MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	27 SEPTEMBER 2018	REPORT NO:	CFO/059/18
PRESENTING OFFICER	CHIEF FIRE OFFICER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2018/19 - APRIL TO JUNE		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A3:	CORPORATE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A4:	BUDGET MOVEMENTS ON RESERVES
	APPENDIX B:	CAPITAL PROGRAMME 2018/19
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2018/19 – 2022/23

Purpose of Report

1. To review the financial position, revenue and capital, for the Authority for 2018/19. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority’s finances. This report covers the period April to June 2018.

Recommendation

2. That Members;
   a) note the contents of the report, and
   b) approve the proposed revenue, capital and reserve budget alignments, and
   c) instruct the Director of Finance to continue to work with budget managers to maximise savings in 2018/19.

Executive Summary

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

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

The Authority is on target to deliver the approved 2018/19 budget savings and is progressing well with the required structural changes in its workforce in order to maintain the required savings on a permanent basis.

Following representation made by the Authority and the CFO the City Regional political leaders have agreed to lobby the Government with the aim of increasing the Authority's flexibility over the 2019/20 Council Tax increase from a 3% limit to a pro rata £5 payment for band D properties. If successful the Authority may be in a position to reverse or revise some of the approved operational cover reductions in the current financial plan.

The Authority has a strategy of maximising savings and delivering its savings plan as early as possible in order to increase reserves as a hedge against future financial challenges. At this point in the year this report has identified that spend is forecast to be consistent with the approved budget. Officers will continue to work through the remainder of the year to maximise any savings in order to increase reserves.

The total budget requirement remains at the original budget level of £59.701m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2018.

Capital:
The capital programme planned spend has increased by £7.862m of which £7.520m relates to the re-phasing of schemes from 2017/18 into 2018/19, and the balance is made up from schemes funded by specific non-borrowing funds. The revised Capital Programme is outlined in Appendix B and C.

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

Treasury Management:
No new long term borrowing has been arranged and the Authority has continued its policy of reducing investments and only taking short term borrowing to cover cash flow requirements.

Introduction and Background

3. The purpose of this report is to enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.

4. This report is the review of the Authority's position up to the end of June of the financial year 2018/19 (April – June 2018).

5. In order to ensure that the financial reviews provide a regular and effective financial health check on all aspects of the Authority's finances the following structure has been adopted.

Financial Review Structure

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

(A) Current Financial Year – 2018/19

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

Revenue Position:

7. Budget Movements: The attached Appendix A1 – A4 to this report summarises the movements in the revenue budget. The net budget requirement remains at £59.701m which is consistent with the original budget.

8. There have been a number of budget adjustments with no net impact because they are either self-balancing virements within department budgets or budget increases financed by reserves in line with previously agreed Authority decisions. The budget adjustments in quarter 1 included:-

- a virement from the inflation provision of £0.389m to cover; a £0.200m increase in the non-uniform pay bill as a result of the 2018/19 2% annual pay settlement; a 2018/19 business rates increase of £0.139m; and other inflationary uplifts.
- An increase in the income budget of £0.926m as a result of; the receipt of £0.415m of Princes Trust income that is offset by an increase in the non-uniform employees budget; a 2018/19 Merseyside Road Safety Partnership contribution of £0.424m offset by an increase in supplies, services and other

expenditure; and other additional income of £0.087m offset by expenditure increase to cover the relevant schemes.
- A net contribution to reserves of £3.061m. The breakdown and reasons for these adjustments are contained within the reserves section of this report.

9. Update on Budget Savings Implementation:
Approved pre 2016/17 savings - the Authority had approved savings in total of £25.597m. These savings are being delivered as expected, however the structural establishment changes required as part of the station merger initiative will not be formally implemented until the new fire stations at Saughall Massie and St Helens have been built. The required firefighter saving is being delivered in cash terms as the reduction in the number of firefighters has been achieved.

10. **The 2016/17, 2017/18 & 2018/19 Budget approved savings** of £9.216m up to 2018/19, rising to £12.008m by 2019/20 and £13.038m by 2022/23. The saving plan included:-

    - efficiency savings of £8.832m by reducing management and support services costs,
    - a known or anticipated £2.306m increase in the council tax base that the plan assumed is permanent.
    - Despite identifying efficiencies of £11.138m the Authority had to approve an unavoidable reduction of £1.900m from the operational response budget in order to balance the financial plan.

