority will continue to:

i) Acknowledge the challenges it faces:
ii) Acknowledge the reality of its budget and recognise that 80% of its costs are people related.

Principle 4 – The Authority seeks to avoid compulsory redundancy in delivering VfM

Principle 5 - The Authority seeks to maintain or improve service levels to make Merseyside safer, stronger, healthier

Revenue Forecasts

10. A five year financial revenue estimate has been prepared based upon the current approved financial plan. As Members are aware the Authority is facing an unprecedented financial challenge over at least the next four years.

11. The Authority assumed in the current financial plan it would receive an increase in government grant funding of +2% per annum over the 2011/12 – 2015/16 period. Central Government has cut grant by 13% over next two years, and they have stated that fire service cuts are back loaded and 2/3rds are still to come. The current financial plan has been adjusted for the Government grant cuts and it assumes a 4% per annum increase in Council Tax. The revenue position is considered in more detail in section G.

2010/11 - 2014/15 APPROVED FINANCIAL PLAN	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Approved Base Expenditure	73,460	76,103	77,924	79,714	81,979
Planned (Use) / Contribution to Cost Smoothing Reserve	-134	-535	-278		
Expenditure forecast in 2010/11 Budget Report	73,326	75,568	77,646	79,714	81,979
Expenditure changes:					
Capital Programme / Funding Changes:					
Revised MRP / Interest based on updated current capital prog.		80	96	66	-283
Capital Prog required increase in MRP to reflect 15/16 prog		8	32	39	42
Impact of Govt increase in PWLD interest rates by +1% Oct 2010		169	215	254	299
Impact of Govt decision on NO supported capital from 11/12 on MRP		178	357	546	1,082
Total Capital Programme / Funding Changes:		435	700	905	1,140
Impact on Investment Income due to continuing lower interest rates		200	200	100	100
Updated Expenditure	**73,326**	**76,203**	**78,546**	**80,719**	**83,219**
Funding Anticpated in 2010/11 Plan:					
Government Grant increase 2% per annum	-46,304	-47,230	-48,175	-49,139	-50,122
Council Tax Increase assumed 4%	-27,336	-28,338	-29,471	-30,649	-31,875
Forecast Income for 2010/11 Report	-73,640	-75,568	-77,646	-79,788	-81,997
Funding Changes					
Reduction in Government Funding (Estimated 2013/15 -5.75% p.a)		5,324	7,694	11,323	14,968
Precept income - rounding adjustment	39	2	2	1	1
Reduction in Council Tax Base - impact	49	4	4	4	4
Collection Fund Deficit	226	48			
Updated Forecast Income	**-73,326**	**-70,190**	**-69,946**	**-68,460**	**-67,024**
Forecast position (surplus) / deficit	**-0**	**6,013**	**8,600**	**12,259**	**16,195**

12. The above represents a position if the Authority does as "well" as the national average in 2013/14 and 2015/16 in terms of future Government grant reductions.

13. If the Authority does as badly as years 1 and 2 the forecast deficit rises to:

	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000
Forecast position (surplus) / deficit	**6,013**	**8,600**	**15,421**	**22,520**

14. The main reason for the deficit is the reduction in Government funding in terms of the level of cut and the short timeframe over which it has been phased in. Other factors that have affected the deficit include:-

    (a) Impact of the Government's decision to remove supported borrowing from the grant settlement and therefore significantly increasing the required level of revenue budget to service capital borrowing.
    (b) The Government's decision to increase PWLB's interest rates and making any borrowing more expensive.
    (c) The impact of low interest rates on investment income

15. Key assumptions in this forecast are:-

    (a) 2% per annum increase in pay bill to cover such costs as pay awards, pension contributions and national insurance.
    (b) Assumption that the Authority will have the freedom to set council tax levels in line with its financial plan at 4%
    (c) 2% per annum General Price Inflation

Options

16. It is the Chief Fire Officer's view that a savings plan might be developed for the first two years that, whilst presenting difficult choices, might be implemented with relatively small impacts on the front-line service.

17. Once savings requirements go beyond that level (the anticipated cuts represent 12% of revenue budget in a two year period) it is the view of the Chief Fire Officer that further significant savings could only be achieved by major reductions in fire cover in Merseyside.

18. A two phase approach has therefore been discussed with the Authority which would adopt the following structure:-

    (a) **2011 – 2013 – Years 1 & 2**

    Develop a robust savings plan for 2011/12 and 2012/13 which would balance the budget

    (b) **2013 - 2105 - Years 3 & 4**

    Adopt a lobbying strategy for 2013/14-2014/15 (in conjunction with other Metropolitan Fire and Rescue Services) with a view to minimising the level of grant cuts. Depending upon the success of that lobby the Authority would face a stark choice between service reduction or large scale local taxation increases. The Authority would have to (in conjunction with the community) choose its strategy between taxation and cuts.

19. Members will note that the Government intends a "Resource Review" which will examine how local authorities are funded that may impact on this position.

20. A series of options for savings have been considered alongside the VFM principles and financial strategy to deal with the challenge in years 1 and 2, deemed Phase 1.

These are:

Potential Savings Plan	Amount £'000	Detail & Comment	Delivery Risk	Post Reduction	Potential Redundancy
Assume Pay Bill Freeze 2010/11	1,000				
Assume Pay Bill Freeze 2011/12	1,000				
Assume Pay Bill Freeze 2012/13	1,000				
Reduce numbers of senior managers	400			-9	
Manage the Dynamic Reserve more flexibly	2,950	**This will mean effectively managing those five pumps currently on the dynamic reserve basis so they are less available on a pemanent basis over two years. . There will be no impact on response and the appliances will be available on a recall to duty basis . Linked to AFA and small fire response**		-80	
Outsource of Estates function	250	**Outsource Estates delivery based on the model being used for the PFI fire stations. Cleaners at last will TUPE**		-23.5	
Changed Duty System at Whiston	300			-12	
Changed Duty System	100	**Implement Revised Duty system for marine station. 5 staff likley to be made redundant**		-5	
Cuts in Support Services	1,300	**Full review of all support service areas . Will impact on service quality. Approximately 36 posts of which 10 vacant**		-36	
Rephasing of Vehicles Capital Programme	100				
Review of Capital Programme Financing	400				
	8,800			-165.5	

21. In line with Authority expectations these savings are more heavily focussed on support service and management cost reductions.

22. The report identifies a further option, reducing staffing at MACC that saves a further £0.400m, that might allow a Council Tax freeze in 2011/12 after taking into account the 2011/12 Council Tax freeze grant of £0.681m.

23. The Authority has commenced work on identifying solutions to Phase 2 of the challenge, years 3 and 4 (2013/14 – 2014/15) and will continue to develop its strategy during 2011/12.

Reserves and Balances

24. In the light of the financial risks facing the Authority the Assistant Chief Executive & Treasurer has worked with Officers and Members to increase reserves in recent years. The latest financial review report CFO/015/11 identifies underspendings which allow the Authority to increase by a further £3.400m meaning £10m of reserves might be seen as available.

25. Assuming Members are minded to follow the financial plan proposed the Assistant Chief Executive & Treasurer recommends the following strategy on reserves:-

	31.12.10	31.03.11	31.03.12	31.03.13	31.03.14	31.03.15	31.03.16
	£'000		£'000	£'000	£'000	£'000	£'000
Smoothing Reserve							
FB Modernisation Reserve	**488**	**0**	**0**	**0**	**0**	**0**	**0**
Smoothing Reserve	**4,611**	**3,003**	**3,003**	**2,468**	**2,190**	**2,190**	**2,190**
Approved Use in 10/11 plan			**-535**	**-278**	**0**	**0**	**0**
Bal Smoothing C/fwd	**5,099**	**3,003**	**2,468**	**2,190**	**2,190**	**2,190**	**2,190**
Capital Investment							
PFI/Capital Reserve	**646**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**
Inflation							
Inflation Reserve	**858**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**	**2,000**
Severance Reserve	**0**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
SPATE / Other Emergencies							
Bellwin Reserve	**147**	**147**	**147**	147	147	147	147
Insurance Reserve	**220**	**220**	**220**	220	220	220	220
Emergency planning	**75**	**75**	**75**	75	75	75	75
Specific Projects	**1,281**	**1281**	**0**	**0**	**0**	**0**	**0**
Total Earmarked Reserves	**8,326**	**11,726**	**9,910**	**9,632**	**9,632**	**9,632**	**9,632**
General revenue Reserve	**2,544**	**2,543**	**2,543**	**2,543**	**2,543**	**2,543**	**2,543**
Total reserves	**10,870**	**14,269**	**12,453**	**12,175**	**12,175**	**12,175**	**12,175**

26. Note the above table does not take account of any drawdown from reserves at this stage.

27. As previously stated this report identifies a number of potential risks in relation to the key assumptions in the medium term financial plan. If any of these assumptions vary then the forecast balanced budget position will be affected. Any resultant material deficit might result in the Authority having difficulty in maintaining its value for money principles and in particular avoiding compulsory redundancies.

28. **Members should bear in mind that reserves and balances and one-off savings should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would find itself facing the same deficit in the next and future years but without reserves available to finance it. This is underlined by the District Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.**

Council Tax Increase

29. The forecast produced assumes a 4.00% council tax increase in each year in line with the Authority value for money principles. The Authority may choose to use a further precept increase to bridge the gap. However central government has made it clear that large increases will not be tolerated. Government has used its powers in recent years and capped a number of authorities.

30. The ready reckoners below show the impact of potential Council Tax increases.

Council Tax Increase

	0%	1%	3.85%	4%	5%
Band D Tax	64.77	65.42	67.26	67.36	68.01
District Precept	£m	£m	£m	£m	£m
LIVERPOOL	8.057	8.138	8.367	8.379	8.460
WIRRAL	6.793	6.861	7.054	7.065	7.133
ST.HELENS	3.634	3.671	3.774	3.780	3.816
SEFTON	6.029	6.089	6.260	6.270	6.330
KNOWSLEY	2.729	2.756	2.834	2.838	2.866
	27.242	27.515	28.289	28.332	28.605

Members must choose a portfolio of savings and growth options, a strategy for reserves (in the light of the advice of the Assistant Chief Executive & Treasurer) and a Council Tax level for 2011/2012 that sets a balanced budget in line with the statutory timetable.

Capital

31. The proposed 5 year capital programme is detailed in section C. The table overleaf summarises the proposed investments which are mainly in the Authority's property, vehicle and ICT assets which total nearly £32 million across the life of the programme.

2011/12 Authority Approved Capital Progamme for 2011/2012 - 2015/2016

Expenditure	Total Cost £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Building/Land	**10,145,700**	3,668,700	2,741,500	712,000	1,006,000	2,017,500
Non Operational Equip & Hydrants	**185,000**	37,000	37,000	37,000	37,000	37,000
Fire Safety	**8,764,000**	1,752,000	1,752,000	1,752,000	1,754,000	1,754,000
ICT	**2,788,800**	735,800	428,000	383,000	583,000	659,000
RCC associated ICT investment	**47,300**	47,300	0	0	0	0
Operational Equipment	**771,700**	496,700	195,000	20,000	40,000	20,000
T.D.A.	**130,000**	130,000	0	0	0	0
Vehicles	**9,120,900**	2,867,300	1,073,500	1,764,500	1,445,700	1,969,900
Fire World	**0**	0	0	0	0	0
TOTAL	**31,953,400**	**9,734,800**	**6,227,000**	**4,668,500**	**4,865,700**	**6,457,400**

Financing Available:	Total	2011/12	2012/13	2013/14	2014/15	2015/16
		£	£	£	£	£
Capital Receipts						
Sale of Low Hill FS	**250,000**	250,000				
Sale of old workshop	**650,000**	650,000				
Toxteth Fire Station (Firefit Hub)	**500,000**			500,000		
Existing Houses at LLAR Newton-le-Willows	**275,000**					275,000
R.C.C.O.						
CFS general cont (Cap sals)	**5,000,000**	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Grant						
Total Non Borrowing	**6,675,000**	**1,900,000**	**1,000,000**	**1,500,000**	**1,000,000**	**1,275,000**
Borrowing Requirement						
Unsupported Borrowing	**25,278,400**	7,834,800	5,227,000	3,168,500	3,865,700	5,182,400
Borrowing	**25,278,400**	**7,834,800**	**5,227,000**	**3,168,500**	**3,865,700**	**5,182,400**
Total Funding	**31,953,400**	**9,734,800**	**6,227,000**	**4,668,500**	**4,865,700**	**6,457,400**

32. This capital programme has a borrowing requirement of £7.835million in 2011/2012 and £25.278m across the whole life of the plan.

33. The Government has announced the Authority will receive a £1.736m capital grant in 2011/12. The use of this grant is not assumed in this report.

34. The proposed programme does contain significant prudential or unsupported borrowing, £25.278 million across the life of the programme. Members will note that the Government no longer allocates any supported borrowing from 2011/12 and therefore no longer builds any revenue grant funding support for new borrowing with effect from 2011/12. This means all future borrowing is prudential.

35. The Authority needs to be mindful of the revenue costs of borrowing.

36. There has been an increase in authority debt levels in recent years as the service needed significant capital infrastructure investment following a long period of restricted capital spend under previous capital control regimes. Current and future debt servicing costs as a consequence of the proposed capital programme have been built into the proposed financial plan. This report provides members with a number of prudential indicators so they can ensure

that this commitment is considered affordable, prudent and sustainable in the light of these prudential indicators (Section E).

Treasury Management

37. The Prudential Code requires the Authority to set a Treasury Management Strategy that includes a number of indicators and limits. It sets a framework for the Assistant Chief Executive & Treasurer to manage investments and borrowings within.

38. The Proposed strategy is set out in section F and includes limits for the next three years on:-

Overall Level of External Debt
Operational Boundary for Debt
Upper limits on fixed interest rate exposure
Upper limits on variable rate exposure
Limits on the maturity structure of debt
Limits on investments for more than 364 days

Minimum Revenue Payment (MRP) Statement

39. MRP is the amount of money set aside in the revenue budget by the Authority each year to reduce its overall level of debt. The Authority is required under the new Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to prepare a statement on its policy for MRP in respect of the forthcoming year. The new regulations require authorities to pay debt at a rate which it considers prudent.

40. The Assistant Chief Executive & Treasurer has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2011/12 and future years.

41. The overall impact of the new regulations has been to increase the revenue costs relating to asset investment.

B) BACKGROUND INFORMATION

42. This section provides general financial information on the Authority's finances and financial health.

Corporate Strategy

43. If any organisation wants to be successful its budget setting and medium term financial plan allocate resources to support its key strategic aims and priorities. This is a vital consideration when organisations face periods of severe resource shortages.

44. For many years now the Authority has maintained a comprehensive five year financial plan and capital programme despite facing significant financial challenges as a result of ongoing poor Government grant settlements for the Authority. The Government announced that fire authorities face a 25% reduction in government funding (equivalent to a cash reduction of 18%) over 2011/12 – 2014/15. The Government have stated the reduction will be back loaded for fire, with approximately 1/3rd of the reduction in the first two financial years, (2011/12 – 2012/13) and the remainder in the last two years. The Government has announced the Authority's grant settlement figures for 2011/12 & 2012/13 but not for the final two years, (2013/14 – 2014/15), and therefore a level of uncertainty remains over those years. However it is clear the Authority faces an unprecedented challenge to deliver the savings required over this period. The Authority has received a cash reduction in its grant of 13% in 2011/12 – 2012/13 despite the fact the "severe cuts" for fire authorities are being deferred until 2013/14 – 2014/15.

45. Members will recognise that this report is prepared at a time when the fire service faces a period of tremendous change and challenge. A number of key issues will need to be addressed as part of any financial strategy and in particular cater for the ongoing modernisation of the fire service and the Integrated Risk Management Plan, IRMP, (or its replacement beyond 2012/13?).

46. The Integrated Risk Management Plan (IRMP) is the key driver in the allocation of the Authority's resources in response to the risks facing Merseyside.

47. The Authority's IRMP states the main strategic themes that the Authority has been progressing and its plans for the future, detailing the ways in which the Authority has been at the forefront of driving forward the modernising agenda for the fire service for a number of years now. The 2011/12 IRMP, report CFO/017/11 is elsewhere on this Authority's agenda for approval today and contains the IRMP action points for that year. The IRMP is a three year plan and 2011/12 is the final year of the current three year plan. Government are not clear about how the current Fire National Framework will be replaced post 2011/12 but its assumed that the IRMP or similar strategic planning framework will be required post 2011/12.

48. The Authority's key visions and aims as set out in the IRMP are set out below. Any financial plan should aim to allocate resources to deliver these key aims.

"Our Vision – "Making Merseyside a safer, stronger, healthier community"

Our Aim – "To work in partnership with others to provide an excellent, affordable service to all the diverse communities of Merseyside that will:

Reduce risk throughout the community by protective community safety services.

Respond quickly to emergencies with professional staff who reflect the diverse communities we serve.

Restore and maintain quality of life in our communities.

Resource the organisation in a manner which will provide an efficient, cost effective and sustainable service to the people of Merseyside.

49. These are not new aims for Merseyside. The Authority has had a very similar strategy for several years now based upon focussing resources on community fire safety.

Is the Overall Strategy Working?

50. The Fire Authority has achieved great success in its aims to make Merseyside a safer community over the last decade. Members receive detail on this excellent performance in a variety of formats but highlights include:-

(a) Becoming the first fire authority in the world to visit 100,000 households in a single year (and approximately 700,000 visits in total have been carried out)

(b) Fitting approximately 750,000 free smoke alarms

(c) Receiving Beacon Status for Early Intervention (Children at Risk), Working with Older People, and for Reducing Health Inequalities

(d) Reducing fire deaths from an average of 20 in 1999 to 8 in 2009/10 and to just 4 so far this year (year ends March), a 60% reduction.

(e) Employed advocates in such diverse areas as age, disability, deafness, drugs, alcohol, arson and anti-social behaviour, as well as multilingual specialists.

