

<b>MERSEYSIDE FIRE AND RESCUE AUTHORITY</b>			
<b>MEETING OF THE:</b>	<b>AUTHORITY</b>		
<b>DATE:</b>	<b>23 FEBRUARY 2017</b>	<b>REPORT NO:</b>	<b>CFO/013/17</b>
<b>PRESENTING OFFICER</b>	<b>TREASURER</b>		
<b>RESPONSIBLE OFFICER:</b>	<b>IAN CUMMINS</b>	<b>REPORT AUTHOR:</b>	<b>IAN CUMMINS</b>
<b>OFFICERS CONSULTED:</b>			
<b>TITLE OF REPORT:</b>	<b>FINANCIAL REVIEW 2016/17 APRIL TO DECEMBER 2016</b>		

<b>APPENDICES:</b>	<b>APPENDIX A1: REVENUE BUDGET MOVEMENTS SUMMARY</b> <b>APPENDIX A2: FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS SUMMARY</b> <b>APPENDIX A3: AUTHORITY REVENUE BUDGET MOVEMENTS SUMMARY</b> <b>APPENDIX A4: MOVEMENTS ON RESERVES</b> <b>APPENDIX B: CAPITAL PROGRAMME 2016/17</b> <b>APPENDIX C: APPROVED AUTHORITY CAPITAL PROGRAMME 2016/17 – 2020/21</b>
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### **Purpose of Report**

1. To review the financial position, revenue and capital, for the Authority for 2016/17. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to December 2016.

### **Recommendation**

2. That Members;
  - Note the potential £0.450m favourable revenue position identified within this report,
  - Approve the utilisation of the £0.450m favourable revenue position to increase the firefighter recruitment reserve in light of the expected firefighter retirement profile and the need to recruit trainees before the establishment falls below the approved staffing level, and
  - Instruct the Treasurer to continue to work with budget managers to maximise savings in 2016/17.

## Executive Summary

### **Revenue:**

The Authority has a detailed medium-term financial plan. The key elements of this are :-

- To control Council Tax
- To continue with its modernisation programme and deliver the Authority's mission of achieving Safer Stronger Communities – Safe Effective Firefighters
- To deliver the required savings through efficiencies of which most are employee related whilst minimising the impact of the cuts.

The Authority is on target to deliver the approved 2016/17 budget savings and is progressing well with the required structural changes in its workforce in order to maintain the required savings on a permanent basis. The Authority has a strategy of maximising savings and delivering its savings plan as early as possible in order to increase reserves as a hedge against future financial challenges. Overall this report has identified that in cash terms the Authority is £0.450m ahead of its saving plan target. Members are asked to approve utilising this saving to fund an increase in the firefighter recruitment reserve in light of the expected firefighter retirement profile and the need to recruit trainees before the establishment falls below the approved staffing level. The Treasurer is continuing to work with budget holders to maximise savings in 2016/17.

The total budget requirement remains at the original budget level of £61.507m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and December 2016.

### **Capital:**

The capital programme planned spend has increased by £0.218m, of which £0.139m relates to the increase in the Microsoft Agreement previously approved by Members (CFO/088/16). The revised Capital Programme is outlined in Appendix B and C.

### **Reserves & Balances:**

The general balance remains unchanged at £2.000m. All movements in earmarked reserves are outlined in Appendix A4.

### **Treasury Management:**

In August 2016 the Bank of England cut the base rate to 0.25%. Short-term interest rates are expected to remain at 0.25% until the end of the year. No new long term borrowing has been arranged and the Authority has continued its policy of reducing investments and only taking short term borrowing to cover cash flow requirements.

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## **Introduction and Background**

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3. The purpose of this report is to enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.
4. This report is the review of the Authority's position up to the end of December of the financial year 2016/17.
5. In order to ensure that the financial reviews provide a regular and effective financial health check on the Authority's finances the following structure has been adopted.

<u>Financial Review Structure</u>	
<u>Section</u>	<u>Content</u>
A	Current Financial Year Review (Revenue Budget, Capital Programme and movement on Reserves)
B	Treasury Management Review

### **(A) Current Financial Year – 2016/17**

6. The purpose of the financial review report is to provide Members with an assurance that the approved budget remains robust and that the current forecast of expenditure can be contained within the available resources. If actual expenditure or income for the year is inconsistent with the current budget then the report will, if necessary, identify the appropriate corrective action.