    With the exception of the firefighter annual pay award assumption all other non-operational 2018/19 saving options in the current plan have been successfully implemented.

    The operational response saving required the budgeted whole-time equivalent (WTE) firefighter establishment to reduce from 669 to 620. The phasing of the saving, (to be delivered by the end of 2018/19), mirrored the anticipated firefighter retirement rates and therefore avoided the need for compulsory firefighter redundancies. The reduction in the firefighter establishment has meant the Authority has had to review its crewing duty systems aligned to demand. Following extensive public consultation as part of the Integrated Risk Management Plan update for 2017-2020, the Authority approved a change in the crewing systems at Aintree, Crosby, Eccleston, Kensington, Liverpool City Centre and Wallasey Fire Stations from full time cover to day crewing whole-time retained duty system (DCWTR) stations. Liverpool City Centre and Wallasey will move to DCWTR on the week commencing 10^{th} September 2018. The CFO has committed to maintain night time cover from these locations into the fourth quarter of 2018/19. This cover will be provided by dynamically managing existing staff resources and if necessary the use of part time / secondary contracts. If these additional costs can't be contained within the current budget then they must be met through reserves. The Authority and City Region acknowledge that is not a long term sustainable solution and that it can only be maintained into the fourth quarter without adversely impacting on the MTFP.

The City Region Mayor, Liverpool Mayor and City Region Leaders of each of the Local Authorities have agreed to lobby the Government to allow the Authority the flexibility to raise Council Tax by £5 (Band D equivalent) in 2019/20. If this lobby is successful and all other current financial plan assumptions remain as anticipated (particularly around pay award increases) the CFO has committed to review all previous decisions in order to ensure the Authority is best able to meet the operational and legislative demands placed on the service.

The 2017/18 and 2018/19 firefighter pay award has yet to be agreed. Any settlement above the 2% assumed for 2017/18 to 2019/20 would require the Authority to identify additional permanent savings (approximately £0.3m for each additional 1%), as part of the 2019/20 budget making process. As most non-employee and technical savings have been exhausted it is likely that any pay award above the 2% assumed will have to be met from a reduction in the employee establishment. To assist Members as an example each additional 1% may require the loss of up to 10 firefighter posts.

11. Actual expenditure in comparison to Revenue Budget**:** The Authority is concerned that any future Government may continue to reduce the level of Government support in real terms post 2019/20. It therefore has directed the Chief Fire Officer to maximise savings in the year to contribute towards the building up of reserves. Such reserves can then be used as part of an implementation and risk management strategy to allow the Authority the time to identify and action any new saving options.

Employee Costs;

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

Firefighter retirements have continued in line with the forecast profile adopted for the financial strategy. Non-firefighter employee costs are in line with the approved budget. At this point employee costs are expected to be in line with budgets.

Contingency for 2018/19 Pay & Price Increases;

Members will recall that the budget assumed a 2% pay bill increase in 2018/19 and future years. The non-uniform staff have accepted a 2% pay award for 2018/19 and 2019/20, but a significant risk exists around the 2017/18 – 2019/20 firefighters award that has yet to be settled. Officers are continuing to control the allocation of non-employee inflation. In the first instance any inflationary pressure is expected to be absorbed from within the relevant budget line.

Other Non-Employee Revenue Costs;

The Director of Finance is continuing to work with budget holders to maximise savings in 2018/19. The current approved plan assumes a £0.426m saving from support services with effect from 2019/20. The strategic leadership team (SLT) have now identified the required saving areas and will implement the required changes as soon as possible to deliver the savings at the earliest opportunity. At this point in time expenditure is forecast to be in line with budgeted levels.

The Director of Finance will continue to monitor actual staff numbers during the year to ensure the Service continues to deliver in “cash” terms the required saving target and report back as the year progresses.

12. Debtor accounts under £5,000 may be written off by the Director of Finance. Six accounts have been approved for write-off under delegated powers in the first quarter following advice from litigation services totalling £2,253 plus VAT. One account was raised in error and the rest had a significant level of doubt over whether they met the conditions for a chargeable service or the relevant debtor was not known.

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

    As expected the implementation of all of the approved station merger proposals have yet to be formally concluded, therefore the required budgetary structural changes remain outstanding. However, as Firefighter retirements remain as expected the Service continues to deliver in “cash” terms the required saving target.