51. The table below summarises some key performance statistics over the last 7 years:

Year	Accidental Dwelling Fires	Injuries in Accidental Dwelling Fires	Fatalities in Accidental Dwelling Fires	Anti Social Behaviour Fires
2003-2004	1612	171	9	18984
2004-2005	1470	173	11	12258
2005-2006	1456	155	11	11689
2006-2007	1336	126	8	12721
2007-2008	1286	69	9	10449
2008-2009	1302	107	9	7648
2009-2010	1299	117	8	7384
2010-2011 Q3	933	97	4	5731
Reduction between 2003/04 t0 2009/10	-19.4%	-31.6%	-11.11%	-61.1%

52. More details of the Authority's performance can be found in:-

(a) The service plan and performance update reports, the most recent of which was CFO/165/10 (IRMP Scrutiny Panel 07th October 2010), http://www.merseyfire.gov.uk/aspx/pages/fire_auth/pdf/CFO_165_10_SERVICE_PLAN_2010-11_PERFORMANCE_REPORT_APR_TO_AUG_2010.pdf

(b) The Annual Service Plan 2010/11 can be found on the Authority's web http://www.merseyfire.gov.uk/aspx/pages/fire_auth/pdf/CFO_031_10_SERVICE_PLAN_2010-11.pdf

Financial Strategy and where are we now?

53. In recent years the Authority has adopted a financial strategy that:-

- Sought to minimise Council Tax increases with a target increase of less than 4% that it has adhered to despite severe financial constraints
- Planned for pay awards and grant increases in line with HM Treasury medium term expectations
- Recruited to meet the Authority's high performance standards and budgeted for staff actually in post
- Sought to generate significant savings through staff reductions whilst avoiding compulsory redundancy
- Made significant investment in Community Fire Safety and preventative work (REDUCE)
- Invested to maintain emergency response standards and to modernise working arrangements for dealing with a whole host of emergency incidents (RESPONSE)

- Developed arrangements for restoration with the private sector and the Fire Support Network (RESTORE)

- Made significant investment in IT and computing (including outsourcing)

- Provided further investment in equality and health and safety

- Attempted to plan prudently over the medium term by considering all significant risks to the assumptions in the financial plan and creating specific reserves if deemed necessary

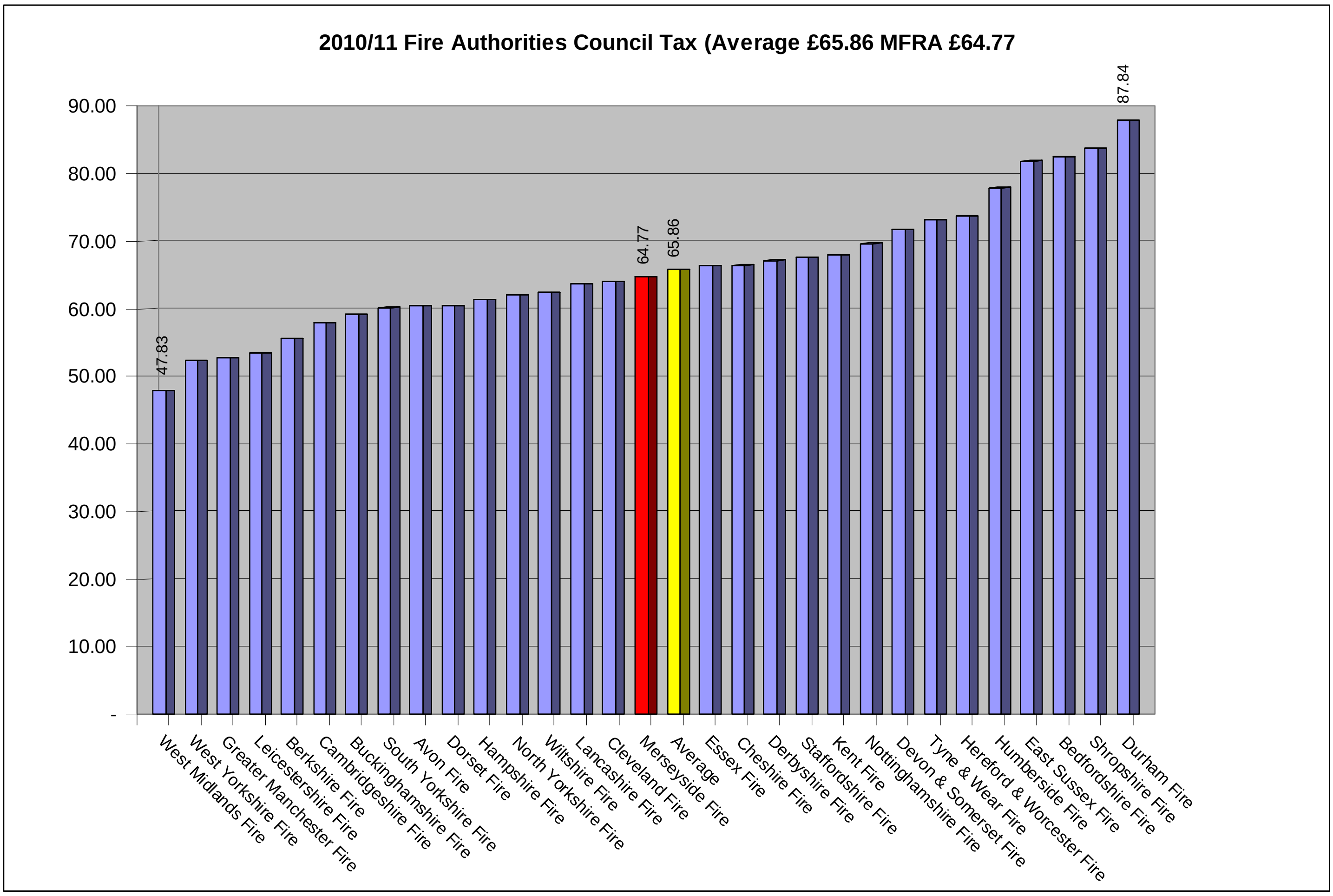
- Maintained a general fund reserve of at least £2m following assessments of risk

- Because of pressures on revenue budget generally avoided funding capital expenditure from revenue through leasing or RCCO

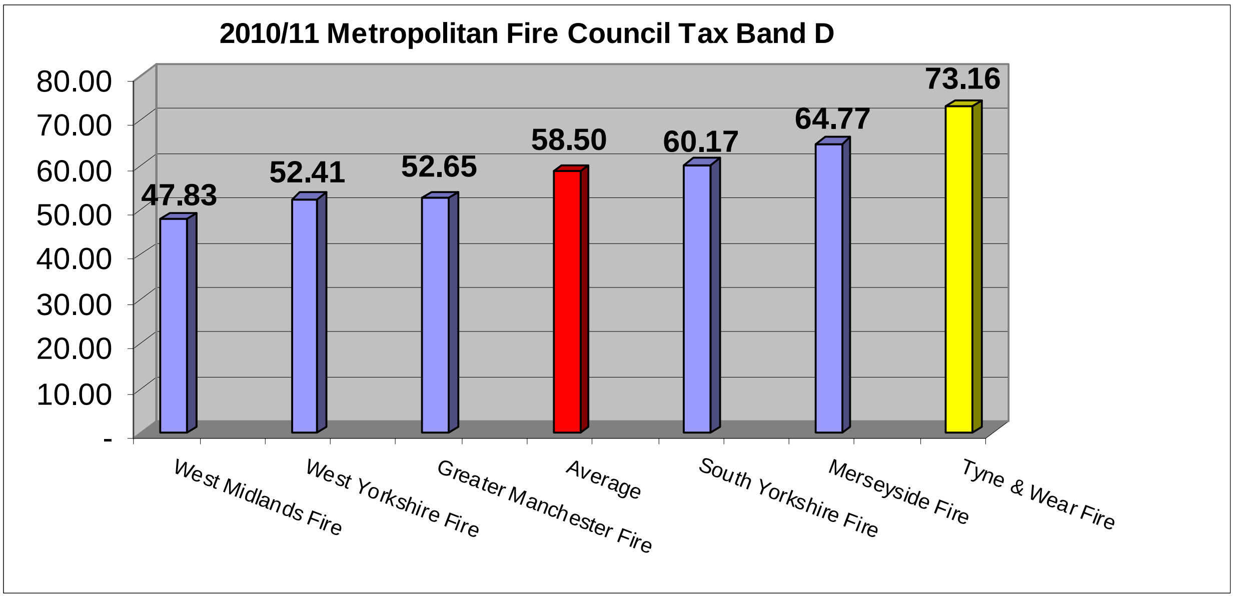
- Invested in the capital infrastructure of the Authority in line with Asset Management Plan, vehicle replacement strategies and corporate objectives

These strategies have allowed the Authority to make significant strides in reducing cost and maintaining relatively low levels of Council Tax increase despite very tight grant settlements. The Authority has delivered over £11m of savings over the last 5 years, that has included the reduction in the number of Firefighters from over 1,500 to below 880 a significant reduction in support and management costs. The Authority has delivered this saving while at the same time improving service provision in terms of infrastructure, assets and equipment. It has also reduced the number of fire incidents and deaths significantly as a result of investing in preventative fire safety. This is discussed in more detail later in the report.

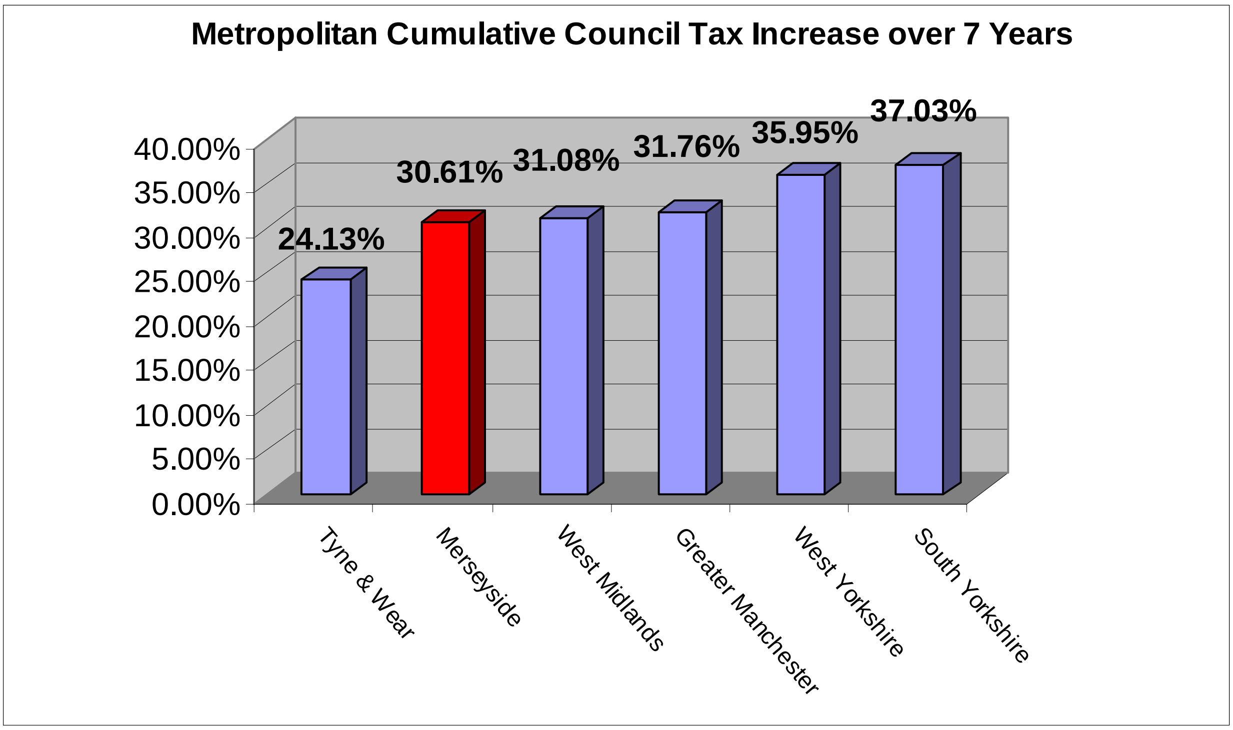
The Authority is below the national average council tax for fire services.



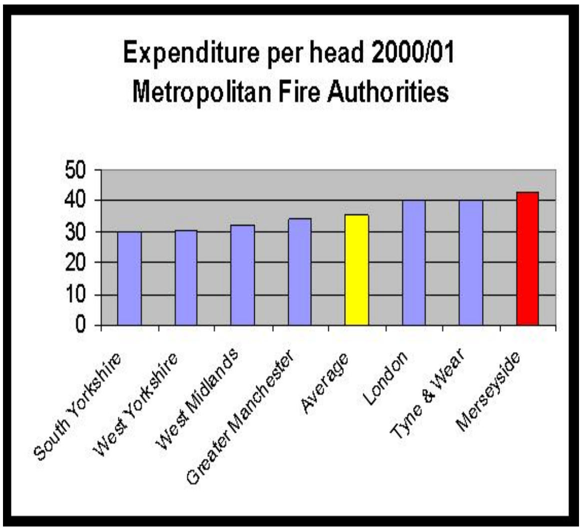
In 1996/97 Merseyside Fire & Civil Defence Authority Council Tax was more than 50% above the average of Metropolitan Fire Authorities. Now it is only 11% above the average:

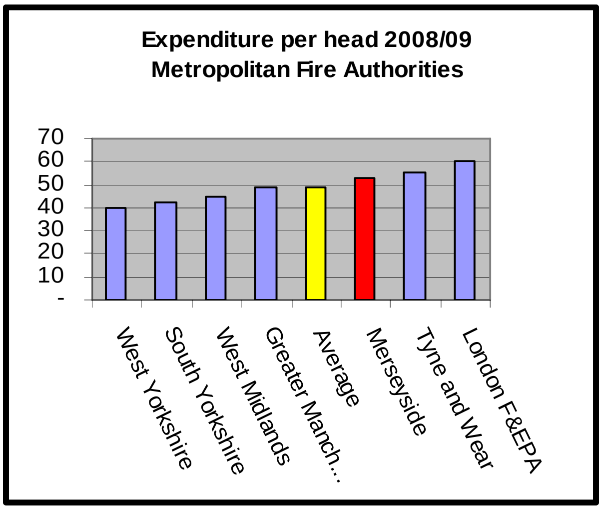


Over the past 7 years when compared to the other Metropolitan Fire Authorities Merseyside has had one of the lowest cumulative council tax increase:

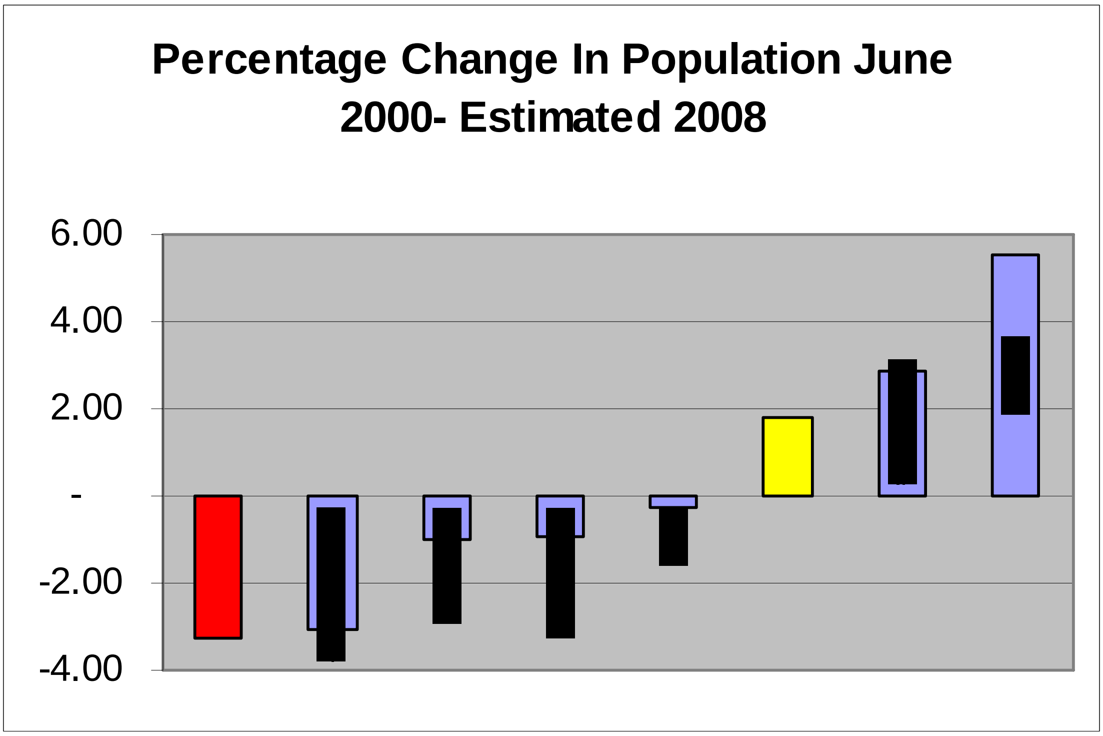


The significant improvements in efficiency by the Fire Authority and a large scale savings plan have meant that from being the most expensive metropolitan Fire Authority in the country in 2000/01 the Authority has moved to being only the third most expensive metropolitan Fire Authority by 2008/09, (newer data not available).