#### **Revenue Position:**

7. **Budget Movements:** The attached Appendix A to this report summarises the movements in the revenue budget. The net budget requirement remains at £61.507m which is consistent with the original budget.
  8. There have been a number of budget adjustments with no net impact because they are either self-balancing virements within department budgets or budget adjustments financed by reserves in line with previously agreed Authority decisions. The net use of reserves for the period was a contribution to reserves of £1.599m due mainly to a reversal of the drawdown from the Capital Investment reserve of £1.808m due to the re-phasing of spend on the new Prescott fire station from 2016/17 into 2017/18.
  9. **Update on Budget Savings Implementation:** Pre the 2016/17 Budget the Authority had approved budget savings of £25.557m as part of the previous medium term financial plan, with a target of £25.297m for 2016/17. These savings will take until 2017 to deliver in full because operational savings are being achieved by natural retirement rates. For 2016/17 £23.541m of the saving
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proposals are expected to have been fully implemented by the end of the financial year, with the balance of £1.756m to come from the station merger proposals once they have been completed. However, the full saving target will be delivered in cash terms as long as the firefighter retirement rate remains consistent with the current expectation.

Table A below summarises the progress in implementing the approved saving options at the time of writing this report:

Table A

Progress in Implementing 2011/12 - 2015/16 Approved Saving Options					
	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
A) Options formally implemented into budget	-23,541	-23,401	-23,401	-23,401	-23,401
B) Approved Saving Options yet to be formally implemented:					
Operational Response - Prescot / Saughall Massie / St Helens - <u>but FF retirements are delivering the saving in cash terms</u>	-1,756	-2,156	-2,156	-2,156	-2,156
Total	-25,297	-25,557	-25,557	-25,557	-25,557

Actual staff numbers are continually monitored to ensure the Service continues to deliver in “cash” terms the required saving target.

10. **The Authority approved an additional £11.0m of savings in the 2016/17 Budget Authority meeting on 25<sup>th</sup> February 2016**, to be delivered in full by 2019/20. The saving plan included;

- efficiency savings of £6.0m by reducing management and support services costs,
- a known £1.0m increase in the council tax base that the plan assumed is permanent,
- an unavoidable reduction of £4.0m from the operational front line.

The operational saving has been phased so it can be achieved by firefighter anticipated retirement rates. All saving options assumed in 2016/17 have been successfully implemented. Progress is ongoing to deliver the future years savings.

The table overleaf summarises the 2016/17 budget approved saving options (£11.0m less the 2016/17 Council Tax base income increase £1.023m)

2016/17 - 2019/20 MTFP				
	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
<b>Saving Proposals:-</b>				
<b>Pay Strategy:</b>				
Change Pay Assumption from 2% to 1% over 2016/17 - 2019/20 period	-450	-950	-1,450	-1,950
Review long term FPS Employer Budget	0	-180	-255	-375
Review NI increase following SERPS changes	0	-125	-125	-125
<b>Council Tax – Tax Base:</b>				
Assume increase of 0.5% in 2016/17 base from 2017/18	0	-125	-125	-125
<b>Non-Employee and Technical saving options:</b>				
Review Non-Employee Budgets	-350	-350	-350	-350
Review MRP payments	0	-500	-675	-825
Review Inflation for non-employee / cash limit budgets	-198	-500	-650	-728
<b>Support Staff &amp; Senior Management</b>	-499	-1,249	-1,499	-1,499
<b>Operational Response Staff Saving</b>	0	-1,000	-2,800	-4,000
<b>Use of Smoothing Reserve</b>	331	-1,075	-406	0
	-1,166	-6,054	-8,335	-9,977

11. **Actual Expenditure in comparison to Revenue Budget:** As the Authority is facing grant cuts over the period 2016/17 – 2019/20 and possibly beyond, it has directed the Chief Fire Officer (CFO) to maximise savings in the year to contribute towards the building up of reserves. Such reserves can then be used as part of an implementation and risk management strategy that allows the Service the time needed to implement the structural changes that permanently deliver the required savings. After reviewing spend up to the end of December 2016 Officers have identified the following savings:

**Employee Costs;**

Employee costs make-up approximately 75% of the Authority's revenue budget and is the most risk critical area of the financial plan. As a result these costs are monitored extremely closely.

