MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUTHORITY BUDGET MEETING		
DATE:	22 FEBRUARY 2018	REPORT NO:	CFO/004/18
PRESENTING OFFICER	TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	CHIEF FIRE OFFICER		
TITLE OF REPORT:	MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2018/2019 – 2022/2023		

APPENDICES:	APPENDIX A:	DRAFT SUMMARY REVENUE BUDGET ANALYSIS
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2018/19 – 2022/23
	APPENDIX C	PROPOSED 2018/19 – 2022/23 FIVE YEAR MTFP
	APPENDIX D	RESERVES

Purpose of Report

1. To present information to allow Members to set a medium term capital and revenue financial plan 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 2018/19 and a precept level in line with statutory requirements.

Recommendation

2. That Members consider the report and proposed budget and:-

   a. Note the 2018/19 service budget set out in the report.

   b. Endorse the Treasurer's recommendation on maintaining the current level of general fund balance at £2.000m, and maintaining the reserves as outlined in Paragraph 141 to 146 of this report.

   c. Endorse their current plan to increase the precept by just below 3% for 2018/19, raising the Band D Council Tax from £74.34 to £76.56 and confirm the strategy for future precept rises (the plan assumes a further increase of just under 3% in 2019/20 and then just under 2% in each year thereafter).

   d. Endorse the assumptions in developing a five year (2018/19 – 2022/23) Financial Plan outlined in the report and approve the Medium Term Financial Plan in Appendix C and the 2018/19 budget estimate of £59.701m.

e. Approve 2018/19 – 2022/23 amended saving plan outlined in the report and summarised in Appendix C.

f. Approve the capital strategy and investment strategy as summarised in Appendix B.

g. Approve the Minimum Revenue Payment (MRP) strategy for 2018/19 as outlined in Paragraph 77 to 78 of this report.

h. Note the prudential indicators relating to the proposed capital programme, paragraph 89 to 91 of this report.

i. Approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in paragraph 96(d) of this report for:-

- 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

j. Note that the recommendations above provide an approved framework within which officers undertake the day to day capital and treasury activities.

Introduction and Background

3. The Authority is required to determine its budget and precept level for 2018/19 by 1st March 2018.

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

   a. Forecast Revenue Estimates
   b. The Proposed Capital Programme
   c. Savings and Growth Options
   d. The Treasury Management Strategy
   e. 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 plan

6. The following report structure will be adopted:-

Section	Focus	Paragraph
A	Executive Summary	7- 28
B	Background Information	29- 51
C	Capital Programme	52-72
D	Minimum Revenue Provision Statement	73-83
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F	Treasury Management Strategy Statement	94-96
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I	Adequacy of Reserves and Balances	131-146
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A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1st March 2018.

8. The budget and financial plan should allocate resources in line with the Authority's Mission and Aims:-

   Our Mission:
   To Achieve; Safer, Stronger Communities - Safe Effective Firefighters

   Our Aims:
   Excellent Operational Preparedness
   Excellent Operational Response
   Excellent Prevention and Protection
   Excellent People

9. Members approved a 2017/18 – 2021/22 financial plan to deal with all known reductions in Government funding at the Budget Authority meeting on 23rd February 2017. The plan approved £12.5m of savings (£11.5m by 2019/20) to meet the financial challenge over this period.

10. The Government have announced the financial settlement for 2018/19 and the indicative figure for 2019/20. The amounts are slightly different to last year's figures due to a change in the business rates uplift from the September RPI (3.9%) to CPI (3.0%). A compensating s31 grant will be paid to the Authority to offset the impact of the lower CPI uplift. After taking the 2018/19 finance settlement and s31 grant together the Authority is financially better off by £0.188m and £0.088m in 2018/19 and 2019/20.

11. To assist with the Authority's long term financial planning a five year plan has been prepared that extends the current approved plan up to and including 2022/23. However as the level of uncertainty over future costs and funding beyond 2019/20 is significant, particularly regarding the level of future Government support, the Authority is recommended to **simply note any challenge identified post 2019/20** at this time. Future Budget Authority meetings will consider the challenge beyond 2019/20 as the financial information becomes more certain.

12. The updated Plan overleaf updates the current Plan for known changes and required amendments to the current assumptions:-

    a. for 2018/19 and 2019/20 future precept increases of just below **3%** (previously the assumption was just under 2%) as a result of the Government announcement that the council tax referendum limit was to be increased in these years,
    b. an amendment to the annual pay bill increase from 1% to 2% for the 2017/18 firefighter pay award and for all staff in 2018/19 and 2019/20, as agreed at the Member budget strategy day on 25th January 2018.
    c. the actual 2018/19 Council Tax Base increase of +1.2% was +0.2% higher than that assumed in the Plan,
    d. a small re-phasing of the approved technical and support savings from 2018/19 into 2019/20,

e. the plan includes unavoidable revenue growth of £0.3m,
f. the plan reflects the 2018/19 and latest indicative 2019/20 Government funding settlement as outlined in paragraph 10 above,
g. the plan takes into account the one-off 2017/18 Collection Fund position (-£0.253m) identified by the district authorities, and
h. takes into account the district authorities forecast for local Business Rates for 2018/19, that indicates an additional £0.083m income yield for the Authority.

The Plan's other key assumptions before any saving proposals are:

- An annual 1% increase in the tax base from 2019/20 to 2021/22,
- Annual increase in the council tax precept of fractionally below 2% for 2020/21 and future years,
- A pay bill increase of 2% per annum in each year from 2020/21.
- The proposed reduction in Government financial support for unfunded public sector pension schemes will increase the employers contribution rate from 2019/20 by no more than 3%,
- 2% per annum General Price Inflation,
- Government support (in whatever form) :–
  I. the indicative Government Settlement Funding Assessment figures for 2019/20 will remain as stated in the current settlement offer, and
  II. beyond 2019/20 any grant support is equivalent to the 2019/20 Revenue Support Grant cash amount and the business rates funding is uplifted by 2% per annum.

13. The Authority may choose to increase the precept by 3% or more, however current legislation requires that any increase above a threshold set by the Secretary of State, just under 3% for 2018/19, must be subject to a referendum of the electorate of Merseyside. Any vote against such an increase will require a revised budget and incur the expense of re-billing all the districts within Merseyside.

14. The ready reckoner below outlines the impact of a potential just under 2% and 3% Council Tax increase:-

Council Tax Increase					
	0%	**2%**	**Change**	**3%**	**Change**
Band D Tax	74.34	75.83	1.49	76.56	2.22
	£	£	£	£	£
LIVERPOOL	7,744,074	7,899,289	155,215	7,975,334	231,260
WIRRAL	6,858,304	6,995,765	137,461	7,063,112	204,808
ST.HELENS	3,758,853	3,834,192	75,339	3,871,103	112,250
SEFTON	6,165,722	6,289,302	123,580	6,349,848	184,126
KNOWSLEY	2,608,814	2,661,102	52,288	2,686,720	77,906
	27,135,767	27,679,650	543,883	27,946,117	810,350

15. The updated plan has moved the Authority from being in a balanced position to a forecast £0.734m deficit by 2019/20, rising to £1.211m by 2022/23:-

2018/19 - 2022/23 FINANCIAL PLAN					
	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Expenditure in Current MTFP:	59,068	59,537	60,792	62,187	63,662
Add					
Approved Support Service Savings - re-phasing	178	22	2	7	7
Approved 2017/18 inflation saving ahead of planned phasing	-50	-15	0	0	0
Compensation Grant for under-indexing increase in Business Rates by higher Sept 2017 RPI factor	-178	-339	-339	-339	-339
Anticipated higher S31 NNDR for other BR relief grant	-50	-50	-50	-50	-50
Application Team Growth in Establishment / other	329	233	223	100	100
ESMCP ongoing ICT investment / support (IF s31 grants not forthcoming) 2019/20		95	95	95	95
2017/18 Firefighter Pay-Assume 2%, (increase of 1%)	320	320	320	320	320
Assume ALL staff receive 2% Pay increase from 2018/19	355	797	881	881	881
Updated MTFP	59,972	60,600	61,924	63,201	64,676
FUNDING					
Government Funding-Settlement Funding Assessment					
Top Up Grant . Post 19/20 uplift by 2% (Bus Rates inflationary uplift assumption)	-15,273	-15,574	-15,885	-16,203	-16,527
CLG Estimate of Local Business Rate Share Post 19/20 uplift by 2%	-4,096	-4,225	-4,310	-4,396	-4,484
Baseline Funding Level	-19,369	-19,799	-20,195	-20,599	-21,011
RSG (assume frozen at 2019/20 levels from 2020/21	-12,050	-11,000	-11,000	-11,000	-11,000
Total Government Funding (*NOT Known beyond 2019/20*)	-31,419	-30,799	-31,195	-31,599	-32,011
Adjustment for Business Rates based on NNDR1 District Forecasts					
Adjustment for Local Business Rate income forecast from Districts to CLG	-83	0	0	0	0
NNDR Collection Fund (surplus)/deficit	-34	0	0	0	0
Adjustment to Local Business Rates income forecast	-117	-117	-117	-117	-117
Council Tax -					
Base Precept Income	-27,136	-27,946	-29,067	-29,939	-30,837
Assume just under 3% rise year on year in 18/19 & 19/20 then 2%	-810	-842	-581	-599	-617
Assume increase in Council Tax Base of 1.0% each year from 2018/19 to 2021/22	0	-279	-291	-299	0
Council Tax Collection Fund (surplus)/deficit	-219	0	0	0	0
Forecast Council Tax Income	-28,165	-29,067	-29,939	-30,837	-31,454
TOTAL FUNDING	-59,701	-59,866	-61,134	-62,436	-63,465
Impact of Changes on 2017/18 Original MTFP Forecast Net Position (surplus) / deficit	271	734	790	765	1,211

16. Section H of this report "Options for Tackling the Financial Challenge" considers what areas of the budget could deliver the funding gap in order to achieve a balanced 2018/19 budget and financial plan up to 2019/20.

17. In light of the financial risks facing the Authority it has increased reserves in recent years. The current estimated reserves as at 31st March 2018 are:-

• Ring-fenced Reserves (not available for general spend)	£1.652m
• Earmarked Reserves (created to fund future projects or as a resource to meet some potential future spend)	£21.627m
• General Fund Reserve (required to cover unexpected events)	£2.000m
	£25.279m

18. Section I of this report proposes the allocation of the £21.627m of earmarked reserves as outlined below:

	£'m
Emergency Related Reserves	1.022
Recruitment Reserve	2.256
Invest to Save / Collaboration	1.000
Smoothing Reserve	1.806
Capital Investment	11.314
PFI Annuity	2.094
Inflation Reserve	0.500
Ill Health Cost	0.500
Equality / DDA	0.285
Training	0.450
Equipment	0.276
Other	0.124
	21.627

19. The Treasurer recommends the Authority maintains a £2.000m General Fund Reserve. More information on reserves is set out in section I.

20. Members should be mindful that reserves, 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 Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

21. 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 material deficit might result in the Authority having difficulty in maintaining its value for money principles and in particular avoiding compulsory redundancies.

22. The proposed 5 year capital programme is detailed in section C. The table below summarises the proposed £31.946m of investments which are mainly in the Authority's property, vehicle and ICT assets.

Capital Programme for 2018/2019 - 2022/2023

Capital Expenditure	Total Cost £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Building/Land	13,932,500	11,646,500	620,500	905,500	455,000	305,000
Fire Safety	3,175,000	635,000	635,000	635,000	635,000	635,000
ICT	3,930,000	942,600	1,028,100	668,100	563,100	728,100
Operational Equipment & Hydrants	2,082,500	1,309,500	210,000	173,000	179,000	211,000
Vehicles	8,826,000	2,280,200	1,521,550	827,400	1,426,400	2,770,450
Expenditure	31,946,000	16,813,800	4,015,150	3,209,000	3,258,500	4,649,550
Financing Available	**Total £**	**2018/19 £**	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**
Capital Receipts						
	2,275,000	2,275,000				
RCCO						
	2,475,000	975,000	375,000	375,000	375,000	375,000
Reserves						
	4,028,000	4,028,000				
Grants						
	2,722,000	2,722,000				
Total Non Borrowing	11,500,000	10,000,000	375,000	375,000	375,000	375,000
Unsupported Borrowing	20,446,000	6,813,800	3,640,150	2,834,000	2,883,500	4,274,550
Total Funding	31,946,000	16,813,800	4,015,150	3,209,000	3,258,500	4,649,550

23. The proposed capital programme has a borrowing requirement of £6.814m in 2018/19 and £20.446m across the whole life of the plan. The proposed borrowing is unsupported or prudential as Members will note that the Government no longer allocates any supported borrowing to FRA's and therefore no longer builds any revenue grant funding support for new borrowing in the formula grant. This means all borrowing is prudential.

24. The Authority needs to be mindful of the revenue costs of borrowing. 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 light of these prudential indicators (Section E).

25. 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 Treasurer to manage investments and borrowing within.

26. 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

27. Minimum Revenue Provision (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 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. Regulations require the Authority to pay debt at a rate which it considers prudent.