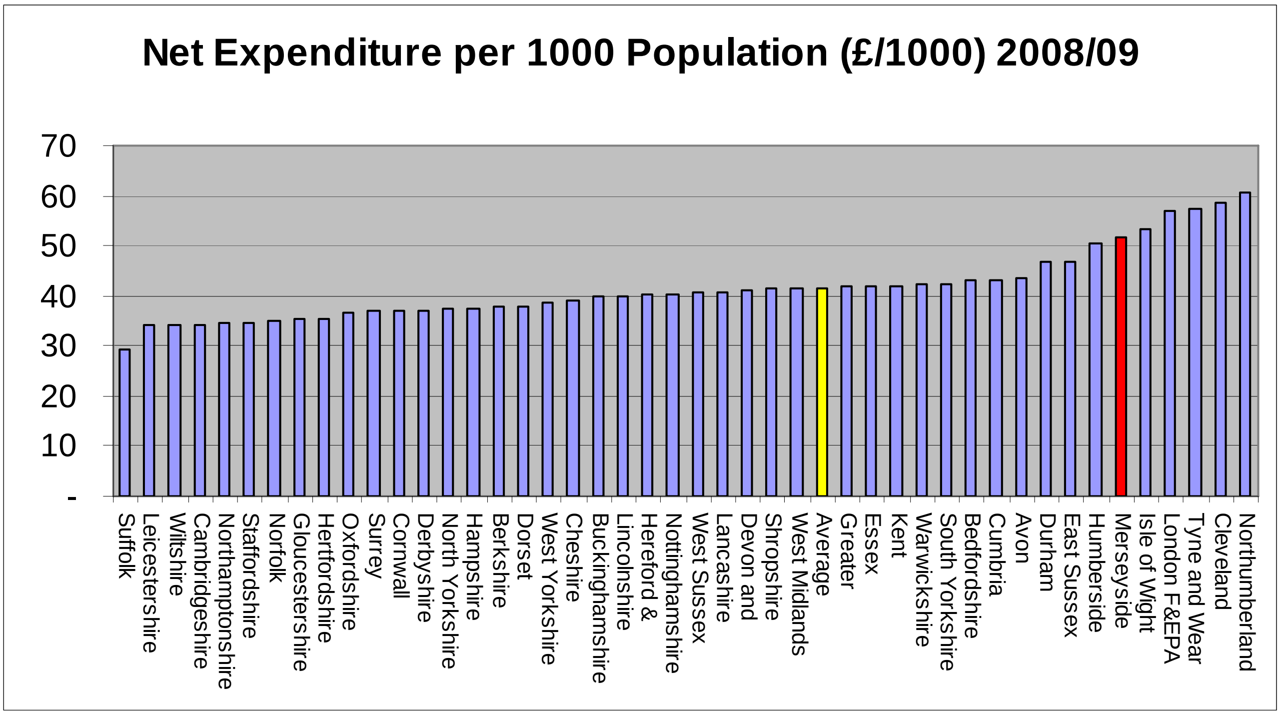




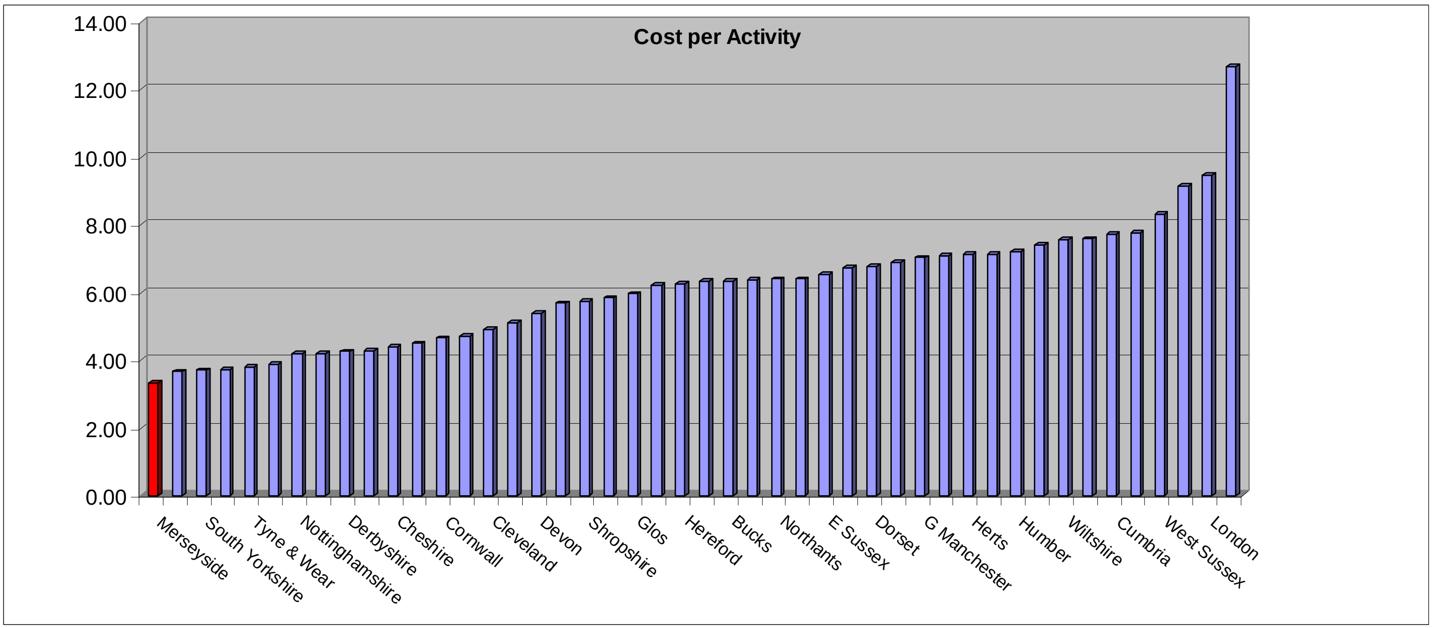
This performance has been especially encouraging when it is considered that across the same time period the population of Merseyside has been reducing significantly whilst other Authorities populations have grown. *If all other things has been equal it might have been expected that Merseyside's position might have worsened on this comparator rather than improved.*



However, despite the recent improvements it should be noted that we remain, in comparison to our peers, a relatively high spending authority on a direct expenditure per head basis.

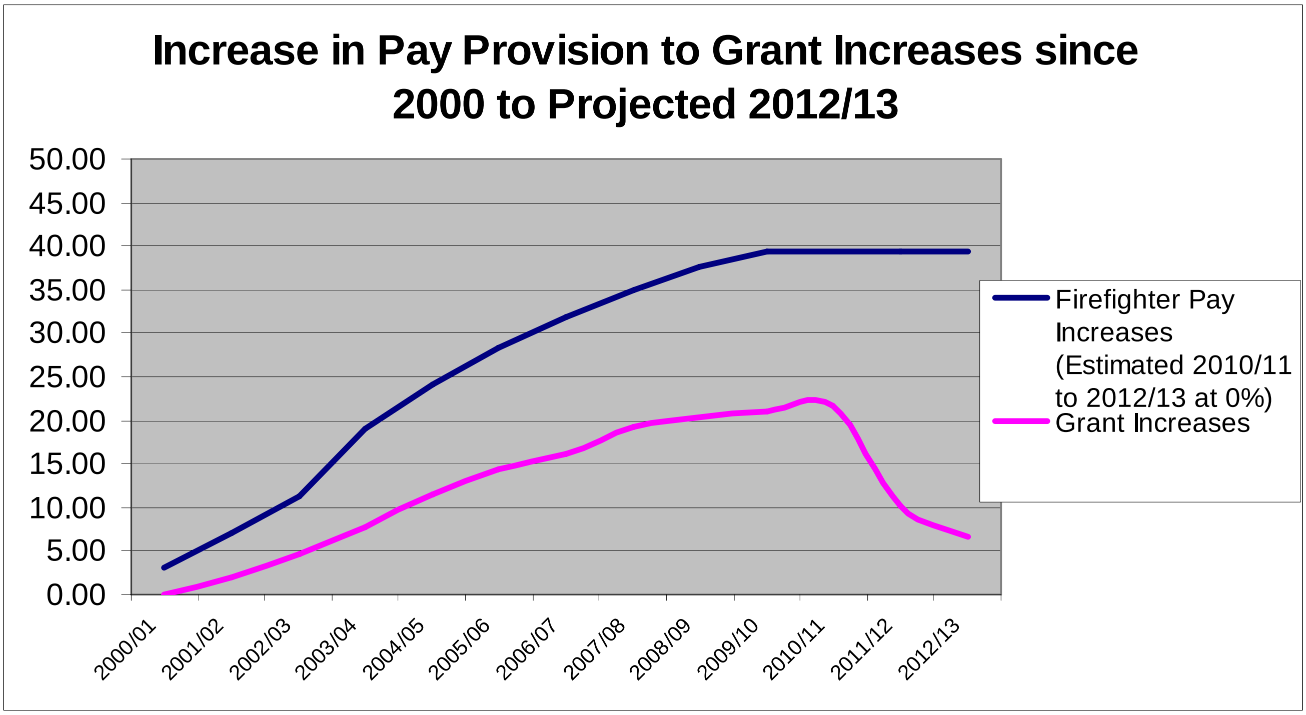


However it should be noted that that this is only one measure of the relative need to spend (population basis). A comparison of net expenditure per activity (including home fire safety checks) shows a very different picture:



Merseyside continues to invest significantly (compared to other authorities) in community fire safety, approximately £6 million in 2010/11.

These improvements in Council Tax level and expenditure have been achieved when the Authority's grant increases have been at the floor (minimum) level for many years whilst inflation including Firefighters' pay awards have been very much higher. The table below highlights cumulative grant increases compared to cumulative pay awards since 2000.



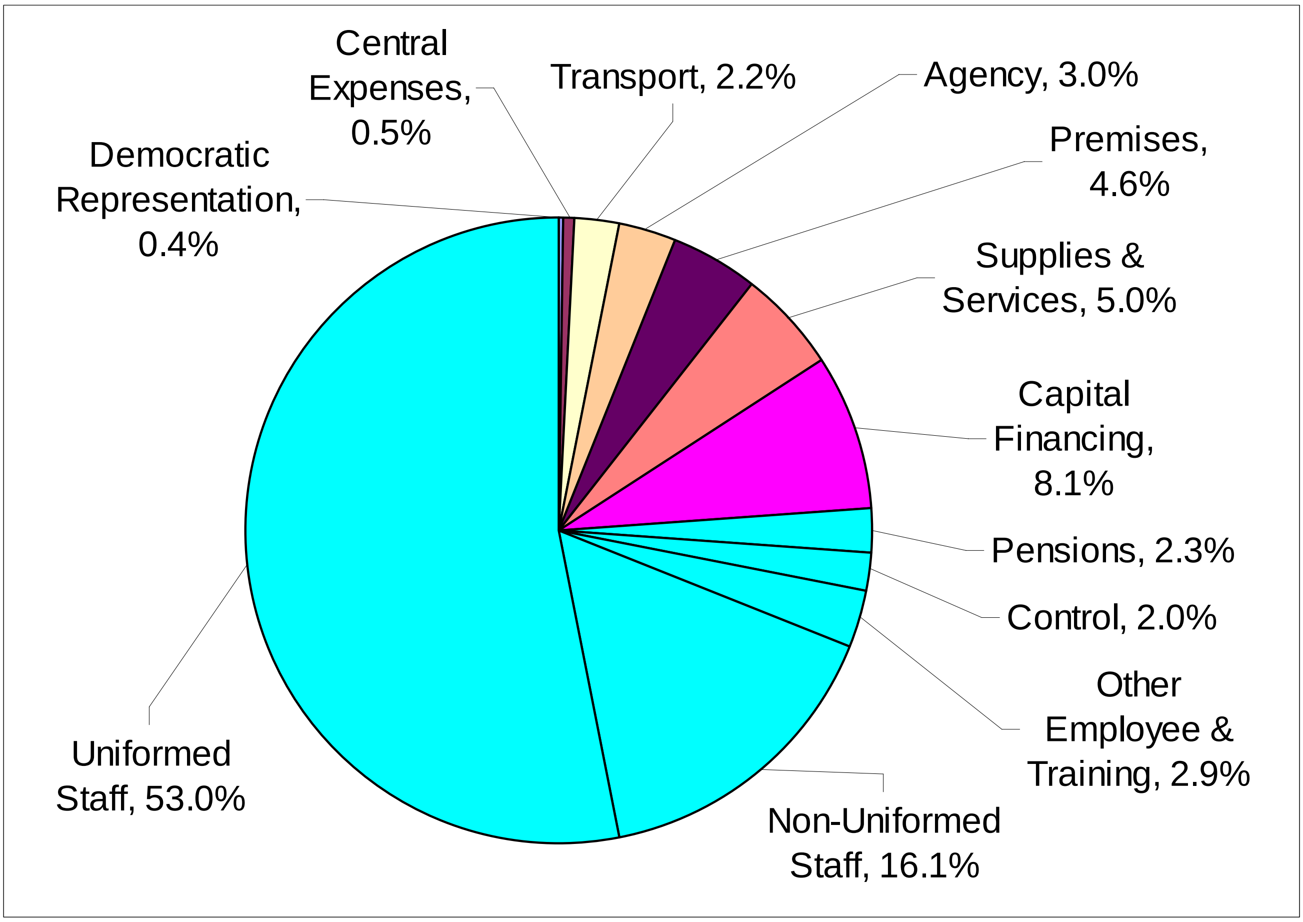
Overall Financial Health

54. The Authority has a proven track record or meeting significant financial challenges in the past and modernising the service to maintain if not improve the service to the community of Merseyside. The Authority, conscious of the pending financial challenge, has built up reserves in recent years as part of a strategy to provide a short term buffer while the Authority implements the business re-engineering to deliver the required savings on a permanent basis. The unprecedented reductions in Government funding will require innovative and difficult decisions but the Authority has a proven track record in managing its financial affairs well as can be seen in the following indicators:-

- Authority accounts 2009/2010 audited without qualification once again.
- Annual Audit Letter highlighted general satisfaction with financial corporate governance and reporting arrangements.
- IRMP recognised as innovative.
- The Authority has maintained a general revenue reserve of at least £2.5m in recent years.
- Cost centre budgeting now well established along with a culture of financial management.
- Maintained a five year financial plan and capital programme and most importantly a consistent medium term strategy.
- The Authority has delivered huge efficiency savings (see detailed revenue section) which have been highlighted as best performance in the recent Audit Commission National Report "*Rising to the Challenge……improving fire service efficiency*".

Current Allocation of Resources

55. Members will be aware that Fire Service expenditure is predominantly on employee related costs (c80%) as is shown in the pie chart below. (The blue sections relate to employee costs)

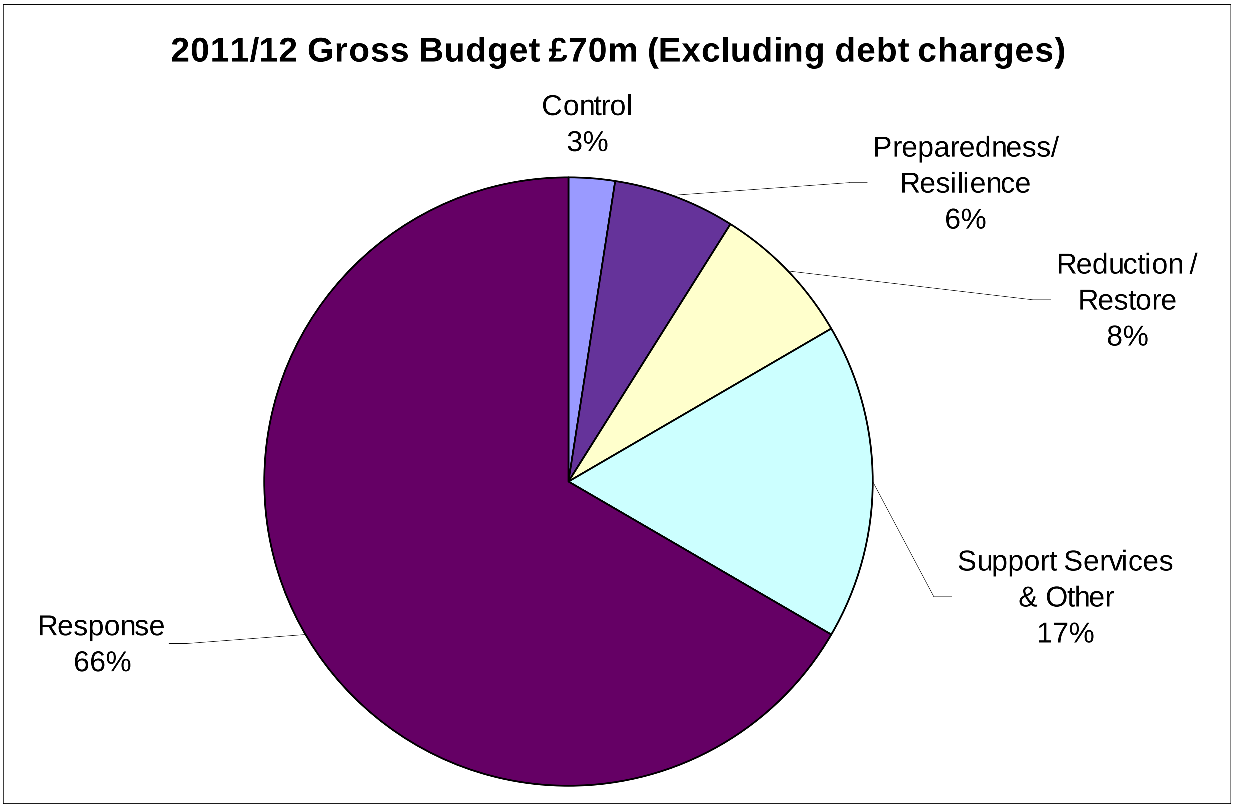


A full subjective analysis of the budget is set out in **Appendix 1**

A subjective analysis is only part of the overall view on spending and in order to assist Members the same data is shown in a "thematic" view below based upon the strategic objectives:

Allocation of Resources in line with Corporate Objectives

56. The Authority has an excellent track record of investing in line with its corporate priorities and this was reflected in the external assessment reviews under the CAA and UoR scoring process. It can be seen from the pie chart overleaf that over 66% of gross expenditure, (excluding debt charges) goes on emergency and specialist response, 3% on Control Rooms and 6% on Fire Resilience and 8% on Fire Reduction & Preventative work. Support costs making up the remaining 17%.



Looking in more detail at each area the following investments are included:-

<u>Responding & Control</u>
Investing over £48m

- Service delivery and emergency response through its 26 fire stations (these staff do increasing amounts of preventative work as well)
- Specialist teams like Search and Rescue Team, Targeted Response Group, Hazmats Team and Emergency Response Dogs
- Invested in staff safety – procured effective fire kit, helmets, boots and appliances
- Invests in two small fires units, targeting antisocial fires
- Invests £0.4m on the Incident Management Team
- Developed the unique Quick Response Motorcycle Unit
- Deliver 100,000 HFSC's p.a.