Firefighter retirements are consistent with the forecast profile adopted for the financial strategy. The non-operational establishment is expected to have a small underspend, £0.125m due to staff not being at the top of the budgeted grade and vacancy savings.

**Other Non-Employee Revenue Costs;**

Additional one-off savings of £0.075m have been identified within the Premises, Supplies and Services budgets due to savings on premises maintenance, professional fees and subsistence expenses.

**Contingency for 2016/17 Pay & Price Increases;**

Officers are continuing to control the allocation of the non-employee inflation provision to determine if any efficiencies can be identified in light of the forthcoming financial challenge. At this point in time a saving of £0.250m is anticipated.

The Treasurer is continuing to work with budget holders to maximise savings in 2016/17 and will continue to monitor actual staff numbers during the year to ensure the Service continues to deliver in “cash” terms the required saving target.

**Summary of Revenue Forecast Position:** The Authority has made good progress in implementing the approved budget saving options and required organisational structural changes.

Overall the latest forecast has identified a revenue saving of £0.450m. Members are asked to approve the utilisation of this saving to fund an increase in the firefighter recruitment reserve in light of the expected firefighter retirement profile over the next 10 years and the need to recruit trainees before the establishment falls below the approved staffing level (see Reserves section). Table B summarises the revenue year-end forecast position based on spend to the end of December 2016:

<b>Table B: Anticipated Year-End Revenue Position</b>							
	FIRE SERVICE BUDGET	Fire Authority	NRAT	TOTAL BUDGET	ACTUAL as at 31.12.16	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>							
Employee Costs	46,013	401	585	46,414	31,230	46,289	-125
Premises Costs	2,685	0		2,685	1,670	2,645	-40
Transport Costs	1,380	0	37	1,380	813	1,380	0
Supplies and Services	3,295	44	951	3,339	1,731	3,304	-35
Agency Services	5,842	0	22	5,842	3,847	5,842	0
Central Support Services	434	92	75	526	294	526	0
Capital Financing	8,899	0		8,899	0	8,899	0
<b>Income</b>	-6,546	0	-1,670	-6,546	-6,042	-6,546	0
<b>Net Expenditure</b>	62,002	537	0	62,539	33,543	62,339	-200
<b>Contingency Pay&amp;Prices</b>	468			468	0	218	-250
<b>Cost of Services</b>	62,470	537	0	63,007	33,543	62,557	-450
<b>Interest on Balances</b>	-172			-172	-43	-172	0
<b>Movement on Reserves</b>	-1,328			-1,328	0	-1,328	0
<b>Total Operating Cost</b>	60,970	537	0	61,507	33,500	61,057	-450

**Capital Programme Position:**

- The last financial review report (CFO/086/16) approved a 5 year capital programme worth £42.984m. This has now been updated for scheme additions and changes during quarter 3 of £0.218m which are summarised in the table overleaf:

**TABLE C**

<b>Movement in the 5 Year Capital Programme</b>						
	<b>Total Cost</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>						
<b>Amendments to Approved Schemes;</b>						
Re-Phasing of schemes	0.0	-6,018.2	5,368.2	650.0		
Review of costs in Vehicle / Building schemes	-25.1	-25.0	-0.1			
Increase in Microsoft Agreement costs (CFO/088/16)	164.0	0.0	41.0	41.0	41.0	41.0
New ICT / Build schemes funded from revenue	79.1	79.1				
	<b>218.0</b>	<b>-5,964.1</b>	<b>5,409.1</b>	<b>691.0</b>	<b>41.0</b>	<b>41.0</b>
<b>Funding</b>						
<b>Borrowing:</b>						
ICT Microsoft Agreement (CFO/088/16)	164.0	0.0	41.0	41.0	41.0	41.0
Review of costs in Vehicle / Building schemes	-25.0	-25.0				
Re-phasing of schemes	0.0	-3,168.1	2,518.1	650.0		
<b>Capital Reserve</b>						
Prescot New CFS- re-phasing / cost	-0.1	-1,808.1	1,808.0			
<b>Revenue Contribution to Capital Outlay(RCCO)</b>						
IT Equipment (IT003)	7.1	7.1				
Energy conservation schemes	72.0	72.0				
<b>Capital Grant</b>						
Prescot New CFS- re-phasing / cost	0.0	-692.0	692.0			
<b>Capital Receipts</b>						
Sale of LLAR House Fomby	0.0	-350.0	350.0			
	<b>218.0</b>	<b>-5,964.1</b>	<b>5,409.1</b>	<b>691.0</b>	<b>41.0</b>	<b>41.0</b>