28. The Treasurer has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2018/19 and future years.

B) BACKGROUND INFORMATION

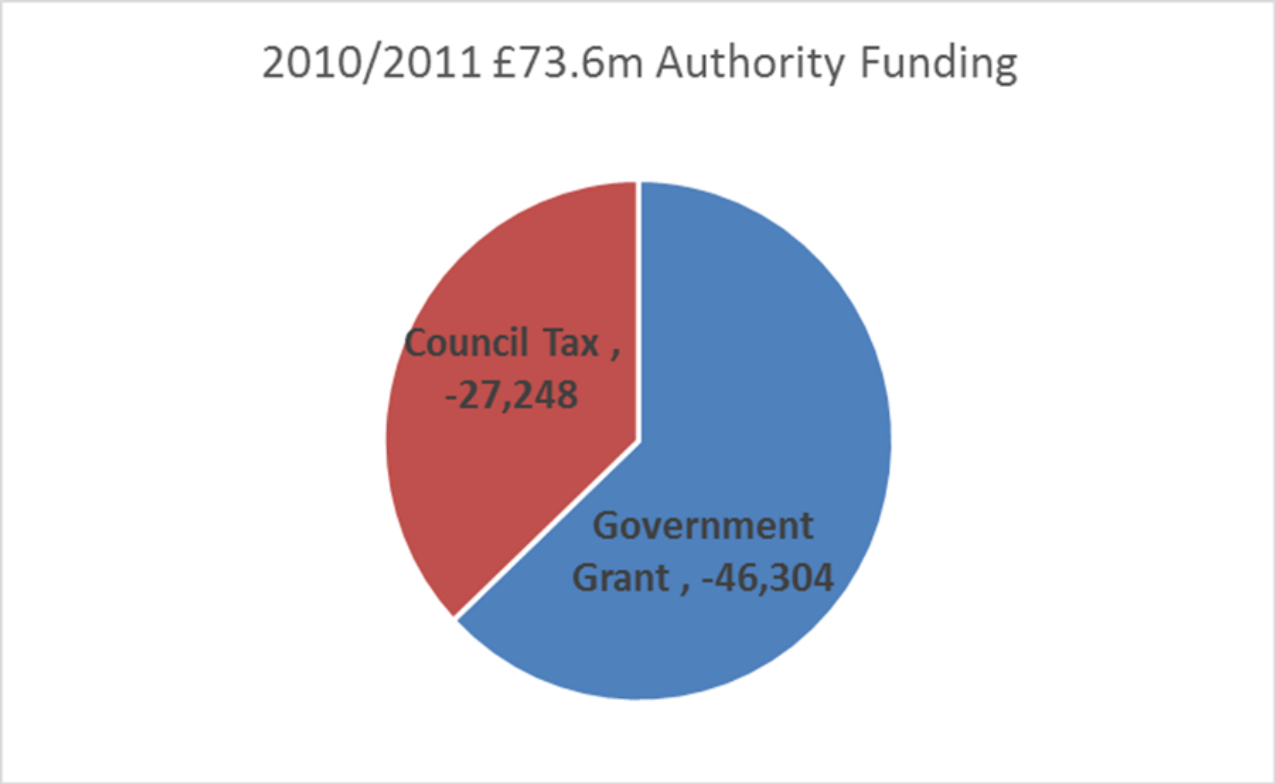
29. This section provides general financial information on the Authority's finances and financial health.

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

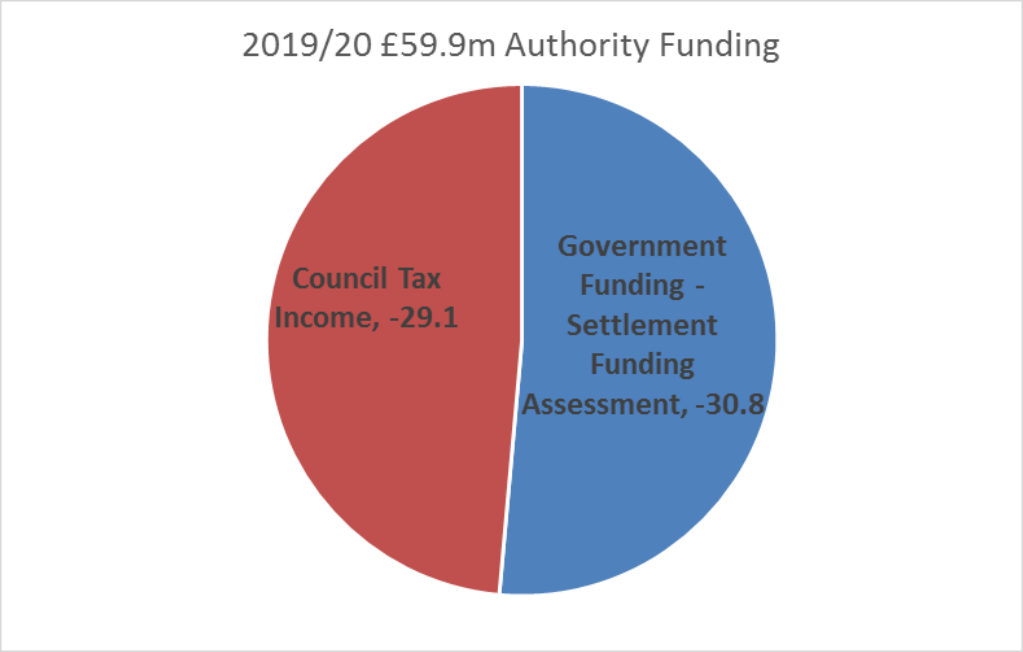
31. For many years now the Authority has maintained a comprehensive medium term financial plan (MTFP) and capital programme. Since 2010 the Government has implemented an austerity plan in an attempt to reduce national debt. A significant element of the plan was to reduce the level of Government funding for local government (this includes fire and rescue authorities). As the Authority had a relatively low council tax base it was more reliant upon Government grant funding to support its revenue budget and therefore suffered a more proportionate financial loss than almost every other fire and rescue authority in the country.

32. The cumulative percentage reduction in Government revenue support for the Authority between 2011/12 and 2019/20 equates to a 33% cash reduction or approximately 50% in real terms. Given Government revenue support provided 63% of the revenue funding in 2010/11 this scale of cut meant unavoidable reductions in the front line operational services over this period. The following pie charts outline the overall reduction in the Authority's revenue budget between 2010/11 and the forecast for 2019/20, as a consequence of the reduction in Government support.

33. In 2010/11 the Authority's budget was £73.6m, of which Government Grant Support was £46.3m or 63% of the Budget Requirement:-



The 2019/20 Budget forecast is £59.9m, of which Government Support is £30.8m or 51% of the Budget Requirement. This represents a £15.5m or 33% cash or 50% real reduction in Government support. Over the 2010/11 – 2019/20 period the total revenue budget will have reduced from £73.6m to £59.9m or £13.7m which represents a 19% cash or 40% real reduction.



34. The impact on the Authority of this level of cut in funding has resulted in significant reductions in the level of resources. Ten years ago the Authority employed over 1,100 Full Time Equivalents (FTE) firefighters. At the end of 2018 the number is expected to be 620 FTEs, 40% lower than 2008/09. Support and technical staff have reduced from 425 FTE to 287 FTE and are expected to be below 260 FTEs by 2019, a 40% reduction. Many of these staff carry out important front line preventative work with the Merseyside community.

35. In 2010/11 the Authority had 42 wholetime fire appliances (fully crewed throughout the year and ready for an immediate response) and 1 retained, 43 appliances in total. By 2019/20 the Authority will have 18 fulltime appliances; 6 day crewed appliances (immediately available during the day); and 2 fully wholetime retained appliances which are available on a 30 minute recall.

36. In order to deliver the saving options the Authority has approved plans to close or merge a number of fire stations that will see the number of fire stations reduce from 26 to 22 once the programme has been fully implemented, (2020).

37. Post 2019/20 any further cuts in Government support would risk further reductions in firefighters, fire appliances and stations.

38. In 2017/18 the Authority approved a financial plan to deal with the challenge up to 2021/22. This report provides the Authority with an update on the financial challenge for any known changes and identifies possible saving options to keep the proposed financial plan in a balanced position up to 2019/20.

39. 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.

40. The Authority's IRMP states the main strategic themes that the Authority has been progressing and its plans for the future. The current IRMP covers the period from 2017 to 2020. A 2017 update on the IRMP for 2017-20 has been out to public consultation and will be included in the 2018/19 Service Delivery Plan which will be presented to Policy and Resources Committee in March 2018. The proposals contained within the IRMP were the subject of stakeholder consultation for 12 weeks. This followed a period of consultation during spring 2016, the outcomes of which shaped the development of the IRMP.

41. The Authority's Mission and Aims as set out in the IRMP are repeated below. Any financial plan should aim to allocate resources to deliver the mission and aims.

Our Mission;
To Achieve; Safer Stronger Communities - Safe Effective Firefighters

Our Aims;
Excellent Operational Preparedness
We will provide our firefighters with training, information, procedures and equipment to ensure they can safely and effectively resolve emergency incidents.

Excellent Operational Response
To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

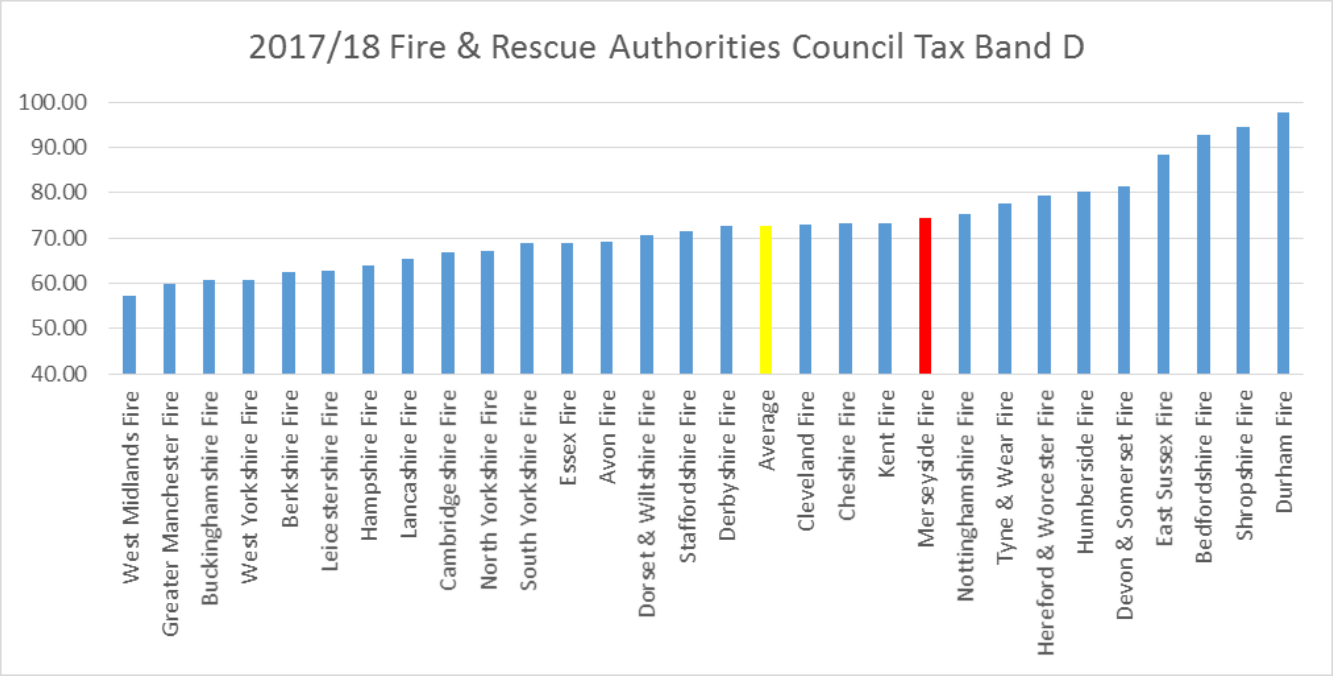
Excellent Prevention and Protection
Working with partners and our community to protect the most vulnerable.

Excellent People
We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

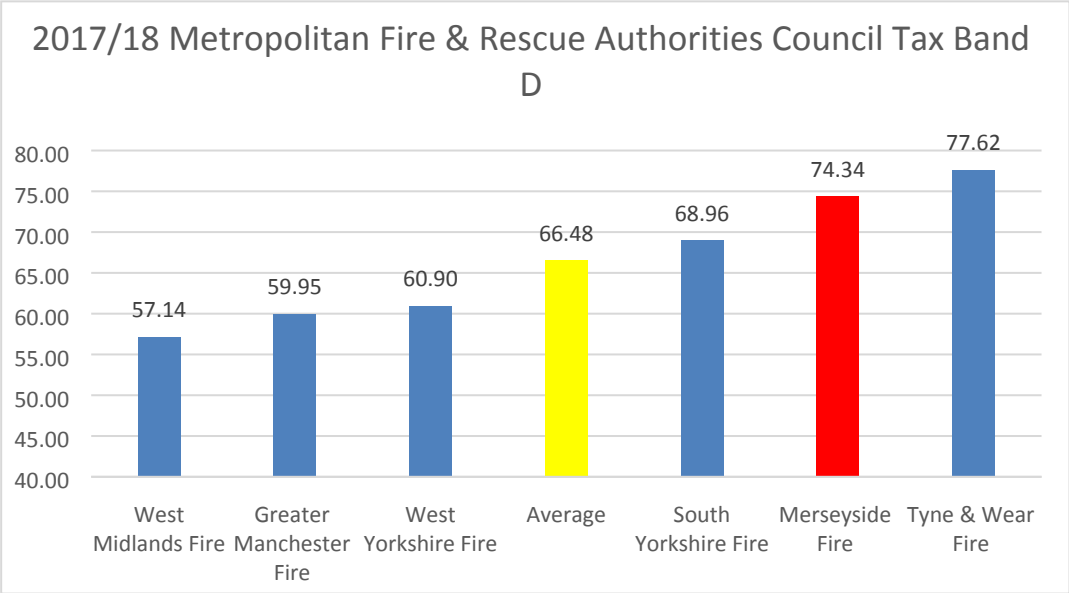
42. In recent years the Authority has adopted a financial strategy that:-
- Sought to control Council Tax increases,
- Planned for pay awards and cost increases in line with Treasury inflation forecasts,
- Sought to generate significant savings through staff reductions whilst avoiding compulsory redundancy,
- Sought to minimise the impact of cuts on frontline services including prevention,
- 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 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 the Asset Management Plan, vehicle replacement strategies and corporate objectives.