<u>Reduce & Restore</u>
Investing over £6m p.a in fire safety including:

- Employment of 48 specialist Advocates (£1m)
- Purchase of £0.7m worth of smoke alarms per annum
- Continuation of the Princes Trust and other Programmes (£0.1m)
- Investment in an Arson Task Force (£0.4m)
- Investment in Fireworks Team (FIRST) (£0.1m)
- Investment in District Fire Safety Teams (£1.4m)
- Fire Service Direct (£0.2m)
- Working with young people, including school liaison
- Invested in volunteers with the Fire Support Network (£0.2m)
- Working with the private sector to deliver speedier restoration of property

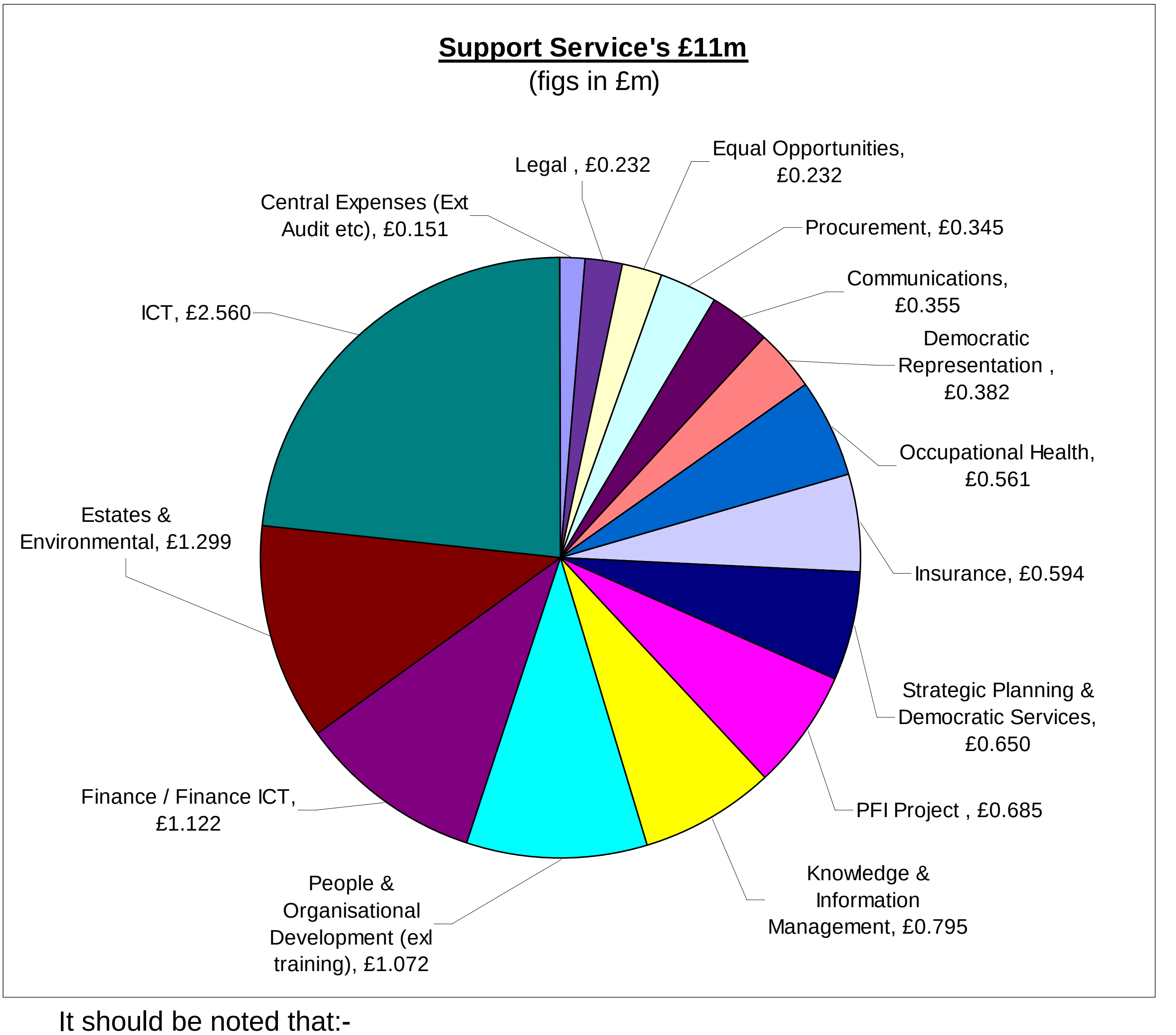
Preparedness & Resilience

The investment of £4m delivers a variety of services which helps support and complement the front line response investment and ensure Firefighter safety.

Operational Planning and Policy
Contingency Planning
New Dimensions to cope with major disasters and terrorist threats
Operational Equipment Team
Water Section
Health and Safety Department
Transport/Fleet Management – to keep vehicles operating effectively
Workshops
Marine Rescue Unit to support the airport and safety on the river
Standard Operating Procedure Review Team

Support Services & Other

The investment in support services of over £11m (17% of the budget) is analysed below:



It should be noted that:-

People and Organisation Development – includes investment in the Training and Development Academy and costs of training for all staff;

Estates – includes the running costs of buildings including 26 Community Fire Stations;

ICT – includes the cost of the Mobilising Communications Centre;

Strategic Planning / Legal Services – includes the cost of insurance and claims.

Members need to assure themselves that the Authority continues to allocate resources to support its strategic priorities. They will note that the Budget Working Group have reviewed the base budget in detail.

C) CAPITAL PROGRAMME

57. Capital is considered first in this report so that Members can clearly consider the revenue impacts of capital investment and borrowing decisions as part of revenue budget and Council Tax considerations.

Introduction

58. From 1st April 2004, the Local Government Act 2003 replaced the previous regime of capital controls with the Prudential System for Capital Finance. Local authorities are free to decide for themselves how much they can afford to borrow for capital purposes, subject to various safeguards. The Government has reserve powers to limit an authority's borrowing if the Government believes it to be unaffordable, or in times of public spending restraint.

Prudential Code

59. A key part of the revised capital system is the CIPFA "Prudential Code for Local Authority Capital Finance" which provides a framework of decision-making under which authorities will decide their capital investment and financing plans and set limits for borrowing.

60. Authorities will be required to 'have regard to' the Prudential Code when setting their future budgets and Council Tax levels - which in practice means that they would need to have very good reasons not to comply.

61. The over-riding objective of the Prudential Code is to ensure that the capital investment plans of local authorities are **affordable, prudent, sustainable**, and follow good practice.

62. Some of the main features of the Prudential Code are as follows:

- The full Authority must consider and set a number of indicators and limits for its capital plans as part of the annual budget setting process. The limits can be revised during the year but only by the full Authority. The mandatory indicators are shown in section E.
- The indicators and limits must be monitored during the year and outturn figures reported.
- The Authority must produce and maintain capital and revenue plans for at least three future years including three year estimates of its future Council Tax taking account of the proposed capital programme and other plans.
- The Authority must set an authorised limit for its total debt (including borrowing and long term liabilities) which may not be exceeded.
- Limits relating to treasury management matters must be considered as part of the Annual Treasury Management Strategy Report.

63. Fundamentally, the objective of the Code is that the total of an authority's capital investment remains within sustainable limits, following consideration of the impact on the "bottom line" Council Tax. This is ultimately determined by a judgement about what Members consider is an acceptable level of Council Tax.

Capital Investment Strategy .

64. Each financial year the Authority produces a capital programme to manage major capital schemes. Owing to the nature of capital expenditure a large number of schemes span more than one financial year so the programme is a rolling programme covering five future financial years.

65. The starting point for this programme has been an assessment of the capital investment requirements for the Authority for future years based upon needs identified by the various expert professionals in areas like buildings, vehicles, ICT, and operational equipment. Initial bids were requested and through an iterative process Officers have modified the programme in the light of:-

(a) service requirements, and in particular investments required to support and deliver the IRMP.

(b) the need to adopt a prudential approach to capital borrowing under the new regime, being mindful of affordability, prudence and sustainability and in particular the impact on Council Tax levels.

66. This has produced a total 2011/12 – 2015/16 five-year future capital programme proposal of £31.953m which is set out in the summary table overleaf. This table also identifies funding of the programme and hence the borrowing requirements to support that capital programme. The full programme is set out in **Appendix 2** (appendix 2A is the updated programme and appendix 2B the new additions to previously agreed programmes).

2011/12 Authority Approved Capital Progamme for 2011/2012 - 2015/2016

Expenditure	Total Cost £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Building/Land	**10,145,700**	3,668,700	2,741,500	712,000	1,006,000	2,017,500
Non Operational Equip & Hydrants	**185,000**	37,000	37,000	37,000	37,000	37,000
Fire Safety	**8,764,000**	1,752,000	1,752,000	1,752,000	1,754,000	1,754,000
ICT	**2,788,800**	735,800	428,000	383,000	583,000	659,000
RCC associated ICT investment	**47,300**	47,300	0	0	0	0
Operational Equipment	**771,700**	496,700	195,000	20,000	40,000	20,000
T.D.A.	**130,000**	130,000	0	0	0	0
Vehicles	**9,120,900**	2,867,300	1,073,500	1,764,500	1,445,700	1,969,900
Fire World	**0**	0	0	0	0	0
TOTAL	**31,953,400**	**9,734,800**	**6,227,000**	**4,668,500**	**4,865,700**	**6,457,400**
Financing Available:	**Total**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
		£	£	£	£	£
Capital Receipts						
Sale of Low Hill FS	**250,000**	250,000				
Sale of old workshop	**650,000**	650,000				
Toxteth Fire Station (Firefit Hub)	**500,000**			500,000		
Existing Houses at LLAR Newton-le-Willows	**275,000**					275,000
R.C.C.O.						
CFS general cont (Cap sals)	**5,000,000**	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Grant						
Total Non Borrowing	**6,675,000**	**1,900,000**	**1,000,000**	**1,500,000**	**1,000,000**	**1,275,000**
Borrowing Requirement						
Unsupported Borrowing	**25,278,400**	7,834,800	5,227,000	3,168,500	3,865,700	5,182,400
Borrowing	**25,278,400**	**7,834,800**	**5,227,000**	**3,168,500**	**3,865,700**	**5,182,400**
Total Funding	**31,953,400**	**9,734,800**	**6,227,000**	**4,668,500**	**4,865,700**	**6,457,400**

67. The plan includes a small amount of new starts/additions, (Appendix 2b), totalling £6.987m. These are:-

(a) The addition of the extra year to the programme 2015/16, £6.457m
(b) New starts in 2011/12 – 2014/15, £0.530m

68. These projects represent additional investments which are considered as essential and include investments in line with supporting strategies and programmes agreed by the Authority already. Details of the new starts can be found in Appendix 2B attached to this report, and an outline of the scope of each of the main capital programme divisions is presented below. Appendix 2A provides a full analysis of the updated approved 5 year capital programe and also report CFO/015/11, elsewhere on the agenda, details the movements on the approved capital plan.

69. The key assumptions underpinning the five year capital programme, (2011/12 - 2015/16) are:-

Building Investment Strategy (£10.146m)

70. The estate comprises 26 fire stations, a training and development academy (TDA), a Mobilising & Communication Centre (MACC), Service Headquarters and the new Engineering Centre and Vesty development. The capital programme reflects the funding required to replace, maintain and enhance the current estate stock, and when possible seeks to attract external funding (PFI) or specific contributions (capital receipts, capital reserves) to reduce the level of borrowing requirement. Estates maintain and revise a 5 year property asset management plan and the proposed capital programme is consistent with the priority areas that are contained within the plan.

PFI

71. The Government has approved a joint project (with Merseyside leading), between Merseyside, Lancashire and Cumbria. In Merseyside there will be seven new stations at:-

(a) Belle Vale
(b) Birkenhead
(c) Bootle/Netherton
(d) Formby
(e) Kirkdale (with Operational Resource Centre (ORC) on same site)
(f) Newton le Willows
(g) Southport (combined Fire and Ambulance Station)

72. The Final Business Case has now been approved by the DCLG and a letter dated 17 January 2011 received confirming DCLG financial support for the project at the requested level. There have been some delays to the project due to receiving DCLG approval later than anticipated and other issues but Financial Close is now scheduled for 16 February 2011, with building works due to start soon after that.

73. The total capital building costs for the North West building stock will be £47.2m and in Merseyside £19.3m. As the capital expenditure will not go through the Authority's Capital Programme this scheme is not included in the current capital programme. Changes to the accounting rules will mean that in the future the PFI assets will be on the Authority's balance sheet and the necessary adjustments will be made to the MRP and prudential indicators (this will simply reflect a technical accounting adjustment).

Non PFI Project Assets

74. For those properties which don't form part of the PFI project investment is proposed in line with the current Asset Management Plan. Notable projects include:-

(a) Refurbishing and essential work at fire stations £6.1m
(b) LLAR accommodation £0.7m
(c) Firefit Hub / New Toxteth Community Fire Station £2.1m
(d) Marine 1 Accommodation £0.6m

Hydrants (£0.185m)

75. The regular annual provision is made for installation of new or replacement hydrants in line with our water strategy, £0.2m.

Fire Safety (£8.764m)

76. Smoke alarms and sprinkler systems are being classed as capital expenditure in line with Government guidance. This follows the awarding of capital grants by the ODPM towards the purchase cost of such items in financial years 2004/05 through to 2007/08. The estimated investment in purchasing alarms for the community over the 2011/12 – 2015/16 period is £3.8m, approximately 100,000 alarms p.a. Current policy is to capitalise the installation costs of smoke alarms estimated at £5.0m over the period, however this expenditure is not funded through borrowing but financed in the year by a revenue contribution to capital.

ICT – Investing in line with the ICT Strategy (£2.789m)

77. In line with the Authority's commitment to using technology to improve the service there is a significant investment in ICT within the programme. The most significant investments are in line with a phased introduction of a controlled planned replacement policy of 5 years in the area of PCs, Servers and Network £1.6m, and software licenses £0.6m.

78. Specific projects include:-

PFI stations ICT investment (CFO/023/10), £0.2m.

Regional Control Room (RCC) – associated ICT Investment (£0.05m)

79. Officers identified projects associated with the challenges of operating within the information environment associated with the RCC and the need to retain some information resilience in-house post the RCC. Although RCC as a national project has now ended the proposed budget relates to completing works commenced in 2010/11 around ICT security and improving information systems. This investment will still benefit the Authority.

Operational Equipment (£0.772m)

80. Significant provision is also made to ensure that a modern fire and rescue service can be delivered and in particular provision is made for investment in specialist rescue equipment and new breathing apparatus, particularly:-

- Hydraulic Rescue equipment, £0.2m
- Specialist emergency & rescue equipment, £0.1m
- Replacement thermal imaging cameras, £0.2m

Training & Development Academy (£0.1m)

81. The refurbishment of the fire house, £0.080m and purchase and installation of a generator, £0.050m are required to keep the TDA up to date and efficient for training purposes.

Vehicle Replacement Strategy (£9.121m)

82. The Fleet Manager has identified needs as follows:-

An Ageing Fleet

83. The Authority has developed an appliance replacement strategy based on the economic life of an appliance. Each appliance has an estimated service life of 8 to 10 years on the front line followed by 2 years as a reserve appliance. Significant provision for new appliances has been included in the capital programme – up to 24 new appliances (approximately 5 appliances per year) to ensure that the fleet is modern and efficient. These purchases will also help introduce the rescue pump/support pump concept - see below for details.

A Need for Specialist Vehicles

84. There is a need to make provision for the purchase of specialist vehicles to support the IRMP and to support the wider range of roles for the fire service including rescue:

(a) Rapid Response Motorbikes
(b) Combined Pump Platform appliances
(c) Small Fire Unit vehicles
(d) Prime Movers

Ancillary Vehicles

85. Provision is included for the phased renewal of the ancillary vehicle fleet. These are increasingly important to support the Fire Safety work referred to in para 75 above.

Funding The Programme

Capital Receipts

86. Capital receipts are usually the proceeds from the sale of assets. Any such receipts can be applied either to reduce an Authority's outstanding debt or to be reinvested in the capital infrastructure.

87. The Authority has (when available) used capital receipts as a source of funding for new capital investment with little, if any, being used for debt repayment – unless regulations require a proportion of the receipts to be used specifically to repay debt. However, under the new regime the Authority needs to consider if a proportion of any future receipts should be used for debt repayment as part of its overall strategy.

88. The proposed capital programme anticipates capital receipts from the following site sales: -

Low Hill Fire Station site	£0.250m	(2011/12)
Old Workshop site	£0.650m	(2011/12)
Toxteth Fire Station	£0.500m	(2013/14)
Existing LLAR Houses Newton-le-Willows	£0.275m	(2015/16)

89. It assumes that this income will be used to reinvest in the capital infrastructure and support the capital programme. Members should note that the valuations are based on the early part of 2011. Officers are monitoring markets closely and will report on the timescales for sales.

Capital Grants

90. As part of the 2010 spending review the Government also made the decision that no new supported borrowing (SCE(R)) allocations will be made in the spending review period. Government capital support will be given in the form of capital grant only. The Government has announced the Authority will receive a £1.736m capital grant in 2011/12. An equivalent grant may be available in 2012/13 but Ministers have said that they want to consider other options for capital funding throughout the rest of the spending review period, and to discuss with fire and rescue authorities the best way to focus capital to ensure authorities can meet the challenges ahead. A report will come to Members early in the new year so a decision can be made on how to use the 2011/12 capital grant and it has not been taken into account in the current capital programme.

Alternative to Operating Leasing

91. Under the previous system of capital controls, investment that was funded by operating lease did not count as either capital expenditure or the financing as a credit arrangement. Therefore, in common with most other local authorities, operating leasing has been a source of funding for some limited eligible assets (e.g. vehicles, plant and machinery, and computer equipment) although the Authority generally avoided this because of the impact on the revenue account. However, whilst operating leasing as a source of funding remains outside of the Prudential Capital System, no leasing is assumed in this programme. The Assistant Chief Executive & Treasurer will monitor the suitability of alternative methods of finance.

Borrowing

92. Under the Prudential capital system Local Authorities are now able to determine their level of borrowing. However, the Government has retained reserve powers to limit an authority's borrowing if the Government believes an authority's proposals to be "unaffordable" or in times of national public spending constraint.

93. In the past Government provided support for the Authority's capital spending through **supported** capital expenditure. The revenue costs associated with supported borrowing was funded through the revenue formula grant. As part of the CSR2010, the Government made the decision that no new supported borrowing allocations will be made to the Fire and Rescue Service in the Spending Review period. This will impact on revenue support grant allocations. Whilst there will be no new allocations after 2010/11, the level of assumed outstanding historic debt still forms part of the Formula Grant calculation and hence the Authority still receives some grant funding. **All** borrowing from 2011/12 is therefore effectively now unsupported or prudential borrowing.

94. The proposed capital programme represents an overall expenditure increase of £6.987m reflecting the proposed "new starts" expenditure (of which £6.457m relates to the addition of 2015/16). Appendix 2B sets out the new start schemes.