    At present expenditure is forecast to be in line with the budget. The Director of Finance is continuing to work with budget holders to maximise savings in 2018/19 and will report in more detail in future financial reviews.

Capital Programme Position:

14. Members approved a 5 year capital programme worth £31.946m at the Authority Budget meeting on 22nd February 2018, (CFO/004/18). This has now been updated for:

    a) the approved 2017/18 year-end re-phasing of projects into 2018/19 of £7.520m as reported to the Policy and Resources Committee on 26th July 2018, CFO/048/18, and
    b) a net increase of £0.342m as a result of a review of the current capital programme demands and phasing of spend. Details of the planned changes are outlined below:
        - New schemes totalling £0.041m for ICT hardware and vehicles have been included and are being funded from contributions from the approved revenue budget.
        - The Authority provides the lead for the Home Office on the National Resilience Assurance initiatives and as such procures the refresh of the assets required by fire and rescue services to undertake the relevant responsibilities. The Operational Equipment programme has been increased by £1.400m to reflect the level of planned investment in these assets in 2018/19, all of which is 100% funded by a Home Office grant.
        - As part of the ongoing exercise to control future financial pressures on the revenue budget officers have carried out a review of the current

programme in order to control potential unavoidable growth in revenue debt servicing costs. As a consequence a number of schemes and been rephrased into future years to reflect a more realistic planned start date resulting in £9.302m of planned spend being rephrased from 2018/19 into future years, of which £9.161m relates to planned building schemes (£5.200m for the St Helens new station alone). The review also identified a £1.099m reduction in total spend arising mainly from the deletion of ancillary vehicles, the purchase of two appliances post 2022/23 and revised operational equipment needs.

- The impact of these adjustments will see a reduction in borrowing of £1.099m.

15. The capital programme changes are summarised in Table below. The revised detailed capital programme is attached as Appendix B (2018/19 Capital Programme) and Appendix C (2018/19–2022/23 Capital Programme) to this report.

Movement in the 5 Year Capital Programme

	Total Cost	2018/19	2019/20	2020/21	2021/22	2022/23
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amendments to Approved Schemes;						
2017/18 year-end Re-phasing	7,520.3	7,520.3	0.0	0.0	0.0	0.0
Review of Planned investment requirement and timing of schemes	-1,099.2	-9,658.8	8,649.8	129.3	636.1	-855.6
Increase in National Assurance Assets	1,400.0	1,400.0	0.0	0.0	0.0	0.0
New ICT & Vehicles schemes funded by Revenue	40.6	40.6	0.0	0.0	0.0	0.0
	7,861.8	**-697.8**	**8,649.8**	**129.3**	**636.1**	**-855.6**
Funding						
Borrowing:						
Rephasing of approved schemes from 2017/18	5,246.4	5,246.4	0.0	0.0	0.0	0.0
Review of Planned investment requirement and timing of schemes	-1,099.2	-3,853.6	2,844.6	129.3	636.1	-855.6
Capital Receipts						
2017/18 Rephasing of Sale of Whiston	250.0	250.0	0.0	0.0	0.0	0.0
2017/18 Rephasing of Sale of Allerton	400.0	400.0	0.0	0.0	0.0	0.0
2018/19 Rephasing of Sale of St Helens	0.0	-100.0	100.0	0.0	0.0	0.0
2018/19 Rephasing of Sale of Eccleston	0.0	-600.0	600.0	0.0	0.0	0.0
Reserves						
Saughall Massie FS New Build- increase	0.0	-2,464.0	2,464.0	0.0	0.0	0.0
Revenue Contribution to Capital Outlay(RCCO)						
New ICT & Vehicle equipment	40.6	40.6				
Capital Grant						
2017/18 rephasing of National Resilience Asset Resfresh	368.7	368.7	0.0	0.0	0.0	0.0
Increase in National Resilience Asset Resfresh	1,400.0	1,400.0	0.0	0.0	0.0	0.0
2017/18 rephasing of Station mergers schemes-Transormation Grant	1,255.2	1,255.2	0.0	0.0	0.0	0.0
2018/19 rephasing of Transormation Grant	0.0	-2,641.2	2,641.2	0.0	0.0	0.0
	7,861.8	**-697.8**	**8,649.8**	**129.3**	**636.1**	**-855.6**

Use of Reserves:

16. The analysis in Appendix A4 outlines a £3.061m movement on reserves during the first quarter of 2018/19. The net contribution to reserves of £3.061m is due to:-
    - £2.464m repayment back to the capital reserve as a result of the rephrasing of the new St Helens fire station build from 2018/19 to 2019/20.
    - £0.605m repayment back to the capital reserve as a result of the rephrasing of part of the cost of the new Saughall Massie fire station costs from 2018/19 to 2019/20.
    - £0.008 drawdown from the capital reserve to fund the investment in a new finance ICT document management system.