13. Details of the planned changes in quarter 3 are outlined below:

- Members of the Policy and Resources Committee on 15<sup>th</sup> December 2016 considered and approved report CFO/088/16 that increased the Microsoft Enterprise Agreement scheme by 0.164m over 2017/18 – 2020/21
- Re-phasing of £6.018m from 2016/17 into future years future years to reflect the latest scheme delivery times particularly for building and vehicle schemes. The new Prescot fire station has re-phased £3.000m from 2016/17 into 2017/18 due to problems with the ground survey and the requirement for additional site surveys and getting the sign-off from the planning authority. The special vehicles budget (Incident Management Unit Vehicle, £0.650m and Combined Pump Ladder Aerial Appliances £1.300m) has been re-phased into 2017/18 while alternative options are being identified and appraised. In addition a small saving on the overall vehicle planned spend of £0.025m has been identified.
- Additional ICT hardware and building energy conservation scheme work funded from revenue £0.079m.

14. The revised detailed capital programme is attached as **Appendix B** (2016/17 Capital Programme) and **Appendix C** (2016/17–2020/21 Capital Programme) to this report.

**Use of Reserves:**

15. The analysis in Appendix A4 outlines the £1.599m movement on reserves during the third quarter of 2016/17. The net increase in reserves reflects;

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- the re-phasing of the Prescot new station build scheme into 2017/18 and therefore the previous drawdown of £1.808m capital reserve in 2016/17 can be re-credited back to the reserves this year,
  - the planned use of £0.137m from the training reserve to contribute to the cost of the Deloitte collaboration report,
  - the drawdown from the energy reserve to fund capital energy conservation schemes.

The general revenue reserve has remained unchanged at £2.000m.

16. As reported in the last financial review report the expected firefighter retirement profile will see the number of current firefighter fall from the just under 700 full time equivalents now to around 300 by 2025. It can take up to 2 years for a trainee firefighter to become competent and therefore new recruits must be taken on in advance of the establishment falling critically below the required operation staffing level. On average over the next 10 years the service is expecting around 40 firefighters to retire each year. The CFO has established a workforce planning strategic group to consider when and how many firefighters the Service needs to recruit and on what contractual basis. What is clear is that these recruits will need to be appointed before the establishment falls below the budgeted level given the numbers who are expected to leave the service over the next 10 years. This matter will be considered in more detail during the 2017/18 budget making process, however by building up the current recruitment reserve to a value in excess of £3m the cost of recruiting in advance of retirements could then be met by the recruitment reserve. It is therefore recommended that the £0.450m revenue saving identified in this report is allocated to increase the firefighter recruitment reserve.

## **(B) Treasury Management**

17. The Authority continues to “buy in” Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to December 2016.

18. **Prospects For Interest Rates;**

The Bank of England cut the base rate to 0.25% in August 2016 in order to address an expected sharp slowdown in growth during the second half of the year. It also gave a strong steer that it was likely to cut the bank rate again by the end of the year. However economic data has since indicated much stronger growth than forecast, and inflation forecasts have risen substantially as a result of a continuation of a sharp fall in sterling since early August. Consequently, no further cut to the bank base rate has occurred as at December 2016 and now appears unlikely in the absence of a significant dip in economic growth. During the two-year period to 2019 when the UK is negotiating terms for withdrawal from the EU, it is likely the Bank of England will be reluctant to dampen growth prospects by raising base rates. Accordingly, rates are not expected to rise again until at least the second quarter of 2019.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the

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foreseeable future. However, the overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, from their current historically low levels.