43. These strategies have over recent history allowed the Authority to reduce costs and maintain relatively low levels of Council Tax increase despite very tight grant settlements.

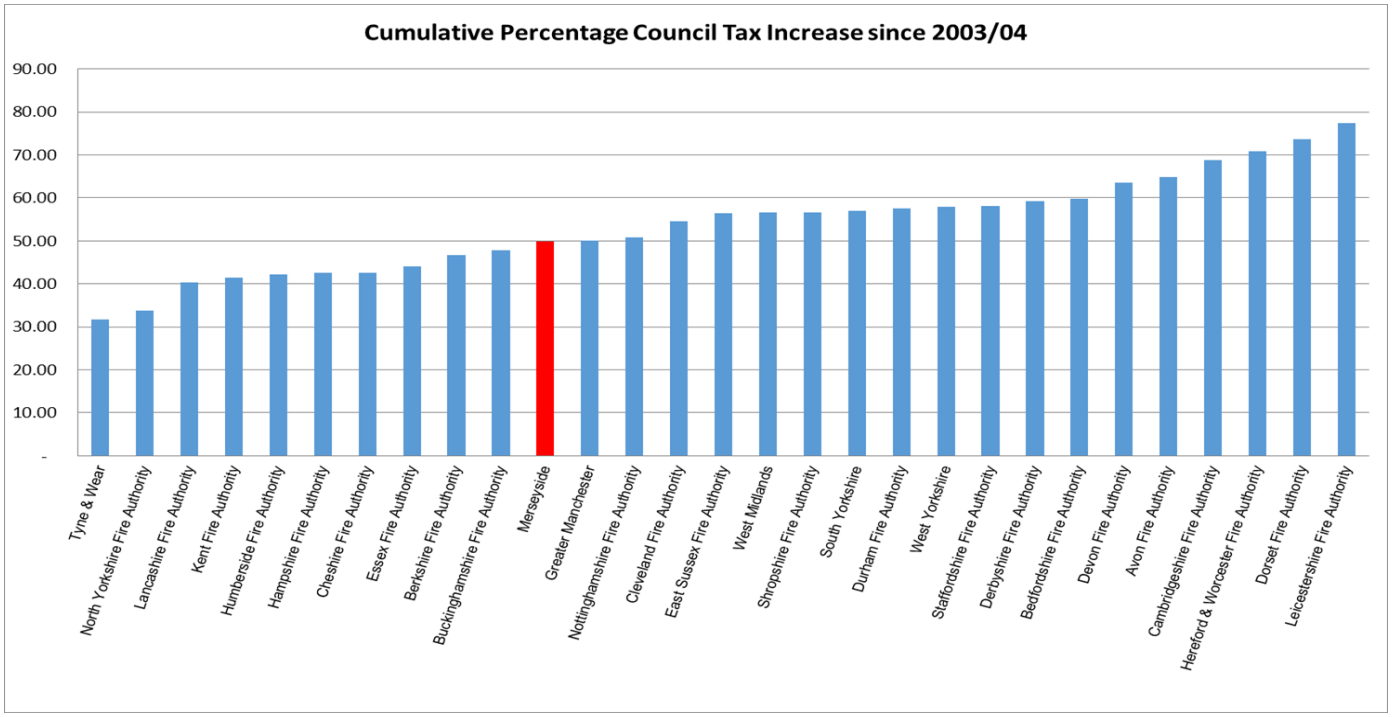
44. The Authority's 2017/18 (Band D) Council Tax is £74.34. This is slightly above the FRS national average (£72.80) as shown in the bar chart below:-



45. In 1996/97 Merseyside's Council Tax was more than 50% above the average of Metropolitan FRA's. Now it is only 11.8% above the average of that group:

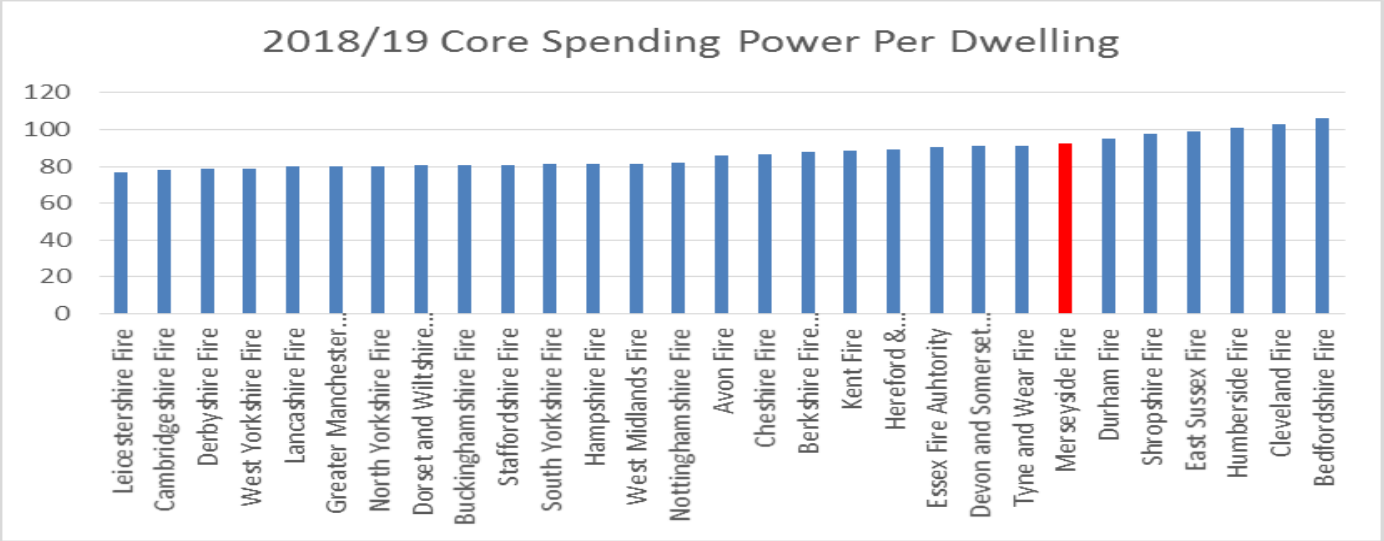


46. Over the past 14 years when compared to the other FRA's Merseyside has had one of the lowest cumulative council tax increases:



47. The Authority's control of council tax should be considered in light of the fact that across the same time period the council tax base of Merseyside has had one of the lowest increases. The tax base reflects how much income is generated by £1 of "Band D" equivalent council tax. So if the tax base increases, income will increase, even if the council tax charge remains unchanged.

48. However, despite recent improvements it should be noted that we remain, in comparison to our peers, a relatively high spending Authority on a core spending per dwelling basis. *(Core Spending is a Government measure of estimated overall budget which includes Government funding plus council tax income based on future precept and tax base increases)*

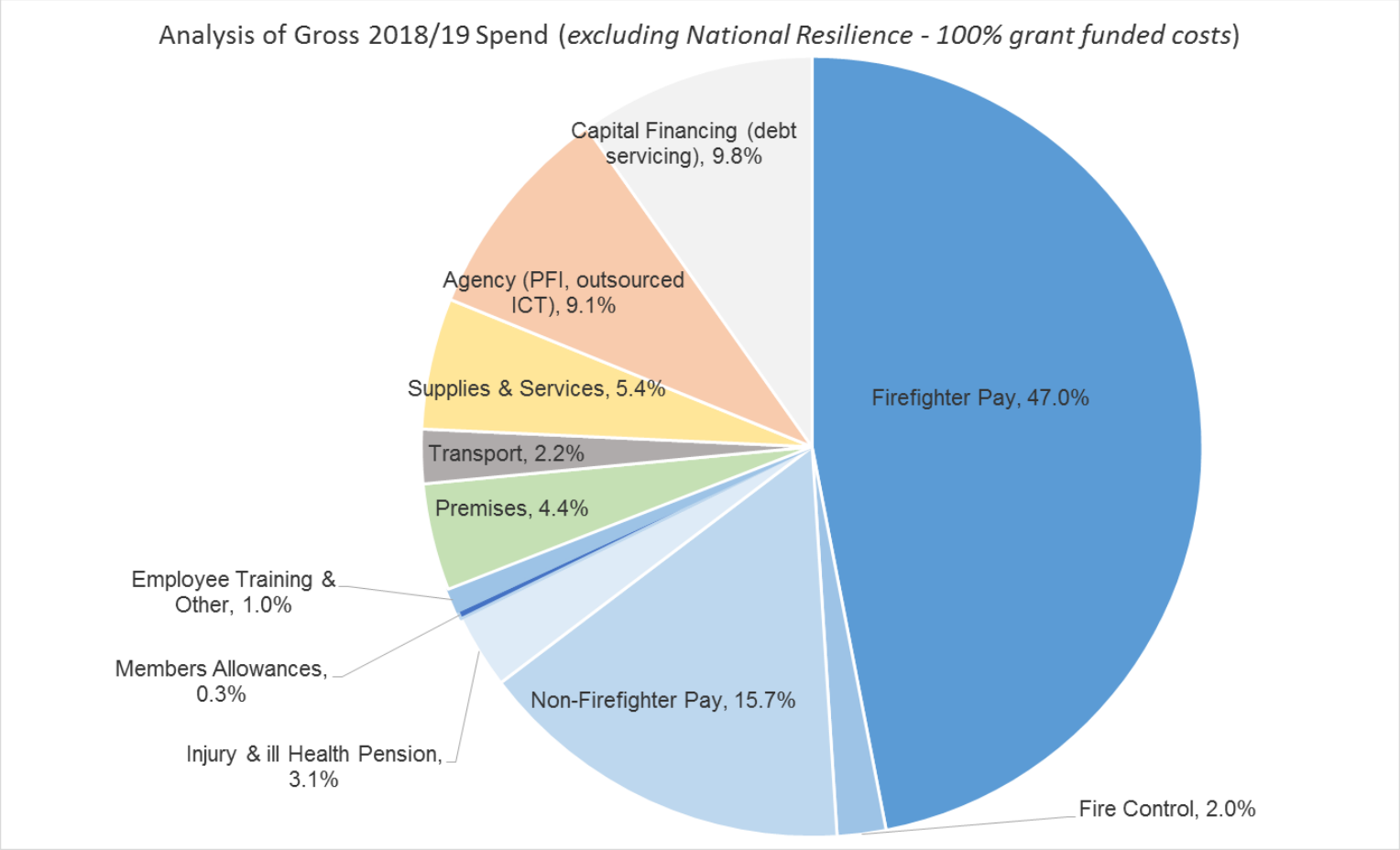


49. The Authority has a proven track record for meeting significant financial challenges in the past. The Authority, as part of a risk based strategy, has built up reserves in recent

years to provide a short term buffer whilst the structural changes to deliver the required savings on a permanent basis are implemented. The unprecedented reductions in Government funding will require difficult decisions but the Authority has a proven track record in managing its financial affairs well as can be seen in the following indicators:-

- 2016/17 Statement of Accounts were audited without qualification once again.
- Annual Audit Letter highlighted general satisfaction with financial corporate governance and reporting arrangements.
- The Authority has maintained a general revenue reserve of at least £2.0m in recent years.
- Cost centre budgeting now well established along with a culture of financial management.
- Maintained a medium term financial plan and capital programme and most importantly a consistent medium term strategy.
- Successfully delivered large-scale changes and savings.