95. The impact of the additions to the programme on the Authority's borrowing is a net increase of £5.712m, (mainly in 2015/16):

	£m
Increase in expenditure, new starts	7.0
Increase in Non Borrowing Funding Sources:	
• Capital Receipts (LLAR houses)	-0.3
• RCCO (HFSC installation costs)	-1.0
Required Increase in Borrowing	5.7

The level of prudential “unsupported” borrowing is therefore will increase by £5.712m to £25.278m.

Impacts on Revenue Budget and Financial Plan

96. When the Authority borrows money it has to factor the debt repayment and interest costs into its financial plans. The minimum revenue provision (MRP) methodology calculates how much debt repayment is required each year. Following the new Capital Regulations announced in 2008 the Authority must approve an MRP Statement each year that sets out the policy on MRP. Section D of this report outlines for Members the proposed MRP policy for 2011/12 – 2015/16 and the methodology for calculating the MRP. The additional borrowing and proposed MRP policy require an increase to the 2010/11 base figure for MRP & Interest of:-

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**
	£m	**£m**	**£m**	**£m**	**£m**
Increase in MRP / Interest	0.733	0.996	1.158	1.805	1.495

97. A significant factor in the large increase in the budget requirement is down to the Government’s decision to factor in no new supported borrowing in the 2011/12 or future years grant settlement and the capital regulations requiring all non-supported borrowing to be repaid over the relevant asset life. This has meant a four or five fold increase in MRP calculations for assets with a short asset life that previously had MRP calculated over a twenty-five year period. The increase in MRP associated with this technical change is an additional MRP provision of £1.100m by 2015/16.

98. The Government also announced in 2010/11 an increase interest charge of nearly +1% on all Public Works Loans Board debt. This has resulted in an increase of £0.349m in interest payments by 2015/16.

99. The required increase in MRP and Interest has been built into the proposed financial plan for 2011/12 – 2015/16. To give Members an indication of the impact of the proposals in isolation, rather than the marginal impact on the financial plan, for each £1M reduction in the borrowing requirement the council tax equivalent reduction would be 0.4% or £0.24.

More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (section E).

(D) MINIMUM REVENUE PROVISION STATEMENT

100. Under the Local Authorities and Accounting Regulations the Authority is required to set aside a sum of money each year to reduce the overall level of debt, this sum is known as the Minimum Revenue Provision (MRP). The 2003 regulations set a minimum annual amount to be charged to revenue based on the Authority's Capital Financing Requirement (CFR) which is an amount broadly equivalent to the Authority's outstanding debt. The regulations have been updated in 2008 and now require each authority to repay debt at a rate it considers **prudent** and to set out in an annual statement the Authority's policy on making MRP in respect of the forthcoming year.

101. The new regulations guidance interprets MRP may be deemed to be prudent if it is either:

Based over a period that is reasonably commensurate with that over which the capital expenditure / asset provides benefits (asset life), or

For the element of expenditure met from borrowing supported by Government Revenue Support Grant (RSG), a period reasonably commensurate with the period in the determination of that grant (this in reality would equate to the current 4% MRP methodology)

102. The regulations guidelines set out four options for calculating MRP, however as the Government are issuing no new supported borrowing from 2011/12 only 2 of the 4 options are applicable from 2011/12 onwards for new borrowing:

- **Asset Life Method** – MRP is determined by reference to the life of the asset and the amount is either based on equal instalments over the period or on an annuity method based on assumed principal repayments. This option is available to both supported and unsupported borrowing in determining the MRP requirement.

- **Depreciation Method -** MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing. This option is available to both supported and unsupported borrowing in determining the MRP requirement

2011/12 MRP:

103. The 2011/12 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2010/11. Any expenditure funded through borrowing must have the associated MRP requirement determined by either the Asset Life or Depreciation method.

104. For capital expenditure financed by borrowing MRP will be based on the Asset Life equal instalment method. This option meets the requirements to be deemed prudent but also allows certainty and predictability over MRP charges. The financial plan outlined in this report reflects the proposed Authority's policy on prudential MRP.

105. The Authority in the past has determined it can afford and sustain significant prudential borrowing in order to allow the required level of investment in the infrastructure and assets of the Authority to deliver a modern well equipped fire service.

(E) PRUDENTIAL INDICATOR REPORT

106. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2011/12, will need to consider a report setting out a range of Prudential Indicators aimed at demonstrating the intended Investment Programme's affordability, prudence and impact upon Treasury Management activity and strategy.

107. It should be noted, however, that in order to provide those Indicators, both Capital and Revenue financial plans need to be prepared for each of the next 3 financial years, commencing with 2011/12.

108. The financial plans prepared in respect of the financial years 2012/13 and 2013/14 are not to be mistaken for approved Budgets. They are, at this stage, only a guide for financial planning and as such subject to significant change as a result of decisions made by the Authority. However, such plans are required to be supported by an indication of future Council Tax. At this stage an assumption of Council Tax increases of 4% in all years has been made.

Prudential Indicators

109. The Authority must demonstrate that its spending plans comply with the Prudential Code by the publication of a number of performance indicators, which are known as the Prudential Indicators***. Details of the prudential indicators for this Authority are provided below.***

110. The purpose of the indicators is to demonstrate that capital investment remains within sustainable limits and that the Authority has considered the impact of the whole plan on future levels of Council Tax. The indicators that will measure this are :-

- Estimates of the ratio of capital financing charges to the net revenue budget
- Estimates of the precept that would result from the three-year capital plan.
- Estimates of the capital financing requirement.

111. The prudential indicators for Merseyside are:-

Capital Expenditure

The actual capital expenditure that was incurred in 2009/10 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2009/10	**Estimate 20010/11**	**Estimate 20011/12**	**Estimate 20012/13**	**Estimate 20013/14**	**Estimate 20014/15**	**Estimate 2015/16**
	£000,s	**£000,s**	**£000,s**	**£000,s**	**£000,s**	**£000,s**	**£000,s**
Capital Expenditure	**6,574**	**9,906**	**9,735**	**6,227**	**4,668**	**4,866**	**6,457**

Members will note that the big rise in expenditure in 2010/11 reflects re-phased schemes from earlier years of approximately £2.5m (mainly around the building and ICT programmes). The 2010/11 – 2012/13 figures include significant “catch-up” investment in fire stations to develop more community based assets and bring the accommodation up-to-date, and the continuing investment in the remaining fire appliance fleet to provide modern reliable and safe vehicles. More details on the capital programme are given elsewhere in the report.

(b) Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream (amounts met from government grants and local taxpayers) for the current and future years, and the actual figures for 2009/10 are:

	Actual 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 20012/13	Estimate 20013/14	Estimate 20014/15	Estimate 2015/16
Ratio of Financing costs to Net Revenue Stream	**6.24%**	**6.76%**	**8.29%**	**9.70%**	**10.71%**	**11.66%**	**12.22%**

This shows that forecast debt financing costs will increase from 8.29% in 2011/12 (based on the actual forecast capital spend in 2010/11) to 12.22% (+3.93% points) by 2015/16. As stated previously the impact of the Government’s decision to issue no new supported borrowing for CSR10 has meant all MRP calculations are now based on asset life. This has resulted in a significant rise in MRP over the medium term, but eventually the ratio will fall as historic debt is repaid and all other debt is paid off over the life of the asset.

(c) Effect on the Precept

The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have been previously been taken by the Authority are:

	Actual 2009/10	Estimate 2010/11	Estimate 2011/12	Estimate 20012/13	Estimate 20013/14	Estimate 20014/15	Estimate 2015/16
Incremental Impact of Capital Investment Decisions.	-£0.48	-£0.46	£1.79	-£0.58	-£1.02	£0.03	£2.24

This indicator compares the capital programme set by the Authority in last year’s budget process to the proposed revised capital programme submitted this year, and is intended to show the marginal impact of the overall capital programme new decisions being made by the Authority, on Council Tax levels. The re-phasing of expenditure from 2009/10 and 2010/11 in to 2011/12 has resulted in a negative or reduced incremental increase over that period. The new start programme in 2015/16 has resulted in the increase in 2015/16.

Capital Financing Requirement

112. In accordance with best professional practice, the Authority does not associate borrowing with particular items or types of expenditure. The Authority has an integrated Treasury Management Strategy (elsewhere on agenda) and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. The Authority has, at any point in time, a number of cashflows both positive and negative, and manages its Treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Authority's underlying need to borrow for a capital purpose.

113. Estimates of the end of year capital financing requirement for the Authority for the current and future years and the actual capital financing requirement at 31 March 2010 are:

	Actual 31.3.10	Estimate 31.3.11	Estimate 31.3.12	Estimate 31.3.13	Estimate 31.3.14	Estimate 31.3.15	Estimate 31.3.16
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement	**50,604**	**55,429**	**60,596**	**62,470**	**61,885**	**61,659**	**62,366**

114. Members will note that the capital financing requirement (CFR) is a "proxy" for debt outstanding.

115. The Authority's CFR is expected to increase to £62.366m by the end of 2015/16 compared to current levels (end of 2009/10) of £50.604m. A large proportion of this increase was already anticipated in last year's programme (anticipated £61.901m by 2014/15).

Net Borrowing and the Capital Financing Requirement

116. CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

117. The Authority had no difficulty meeting this requirement in 2009/10, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2011/12

INTRODUCTION

118. This report sets out the expected treasury operations for this period, linked to the Authority's Medium Term Financial Plan, Capital Strategy, Asset Management Plan and the Authority's Corporate Plan. It is inextricably linked to delivering the Authority's priorities and strategy. It contains four key legislative requirements:-

(a) The Treasury Management Strategy statement which sets out how the Authority's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA Codes of Practice.

(b) The reporting of the prudential indicators for external debt (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities) and the treasury management prudential indicators (as required by the CIPFA Treasury Management Code of Practice).

(c) The investment strategy which sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance.

RECOMMENDATIONS

119. The above policies and parameters provide an approved framework within which the Officers undertake the day to day capital and treasury activities. The Authority is recommended to approve each of the key elements contained within this report, and recommend these to Authority:-

(a) The Treasury Management Strategy 2011/12.

(b) The External Debt and Treasury Management Prudential Indicators and Limits for 2011/12 to 2013/14.

(c) The Investment Strategy 2011/12.

TREASURY MANAGEMENT STRATEGY

120. The suggested strategy for 2011/12 in respect of Treasury Management is based upon Treasury Officers' views on interest rates supplemented by leading market forecasts. The strategy covers:-

(a) prospects for interest rates;
(b) capital borrowing and debt rescheduling;
(c) annual investment strategy;
(d) external debt prudential indicators;
(e) treasury management prudential indicators.
(f) performance indicators;
(g) treasury management advisers.

PROSPECTS FOR INTEREST RATES

121. Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but growth is unlikely to be strong. The danger of a double-dip recession is fading but the crisis in the euro-zone, the prospects of tight economic policies at home and weak consumer confidence means that the threat remains. Any recovery in the economy is set to be weak and protracted.

122. Inflation is likely to remain above target until 2012. Inflation performance remains a key risk to the future course of interest rates but the Monetary Policy Committee (MPC) is expected to hold bank rate at 0.5% until at least the latter stages of 2011. Any increase is not expected to be more than 1.0% over the financial year 2011/12.

123. The outlook for long-term interest rates is favourable in the near term but is set to deteriorate in the latter part of 2011. They will continue to be suppressed by decelerating activity and demand for safe haven instruments but a very heavy programme of gilt issuance is required to fund the government deficit. The balance between supply and demand in the gilt-edged market could shift pushing gilt yields higher. The effect would be upward pressure on long term rates and longer-term Public Works Loans Board (PWLB) rates are expected to rise from 5.50% to around 5.75% by the end of the year.

124. The overall structure of interest rates is expected to remain the same with both short and long term rates increasing over the financial year. It is expected that short term rates will continue to be lower than long term rates and are likely to remain so throughout 2011/12. In this scenario, the strategy will be to reduce investments and borrow for short periods and possibly at variable rates term when required.

CAPITAL BORROWING AND DEBT RESCHEDULING

125. The borrowing requirement comprises the expected movements in both the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority's net capital borrowing requirement for 2011/12 is presently estimated at £10m but this can vary if the capital programme is amended during the year. Given the likely structure of interest rates described above, it is envisaged that most of this borrowing will be for shorter periods or at variable rates. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

126. Rescheduling of debt is the early repayment of loans and replacement by loans for different periods and at different interest rates. It can be used to enhance the balance of the long term portfolio by for example amending the maturity profile or changing volatility levels and may on occasion generate cash savings. Debt rescheduling becomes more beneficial when the relationship between short and long term rates moves appreciably.

127. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. This was compounded by the increase in PWLB lending rates but not repayment rates as part of the Comprehensive Spending Review. A significant rise in long term interest is required before rescheduling of debt is viable. Interest rate structures will be continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

128. The primary purpose of the Annual Investment Strategy is to set out the policies for managing investments giving priority to the security and liquidity of the Authority's investments. It also contains the policy on the use of credit ratings and credit ratings agencies, procedures for determining and limiting the use of higher risk investments and the use of external advisors. Government guidance is currently being revised and is expected in the New Year. This strategy will be reviewed accordingly.

129. The Authority's investment priorities are (a) the security of capital and (b) liquidity of its investments. The Authority will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. All investments will be in sterling. All cash balances will be invested in accordance with the Code of Practice and with regard to the statutory guidance.

130. A counterparty list of institutions with which the Authority will invest shall be maintained by reference to the criteria set out below for the different categories of institution and their credit rating. Regardless of these criteria, the money market will be closely monitored and any institution will be suspended from the counterparty lending list should any doubts arise concerning its financial standing. Under the guidance, investments fall into two separate categories, either specified or non-specified investments.

Specified Investments

131. Specified investments offer high security and high liquidity and satisfy the conditions set out below:-

(a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
(b) The investment is not a long-term investment (has a maturity of less than one year).
(c) The investment does not involve the acquisition of share capital or loan capital in any body corporate.
(d) The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency, or with the UK Government or a local Authority or a parish or community Authority.

Specified investments will comprise the following institutions: -

Debt Management Account Deposit Facility
UK local Authorities
Money Market Funds
UK Banks
Foreign banks registered in the UK
Building Societies

Credit Rating Criteria

132. The Authority will invest with institutions which are UK banks or are non-UK and domiciled in a country which has a minimum Sovereign long term rating of "AA". The institution must have a high credit rating assigned by any of the three credit ratings agencies (Fitch, Moodys and Standard & Poors). To be deemed highly rated the institution must satisfy at least the minimum of the following Fitch (or equivalent) criteria:

Long term credit rating A
Short term credit rating F1
Individual rating C

133. If any of the agencies assigns a rating lower than the Fitch minimum (or equivalent) to an institution then the Authority will not invest with that institution.

134. In addition, the Authority will use institutions whose ratings fall below the criteria specified above if wholesale deposits in the bank are covered by a UK government guarantee. The Authority's investments with the bank will be limited to amounts and maturities within the terms of the stipulated guarantee. The Authority will also use institutions if the institution is an eligible institution under the UK Credit Guarantee Scheme first announced in October 2008.

135. Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list.

Investment Limits

136. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2011/12 are as follows:

Debt Management Account Deposit Facility	Unlimited
UK Local Authorities (each)	£3m
Money Market Funds (AAA rated)	£3m
UK Banks and Building Societies (AA or higher rated)	£3m
UK Banks and Building Societies (A or higher rated)	£2m
Foreign banks registered in the UK (AA or higher rated)	£2m

137. The maximum that may be invested with different banks that are part of the same conglomerate shall not exceed the maximum of the highest rated bank within the group. The limits may be exceeded for short periods when there are adverse conditions in the money market with the agreement of the Assistant Chief Executive& Treasurer or Treasury Manager.

138. Bank and Money Market Fund ratings are checked daily. The Authority is alerted by e-mail when there is an amendment by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Authority's minimum requirement or any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

Non-Specified Investments

139. Non-specified investments do not, by definition, meet the requirements of a specified investment. The Communities & Local Government (CLG) guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. It is not envisaged that any cash balances will be invested in non-specified investments in 2011/12. However, circumstances may dictate that the following types of non-specified investments may be used.

140. If deposits with the Authority's own bank fail to meet the basic credit criteria, due to changes in the credit rating, then in this instance balances will be minimised as far as is possible.

141. Building societies which do not meet the normal credit criteria but are one of the top ten building societies, determined by asset size. Those societies that are within the top ten but do not have an agency determined credit rating shall have an individual limit of £1m. Building Society rankings are checked annually with the Building Societies Association.

Risk Management of Investment Counterparties

142. Bank and Money Market Fund ratings are checked daily. The Authority is alerted by e-mail when there is an amendment by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Authority's minimum requirement or any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

143. Credit ratings are only the starting point when considering credit risk. The Code of Practice requires the Authority to supplement credit rating information with additional operational market information which will be applied before making any specific investment decision from the agreed pool of counterparties. Credit Default Swaps and negative rating watches/outlooks are examined and the financial press, internet and financial information systems are monitored for market information regarding its counterparties. It also receives daily e-mails from various market participants that could identify potential problems. Any information that casts doubt on an institution's creditworthiness is acted on by suspending investment with that institution.

Liquidity of Investments

144. Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. All investments are normally short term having a maturity of less than one year. The Prudential Code does allow longer term investments and under certain money market conditions it may be prudent to invest for up to three years dependent on cash flow forecasts.

Risk Benchmarking

145. The revised Codes and the CLG Investment Guidance recommend the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Security and liquidity benchmarks are new requirements although the application of these is more subjective in nature. The benchmarks are simple guides to maximum risk and so may be breached from time to time depending on movements in interest rates and counterparty criteria. The purpose of them is for Officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

146. Security: - Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings. A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Authority’s investment strategy. The Authority’s minimum credit rating criteria is currently “A”. The average expectation of default for a one year investment in a counterparty with an “A” long term rating is 0.08% of the total investment e.g. for a £1m investment the average loss would be £800. This is only an average and any specific counterparty loss is likely to be higher but these figures do act as a proxy benchmark for risk across the portfolio. The Authority’s maximum security risk benchmark of 0.08% is embodied in the criteria for selecting cash investment counterparties and will be monitored and reported to Members.

Liquidity: - The Authority seeks to maintain liquid short term deposits of at least £1million available daily.

Yield: - The Authority's benchmark for investment returns is the 7 day LIBID rate.

Reporting Arrangements

147. The Investments Strategy forms part of the Treasury Management Strategy which is referred to Policy & Finance Committee for monitoring. An interim report is produced during the year and a final annual report by 30th September following the end of a financial year.