The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2016/17. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

**19. Capital Borrowings and the Portfolio Strategy;**

The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2016/17. Current market conditions continue to be unfavourable for any debt rescheduling.

**20. Annual Investment Strategy;**

The investment strategy for 2016/17 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2016/17 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1<sup>st</sup> April to 31<sup>st</sup> December 2016 the average rate of return achieved on average principal available was 0.50%. This compares with an average seven day deposit (7 day libid) rate of 0.11%.

The Authority had investments of £30.340m as at 31<sup>st</sup> December 2016, (this included an element of the £25.8m firefighters' pension grant that will be utilised in the year). The table below outlines the breakdown of were the current investments are held:

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**ANALYSIS OF INVESTMENTS END OF QUARTER 3 2016/17**

<b>Institution</b>	<b>Credit Rating</b>	<b>MM Fund*</b>	<b>Bank / Other</b>	<b>Building Society</b>
		£	£	£
Aberdeen Liquidity Fund	AAA	600,000		
Blackrock	AAA	3,000,000		
Deutsche/DGLS/State Street	AAA	1,240,000		
Federated Investors UK	AAA	3,000,000		
Goldman Sachs	AAA	100,000		
LGIM (Legal & General)	AAA	3,000,000		
Morgan Stanley	AAA	1,400,000		
Standard Life Investors (Ignis)	AAA	3,000,000		
Handelsbanken Inst Access	AA		2,000,000	
HBOS 12 MTH FTD	A+		2,000,000	
HBOS 12 MTH FTD	A+		2,000,000	
Santander 365 day Notice Account	A		2,000,000	
Nationwide B Soc	A			2,000,000
Newcastle B Soc	Unrated			1,000,000
Nottingham B Soc	Unrated			1,000,000
Principality B Soc	Unrated			1,000,000
Skipton B Soc	A-			1,000,000
West Brom B Soc	Unrated			1,000,000
<b>Totals</b>		<b>15,340,000</b>	<b>8,000,000</b>	<b>7,000,000</b>
<b>Total Current Investments</b>				<b>30,340,000</b>

*\*MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

**21. External Debt Prudential Indicators;**

The external debt indicators of prudence for 2016/17 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £73 million  
 Operational boundary for external debt: £61 million

Against these limits, the maximum amount of debt reached at any time during the period 1<sup>st</sup> April to 31<sup>st</sup> December 2016 was £60.1 million.

**22. Treasury Management Prudential Indicators;**

The treasury management indicators of prudence for 2016/17 required by the Prudential Code were set in the strategy as follows:

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a) Interest Rate Exposures

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	50%

The maximum that was reached in the period 1st April to 31st December 2016 was as follows:

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1<sup>st</sup> April to 31<sup>st</sup> December 2016 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	5%	3%
12 months and within 24 months	50%	0%	2%	0%
24 months and within 5 years	50%	0%	3%	3%
5 years and within 10 years	50%	0%	8%	8%
10 years and above	90%	0%	86%	82%

c) Total principal sums invested for periods longer than 364 days

The limit for investments of longer than 364 days was set at £2 million for 2016/17. No such investments have been placed during 2016/17.

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### **Equality and Diversity Implications**

23. There are no equality and diversity implications contained within this report.

### **Staff Implications**

24. There are no staff implications contained within this report.

### **Legal Implications**

25. There are no legal implications contained within this report.

### **Financial Implications & Value for Money**

26. See Executive Summary.

### **Risk Management, Health & Safety, and Environmental Implications**

27. There are no risk management, health and safety or environmental implications contained within this report.

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Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

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28. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's Mission.

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## **BACKGROUND PAPERS**

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- CFO/014/15** CFO/008/16 "MFRA Budget and Financial Plan 2016/2017-2019/2020" Authority 25th February 2016.
- CFO/074/16** "Financial Review 2016/17- April to June" Audit and Scrutiny Committee 15th September 2016.
- CFO/086/16** "Financial Review 2016/17- April to September" Policy and Resources Committee 15th December 2016

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## **GLOSSARY OF TERMS**

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- PWLB** Public Works Loans Board