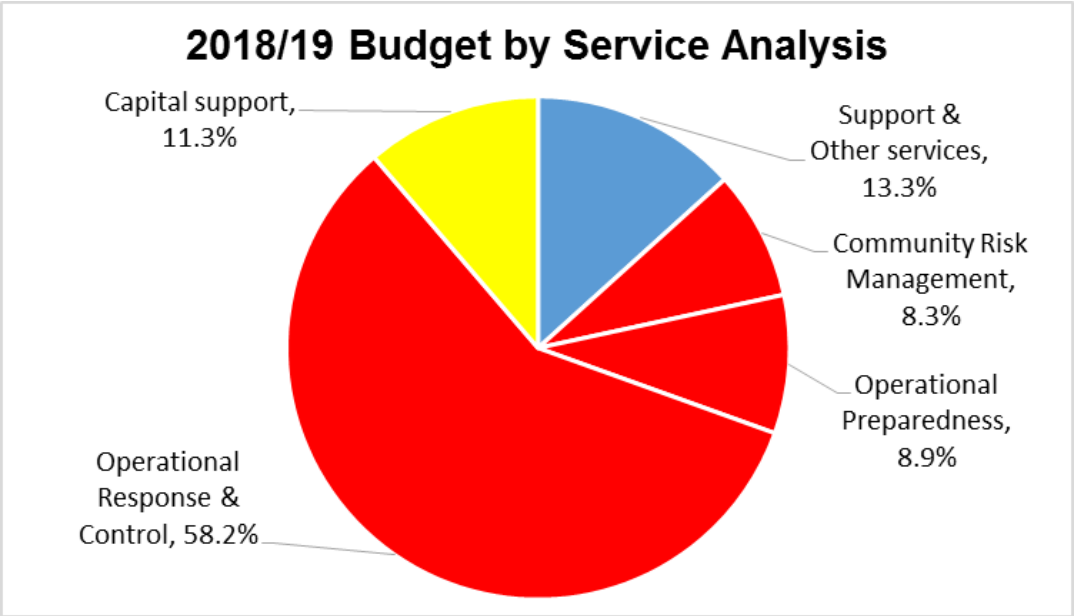
50. Members will be aware that Merseyside Fire and Rescue Service expenditure is predominantly employee related (69%). (The blue sections relate to employee costs):-



A full subjective analysis of the base budget for 2018/19 is set out in **Appendix A.** 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 and is based upon the Service's strategic objectives.

51. The Authority has an excellent track record of investing in line with its corporate priorities. It can be seen from the pie chart below that most expenditure 58.2% goes on emergency and specialist response. In addition 8.9% goes on Operational Preparedness and 8.3% on Community Risk Management therefore over 75.4% of expenditure is on the "front line" services. In addition the 11.3% on capital costs relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 13.3% is on support services.



Looking in more detail at each area the expenditure includes:-

<u>Operational Response & Control (Total £34.5m)</u>

- Service delivery and emergency response through its 24 (reducing to 22) fire stations.
- Specialist capabilities such as the Search and Rescue Team and Search and Rescue Dogs.
- Invested in staff safety – procured state of the art fire kit, helmets, boots, breathing apparatus and appliances.
- Invests £1.5m operating a Training and Development Academy.
- Deliver HFSC programme.
- Investing in new community fire stations.
- Marine Rescue Unit to support John Lennon airport and safety on the River Mersey.

<u>Community Risk Management (Total £4.9m)</u>

- Prevention & Protection Teams; £2.0m
- Community Prevention work and youth engagement; £2.0m
- Purchase of £0.3m of smoke alarms per annum
- Fire Service Direct; £0.2m
- Employment of specialist Advocates and continuation of the Princes Trust and other programmes; £0.4m

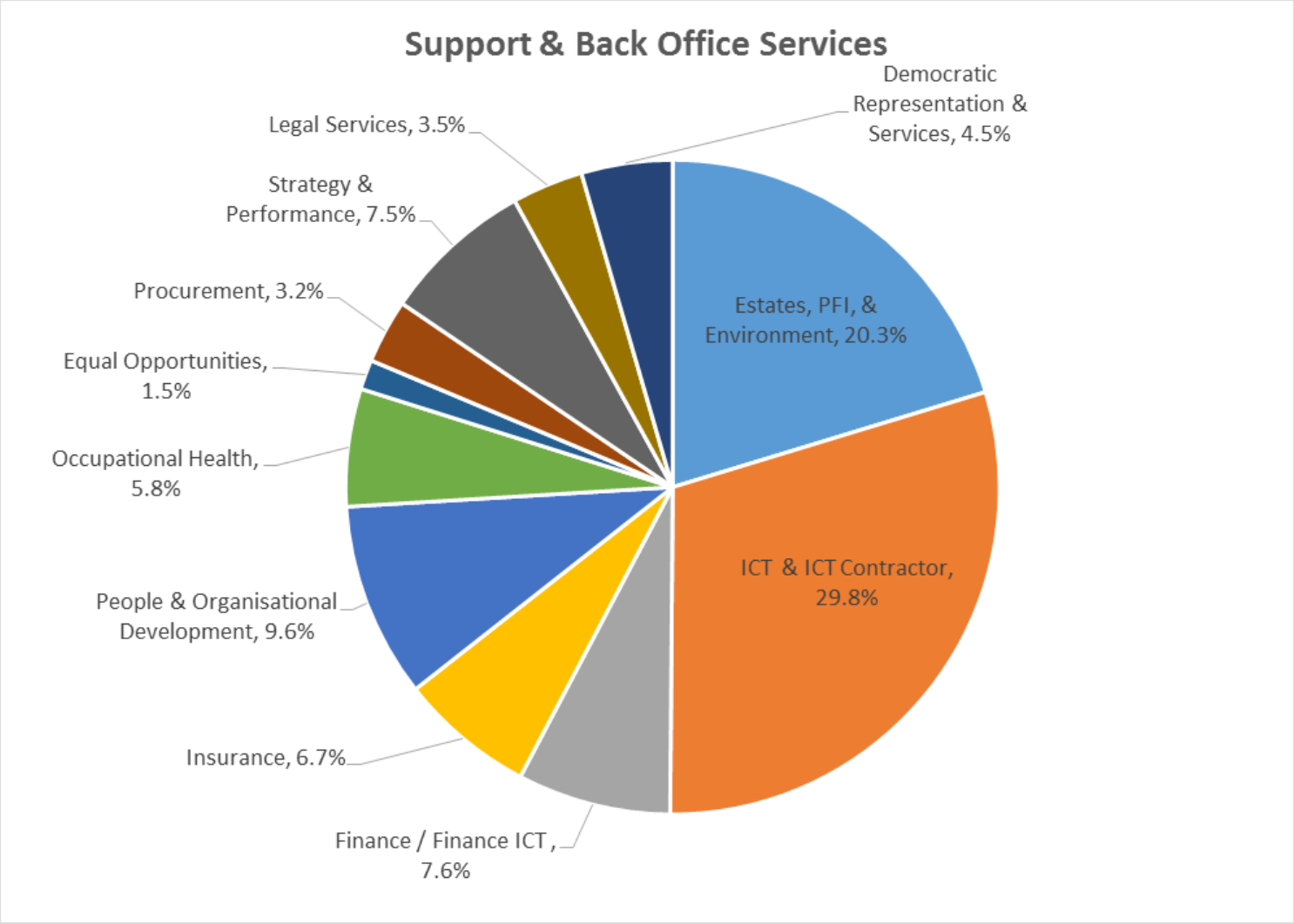
Operational Preparedness (Total £5.3m)

The investment of £5.3m delivers a variety of services which helps prepare for a full range of possible incidents in Merseyside and ensure Firefighter safety.

- Operational Planning and Policy
- Contingency Planning
- New Dimensions (National Resilience) 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
- National Operational Guidance Review Team

Support Services & Other (Total £7.9m)

The investment in support services of £7.9m represents 13.3% of the budget. The pie chart below shows the breakdown of those support areas:-



It should be noted that many of the support services are key “front line” elements of a modern FRA. For example:-

- Estates – includes the running costs of buildings including 24 Community Fire Stations;
- ICT – includes the cost of the Fire Control;
- Occupational Health – to support staff wellbeing and manage attendance.

In addition some costs are unavoidable for any organisation;

- Insurance - to cover 3rd party, vehicle, public and employer liabilities;
- Legal; Payroll; Accounting; Human Resources; Procurement etc. to support the organisation in paying its staff, suppliers, carrying out activities within the law, supporting station mergers and other front line services and preparing statutory returns.

The cost of governance in relation to elected members is also contained within support and other costs.

C) CAPITAL PROGRAMME

52. 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. ***The following sections (C) to (F) anticipate the Authority agreeing the proposed capital programme and it's financing as set out***.

53. 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.

54. 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.

55. 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.

56. 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.

57. 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.

58. 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.

59. 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.

60. 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 updated asset management plans (the asset management plans can be found on today's Authority agenda), and also take account of:-

- service requirements, in particular investments required to support and deliver the IRMP.
- 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.

61. This has produced a five-year future capital programme proposal of £31.946m which is set out in the summary table below. This table also identifies funding of the programme and a resultant borrowing requirement of £20.446m. The full programme is set out in **Appendix B**.

Capital Programme for 2018/2019 - 2022/2023

Capital Expenditure	Total Cost £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Building/Land	**13,932,500**	11,646,500	620,500	905,500	455,000	305,000
Fire Safety	**3,175,000**	635,000	635,000	635,000	635,000	635,000
ICT	**3,930,000**	942,600	1,028,100	668,100	563,100	728,100
Operational Equipment & Hydrants	**2,082,500**	1,309,500	210,000	173,000	179,000	211,000
Vehicles	**8,826,000**	2,280,200	1,521,550	827,400	1,426,400	2,770,450
Expenditure	**31,946,000**	**16,813,800**	**4,015,150**	**3,209,000**	**3,258,500**	**4,649,550**
Financing Available	**Total £**	**2018/19 £**	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**
Capital Receipts	**2,275,000**	2,275,000				
RCCO	**2,475,000**	975,000	375,000	375,000	375,000	375,000
Reserves	**4,028,000**	4,028,000				
Grants	**2,722,000**	2,722,000				
Total Non Borrowing	**11,500,000**	10,000,000	375,000	375,000	375,000	375,000
Unsupported Borrowing	**20,446,000**	6,813,800	3,640,150	2,834,000	2,883,500	4,274,550
Total Funding	**31,946,000**	**16,813,800**	**4,015,150**	**3,209,000**	**3,258,500**	**4,649,550**

62. New additions to the capital programme have increased the overall expenditure by £5.536m, the reasons for this are :-

(a) The addition of the "extra year" to the programme 2022/23, £4.650m.

(b) New Expenditure Proposals in 2018/19 – 2021/22 of £0.871m have been included. The key items are for investment at; St Helens and Eccleston Fire Stations (£0.150m) due to the new St Helens station being delayed; urgent upgrade work at Kensington Fire Station (£0.100m); an upgrade in the current fire control ICT system (£0.500m); other ICT investment (£0.065m); and operational equipment purchases (£0.056m).

63. **Appendix B** provides a full analysis of the current 5 year capital programme. Full details of the additional **new starts** can be found in **Appendix B** attached to this report. The main areas of capital programme expenditure are summarised below

A. Building Investment Strategy (£13.933m)

The estate comprises of 24 fire stations (*that will reduce to 22 following the completion of the current station merger programme*), a Training and Development Academy (TDA), Service Headquarters including Fire and Rescue Control, Marine Rescue Unit, and the Engineering Centre. 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 required. 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. The construction of new community fire stations, Saughall Massie and St Helens as part of the station merger programme accounts for £8.600m of the planned spend. The refurbishment and essential work at fire stations and the TDA makes up most of the balance.

B. Fire Safety (Community Risk Management) (£3.175m)

Smoke alarms and sprinkler systems are being classed as capital expenditure in line with Government guidance. This follows the awarding of historic capital grants by the (then) Office of the Deputy Prime Minister towards the purchase cost of such items in financial years 2004/05 through to 2007/08. Current policy is to capitalise the installation costs of smoke alarms estimated at £1.875m over the period, however this expenditure is not funded through borrowing but financed in the year by a revenue contribution to capital.

C. ICT – Investing in line with the ICT Strategy (£3.930m)

In line with the increasing use of technology to improve the service there is a significant investment in ICT within the programme. The most significant investments are in line with a planned replacement policy of 5 years for PCs, servers and network £1.6m; software licenses £1.3m and the Fire Control ICT upgrade £0.5m.

D. Operational Equipment & Hydrants (£2.083m)

Provision is also made to ensure that a modern fire and rescue service can be delivered and firefighters kept safe, in particular provision is made for investment in specialist rescue equipment and new breathing apparatus such as :-

a. Hydraulic rescue equipment, £0.3m

b. BA and communication equipment, £0.3m
c. Thermal imaging cameras, £0.2m
d. Gas Tight Suits & PPE, £0.1m
e. Water rescue equipment, £0.2m
f. Other specialist equipment, £0.6m
g. Installation of new or replacement hydrants in line with our water strategy, £0.2m.

E. Vehicle Replacement Strategy (£8.826m)
The Fleet Manager has identified needs as follows:-

a. Fire Appliances;
The Authority has developed an appliance replacement strategy based on the economic life of an appliance. Each appliance has an estimated service life of 10 years on the front line followed by 2 years as a reserve appliance. The plan provides for 17 new appliances.

b. Specialist Vehicles;
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 and rescue service including:
- Combined Platform Ladder appliances (2 new vehicles)
- Incident Management Unit (IMU)
- Prime Movers (2)
- Crane Lorry (1)
- BA Support Unit (1)

c. Ancillary Vehicles;
Provision is included for the phased renewal of the ancillary vehicle fleet.

Officers continuously monitor and review the specialist vehicle and ancillary fleet requirements and any amendments to the proposed capital programme will be brought back to members for approval during 2018/19.

64. Capital receipts: - 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.

65. 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.

66. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £2.275m. It assumes that this income will be used to reinvest in the capital infrastructure and support the capital programme. Members should note that the anticipated capital receipt values are based on the best estimates at a point in time.

67. Capital Grants: As part of the 2010 spending review the Government also made the decision that there will be no supported borrowing allocations for the Fire and Rescue

Service in the spending review period. Government capital support will be given in the form of a capital grant only. The Authority was successful in its bid for transformation grant funding for a programme of station mergers and blue light collaboration schemes and received £4.47m. The schemes associated with these grants are included in the proposed capital programme.