EXTERNAL DEBT PRUDENTIAL INDICATORS:

148. The Prudential Code requires the following external debt indicators of prudence:

Authorised limit for external debt
Operational boundary for external debt

Authorised Limit

149. The Authorised Limit for Debt represents the maximum level of debt which the Authority may have during the year. The Authority has no powers to exceed this unless a further report with revised prudential indicators is approved by the full Authority. The limit therefore makes appropriate allowance for the risks and uncertainties which affect day-to-day debt levels, and the ups and downs of short term cash flow.

150. The authorised limits reflect the Authority's capital financing requirements, identified in its capital expenditure and financing plans. They are consistent with treasury management policy statement and practices. The Authority is asked to approve the limits below and to delegate authority to the Assistant Chief Executive & Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities.

Authorised Limit for External Debt		**2011/12**	**2012/13**	**2013/14**
		£'000	**£'000**	**£'000**
Borrowing		61,000	61,000	62,000
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**63,000**	**63,000**	**64,000**

Operational Boundary

151. The Operational Boundary indicator represents the expected maximum debt position during each year. It takes into account projections of borrowing requirement and repayments in future years. It may be different from the year end position as it reflects cash flows within each year. The Authority is asked to approve the limits and to delegate authority to the Assistant Chief Executive & Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities.

Operational Boundary for External Debt		**2011/12**	**2012/13**	**2013/14**
		£'000	**£'000**	**£'000**
Borrowing		56,000	56,000	57,000
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**58,000**	**58,000**	**59,000**

Actual External Debt

152. The prudential indicator for actual external debt considers a single point in time and hence is only directly comparable to the authorised limit and operational boundary at that point in time. Actual external debt is monitored during the year against the limits. It is forecast to be £46 million at 31st March 2011.

TREASURY MANAGEMENT INDICATORS:

153. The Treasury Management Code requires the following Treasury Management indicators of prudence:

Upper limit on fixed interest rate exposures;
Upper limit on variable interest rate exposures;
Upper and lower limits for the maturity structure of borrowing;
Total principal sums invested for periods longer than 364 days.

Interest Rate Exposures

154. It is recommended that the Authority sets upper limits on its fixed and variable interest rate exposures as a percentage of its net outstanding principal sums as follows: -

Upper Limits on Interest Rate Exposures		**2011/12**	**2012/13**	**2013/14**
		%	**%**	**%**
Fixed		100	100	100
Variable		50	50	50

155. This means that the Assistant Chief Executive & Treasurer will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2011/12.

Maturity Structure of Borrowing

156. It is recommended that the Authority sets upper and lower percentage limits for the maturity structure of its borrowings as follows. Percentage of projected fixed rate borrowing that is maturing in each period:

	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and above	90%	0%

Total Principal Sums Invested For Periods Longer Than 364 Days

157. It is recommended that the limit for investments of longer than 364 days be set at £2m for each of the years 2011/12, 2012/13 and 2013/14.

PERFORMANCE INDICATORS

158. The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

159. The Authority will maintain performance indicators for both borrowing and investment though it must be stressed that the pursuit of higher performance shall not be at the expense of taking undue risks. The indicators for the treasury function are:

Borrowing - Average rate of borrowing for the year compared to average available.
Investments – Internal returns compared to the 7 day LIBID rate.

The results of these indicators will be reported in the Treasury Management monitoring reports.

TREASURY MANAGEMENT ADVISERS

160. The Treasury Management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisers appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

Whilst Liverpool City Council and its advisors provide the treasury function, the responsibility for any decision on treasury matters remains with the Authority.

(G) REVENUE FORECASTS

161. The Authority has in recent years maintained robust medium term financial plans.

162. This plan is fully reviewed on an annual basis and monitored quarterly. This section of the report will develop a financial forecast for the Authority based upon the latest information. It will:-

Make underlying assumptions to support the forecast
Discuss the key pressures that contribute to forecast deficits.

Members will recall that in the past few years the Authority's budget forecasts have dealt with significant financial challenges because of government decisions about the funding of Firefighters pensions and the poor outcomes of the Comprehensive Spending Review 2007.

The Authority has made innovative changes and efficiencies to tackle the deficits, these have included:-

Review of Areas of Significant Saving over Recent Years

	2006/07	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000	£'000
Saving Options:					
LLAR * 7	-1,200	-1,800	-1,800	-2,100	-2,100
Fire Safety Review	-780	-780	-780	-780	-780
Control Room	-296	-296	-296	-296	-296
SRT/Croxteth	-632	-632	-632	-632	-632
Retained Resilience at Bootle/Netherton	-271	-271	-271	-271	-271
Bromborough Hazmat		-300	-300	-300	-300
Operational Service Staffing (3% Sickness)			-369	-369	-369
City Station CPP			-279	-279	-279
Reduce R&R team toriding appliances efficiently in line with agreements				-1,332	-1,332
ICT Saving	-146	-276	-426	-426	-426
Senior Management Review		-259	-259	-259	-259
Numerous Director Savings on controllable budgets		-100	-100	-100	-100
Efficiency Savings		-382	-382	-382	-382
Efficiency Savings - cash limit non-employee budgets	-250	-250	-250	-250	-250
Increase level of targeted secondment Income			-125	-125	-125
Interest Income - increase by £0.1m			-100	-100	-100
Early termination of BA lease 2007/08			-40	-40	-40
Effectively Reducing ill health retirements				-200	-350
Review Management Structures				-400	-400
Non Uniform Support Costs				-150	-150
Special Appliance provision/ORC				-280	-280
Grey Book/Green Book Review				-250	-250
Further Review of RRT (11 posts)				-400	-400
Income Generation through social enterprise				0	-175
Procurement Efficiencies Target				-200	-250
Self Rostering				-360	-360
Engineering Centre of Excellence				0	-150
	-3,575	-5,346	-6,409	-10,281	-10,806

163. Previous savings will all have been fully implemented by the close of 2010/11 which is means only variations to the approved plan need to be considered as part of this 2011/12 report.

164. Whilst performance has improved the Authority has made very significant efficiency savings in its budgets already including a reduction in the number of wholetime Firefighters from over 1500 to below 880. The savings have totalled over £10m and mean that the room for meeting significant financial challenges without making difficult choices and cuts is limited.

Budget Assumptions

165. In compiling the plan, the Assistant Chief Executive & Treasurer has, in consultation with the Chief Fire Officer, made a number of assumptions of both a technical nature and also about the policies that the Authority might be mindful to pursue in its aim to make Merseyside safer.

166. The key assumptions in the forecast are:-

Inflation & Pay Changes

167. The forecast plan currently includes a contingency for pay awards and price increases in each year. This has been prepared using the following assumptions -

- An annual increase in the **paybill** of 2% (this includes provision for pay rises, employer pension increases and employers national insurance)
- All Other Price Inflation 2% p.a.

168. The total inflationary provision for pay and price costs is approximately £1.6m per annum.

169. As an indicator to Members and a guide in assessing the volatility of inflation estimates - a movement of 1% in paybill inflation equates to approximately £0.5m.

170. Members will recall that the Government has repeatedly emphasised the need in the current economic climate to manage public sector pay expectations and has announced that it has assumed a two year pay freeze in public sector pay from 2011 onwards.

171. The Government is also concerned about the cost of public pensions and a review has been undertaken by Lord Hutton which is due to issue its final report in 2011. This may increase both employer & employee contributions.

172. There has been no pay offer from employers to staff in 2010/11.

Cost of Capital Borrowing

173. The revenue impacts of capital investment decisions and the agreed 2011/12 – 2015/16 capital programme are included within forecasts. This includes additional new start schemes of £6.987m (predominantly being the additional year of 2015/16 added to the plans). The plan also takes into account the proposed MRP policy discussed previously in section D.

174. Overall spending on debt servicing is forecast to be about £6.2m in 2011/12 rising to £8.5m by 2015/16.

PFI

175. The Authority has been successful in winning PFI credits to make a massive investment in our building stock as part of leading a North West Fire & Rescue Services project. The anticipated contributions to lease costs arising from this have been built into budgets for future years at a net £0.550m (this compares to an approximate cost of a project funded by borrowing alone which would be at least £2m p.a.).

176. The Authority would require assistance to take forward a specialist scheme of this complexity in the fields of finance, law and property provision has been built into the financial plan for consultancy and MFRS costs over the PFI development period of £0.215m per year. Whilst the fees may seem large they are relatively low when compared to the forecast capital cost of the project (£47.2m).

177. Consultants working on the Project have identified that the Authority should consider maintaining a costs smoothing/affordability reserve for the PFI project to spread costs effectively and smoothly over the life of the project. This is common practice in such schemes. The level of this reserve will clearly need to be reviewed as the project progresses and affordability gap becomes clearer.

Resources Available

(a) Council Tax /Precept

The forecast assumes council tax increases at the Authority's medium term planning level of 4.00% in 2011/12 and 4% per annum thereafter.

(b) Government Grant

The Authority received formula grant of £46.3m in 2010/11. Since then the Governments Comprehensive Spending Review has announced large scale reductions in public spending.

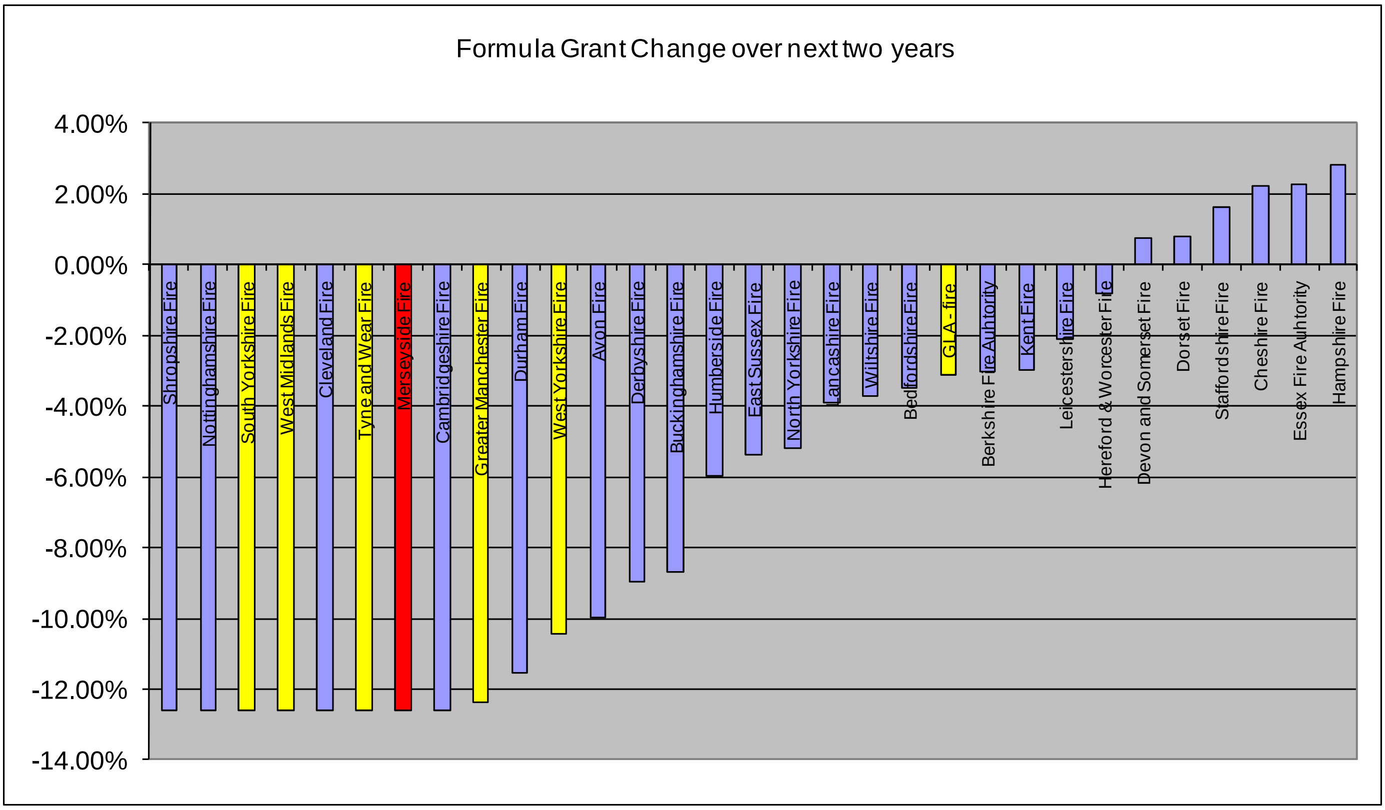
As a consequence of the Government's strategy on cutting public expenditure it has announced that fire authorities face a 25% reduction in government funding (equivalent to a cash reduction on the 2010/11 figure of 18%) over the 2011/12 – 2014/15 period.

The Government have stated the reduction will be back loaded for fire, with approximately 1/3rd of the reduction being phased in the first 2 financial years, (2011/12 – 2012/13) and the remainder in the last 2 years.

The Government has only announced detailed local authority's grant settlement figures for 2011/12 & 2012/13 but not for the final 2 years 2013/14 – 2014/15, and therefore a level of uncertainty remains over those years. However it is clear the Authority faces an unprecedented challenge to deliver the savings required over this period.

The Authority has received a cash reduction in its grant of 13% (£7.7m) in 2011/12 – 2012/13 alone.

There is significant variation between Authorities in how the cuts have been allocated across the first two years. Merseyside has done 2.2 times as badly as the national average grant cut of 6%. Some Authorities have in fact received a grant increase**.**



Since the national cash reduction in years 1 and 2 is 6% it indicates that years 3 and 4 the English Fire and Rescue Service will (on average) see a grant reduction of a further 12% in total –i.e. only one third of the cuts have been applied so far.

If the Authority does as well as the national average cut in 2013/14 and 2014/15 it will face a cumulative grant reduction of £11m in cash terms and £15m in comparison to that in the current approved financial plan (assumed a 2% increase year-on-year).

If the Authority does do as badly in years 3 and 4 as it did for 2011/12 and 2012/13 it would face a cumulative financial challenge of £22m

Other Assumptions

178. The Medium Term Financial Plan assumes that:-

Pension Costs-
Local Government Pension Scheme & Firefighter Pension Scheme

179. The plan assumes that the employer's contribution to all pension schemes will continue at current rates.

180. The Government is currently reviewing pensions with a view of reducing the cost to taxpayers of public sector pensions. Provision is made for an increase in the paybill.

Cost of Borrowing

(a) Interest payable to Treasury

The Authority borrows money from the Treasury's Public Works Loans Board. Government has increased the rates payable on that debt by 0.85%. This will increase the cost of borrowing by £0.349m by 2015/16

(b) Supported Capital Expenditure

The government has removed any assumption about borrowing for Fire Authorities from its calculation of grant - It is assuming that they make no investment in capital funded by borrowing at all.

This means that any borrowing to support the vital capital investment programme discussed above undertaken by the Authority must be funded by what is called unsupported borrowing. The accounting rules in place mean that if all the Authority borrowing is regarded as unsupported then the cost of that borrowing is higher than if some elements are supported because the repayment profile for the debt overall is different. The net impact of this government decision is a cost of £1.1m by 2015/16

Investment Income

181. It has been assumed that interest rates will remain at current levels until the end of 2011 and will then gradually move upwards. Investment income therefore remains significantly lower than in previous years.

Regional Control and Firelink

182. The national project for a regional control room has now been cancelled by central government. This forecast assumes that the Authority continues with its current arrangements for taking emergency calls (Control Room at Bridle Road) and that costs do not change. Consideration is being given to the most efficient and effective arrangements going forward.

New Dimensions Grant

183. The Authority received a grant of £0.9m in each year for crewing New Dimensions Vehicles from CLG. The financial plan assumes this grant will continue in 2011/12 – 2015/16.

Taxbase Collection Fund changes

Council Taxbase

184. The Districts of Merseyside have set their taxbases 2011/12 and they are shown in the table below:-

District	2010/2011 Council Tax Taxbase	2011/2012 Council Tax Taxbase	Variance	
	£	£	£	%
LIVERPOOL	125,359.00	124,396.00	-963.00	-0.77%
WIRRAL	104,690.00	104,879.00	189.00	0.18%
ST.HELENS	55,700.00	56,110.00	410.00	0.74%
SEFTON	93,050.25	93,075.91	25.66	0.03%
KNOWSLEY	41,862.00	42,134.00	272.00	0.65%
	420,661.25	420,594.91	-66.34	-0.02%
2010/11 Band D Tax Level	64.77	64.77		
Total Income £	27,246,229	27,241,932	**-4,297**	-0.02%

185. The total taxbase for the Authority has reduced by -0.02% this means that each £1 of Council Tax the level of income will be slightly lower than that generated in 2010/2011 by £66.34. The result of this is that the income from the current level of Council Tax is anticipated to decrease by £4,297 without any increase being applied (this is assumed to be a permanent decrease).

186. This means that the income forecast from a 1% increase in Council Tax in 2011/2012 is now £0.273m.

Surplus and Deficit on Collection Funds

187. The Districts of Merseyside have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The results are set out in the table below and show a net deficit of £48,227. This impact is a one-off.

District	2010/2011 Coll fund deficit
	£
LIVERPOOL	51,000
WIRRAL	0
ST.HELENS	-18,579
SEFTON	21,806
KNOWSLEY	-6,000
	48,227

The overall forecast of the deficit based upon these assumptions is shown in the tables below.

The first table is compiled on the basis that the Authority does as well as the national average for grant cuts in 2013-2015 and shows an overall financial problem of £16.2 m over 4 years

The second table assumes that the Authority does as badly as the first two years and shows an overall financial problem of £22.5 m over 4 years

Government Grant cut in Year 2013/14 & 2014/15 equal to national average.				
2011/12 - 2015/16 FINANCIAL PLAN				
	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000
Net Expenditure	76,203	78,546	80,719	83,219
Available Funding				
Formula Grant	-41,906	-40,481	-37,816	-35,154
Council Tax (+4% p.a.)	-28,332	-29,465	-30,644	-31,870
Collection Fund Deficit	48			
Budget Deficit / (Surplus)	6,013	8,600	12,259	16,195

Government Grant cut in Year 2013/14 & 2014/15 as bad as 2011/12 - 2012/13				
2011/12 - 2015/16 FINANCIAL PLAN				
	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000
Net Expenditure	76,203	78,546	80,719	83,219
Available Funding				
Formula Grant	-41,906	-40,481	-34,654	-28,829
Council Tax (+4% p.a.)	-28,332	-29,465	-30,644	-31,870
Collection Fund Deficit	48			
Budget Deficit / (Surplus)	6,013	8,600	15,421	22,520

(H) <u>Options for facing a Financial Challenge</u>

188. The Authority has for many years now had an embedded strategy for VFM. The Authority has recently reviewed that strategy and reaffirmed its value for money principles. These may be summarised as:-

<u>Value for Money Principles</u>

<u>Principle 1</u> – Allocate resources in line with priorities

<u>Principle 2</u> – Control Council Tax

<u>Principle 3</u> – Acknowledging budget realities

The Authority will continue to:

(i) Acknowledge the challenges it faces:
(iii) Acknowledge the reality of its budget and recognise that 80% of its costs are people related.