    The CFO is reviewing the current reserves in order to identify ways in which the Authority can reduce historic debt levels in order to protect, and if possible grow, its operational establishment numbers in light of previous cuts or in order to protect against any further government funding reductions in 2020/21 and beyond.

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

(B) <u>Treasury Management</u>

17. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to June 2018.

18. **Prospects for Interest Rates;**
    During the first quarter of 2018/19 the Bank of England Monetary Policy Committee (MPC) held the base rate at 0.5%. Subsequently, the MPC increased the base rate to 0.75% at its meeting on 2 August 2018. This is the first time the base rate has been increased above 0.5% since the base rate was reduced to the historically low level in Mar 2009 as part of the monetary policy response to the financial panic of 2008.

    The MPC voted unanimously for the latest increase in the base rate and is of the view that the UK economy has a very limited degree of slack. Unemployment is low and projected to fall further, therefore the MPC anticipates a small margin of excess demand to emerge by late 2019, feeding through into higher growth in domestic costs than has been seen in recent years. Any future increase in the Bank rate are likely to be at a gradual pace and to a limited extent.

    The MPC continues to recognise that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal.

    PWLB rates and gilt yields have continued to experience levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments.

Despite this volatility PWLB rose slightly for longer term loans, by 0.07 % during the first quarter of the financial year.

The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2018/19. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

19. **Capital Borrowings and the Portfolio Strategy;**
The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2018/19. Current market conditions continue to be unfavourable for any debt rescheduling.

20. **Annual Investment Strategy;**
The investment strategy for 2018/19 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 June 2018 the average rate of return achieved on average principal available was 0.49%. This compares with an average seven day deposit (7 day libid) rate of 0.36%.

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

The Authority had investments of £21.3m as at 30th June 2018:

(see next page)

ANALYSIS OF INVESTMENTS END OF QUARTER 1 2018/19						
Institution	**Credit Rating**	**MM Fund***	**Bank / Other**	**Building Society**	**Local Authority**	**Average Interest**
		£	**£**	**£**	**£**	**%**
Standard Life	AAA	1,300,000				0.51
Close Brothers	A		2,000,000			1.10
Goldman Sachs	A		2,000,000			0.73
Santander UK	A		2,000,000			0.85
Sumitomo/SMBCE	A		2,000,000			0.83
Coventry BS				2,000,000		0.52
Cumberland BS				1,000,000		0.67
Nationwide B Soc	A			2,000,000		0.59
Newcastle B Soc				1,000,000		0.80
Nottingham B Soc				1,000,000		0.77
Principality B Soc				1,000,000		0.75
Skipton B Soc	A-			1,000,000		0.75
West Bromwich B Soc				1,000,000		0.55
North Lanakshire Council					2,000,000	0.85
Totals		**1,300,000**	**8,000,000**	**10,000,000**	**2,000,000**	**0.73**
Total Current Investments					**21,300,000**	

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

21. **External Debt Prudential Indicators;**
The external debt indicators of prudence for 2018/19 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £74 million
Operational boundary for external debt: £57 million

Against these limits, the maximum amount of debt reached at any time in the first quarter of the financial year 2018/19 was £38.1 million.

22. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2018/19 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the first quarter of the financial year 2018/19 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the first quarter of the financial year 2018/19 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	4%	1%
12 months and within 24 months	50%	0%	1%	1%
24 months and within 5 years	50%	0%	10%	9%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	90%	0%	88%	86%

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

The limit for investments of longer than 364 days was set at £2 million for 2018/19. No such investments have been placed during 2018/19.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

25. There are no legal implications directly related to this report.

Financial Implications & Value for Money

26. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

27. There are no Risk Management, Health & Safety and Environmental implications directly related to this report.

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

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

BACKGROUND PAPERS

CFO/004/18 “MFRA Budget and Financial Plan 2018/2019-2022/2023” Authority 22nd February 2018.

GLOSSARY OF TERMS