68. Operating Leasing:- Under the previous system of capital controls, investment that was funded by operating leases did not count as either capital expenditure or 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 Treasurer will monitor the suitability of alternative methods of finance.

69. Borrowing:- 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.

70. 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. All borrowing from 2008/09 is therefore effectively now unsupported or prudential borrowing.

71. The proposed capital programme represents an overall expenditure increase of £5.536m reflecting the proposed new starts expenditure. Of this £4.665m relates to the addition of an extra year (2022/23). After taking into account the non-borrowing funding the impact of these net additions to the expenditure programme on the Authority's borrowing requirement is a net increase of £5.146m:

	£m
Increase in expenditure	5.536
Change in Non Borrowing Funding Sources:	
RCCO (HFSC installation costs)	(0.390)
Required Increase in Borrowing	5.146

The level of prudential "unsupported" borrowing therefore will increase by £5.146m to £20.446m.

72. 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 2018/19 – 2022/23 and the methodology for calculating the MRP. The proposed financial plan includes anticipated savings from changing the calculation for MRP for supported borrowing pre 2008. Also the proposed plan

assumes new borrowing can be deferred as a consequence of using internal cash over the short to medium term and therefore restrain the need to increase the interest payments budget. The borrowing and proposed MRP policy impact on the current 2017/18 base budget is outlined in the table below:-

	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£'m	£'m	£'m	£'m	£'m
Cummulative Change in MRP / Interest Base 2017/18 budget	75	-525	-275	-25	225

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

(D) MINIMUM REVENUE PROVISION STATEMENT

73. 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 Local Authorities (Capital Finance and Accounting) (England) 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 were updated in 2008 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 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.

74. The regulations guidelines interprets that 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 Grant a period reasonably commensurate with the period in the determination of that grant (this in reality would equate to the current 4% MRP methodology).

75. The regulations guidelines set out four options for calculating MRP, however as the Government are issuing no new supported borrowing only 2 of the 4 options are applicable for new borrowing. (Asset Life Method or Depreciation methods):

    1. **Regulatory Method** – This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% of outstanding debt related to supported borrowing only. This option is available for all capital expenditure incurred prior to 1st April 2008.

    2. **Capital Financing Requirement Method** – This is very similar to the regulatory method but it does not take account of the adjustment that ensures authorities do not pay more MRP than under the previous capital regulatory regimes. For most authorities this method may not be appropriate as it would result in a higher level of provision than option 1.

    3. **Asset Life Method** – MRP is determined by reference to the life of the asset and the amount is either based on;
        - equal instalments method. This generates a series of equal annual amounts over the life of each asset that is financed from borrowing; or
        - annuity method. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

    4. **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.

76. The guidance indicates that for finance leases and on balance sheet PFI contracts, the MRP requirement is met by making a charge equal to the element of the finance lease

rental that goes to write down the balance sheet liability under proper accounting practices. This is in effect a modified version of the asset life - annuity method, the impact on the revenue account is neutral with MRP for these items matching the principal repayment embedded within the PFI or lease agreement.

77. The 2018/19 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2017/18. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2017/18;

- For all capital expenditure incurred after 1st April 2008 financed by **unsupported (prudential) borrowing**; MRP to be calculated using the Asset Life Method – equal instalments method.
- For credit arrangements such as **on balance sheet leasing arrangements (finance leases)**; the MRP charge is to be equal to the principal element of the annual rental.
- For **on balance sheet PFI contracts**; the MRP charge will be equal to the principal element of the annual rental.

78. For all capital expenditure incurred before 1st April 2008 and funded via supported borrowing the MRP is determined via a straight line (equal instalment) method for a period of up to 40 years (except land for which a 50 year period is used). The Treasurer views this to be prudent methodology as it ensures that all of the debt is repaid over a finite timeframe.

79. The options set out above meet the requirement for MRP to be deemed prudent but also allows certainty and predictability over MRP charges. The financial plan outlined in this report takes into account the proposed Authority's policy on MRP.

80. By adopting the recommendations above the MRP charge for 2018/19 would be £2.3m, consisting of £1.2m for prudential borrowing schemes incurred after 1st April 2008 and £1.1m for all other capital schemes. All figures quoted within this paragraph exclude PFI and Finance lease costs as the "MRP" element of these payments is a notional figure and contained within the rental budget.

81. Interest on loans taken out to fund capital expenditure is estimated at £2.3m.

82. In addition it is proposed that if any approved MRP/Interest budget becomes available due to; capital schemes being re-phased; additional specific non-borrowing funding becoming available; or a reduction on the approved capital programme and required borrowing, then the Service may choose to make additional MRP payments if the overall financial position of the Authority in that year remains consistent with the approved financial plan.

83. The proposed financial plan includes budget provision to meet the MRP and interest payments based on historic and planned future capital spend. 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 and rescue service.

(E) PRUDENTIAL INDICATOR REPORT

84. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2018/19, 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.

85. It should be noted, however, that in order to provide those indicators, capital and revenue financial plans need to be prepared for each of the next three financial years, commencing with 2018/19.

86. The financial plans prepared in respect of the financial years 2019/20 and 2020/21 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 just under 3% in 2018/19 and 2019/20 and just under 2% thereafter.

87. 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.***

88. 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.

89. The prudential indicators for the Authority are:-

a) Capital Expenditure
The actual capital expenditure that was incurred in 2016/17 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2016/17 £000,s	Estimate 2017/18 £000's	Estimate 2018/19 £000's	Estimate 2019/20 £000's	Estimate 2020/21 £000's	Estimate 2021/22 £000's	Estimate 2022/23 £000's
Capital Expenditure	**3,652**	**17,708**	**16,814**	**4,015**	**3,209**	**3,259**	**4,650**

Members will note that the increased expenditure in 2017/18 – 2018/19 reflects a number of significant investments including;

- The planned new fire stations in Prescot, St Helens, and Saughall Massie, £14.923m over the 2017/18 – 2018/19 period.

- Refurbishment of the Training and Development Academy and other fire stations £6.516m over the 2017/18 – 2018/19 period.

This explains why the total expenditure in 2017/18 – 2018/19 appears to be relatively high. In addition it is important to remember capital costs are shown as the gross figure and are not shown net of any grants or contributions received to contribute towards the cost. More details on the capital programme are given elsewhere in the report (Section C).

(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 2016/17 are:

	Actual 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
Ratio of Financing costs to Net Revenue Stream	**10.04%**	**10.39%**	**7.24%**	**8.37%**	**9.21%**	**9.67%**	**10.11%**

This shows that forecast debt financing costs will increase from 10.04% in 2016/17 to 10.11% by 2022/23. 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. This is also affected by the fact that whilst the Authority's debt is increasing its overall budget is reducing because of forecast Government funding cuts.

(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:

	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
Incremental Impact of Capital Investment Decisions	-£0.02	£1.90	£0.10	-£0.16	£0.04	£1.55

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. It is intended to show the marginal impact of the overall capital programme, and the decisions being made by the Authority, on the Council Tax levels. The re-phasing of expenditure from 2017/18 into 2018/19 approved during the year and the new starts in 2018/19 – 2022/23 explains the movement in the figures over this period.

90. The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for capital investment purposes.

91. Based on current commitments for 2017/18 and the latest estimates of capital investment decisions in future years, the capital financing requirement at 31st March is as follows:

	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement	45,938	51,139	55,630	56,322	55,790	55,028	55,348
(Excluding PFI)							

In accordance with best practice, the Authority does not associate borrowing with particular items or types of expenditure. The Authority has, at any point in time, a number of cash flows 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, CFR, reflects the Authority's underlying need to borrow for capital investment purposes.

92. 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 debt 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."

93. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach £55.790m by the end of 2020/21 and the expected maximum debt position, (the "operational boundary" – see Treasury Management Strategy) for 2020/21 is £48.000m. The reason for the borrowing figure being lower than the CFR figure reflects the availability of cash in the form of reserves to the Authority and therefore the ability to defer having to take out new loans for the short to medium term.

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19

INTRODUCTION

94. This report sets out the expected treasury operations for this period, linked to the Budget, Financial Plan and Capital Programme. It is inextricably linked to delivering the Authority's aims and objectives. 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 (The Chartered Institute of Public Finance & Accountancy) Codes of Practice.

    (b) The reporting of the prudential indicators for external debt 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 Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments. It is proposed to maintain the Authority's minimum long term credit rating requirement of Fitch A- or equivalent.

    (d) The Authority's Minimum Revenue Provision (MRP) Policy, which sets out how the Authority will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

    (e) Following the conclusion of a consultation process revised Treasury Management and Prudential Codes have recently been released. Whilst these introduce changes, including a requirement to produce a Capital Strategy, CIPFA recognises that the changes may not be fully implemented until the start of the 2019/20 financial year. The authority will work to implement the changes during 2018/19 ahead of the planned implementation date.

PROPOSED STRATEGY

95. 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 which are :-

- The Treasury Management Strategy 2018/19.
- The External Debt and Treasury Management Prudential Indicators and Limits for 2018/19 to 2020/21.
- The Investment Strategy 2018/19.
- The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

96. The suggested strategy for 2018/19 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.

Each of the above is now considered in more detail below:

(a) PROSPECTS FOR INTEREST RATES:

The Bank of England Monetary Policy Committee (MPC) increased the base rate by 0.25% to 0.50% at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expect to increase the bank rate only twice more by 0.25% prior to 2020 with a view to a base rate of 1.00%. Latest forecasts anticipate that a further 0.25% increase is not expected before December 2018. However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak service sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

PWLB rates and gilt yields have continued to experience exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Despite this volatility PWLB rates have risen slightly, from historically low levels, and this gentle trend is expected to continue in 2018/19.

The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy will continue to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.

(b) CAPITAL BORROWING AND DEBT RESCHEDULING:

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 2018/19. Given the likely structure of interest rates described above, it is envisaged that any borrowing to meet short term cash flow shortages will be for very short periods. Against this background, Treasury Officers will

monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

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.

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, 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.

(c) ANNUAL INVESTMENT STRATEGY

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.

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.

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

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (has a maturity of less than one year).
- The investment does not involve the acquisition of share capital in any corporate body.
- 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.

Specified investments will comprise the following institutions: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- UK Local Authorities.
- Money Market Funds.
- Enhanced Money Market (Cash) Funds.
- UK Banks.
- Foreign banks registered in the UK.
- Building Societies.

Credit Rating Criteria: - The Authority will invest with UK institutions or non-UK institutions that are 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-

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.

In addition, the Authority will use institutions that are part nationalised UK banks.

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: - The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2018/19 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

No limits on investments with the UK Government and Local Authorities have been set because they are considered to be of the highest credit quality and are essentially risk free. The limits placed on other categories reflect some uncertainty and marginally higher risk profile of the institutions within those categories. The status of Royal Bank of Scotland as a part nationalized bank is unlikely to change for many years but Lloyds Bank is likely to be re-privatised in the near future so will revert to the lower limit of £2m alongside other UK banks. Money Market Funds although AAA rated, invest in a diverse portfolio so are not completely risk free and

have been assigned a lower limit. There is a slightly higher risk for A- rated banks as described in the paragraph on Security below and so these institutions have the lowest limit.

Ways to increase investment returns have been considered including (a) reducing the minimum credit rating criteria from A- to BBB; (b) increasing the limits with individual institutions and (c) investing for periods longer than one year. Any of these ways would involve taking on additional risk because higher investment returns can only be achieved by taking higher risks. The decision not to do this but to continue with current policies was taken in the light of the Banking Reform Act which enables the government to force investors to take losses if a bank became insolvent. It is now unlikely that the government would fully fund a taxpayer bail out of a failed bank.

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 Treasurer, Head of Finance or Treasury Manager

Non-Specified Investments: - Non-specified investments do not, by definition, meet the requirements of a specified investment. The Ministry of Housing, Communities & Local Government (MHCLG) guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. The following types of non-specified investments may be used.

- Deposits with the Authority's own banker shall be unlimited for transactional purposes and to allow for unusual cash flow circumstances.

- Deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment) with any bank or building society that meets the credit rating criteria above.

- 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: - 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.

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: - Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. 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:- The CIPFA Codes and the MHCLG 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.

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 "A-". The average expectation of default for a one year investment in counterparty with an "A-" long term rating is 0.10% of the total investment. The inclusion of unrated Building Societies raises this factor to 0.14% e.g. for a £1m investment the average loss would be £1,400. 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 0.14% 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 £1 million available daily.

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

Reporting Arrangements: - The Investments Strategy forms part of the Treasury Management Strategy which is referred to Policy and Resources or Audit and Scrutiny 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.

(d) EXTERNAL DEBT PRUDENTIAL INDICATORS:

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

h. Authorised limit for external debt
i. Operational boundary for external debt

Authorised Limit: 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 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.

The authorised limits reflect the Authority's Capital Financing Requirement, identified in its capital expenditure and financing plans. They are consistent with the treasury management policy statement and practices. The limit will ensure that total gross debt does not exceed the total of the CFR in the preceding, current or following two financial years. The Authority is asked to approve the limits below and to delegate authority to the 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		**2018/19**	**2019/20**	**2020/21**
		£'000	**£'000**	**£'000**
Gross Borrowing		56,000	57,000	56,000
Other Long Term Liabilities		18,000	18,000	18,000
TOTAL		**74,000**	**75,000**	**74,000**

Operational Boundary: 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 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		**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
External Borrowing		39,000	43,000	48,000
Other Long Term Liabilities		18,000	18,000	18,000
TOTAL		**57,000**	**61,000**	**66,000**

Actual External Debt: 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 £38.1 million at 31st March 2018.