<u>Principle 4</u> – The Authority seeks to avoid compulsory redundancy in delivering VfM.

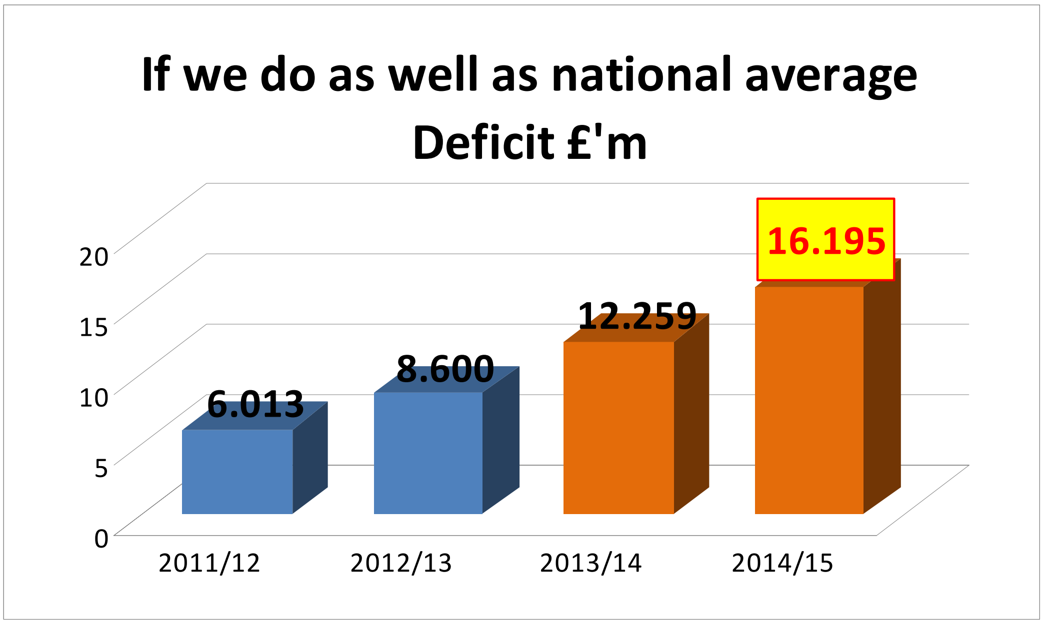
<u>Principle 5</u> - The Authority seeks to maintain or improve service levels to make Merseyside safer, stronger, healthier.

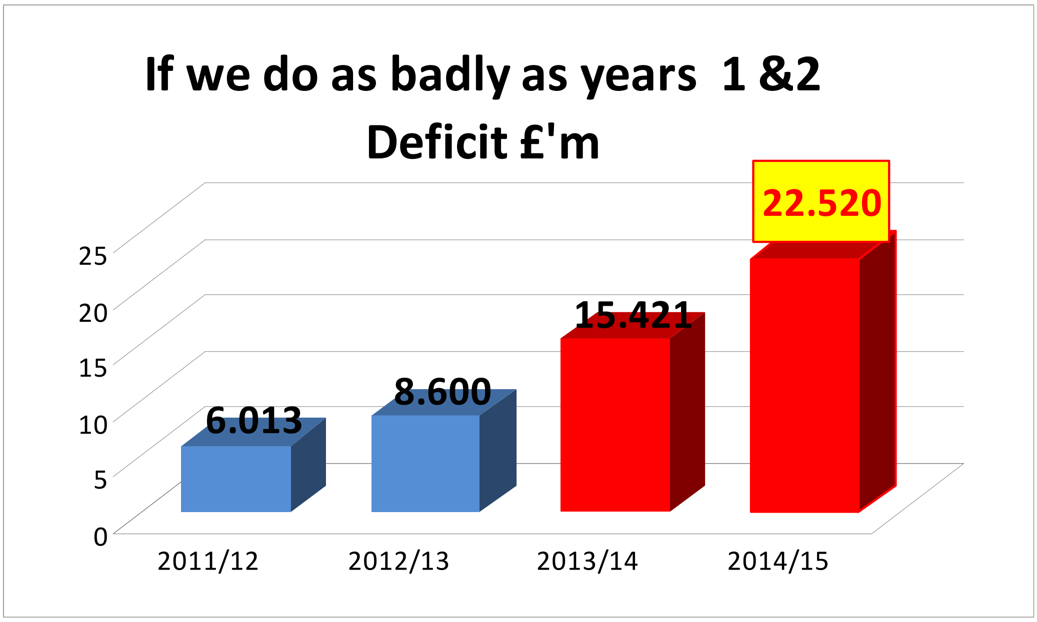
189. In applying those principles the Authority has already made largescale budgetary changes and savings. As it faces up to its biggest ever financial challenge the Authority has very limited room for manoeuvre and these principles will be difficult to maintain.

190. In considering the financial position the Authority will note that the first two years represent a savings requirement of £8.6m.

191. This saving requirement nearly doubles in years 3 and 4 if the Authority's grant cut is in line with national averages.

192. This saving requirement nearly trebles in years 3 and 4 if the Authority's grant cut is as bad compared to the national average as in years 1 and 2.





193. It is the Chief Fire Officer's view that a savings plan might be developed for the first two years that, whilst presenting difficult choices, might be implemented with relatively small impacts on the front-line service.

194. Once savings requirements go beyond that level (the anticipated cuts represent 12% of revenue budget in a two year period) it is the view of the Chief Fire Officer that further significant savings could only be achieved by major reductions in fire cover in Merseyside.

195. A two phase approach has therefore been discussed with the Authority which would adopt the following structure:-

(a) 2011 – 2013 – Years 1 &2

Develop a robust savings plan for 2011/12 and 2012/13 which would balance the budget

(b) 2013-2015 - Years 3 & 4

Adopt a lobbying strategy for 2013/14-2014/15 (in conjunction with other Metropolitan Fire and Rescue Services) with a view to minimising the level of grant cuts. Depending upon the success of that lobby the Authority would face a stark choice between service reduction or largescale local taxation increases. The Authority would have to (in conjunction with the community) choose its strategy between taxation and cuts.

Members will note that the Government intends a “Resource Review” which will examine how local authorities are funded that may impact on this position.

The options below are based upon this two phase approach:-

Potential Options for Phase 1

Officers have considered the options available in light of the Value For Money Principles.

They have also taken account of the views of the Authority at the Budget Strategy Day which in particular indicated Members supported:-

(i) The adoption of a paybill strategy based upon following central government assumptions of pay freezes over a number of years
(ii) Focusing savings targets as far as possible on Support and Management Costs
(iii) Choosing efficiencies in front line staffing arrangements that minimise the impact on front line services to the public.

The options recommended therefore are:-

1) Pay Strategy

196. The Authority must choose a strategy for the paybill of staff. The provision assumed in forecasts is for paybill increases which currently are 2% or £1m p.a.

197. Since the employers have made no offer to staff this year this means that effectively the first year of a pay freeze is already in place. This would save £1m.

198. Central Government has announced that it is assuming a further two year pay freeze.

199. If the Authority were minded to adopt this approach and assume a three year pay freeze it might reduce forecast costs by £3m in total (£1m for each year of the pay freeze).

200. Making this assumed saving would rely on the fact that any government pension or tax reviews did not vary employers pension contributions nor vary employers national insurance payment rates.

201. Members would also recognise that such a strategy would significantly impact upon all staff:-

202. A pay freeze for this year against inflation rates of 5% is effectively a 5% real terms pay cut

203. Staff have suffered a number of taxation changes which will reduce disposable income It is likely that the Lord Hutton review of pensions will require staff to contribute higher levels of income to pension schemes. This will further erode disposable income

204. Pay negotiations are currently conducted nationally. As indicated in section G the grant cuts vary significantly amongst English fire and rescue services. This will mean that there will be significantly different attitudes from those Authorities about the affordability and desirability of any pay rise over the next few years. This is compounded by the fact that Scottish and Welsh Fire and Rescue Services have been significantly protected from reductions.

205. In light of all these issues Members will recognise that there is a significant risk associated with assuming a multi year pay freeze. If the Authority made this assumption and there was then either a pay increase agreed or if employers on-costs (pensions/national insurance) increased then it would have to make yet further savings. If the Authority is minded to adopt this approach then it should maintain an inflation reserve to allow time to manage those risks.

2) <u>Reductions in support costs and Management costs – Total £2.450m</u>

(i) Target Saving in Support Services £1.3m

Officers have, as the likely cuts in public service became clear, asked all senior managers in the service to identify ‘potential’ options for saving based upon a planning assumption that an overall 20% cut in the Authority’s budget – circa £14m.

This exercise identified potential cuts and efficiencies in support services of approximately £1.3m.

This saving would be delivered by a reduction of approximately 36 posts as well as cuts and reductions in a number of different areas.

A change of this scale may be difficult to achieve by voluntary severance methods and may require compulsory redundancy – However all staff would be offered voluntary severance package and the situation assessed at the end of March 2011.

(ii) Estates Outsourcing - £0.250m

Members will recall that the Authority has approved a market testing exercise for the Estates function to assess whether or not adopting the same management model applied to the PFI stations and applying it across the whole building stock would provide value for money.

Such an approach would avoid the Authority having to invest in an infrastructure that already exists in large private sector property management organisations already. It is also believed that there would be economies of scale given the relatively small size of the Authority's property portfolio.

'Soft Market' testing has indicated that the Authority might expect savings from an outsourced approach of at least £0.250m.

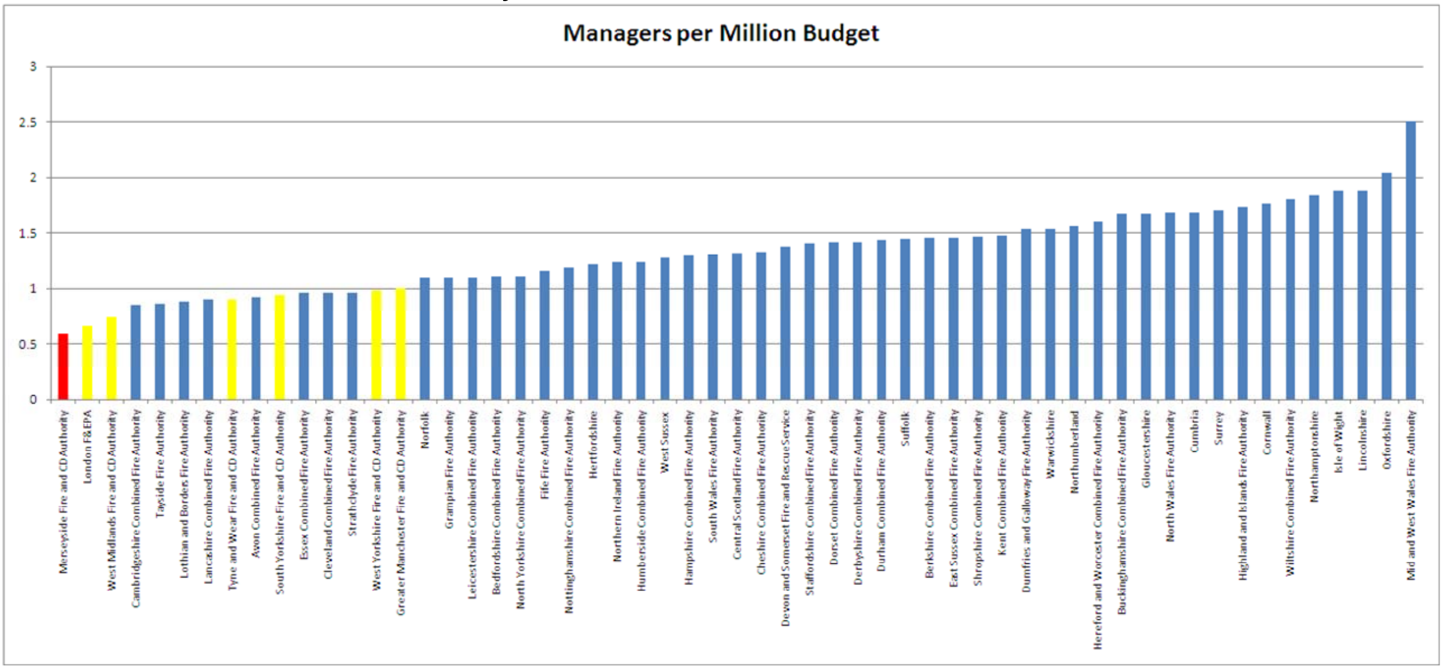
Whilst the exact details of any proposed solution depends upon market response, it is anticipated that at the very least, there would be the transfer of 23.5 Whole Time equivalent cleaning staff away from MFRA under the TUPE regulations.

A full report will be presented to Authority once the market testing exercise is completed in late April.

(iii) Reduced Management Costs - £0.4m

Whilst the Authority has already significantly reduced the number of managers and has one of the leanest structures in all fire and rescue services it is still considered that additional efficiencies might be identified across all areas of senior management.

The table below shows managers per £m of Fire Authority budget across the service. Merseyside has the lowest ratio of all fire services



Members might wish to choose a savings target of £0.4m.

Whilst detailed work has yet to be undertaken on how this might be delivered, rough analysis suggest that approximately 9 posts might be affected offset by applying different ways of working and duty system arrangements to deliver the net saving.

It is considered quite probable that, given the nature of roles and the individuals in place that compulsory redundancy might be unavoidable amongst non-uniformed staff in this area.

(iv) Review of Debt Servicing - £0.50m

The Authorities profile of borrowing and repayments has been reviewed in light of the detailed capital programme shown elsewhere in this report.

It has been identified that by:-

- Reviewing capital financing in detail savings of £0.4m per annum can be identified;
- Rescheduling the purchase of Fire Appliances over a longer period can save £0.1m.

3) **<u>Efficiencies in Front Line staffing with minimised impact on Front Line Service – Total £3.300m</u>**

(i) New Duty System Marine Fire and Rescue – £0.1m

Since the Authority took over the running of the Inshore Rescue Service the net cost of running the service has increased significantly because of:-

- Reduced income from partners (Notably Halton/Police have dropped out).
- Increased staff costs following job evaluation.

The Authority has expressed interest in how it can be more efficient in delivering the service and it is anticipated that the new building being jointly developed on Merseytravel's pontoon will allow alternative duty systems to be explored.

Overall a reduction in cost of £0.1m is anticipated.

Rough analysis suggest that approximately a net 5 post reduction might be achieved – staff reductions offset by applying different ways of working and duty system arrangements to deliver the net saving.

It is possible that given the nature of roles and the individuals in place that compulsory redundancy might be unavoidable amongst staff in this area. When the outcome of voluntary severance arrangements is known the relevant trade unions will be consulted if this is the case. In the meantime the trade unions have been informed of the possibility.

(ii) Dynamic Staff Reserve - £2.95m

This will mean effectively managing those five pumps currently on the dynamic reserve basis so they are less available on a permanent basis.

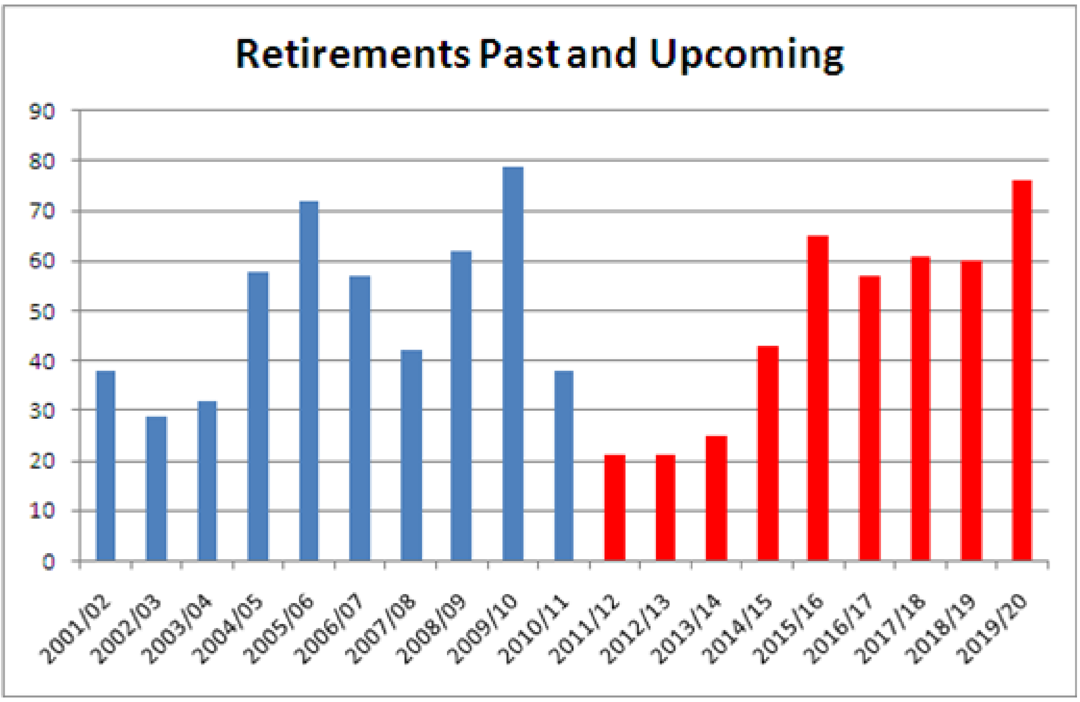
This would be introduced over a two year period.

There will be no impact on response and the appliances will be available on a recall to duty basis.

It is considered that alongside this the Authority would, on the basis of risk, undertake a full review of its response to Automatic Fire Alarms and small fires.