The figure for actual borrowing in recent years has been below the capital financing requirement. In an environment of extremely low interest returns, treasury officers have adopted a strategy whereby the Authorities' capital borrowing need has not been fully funded by external debt, but rather cash supporting the Authorities usable reserves and working capital has been used as a temporary funding measure in lieu of external borrowing. Internal borrowing by its very nature is a temporary measure to contain interest costs in the short term, however the approach does involve an element of interest rate risk given that it postpones the point at which long term borrowing costs are fixed. The following table demonstrates the estimated use of internal borrowing over the budget period, though actual borrowing decisions will be significantly influenced by expectations regarding movements in interest rates.

Balance Sheet Projections	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Capital Financing Requirement	64.8	69.7	73.8	74.1	73.1
Less: PFI	(18.8)	(18.6)	(18.1)	(17.8)	(17.3)
Less:MRD	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)
Borrowing CFR	**45.6**	**50.8**	**55.4**	**56.1**	**55.6**
Existing Debt Portfolio	39.1	38.1	37.6	43.0	47.4
Over(-)/Under borrowing	**6.5**	**12.7**	**17.8**	**13.1**	**8.2**
Borrowing as a % of CFR	**85.8%**	**75.0%**	**67.9%**	**76.6%**	**85.2%**

(e) TREASURY MANAGEMENT PRUDENTIAL INDICATORS:

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: 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		**2018/19**	**2019/20**	**2020/21**
		%	**%**	**%**
Fixed		100	100	100
Variable		50	50	50

This means that the 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 2018/19.

Maturity Structure of Borrowing: 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	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	90%	0%

Total Principal Sums Invested for Periods Longer than 364 Days: It is recommended that the limit for investments of longer than 364 days be set at £2 million for each of the years 2018/19, 2019/20 and 2019/20.

(f) PERFORMANCE INDICATORS

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.

The Authority will maintain performance indicators for borrowing and investment, although 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 and Annual Reports.

Training - CIPFA's Code of Practice requires the Treasurer to ensure that members with responsibility for treasury management receive adequate training in treasury management; and in particular for those members with responsibility for scrutiny. Training is due to be arranged via external treasury advisors and further detail will be provided to the relevant members.

(g) TREASURY MANAGEMENT ADVISORS

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 and 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 2018/19 – 2022/23

97. The Authority has in recent years maintained a robust medium term financial plan. The plan is fully reviewed on an annual basis and monitored and reported on a quarterly basis through the financial review reports to Members. This section of the report will develop a financial forecast for the Authority based upon the latest information. It will:-

- Outline the historical background to the current financial plan,
- Outline the underlying assumptions to support forecast,
- Outline any movement since the previously approved financial plan.

98. Following the financial crisis of 2008 the Government has implemented a programme of austerity and that has resulted in significant reductions in Government grant funding for the Authority since 2011/12.

99. The Authority approved plans to cope with the spending review cuts over the 2011/12 – 2015/16 period and approved £25.6m of total saving options. The structural changes required to sustain the approved saving have all been actioned bar the station merger programme which, as planned, would take a number of years to implement. The new Prescot fire station was completed this year. Construction of the new station at Saughall Massie is expected to commence in the coming weeks and a detailed plan for a new station in St Helens is near completion.

100. In 2016/17 the Government offered the Authority a four-year funding settlement, 2016/17 to 2019/20, subject to the submission of an efficiency plan. The cut in Government support and financial plan assumptions meant the Authority faced a +£11m financial challenge by 2019/20 rising to +£12.5m by 2021/22. The Authority accepted the offer of a four year settlement and submitted an efficiency plan that met the Government's requirements. The 2016/17 and 2017/18 Budget Authority meetings approved financial plans that would deliver the required savings to maintain a balanced plan up to 2021/22. The current plan includes some key efficiencies and saving proposals as outlined below:-

	£m
• Revised Pay Bill Increase Assumption from 2% to 1%	-£2.0m
• Technical (*non-pay inflation, MRP, FPS etc*)	-£6.3m
• Council Tax Base increase	-£2.3m
• Non-Operational savings	-£10.6m
• Operational Service Savings (*up to 49 FF posts*)	-£1.9m
Total	-£12.5m

101. This report now advances the current plan to incorporate the years up to 2022/23. The proposed 2018/19 plan takes into account; the key assumptions; changes to costs and funding; and amendments to the approved saving options outlined at the Members Budget Strategy Day on 25th January 2018:-

Inflation - Pay & Prices Changes:-

102. The plan includes a contingency for pay awards and price increases in each year. This has been prepared using the following assumptions –
- Revised the 2018/19 to 2019/20 annual increase in the pay bill from 1% to 2%,
- Revised the outstanding 2017/18 firefighter pay assumption to 2%,

- Maintains the assumption that annual pay would increase by 2% in 2020/21 and future years,
- Assumes all other price inflation of 2% p.a.
- Members have indicated their commitment to reduce their own costs (previously Members have made reductions in allowances of £24,000) and the plan once again assumes a freeze in Member allowances for the tenth consecutive year.

Pensions:-

103. The Government's concern over the cost of public pensions has not gone away despite introducing new schemes in 2014/15 and 2015/16 for the local government and firefighter pension schemes. The current plan takes account of:-

- In 2016/17 the Merseyside Local Government Pension scheme, LGPS, (*a funded scheme)* undertook its three year actuarial review. The review identified a forecast shortfall in funding future service benefits and therefore increased the Authority's employer rate from 13.6% to 15.2% with effect from April 2017, adding £0.130m p.a. to the employer pay bill. The plan assumes this rate will not change over the next five years.
- In March 2016 the then Chancellor announced in the Government's 2016 Budget statement a reduction in the discount rate to be used in valuations of unfunded public service pension schemes with effect from 2019/20. A reduction in the discount rate has the effect of increasing the cost of future benefits and therefore increasing the total contribution required from employers. No announcement has been made by the Government about what this increase will be but the Treasurers' of fire and rescue authorities have estimated it to be 2% to 5% rate increase. The plan has assumed a 3% increase as most Treasurers' felt this was the likely increase. This will add £0.600m p.a. to the employer pay bill from 2019/20.
- The FBU have an ongoing legal challenge with the Government over the way the new 2015 firefighter pension scheme (FPS) was introduced in April 2015. Some members received full protection, some tapered protection up to 2022, and some no protection at all. The FBU believe all members should have received protection and remained on their pre 2015 FPS schemes. The new 2015 FPS employer rate is 14.3% compared to the 1992 FPS rate of 21.7% and the plan anticipates £1.4m savings by 2021/22 from the implementation of the new FPS. If the FBU are successful in their legal bid this may put this saving at risk.

Review of Approved Saving Options:-

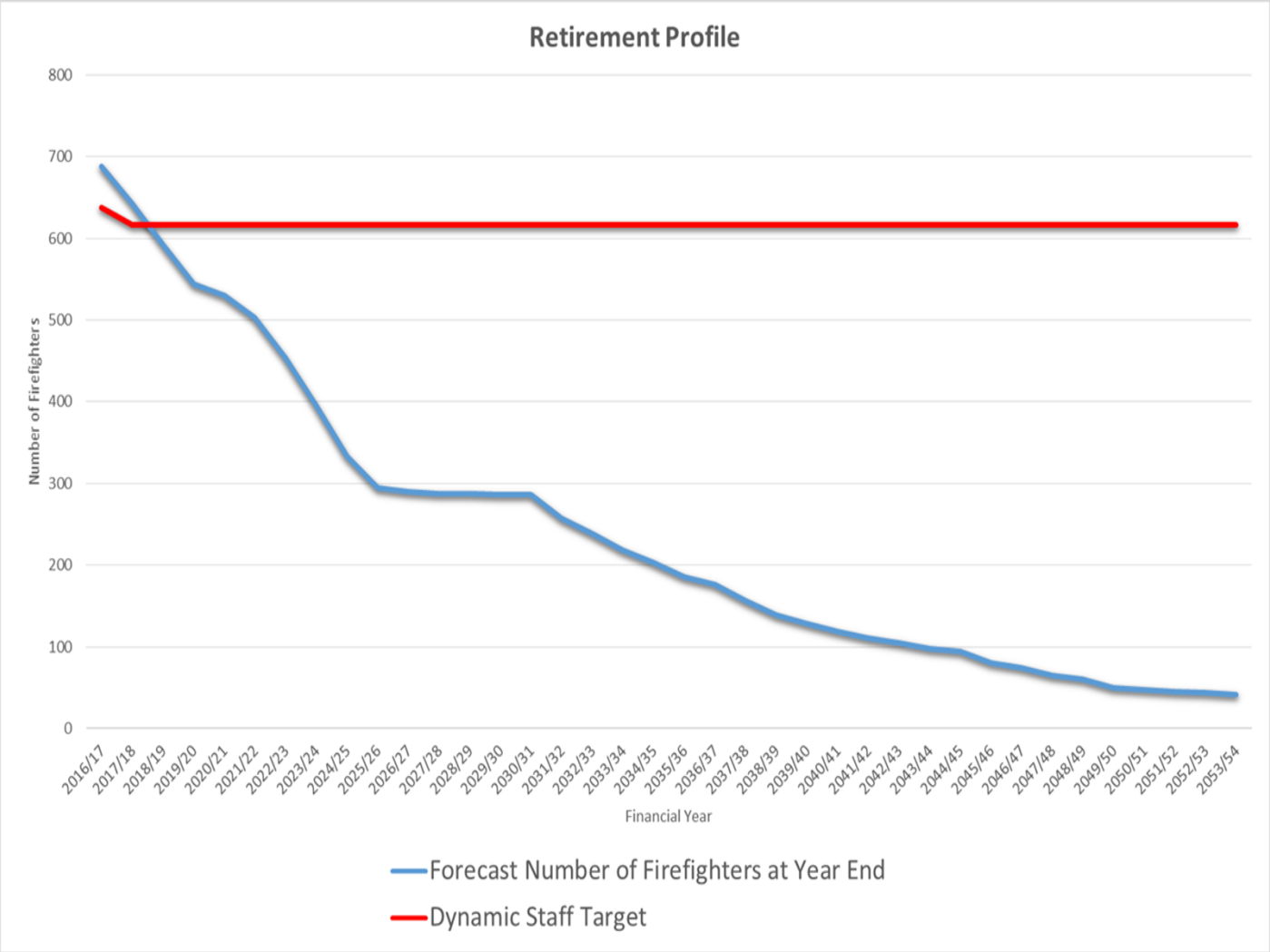
104. **£1.9m operational response saving** - The current plan assumes a £1.9m operational response saving that would see a loss of up to 49 firefighter posts. Since Members approved this option a number of major fire incidents have occurred, particularly the Grenfell incident. The CFO is reviewing the current operational model to assess any investment requirements in light of the guidance that may come out once the Grenfell review has been completed. At this point the plan **assumes no further savings** can be taken from the operational budget and any additional investment will have to be met from other budget areas. At this point **no additional investment** has been assumed. Any changes to the staffing model deemed necessary by the CFO will be within the existing 620 WTE post allocation and will be broadly cost neutral.

105. **£6.2m Technical and Support Savings** – All savings are on track to be delivered but a small adjustment was required to reflect a minor re-phasing as the expected delivery date slipped for some options from 2018/19 to 2019/20.

106. **Unavoidable Growth**. The current plan anticipated all future revenue cost pressures would be contained within the overall budget. Officers have identified £0.3m of growth requirements that must be built into the plan.

Firefighter Recruitment:-

107. Over the next nine years the Service is forecasting over 50% of the current firefighters will retire and leave the Service. By 2025 without any recruitment this would leave less than 300 competent firefighters. The graph below outlines the forecast number of firefighters compared to the proposed establishment of 620 FTE.



It can take up to 2 years for a new firefighter recruit to become a competent firefighter. In order to maintain the operational establishment it will be necessary to recruit in advance of the expected retirements and therefore exceed the budgeted establishment on a temporary basis. Between 2017 to 2022 the cost of recruitment in advance of retirements is likely to result in firefighter employee costs exceeding the

budget by some £3.350m. Members have agreed to the creation of a Recruitment Reserve to meet the recruitment of firefighters in advance of expected retirements.

Cost of Capital Borrowing:-

108. The revenue impacts of capital investment decisions and proposed 2018/19 – 2022/23 capital programme are included within forecasts. The plan also takes into account the proposed MRP policy discussed previously in section D.

Business Rates Revaluation:-

109. The Government has carried out a review of business rates and the revised charges will be phased in over a three year period commencing 2017/18. The Authority faces an increase in its rates of £0.150m by 2019/20. These increased costs have been built into the plan.

Resources Available:-

110. The Authority has two main sources **Government Funding** and **Council Tax**. In 2013/14 the Government reformed the Fire and Local Government funding system and introduced the Business Rates Retention scheme. The new system provides support in the form of a Revenue Support Grant (RSG) and Business Rates Baseline Funding (made up from local business rates and a top-up grant). The Government has delivered the reductions in support for local authorities and fire and rescue authorities by reducing RSG.

Government Funding:-

The Government have announced the Settlement Funding Assessment (SFA) for the Authority up to and including 2019/20 and this has been built into the plan. The figures announced in February 2018 are marginally lower than announced in 2017 as the business rates annual uplift is now based on CPI rather than the higher RPI rate. However, the Government have compensated the Authority by the payment of a s31 grant. After taking the s31 grant into account the Authority is financially better off by £0.188m and £0.088m in 2018/19 and 2019/20. In addition, based on the Merseyside district council local business rates forecasts for 2018/19, the Authority will receive an additional £0.083m above the amount estimated in the SFA.

The proposed plan assumes for 2020/21 to 2022/23 that RSG will remain at 2019/20 levels and the Baseline funding will increase by 2% in each year (equal to the assumed inflationary increases).

In reality the format and level of Government funding from 2020/21 is uncertain. The Government is considering changing Fire and Rescue funding to that used to fund Police Forces and therefore based on a formula grant rather than a retained business rates system. A planned fair funding review that will look at how the funding needs of fire and rescue and local authorities is determined is planned in 2018 with an implementation date for 2020/21. If the Authority's funding system remains as part of the Business Rates retention system the Government plans to phase in a 100% retained scheme from 2020/21.

Although the proposed plan attempts to forecast future Government support beyond 2019/20 for the reasons stated in the above paragraph it is very challenging to forecast with any certainty the likely levels of support beyond 2019/20.

Council Tax:-

111. The current plan assumes a Council Tax Base Increase of £2.3m from a +1% year on year increase in the Council Tax base from 2017/18 to 2021/22. The actual increase in 2017/18 was +1.3%. Each Merseyside district council has now finalised its 2018/19 Council Tax base estimates and collection fund statement. The overall Council Tax Base has increased by 1.25%:-

District	2017/18 Council Tax Taxbase	2018/19 Council Tax Taxbase	Variance	
				%
LIVERPOOL	103,323.57	104,171.03	847.46	0.82%
WIRRAL	91,309.50	92,255.90	946.40	1.04%
ST.HELENS	49,880.00	50,563.00	683.00	1.37%
SEFTON	81,906.80	82,939.50	1,032.70	1.26%
KNOWSLEY	34,097.00	35,093.00	996.00	2.92%
	360,516.87	365,022.43	4,505.56	1.25%
2017/18 Band D Tax Level	74.34	74.34		
Total Income £	26,800,824	27,135,767	334,943	1.25%

This means that for each £1 of Council Tax the level of income will be greater than that generated in 2017/18 by £4,505.56. The result of this is that the income from the current level of Council Tax is anticipated to be higher by £344,943 (this is assumed to be a permanent increase). The current plan had assumed a 1% or £0.272m increase, therefore the actual increase has resulted in additional tax income of £0.063m.

The Government has announced an increase in the maximum level of increase in Council Tax before holding a referendum will be **just under 3%** (previously 2%), for 2018/19 and 2019/20. Members agreed at 2018/19 budget strategy day to revise the planned increase to just under 3% for 2018/19 and 2019/20. The plan assumes that Members will uplift the Precept by just under 2% in 2020/21 and each year up to 2022/23. A just under 3% increase for 2018/19 will see the Band D precept increase from £74.34 to £76.56, an increase of £2.22. The precept increase will raise an additional £0.810m in 2018/19 compared to the original plans just below 2% increase in 2018/19 of £0.536m, an additional £0.274m.:

Council Tax Increase			
	0%	3%	Change
Band D Tax	74.34	76.56	2.22
	£	£	£
LIVERPOOL	7,744,074	7,975,334	231,260
WIRRAL	6,858,304	7,063,112	204,808
ST.HELENS	3,758,853	3,871,103	112,250
SEFTON	6,165,722	6,349,848	184,126
KNOWSLEY	2,608,814	2,686,720	77,906
	27,135,767	27,946,117	810,350

Each billing authority maintains a collection fund account to which any surplus or deficit in the actual collected council tax or local business rate income to that assumed in the budget is charged. 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 tables overleaf and show a net surplus of £252,774. This impact is a one-off.

District	2017/2018 Council Tax Coll fund deficit/(surplus)
	£
LIVERPOOL	-57,285
WIRRAL	-80,000
ST.HELENS	-25,859
SEFTON	-38,302
KNOWSLEY	-17,000
	-218,446

District	2017/2018 NNDR Coll fund deficit/(surplus) Part 1B line 25
	£
LIVERPOOL	70,256
WIRRAL	19,756
ST.HELENS	-13,316
SEFTON	-33,977
KNOWSLEY	-77,047
	-34,328

District	2017/2018 Coll fund deficit/(surplus)
	£
LIVERPOOL	12,971
WIRRAL	-60,244
ST.HELENS	-39,175
SEFTON	-72,279
KNOWSLEY	-94,047
	-252,774

OVERALL IMPACT

112. The overall impact of all these known changes is that the Authority faces a financial challenge of **£0.271m in 2018/19** rising to **£0.734m by 2019/20 and to £1.211m** by **2022/23**. The impact of the known changes to the current financial plan are summarised below:

	2018/19	2019/20	2022/23
	£'m	£'m	£'m
Current Plan net financial position	0.000	0.000	0.106
2018/19 identified changes to the Plan			
Increase in Pay Inflation	0.675	1.117	1.201
Approved Support Service Savings - re-phasing	0.128	0.007	0.007
Unavoidable Growth	0.329	0.328	0.195
Additional 2018/19 Council Tax Base Increase	-0.063	-0.063	-0.063
Collection Fund	-0.253	0.000	0.000
Increase Baseline Business Rates / s31 grant	-0.188	-0.088	-0.088
Increase in Local Business Rates	-0.083	0.000	0.000
Increase in Precept 18/19 & 19/20 by additional 1%	-0.274	-0.567	-0.567
Net Impact of new year 2022/23			0.420
	0.271	0.734	1.211

113. The updated financial plan before any new savings are put forward is:-

2018/19 - 2022/23 FINANCIAL PLAN					
	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Expenditure in Current MTFP:	59,068	59,537	60,792	62,187	63,662
Add					
Approved Support Service Savings - re-phasing	178	22	2	7	7
Approved 2017/18 inflation saving ahead of planned phasing	-50	-15	0	0	0
Compensation Grant for under-indexing increase in Business Rates by higher Sept 2017 RPI factor	-178	-339	-339	-339	-339
Anticipated higher S31 NNDR for other BR relief grant	-50	-50	-50	-50	-50
Application Team Growth in Establishment / other	329	233	223	100	100
ESMCP ongoing ICT investment / support (IF s31 grants not forthcoming) 2019/20		95	95	95	95
2017/18 Firefighter Pay-Assume 2%, (increase of 1%)	320	320	320	320	320
Assume ALL staff receive 2% Pay increase from 2018/19	355	797	881	881	881
Updated MTFP	59,972	60,600	61,924	63,201	64,676
FUNDING					
Government Funding-Settlement Funding Assessment					
Top Up Grant . Post 19/20 uplift by 2% (Bus Rates inflationary uplift assumption)	-15,273	-15,574	-15,885	-16,203	-16,527
CLG Estimate of Local Business Rate Share Post 19/20 uplift by 2%	-4,096	-4,225	-4,310	-4,396	-4,484
Baseline Funding Level	-19,369	-19,799	-20,195	-20,599	-21,011
RSG (assume frozen at 2019/20 levels from 2020/21	-12,050	-11,000	-11,000	-11,000	-11,000
Total Government Funding (*NOT Known beyond 2019/20*)	-31,419	-30,799	-31,195	-31,599	-32,011
Adjustment for Business Rates based on NNDR1 District Forecasts					
Adjustment for Local Business Rate income forecast from Districts to CLG	-83	0	0	0	0
NNDR Collection Fund (surplus)/deficit	-34	0	0	0	0
Adjustment to Local Business Rates income forecast	-117	-117	-117	-117	-117
Council Tax -					
Base Precept Income	-27,136	-27,946	-29,067	-29,939	-30,837
Assume just under 3% rise year on year in 18/19 & 19/20 then 2%	-810	-842	-581	-599	-617
Assume increase in Council Tax Base of 1.0% each year from 2018/19 to 2021/22	0	-279	-291	-299	0
Council Tax Collection Fund (surplus)/deficit	-219	0	0	0	0
Forecast Council Tax Income	-28,165	-29,067	-29,939	-30,837	-31,454
TOTAL FUNDING	-59,701	-59,866	-61,134	-62,436	-63,465
Impact of Changes on 2017/18 Original MTFP Forecast Net Position (surplus) / deficit	271	734	790	765	1,211

114. Section H of this report will now consider what saving options are available to the Authority to meet the revised financial challenge.

(H) Options for Tackling the Future Financial Challenge (2017/18 – 2021/22)

115. The Budget Authority on the 23rd February 2017 approved an £12.5m saving strategy to deal with the cuts in Government funding; other known cost pressures up to 2019/20 and the assumed changes up to 2021/22.

116. At the Authority Budget Strategy Day on 25th January 2018 Members agreed to amend some of the current financial plan's key assumptions around annual pay increases, the precept uplift, and new cost pressures (identified in Section G in this report). These changes have resulted in the updated financial plan moving from a balanced position to a deficit position that would require additional savings over the 2018/19 – 2022/23 period of:-

2018/19 - 2022/23 FINANCIAL PLAN					
	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Impact of Changes on 2017/18 Original MTFP Forecast Net Position (surplus) / deficit	271	734	790	765	1,211

117. To assist with the Authority's long term financial planning a five year plan has been prepared that extends the current approved plan up to and including 2022/23. However, as the level of uncertainty over future costs and funding is significant beyond 2019/20 particularly regarding the level of future Government support, the Authority is recommended to simply note any challenge identified post 2019/20 at this time. Future Budget Authority meetings will consider the challenge beyond 2019/20 as the financial information becomes more certain. Therefore this section will look at options to balance the Plan up to and including 2019/20.

118. Before looking at any areas of potential savings it is important to remember that 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:-

Value for Money Principles (Budget Principles):

Principle 1 – Allocate resources in a way that contributes towards the achievement of MFRA's Mission, Aims and Values

Principle 2 – To continue to seek to avoid compulsory redundancy (if possible given the difficult financial circumstances)

Principle 3 – To choose budget options which minimises negative impact on the front line services or on firefighter safety

Principle 4 – To consider budget approaches which ensure the right balance between local and national funding levels and considers the views of local people on the right level of council tax balanced against aspirations for service levels

Principle 5 – To allocate resources having considered the impact on our diverse communities and our employees.

119. The likelihood that as the Authority faces further significant financial savings there is very limited room for manoeuvre and these principles may prove difficult to maintain.

120. Officers have considered the saving options available in light of;
    - the Value for Money Principles,
    - the views of the Members at the Budget Strategy day, and
    - the Service's savings hierarchy that seeks to protect the front line services by looking at possible saving options in the following order of priority:-
        a. To consider technical and non-employee saving options in the first instance,
        b. Review council tax income forecasts,

    Then if further savings are required to;
        c. Consider savings targets as far as possible on Support and Management Costs, and finally,
        d. Choosing efficiencies in front line staffing arrangements that minimise the impact on front line services to the public.

121. **Non-Employee and Technical saving options** –

122. **Non-employee inflation provision**.
The budget has a provision for general price inflation of 2% for non-employee costs. A significant proportion of the £13.3m non-employee spend relates to long term contracts (Private Finance Initiative payments, £2.7m) that have contractual obligations for annual inflationary uplifts. Other inflationary pressures on costs such as building rates or energy are beyond the control of officers.

Although recent budget reports have reduced the non-employee inflation provision the Treasurer has modelled future inflation commitments and is confident additional savings can be made if the non-employee "controllable" expenditure inflation pressures are managed going forward (initial inflation pressure is to be met from department budgets in the first instance, if this is not possible then the inflation provision will be used). This strategy is expected to save £0.050m in 2018/19 rising to £0.075m in 2019/20 (and £0.150m by 2022/23).

Members are asked to amend the current financial plan and reduce the non-employee inflationary provision by £0.075m by 2019/20.

123. **Council Tax – Precept Increase**.
The Financial Plan assumes a just below 3% council tax increase for 2018/19 and 2019/20 which is the maximum level of increase before holding a referendum.

The Authority might consider **a higher (above 2%) Council Tax increase.** This would require the Authority to hold a referendum (local vote on its proposals). There are a number of practical issues relating to a potential referendum that would make it a high risk proposition. The Authority has to meet the costs of the referenda – it would need to hold one in each district and get a positive vote in each (Estimate £1m-2m). The Authority would have to meet the cost of rebilling if it were not successful (potentially as high as £2m) and would still have to find the required savings to balance the

budget. There are administrative limitations on the process and campaigning around any referendum which would limit the ability to present a comprehensive argument. There would be a substantial impact on the taxpayer

Members are asked to keep Precept increases to within the council tax referendum limit and increase the Council Tax in 2018/19 and 2019/20 by just under 3%, (2.99%).

124. **Unavoidable Growth – use of reserves.**
Officers identified a significant growth requirement for the internal applications development team of £0.329m in 2018/19 reducing to a permanent growth requirement of £0.100m p.a. from 2021/22. The initial growth is needed to recruit temporary application developers to create a number of ICT applications. The Authority approved a £1.0m invest to save reserve and Members at the Budget Strategy seminar agreed to use this reserve to cover the additional application team costs up to 2020/21 totalling £0.785m.