Overall this will result in a reduction of 80 whole time equivalent Firefighter roles. It is anticipated that this would be achieved by natural turnover (retirement) of staff on full pensions.

Because of the retirement rate of Firefighters it would take over two years to deliver this saving in full. Members will need to be mindful of this cash shortfall in considering their strategy on reserves.



(iii) Revised Duty System at Whiston £0.3m

As risks continue to be reduced it has been identified that alternative duty systems might be explored at Whiston Fire Station to deliver savings.

The forecast savings are based upon an LLAR duty system but alternatives that delivered an equivalent saving might also be considered.

The saving would see a reduction of 12 whole time Firefighter equivalent posts. As discussed above it would take nearly three years to deliver this saving in full based upon natural turnover rates.

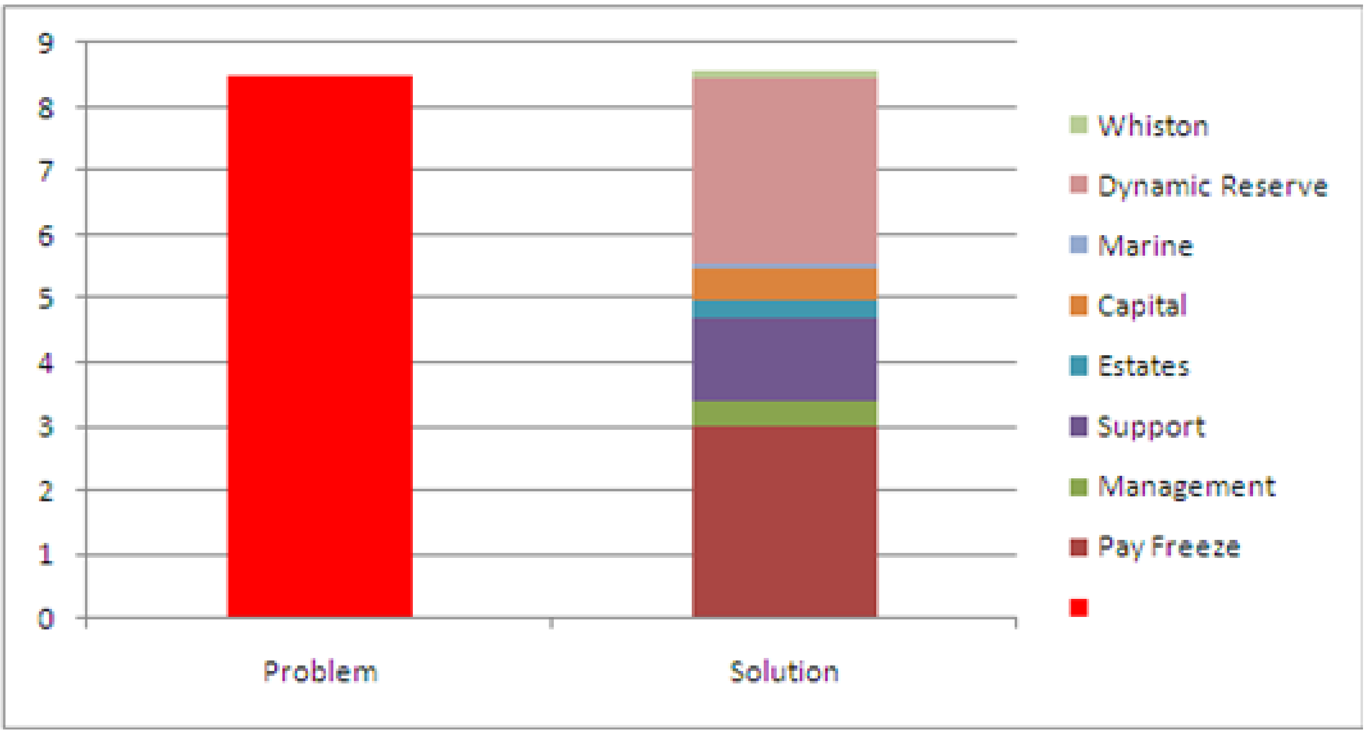
Summary

The impact of these options is summarised in the table below:-

Potential Savings Plan	Amount £'000	Detail & Comment	Delivery Risk	Post Reduction	Potential Redundancy
Assume Pay Bill Freeze 2010/11	1,000				
Assume Pay Bill Freeze 2011/12	1,000				
Assume Pay Bill Freeze 2012/13	1,000				
Reduce numbers of senior managers	400			-9	
Manage the Dynamic Reserve more flexibly	2,950	This will mean effectively managing those five pumps currently on the dynamic reserve basis so they are less available on a pemanent basis over two years. . There will be no impact on response and the appliances will be available on a recall to duty basis . Linked to AFA and small fire response		-80	
Outsource of estates Function	250	Outsource Estates delivery based on the model being used for the PFI fire stations. Cleaners at last will TUPE		-23.5	
Changed Duty System at Whiston	300			-12	
Changed Duty System	100	Implement Revised Duty system for marine station. 5 staff likley to be made redundant		-5	
Cuts in Support Services	1,300	Full review of all support service areas . Will impact on service quality. Approximately 36 posts of which 10 vacant		-36	
Rephasing of Vehicles Capital Programme	100				
Review of Capital Programme Financing	400				
	8,800			-165.5	

Members will note that each option has had a colour coded (red/amber/green) assessment of the delivery and potential redundancy risks set alongside.

Overall the options presented have been prepared in line with the current financial plan and would address the forecast **Phase 1** deficit. See table overleaf



The overall reduction in posts is summarised below. It can be seen that a higher proportion fall on support/management roles.

Total Post Reductions	Number	Proportion
Firefighter posts	-92	-9.5%
Support and Management Roles	-73.5	-19%
	-165.5	

Further Option to Achieve a Council Tax Freeze

206. The plan above has been prepared in line with the Authority's VFM principles and financial strategy. If Members were minded to move away from their long term Council Tax strategy one option might be to consider assuming savings in MACC.

MACC – Potential Saving £0.400m

207. Some of the process evolution work the Authority has asked Officers to undertake reviewing efficient crewing for MACC has now been completed. Initial indications are that it would be possible to assume that a full review of MACC staffing would allow the reduction of ten posts which would save £0.400m. It is considered that these could probably be delivered by voluntary severance / voluntary retirement although this process may be costly.

Other Savings

208. Beyond the level of savings identified above any further savings begin to fall considerably outside the Authority’s value for money principles.

209. Whilst more work is required to asses the exact impacts and make decisions on a risk basis further savings would require either:-

- Reductions in the number of second appliances
  Or
- Closures of Fire Stations

Any further such savings could not be achieved in a relatively short timescale without compulsory redundancy amongst firefighters**.**

Council Tax/Precept

210. This forecast has been prepared on the basis that the Authority carries on with its medium term financial plan and sets council tax at a 4% increase.

Capping & Council Tax Freeze Grant

211. The Government has indicated that for those local Authorities that freeze their council tax for 2011/12 (zero increase) then a grant will be available equivalent to the income from a 2.5% council tax increase.

212. It is believed that this grant will be available for the full four years of the spending review but not beyond that date.

213. Full details of how this will work are not available but the Parliamentary Under Secretary of State (Bob Neill) in his speech announcing the final grant settlement that :-

"Despite the huge pressures on public finances, the Coalition Government has taken unprecedented steps to protect councils most reliant on central government funding and freeze council tax…………

……..We are also helping to protect the public from excessive council tax rises with our £650 million fund so town halls can freeze council tax this April. This will
offer real help to families and pensioners. We will provide each authority that does not increase its basic level of council tax with a grant equivalent to the revenue it would have generated had it increased it by 2.5%. I would like to impress upon authorities that under the terms of the scheme they will not receive any grant if they increase their council tax at all.

214. The Government anticipates that authorities will choose to take up the freeze. However, where authorities opt to increase their council tax instead the Government is prepared to take capping action against excessive increases.

The Secretary of State will set out the capping principles that he intends to use to compare authorities' budgets in the next few days, leaving ample time for authorities to consider their budgeting before the deadlines for setting their council tax.

I have also today laid before the House the Limitation of Council Tax and Precepts (Alternative Notional Amounts) Report (England) 2011-12. This report takes account of changes to authorities' functions and grants during 2010-11, and contains details of the figures that will be used to compare authorities' budgets between years, should capping be necessary"

At the time of writing the capping principles had not been released.

(i) **<u>If the Authority chooses to stick to its financial plan at a 4% increase</u>**

It will not increase the savings target for the Authority

It is in line with the medium term financial plan.

There may be a risk of capping – in the absence of rules being published - but the current financial plan was sent to the Fire Minister before Authority Members visited him to lobby around the grant settlement on the 12th January.

The Minister indicated that:-

He had read our financial plan. It was not for the minister to say yea or nay to a financial plan but don't see anything that causes a problem.

<u>and</u>

The Financial plan is a matter of policy for the Authority but he understood the logic behind it and that may give the basis for a way forward

It gives a more robust baseline financial position for the Authority going forward for any future council tax increases as required.

(ii) **<u>If the Authority decides to Freeze council tax levels</u>**
The loss of income to the Authority would be £0.4m in the short term and £1.1m in the longer term. Additional cuts would have to be identified to balance the budget to £1m.

The Authority would receive a council tax grant for the next 4 years of about £0.68m per annum.

The long term base level of council tax income would be 4% lower.

The ‘ready reckoners’ below will give Members a guide on the impact of various precept levels.

Council Tax Increase			
	0%	4%	5%
Band D Tax	64.77	67.36	68.01
District Precept	£m	£m	£m
LIVERPOOL	8.057	8.379	8.460
WIRRAL	6.793	7.065	7.133
ST.HELENS	3.634	3.780	3.816
SEFTON	6.029	6.270	6.330
KNOWSLEY	2.729	2.838	2.866
	27.242	28.332	28.605
Impact On Financial Plan	-1.090	0.000	0.273

(I) ADEQUACY OF RESERVES AND BALANCES

Responsibilities of Chief Finance Officers

216. Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an Authority is now required to comment on the following matters:

- the robustness of the estimates made for the purposes of determining its Budget Requirement for the forthcoming year;
- the adequacy of the proposed financial reserves.

217. There is then a requirement for the Authority to have regard to the report of the Chief Finance Officer when making decisions on its Budget Requirement and level of financial reserves.

218. In the Fire Authority the Chief Finance Officer is the Assistant Chief Executive & Treasurer – Kieran Timmins. For the purposes of the Act the "financial reserves" of the Authority would incorporate Earmarked Reserves and Working Balances.

219. To make a final judgement on these issues it will be necessary to consider the proposed budget decisions of the Authority in the light of this budget report.

Robustness of Estimate

220. To fully satisfy the Chief Finance Officer any proposed Budget or amendment should therefore:-

- Be fully based upon the advice of Service Officers (supported by Finance Officers) – or based upon or supported by information the Chief Finance Officer considers reasonable to accept.
- Provide only for Budget proposals that are fully costed to service level and where the implications – both financial and upon service performance – are estimated and identified.
- Provide for all known future developments either through direct service Budget allocations or the establishment of specific reserves for such purposes.
- Provide for an adequate level of Balances and Reserves consistent with the requirements of any Regulation that may be earmarked and/or the Authority's own risk assessment.
- Provide for the full revenue implications of the Capital Programme.
- Establish clear targets for income collection in respect of key income streams.

- Ensure there are no unidentified savings targets.

- Where appropriate ensure that the consequences of current over and under spendings have been taken into account.

<u>Adequacy of proposed Financial Reserves</u>

221. Under the 2003 Local Government Act the Secretary of State may enact Regulations that define certain types of “controlled reserves” and the minimum level for those Reserves. At the time of preparing this report the Secretary of State has not enacted any such Regulations.

222. However, the 2003 Act still places a requirement upon the Chief Finance Officer to report if the level of reserves is likely to be inadequate. That report should contain comment upon:

  - the reasons for that situation
  - the actions, if any, considered appropriate to prevent the situation arising.

223. There is then a requirement for the Authority to respond to the report when making decisions on its future financial reserves.

224. In recent years the Authority has maintained a general revenue reserve of, in excess, of £2m and also maintained a number of earmarked reserves.

225. A pilot Comprehensive Performance Assessment (CPA) performance indicator relating to Financial Reserves indicated that an appropriate level of General Fund of forecast Net Operating Expenditure…. or there is a financial risk management process operating which the Authority uses to justify a lower level of reserves….”. This is for ‘normal’ , multi-service local authority.

226. For the Authority 5% forecast Net Operating Expenditure equates to approximately £3.5 million.

However:-

(a) The Authority’s risk management arrangements have improved. As part of this budget process the Assistant Chief Executive & Treasurer has prepared *a financial risk management matrix* and also assessed the year on year variation in risk facing the Authority. This takes account of the corporate risk register.

(b) The Authority has previously maintained a number of specific earmarked reserves against risk.

(c) The Authority is single purpose and does not face as full a range of risks to manage as a multi-purpose authority.

(d) The Authority is unlikely to face significant increases in cost because of uncontrollable demand issues (unlike for example Social Services care for the elderly).

(e) Members will note that the Authority's revenue reserves have not generally been consumed during the year by overspendings but have been maintained throughout the year.

Resources Available

227. In the latest financial review it has been identified that the Authority maintains the following key reserves:-

General Revenue Reserve	<u>£2.544m</u>
Other Earmarked Reserves	
Modernisation	£0.488m
Cost Smoothing	£4.611m
Capital/PFI	£0.646m
Inflation	<u>£0.858m</u>
	<u>£6.603m</u>

228. In addition the 2010/11 financial position is, in line with the Authority's strategy, identifying an underspending of £3.400m (See separate report on this agenda for details)

229. In total there are resources of £10m that might be used as part of an earmarked reserves strategy, (see Appendix 3)

<u>Proposed Strategy</u>

230. Having reviewed the Authority Risk Register and prepared a detailed costing of financial risks, the Assistant Chief Executive & Treasurer recommends that in the light of all risks facing the Authority that it **<u>should aim to maintain a general revenue reserve of at least the current level of £2.5m.</u>**

231. It should, however, be noted that as part of the risk assessment process, four potential major risks have been identified for future years of the financial plan, these are set out in the table below.

232. These risks have been assessed upon the assumption that the Authority adopts the financial savings set out in this report:-

RISK / ASSUMPTION	RECCOMENDATION
<u>Pay Freeze/Inflation</u> If the Authority assumes a multi-year pay freeze within its financial plan whilst this is probably already achieved for 2010/11 and may well be sustainable for 2011/12 the risks increase as time goes on. Since pay bargaining is at a national level and the financial position and appetite/attitude toward pay freezes may be very different in better off fire and rescue services. In addition any employer pension contribution changes might increase the pay bill. General inflation particularly for fuel, food and other commodities remains well above 2%.	Maintain a £2m Inflation reserve to allow time to make additional savings if pay freezes/inflation not controlled
<u>Cost Smoothing Reserve</u> As identified above it will take time to deliver cash savings up to the finally anticipated level particularly from Firefighter roles where savings are expected to be delivered from retirements that will take three years to complete. Reserves will be required to balance the budget until cash savings are delivered. The Authority should seek to increase this reserve whenever possible over the next two years because of the financial challenge in future years (Phase 2)	Maintain a cost smoothing reserve of £3m
<u>Severance</u> The budget savings options identify a large number of post reductions. It is hoped these can be achieved by voluntary means but voluntary severance and /or early release of pensions comes at an additional cost. It is recommended to maintain a reserve which will cover the cost of such upfront investment that delivers longer term savings	Maintain a reserve of £3m to meet the costs of severance and/or early retirement costs
<u>Capital/PFI</u> The overall financial plan contains a number of largescale capital investment projects which represent both a risk and opportunities for the Authority including:- i. 7 New PFI Fire Stations ii. Mersey Inshore Rescue Station iii. Potential partnerships with Ambulance Service iv. Toxteth Firefit Hub	Maintain a capital Investment Reserve of £2m

Members should bear in mind that reserves and balances should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would find itself facing the same deficit in the next and future years but without reserves available to finance it. This is underlined by the District Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

Review of Reserves and Balances

233. Members need to consider their strategy on reserves and balances in the light of the guidance from the Executive Director.

Consultation

234. The Authority has consulted on its budget decision in a variety of ways and in particular:-.

(1) IRMP Consultation
As part of the IRMP consultation, some respondents commented on the level of Council Tax. The key message was that – whilst recognising that planning for 4% might seem reasonable, this is still twice the rate of inflation and will cause problems for pensioners and those on low incomes.

(2) Consultation with Unions/Staff
Trade Unions were invited to, and attended, the recent Budget Seminar and contributed to the debate around suitable options.

Budget Timetable

234. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept **before** 1st March 2011.

Equality & Diversity Implications

235. The financial plan makes the required investment to ensure the Authority meets and exceeds its Equality and Diversity requirements in addition to work carried out by all staff and teams.

Health & Safety and Environmental Implications

236. The budget and capital investment programme make largescale investments in staff Health and Safety.

Contribution to Achieving the Vision

237. To Make Merseyside a Safer, Stronger, Healthier Community

BACKGROUND PAPERS

Report CFO/012/10 “Merseyside Fire & Rescue Authority Budget & Financial Plan 2010/2011 – 2014/2015” Authority 18 February 2010.

Report CFO/015/11 “Financial Review Report 2010/11 April to December Review” Authority 17 February 2011

Glossary of Terms

CFR – **Capital Financing Requirement** – measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for capital purpose, although this borrowing may not necessarily take place externally (use of available cash etc).

CFS – Community Fire Safety

CSR07 – Government comprehensive spending review to identify support for the public sector over 2 to 3 year period

DCLG – Department Communities and Local Government

HFSC – Home Fire Safety Check

LLAR – Low Level Activity Risk

MRP - MINIMUM REVENUE PROVISION - An amount set aside from revenue towards the repayment of loan debt.

MTFP – Medium Term Financial Plan

ODPM – Office of Deputy Prime Minister

PFI - PRIVATE FINANCE INITIATIVE – a central government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage authorities’ participation.

RESERVES -Amounts set aside to meet future contingencies but whose use does not affect the Authority’s net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account.

RSG – Government grant support towards the revenue budget

Supported Borrowing – Borrowing to fund capital expenditure that through the Revenue Support Grant receives grant support to cover the revenue costs associated with borrowing (interest / debt repayment)

Unsupported Borrowing – No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.