Members are asked to approve the use of the "Invest to Save" reserve to fund the additional application team costs up to 2020/21.

Operational Response Staff Savings.

125. The current plan assumes a £1.9m operational response saving that would see a loss of up to 49 firefighter posts. As stated in Section G since Members approved this option a number of major fire incidents have occurred, particularly the Grenfell incident. The CFO is reviewing the current operational model to assess any additional operational investment requirements in light of the guidance that may come out once the Grenfell review has been completed. At this point the plan assumes **no further savings** can be taken from the operational budget and any additional investment will have to be met from other budget heads. **No additional investment in the operational front line has been built into the proposed financial plan.** Any changes to the staffing model deemed necessary by the CFO will be within the existing 620 WTE post allocation and will be broadly cost neutral.

Management and Support Services Staff Savings.

126. Any outstanding financial challenge must be found from the non-operational budget. As previously stated due to the level of uncertainty over the future Government support beyond 2019/20 and cost assumptions, Members are recommended to deal with the challenge up to 2019/20 and to note any increase in the deficit after this date. If Members support the proposals identified above then this leaves £0.426m of savings to be identified and implemented by 2019/20:

2018/19 - 2022/23 FINANCIAL PLAN					
	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Impact of Changes on 2017/18 Original MTFP Forecast Net Position (surplus) / deficit	**271**	**734**	**790**	**765**	**1,211**
New Saving Options to Consider:					
Review 2018/19 Inflation Provision	-50	-75	-100	-125	-150
Invest to Save Reserve to cover application investment 18/19-20/21	-329	-233	-223		
Support Services Review		-426	-426	-426	-426
(Use of) / Contribution to Smoothing Reserve - reduced planned use from £406k to £298k	108				
Impact on Forecast Net Position (surplus) / deficit	**0**	**0**	**41**	**214**	**635**

127. As the 2018/19 position is balanced this would allow officers time during 2018 to consider how **Support Services can deliver the required £0.426m saving by 2019/20** and if needed any additional saving to finance further investment in the operational services.

128. The intention of the CFO to review support functions and maximise the level of savings with a minimum target of £0.426m. The outcome of the review will be fed back to Members for consideration during the 2019/20 budget process.

129. The financial plan assumptions are subject to a number of risks beyond the control of the Authority. Small percentage changes to the assumed annual pay rises or employer pension contribution rates can significantly adversely impact the Authority's financial position, requiring the identification of additional saving options. If the Authority finds itself in a more favourable position then officers would look to reinvest funds back into front line operational response services. The Treasurer will constantly monitor the financial plan and report back to the Authority via the quarterly financial monitoring reports.

130. The proposed financial plan for 2018/19 – 2022/23 is summarised in the table overleaf and attached to this report as Appendix C.

2018/19 - 2022/23 FINANCIAL PLAN

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
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Government Funding-Settlement Funding Assessment					
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Assume increase in Council Tax Base of 1.0% each year from 2018/19 to 2021/22	0	-279	-291	-299	0
Council Tax Collection Fund (surplus)/deficit	-219	0	0	0	0
Forecast Council Tax Income	-28,165	-29,067	-29,939	-30,837	-31,454
TOTAL FUNDING	-59,701	-59,866	-61,134	-62,436	-63,465
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(Use of) / Contribution to Smoothing Reserve - reduced planned use from £406k to £298k	108				
Impact on Forecast Net Position (surplus) / deficit	0	0	41	214	635

(I) ADEQUACY OF RESERVES AND BALANCES

131. Responsibilities of Chief Finance Officers - 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.

132. 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.

133. In the Authority the Chief Finance Officer is the Treasurer. For the purposes of the Act the "financial reserves" of the Authority would incorporate Earmarked Reserves and Working Balances.

134. 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

135. 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 spending have been taken into account.

Adequacy of proposed Financial Reserves

136. 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.

137. 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.

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

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

140. As a general rule external audit view an appropriate level for a general reserve as 5% of the forecast Net Operating Expenditure unless the organisation had a financial risk management process operating which justified a lower level of reserves.

141. For this Authority a 5% forecast Net Operating Expenditure equates to approximately £3m. The Authority's general revenue reserve is currently £2.000m, however:-
    - The Authority's risk management arrangements have improved. As part of this budget process the 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.
    - The Authority has previously maintained a number of specific earmarked reserves against risk.
    - The Authority is single purpose and does not face as full a range of risks to manage as a multi-purpose authority.
    - The Authority is unlikely to face significant increases in cost because of uncontrollable demand issues (unlike for example Social Services care for the elderly).
    - Members will note that the Authority's revenue reserves have not generally been consumed during the year by overspending but have been maintained throughout the year.

    Therefore, as the significant risks are known and are being managed or have a specific reserve, the Treasurer recommends maintaining the general reserve at its current £2.000m level.

142. The Treasurer has carried out a review of current reserves based on the latest financial review and known planned future use of the Authority's forecast reserves. The Treasurer has also taken account of;
    - the need to maintain the firefighter recruitment reserve as discussed in this report,
    - the significant uncertainty over Government funding beyond 2019/20,
    - the pressure from annual pay awards and employees seeking a real cost of living pay increase,
    - the need to control capital borrowing costs and seek to raise specific funding such as the capital investment reserve to cover much needed investment in the current property portfolio, and

- ensuring sufficient resources are available to meet firefighter training or equipment needs.

143. The proposed reserves for 2018/19 and future years are outlined in the table below:-

Forecast Movement on Reserves 2017/18 - Future Years

	Anticpated 2017/18 Closing Balance	2018/19	2019/20	2020/21	2021/22	2022/23	Future Years	Balance
Earmarked Reserves	**£'000**							
Emergency Related Reserves								
Bellwin Reserve	147						-147	0
Insurance Reserve	700		-100	-100	-150	-150	-200	0
Emergency Planning Reserve	75						-75	0
Catastrophe Reserve	100						-100	0
Modernisation Challenge								
Smoothing Reserve	1,806	-298	-754	-754			0	0
Ill Health Penalty Reserve	500		-125	-125	-125	-125	0	0
Recruitment Reserve	2,256	-405	-150	-250	-750	-701	0	0
Capital Investment Reserve								
Capital Investment Reserve	11,314	-3,737	-3,610	-3,044	-923	0	0	0
PFI Annuity Reserve	2,094	-91	-91	-91	-91	-91	-1,639	0
Equality / DDA Investment Res	285		-285				0	0
Invest to Save Reserve	1,000	-329	-233	-223	-215		0	0
Specific Projects								
Community Sponsorship Res	2		-2				0	0
Equipment Reserve	276		-276				0	0
Contestable Research Fund Res	24		-24				0	0
Training Reserve	450		-200	-200	-50		0	0
Healthy Living / Olympic Legacy	40		-40				0	0
Inflation Reserve	500	-400					-100	0
Clothing / Boots Reserve	58		-58				0	0
Ringfenced Reserves								
Princes Trust Reserve	92		-92				0	0
Community Risk Management	320		-320				0	0
Energy Reserve	141		-40	-40	-61		0	0
New Dimensions Reserve	1,099		-250	-250	-250	-349	0	0
Total Earmarked Reserves	**23,279**	**-5,260**	**-6,650**	**-5,077**	**-2,615**	**-1,416**	**-2,261**	**0**
General Revenue Reserve	**2,000**							**2,000**
Total Reserves	**25,279**	**-5,260**	**-6,650**	**-5,077**	**-2,615**	**-1,416**	**-2,261**	**2,000**

144. Excluding the £1.652m of ring-fenced reserves, as they relate to externally funded schemes and funds that are required to be spent on specific activities, and the previously discussed £2.000m general revenue reserve, the Authority would have £21.627m of earmarked reserves that might be viewed as available. However:

- £11.3m of this has already been committed to fund approved current and future capital investment, including the construction of new stations as part of the station merger initiative and controlling the level of borrowing to deliver the approved revenue debt servicing savings agreed in the 2016/17 – 2017/18 budgets,
- £1.0m is required to cover insurance and catastrophe risks,
- £0.3m of the smoothing reserve is required to balance the 2018/19 financial plan, and in addition the balance, £1.5m, will be held to cover potential voluntary severance costs following the 2018 support services review, and any variations to the key assumptions within the financial plan will also be temporarily met from this reserve.
- £2.3m is to cover future firefighter recruitment above the approved establishment,
- £2.1m is required to smooth out the future PFI unitary charges over the remaining contract years.
- £0.8m of the invest to save reserve is committed to cover the growth in the Application team outlined in Section H.

This leaves £2.3m of earmarked reserve to consider. Although this would appear relatively high it reflects the likely future investment and one-off expenditure pressures facing the Authority over the financial plan period:-

	£'m
Firefighter Equipment and Clothing	0.3
Invest to Save / Collaboration Investment	0.2
Inflation Reserve	0.5
Ill Health Cost	0.5
Equality / DDA	0.3
Firefighter Training for new work streams	0.5
	2.3

145. The Treasurer recommends that the Authority hold the £25.279m identified above in reserves at the start of the financial plan.

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 Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

146. Members need to consider their strategy on reserves and balances in light of the guidance from the Treasurer.

(J) BUDGET TIMETABLE & RESOLUTION

147. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2018. The Authority meeting is now invited to:

- Confirm the financial plan set out in Appendix C, approve the budget requirement of £59.698m for 2018/19 as outlined in Appendix C.
- note that the Authority's council tax base for 2018/19 is 365,022.43, being the aggregate of the tax bases calculated by the Districts.
- approve the following amounts calculated in accordance with Sections 42a to 49 of the Local Government Finance Act 1992:-

Calculation of Aggregate Amounts Under Section 42a (2) and (3) of the Local Government Act 1992					
			Gross Ependiture 2018/19	Gross Income 2018/19	Estimate 2018/19
			£'000	£'000	£'000
(A)	sec 42 (2) (a)	Service Budget	75,269		75,269
(B)	sec 42 (3) (a)	Income		-10,766	-10,766
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	30		30
(B)	sec 42A (3) (a)	Contribution from reserves		-4,832	-4,832
		Budget Requirement	75,299	-15,598	59,701
(B)	sec 42A (3) (a)	Spending Funding Assessment		-31,419	-31,419
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		-83	-83
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-253	-253
		Non-Precept Income			-31,755
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	**Precept Requirement**			**27,946**
		Tax Base			**365,022.43**
		Precept Requirement / Tax Base:			**£76.56**
		Basic Tax Amount At Band 'D'			**£76.56**

148. The valuation bands calculated by the Authority in accordance with Section 47 (1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands:

2017/18	2018/19	Property Band		Increase	
	£			£	%
£49.56	£51.04	For properties in Band	A	1.48	2.99
£57.82	£59.55	For properties in Band	B	1.73	2.99
£66.08	£68.05	For properties in Band	C	1.97	2.98
£74.34	**£76.56**	**For properties in Band**	**D**	**2.22**	**2.99**
£90.86	£93.57	For properties in Band	E	2.71	2.98
£107.38	£110.59	For properties in Band	F	3.21	2.99
£123.90	£127.60	For properties in Band	G	3.70	2.99
£148.68	£153.12	For properties in Band	H	4.44	2.99

149. The Authority calculates the precept amounts payable by each constituent district council pursuant to Section 48 of the Act as follows:-

PRECEPT		AUTHORITY
£		
7,975,334	Payable by	LIVERPOOL
7,063,112	Payable by	WIRRAL
3,871,103	Payable by	ST.HELENS
6,349,848	Payable by	SEFTON
2,686,720	Payable by	KNOWSLEY
27,946,117		

150. The precept payments are to be made by 10 equal instalments on or before the following dates:-

Friday	20th April 2018
Wednesday	30th May 2018
Thursday	5th July 2018
Friday	10th August 2018
Tuesday	18th September 2018
Wednesday	24th October 2018
Thursday	29th November 2018
Wednesday	9th January 2019
Thursday	14th February 2019
Friday	15th March 2019

Equality and Diversity Implications

151. Future reports on staff saving plans, if required, will be accompanied by EIAs.

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

Staff Implications

153. The relevant consultation will take place as and when the plans are drawn up to deliver the required staffing change to deliver the reduction in support staff and firefighters.

Legal Implications

154. The Authority must act in accordance with its powers and duties under the legislation which includes setting a balanced budget and deciding the level of precept prior to 1st March 2018.

Financial Implications & Value for Money

155. See Executive Summary

Risk Management, Health & Safety, and Environmental Implications

156. The budget and capital investment programme make large-scale investments in staff Health and Safety.

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

157. To Achieve; Safer Stronger Communities - Safe Effective Firefighters. The proposed financial plan considers how best to allocate resources and deliver a balanced budget in light of the approved mission of the service and service priorities.

BACKGROUND PAPERS

CFO/015/17 "MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2017/2018 – 2021/2022" Budget Authority 23rd February 2017

GLOSSARY OF TERMS

MFRA **M**erseyside **F**ire and **R**escue **A**uthority

MFRS **M**erseyside **F**ire and **R**escue **S**ervice

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.).

MRP Minimum revenue provision, an amount set aside from revenue towards the repayment of loan debt.

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.
UNSUPPORTED BORROWING	No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.
RSG	Revenue Support Grant
FRA	Fire and Rescue Authority
MTFP/ PLAN	Medium Term Financial Plan
FPS	Firefighters' Pension Scheme
LGPS	Local Government Pension Scheme