MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	13 DECEMBER 2018	REPORT NO:	CFO/073/17
PRESENTING OFFICER	DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2018/19 - APRIL TO SEPTEMBER		

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
	APPENDIX D:	MFRA RESERVES

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 September 2018.

Recommendation

2. That Members;
   a) Note the note the contents of the report, and
   b) Instruct the Treasurer to continue to work with budget managers to maximise savings in 2018/19,
   c) Approve the amendments to the capital programme, and
   d) Note the current planned use of approved reserves.

Executive Summary

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

- 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 lobbied the Government for increased 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 provide funds to contribute towards any future financial challenge including the repayment of Authority debt off early and potentially freeing up future budget to fund investment in front line services.

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 September 2018.

Capital:
The capital programme planned spend has increased by £2.946m of which £2.450m relates to the increase in the St Helens fire station new build scheme approved by the Authority at its meeting in October 2018. 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 September of the financial year 2018/19 (April – September 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: There have been a number of budget adjustments in the quarter but they have had no impact on the "bottom-line" as they are either self-balancing virements within department budgets or budget adjustments financed by reserves in line with previously agreed Authority decisions.

8. The budget for contributions from reserves was increased in the quarter by £0.474m, of which £0.325m was to fund Formby LLAR building works approved by the Community Safety and Protection committee in September 2018.

9. Budget virements (adjustments between budget lines) totalled £0.605m, of which £0.444m related to the virement between the pay inflation provision and the firefighter employee line to cover the 2018/19 +2% firefighter pay increase adjustment approved by the National Joint Council (NJC).

10. Appendix A1 – A4 attached 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.

11. Update on Budget Savings Implementation: the a**pproved pre 2016/17 savings,** totalling £25.597m, 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.

12. **The 2016/17, 2017/18 & 2018/19 Budget approved savings plan** (equating to £9.216m by 2018/19, rising to £12.008m by 2019/20 and £13.038m by 2022/23), 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,
    - an unavoidable reduction of £1.900m from the operational response budget in order to balance the financial plan.

    All 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. The CFO has committed to maintain night time cover from Liverpool City Centre and Wallasey 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 and this is not sustainable over the long term.

13. 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 deliver savings, this would include the early repayment of debt in order to free up future revenue debt servicing budget.

Employee Costs;

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

Firefighter retirements are slightly ahead of the forecast profile adopted for the financial strategy but the cost of additional hours in relation to secondary contracts and overtime is expected at this point in time to result in an overall neutral position. Non-firefighter employee may be slightly below budget due to temporary vacancies but it is too early to anticipate any saving at this time.

At this point employee costs are assumed to be consistent with the approved budget.

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. The National Joint Council (NJC) agreed to pay a 2% uplift in firefighter pay rates from July 2018 (they had previously agreed to a 1% uplift from July 2017). However, 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.

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. It is hoped that this strategy will deliver a saving come the year-end.

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 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.

14. 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:

15. The last financial review report (CFO/059/18) approved a 5 year capital programme worth £39.808m. This has now been updated for scheme additions and changes during quarter 2 of +£2.946m, which are summarised in the table below:

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;						
Approved Increase in St Helens FS Build (CFO/055/18)	2,450.0		2,450.0			
Formby LLAR new build increase in scheme (CFO/060/18)	325.0	325.0				
Energy Conservation Schemes (Salix)	140.9	140.9				
New ICT schemes funded by Revenue	19.0	19.0				
TDA refurb - NWAS contribution	11.0	11.0				
	2,945.9	**495.9**	**2,450.0**	**0.0**	**0.0**	**0.0**
Funding						
Reserves						
St Helens FS Build (CFO/055/18)	2,450.0		2,450.0			
Formby LLAR new build increase in scheme (CFO/060/18)	325.0	325.0				
Revenue Contribution to Capital Outlay(RCCO)						
Energy Conservation Schemes (Salix)	140.9	140.9				
New ICT & Vehicle equipment	19.0	19.0				
External Contributions						
TDA refurb - NWAS contribution	11.0	11.0				
	2,945.9	**495.9**	**2,450.0**	**0.0**	**0.0**	**0.0**

16. Although the level of planned expenditure has increased, the level of required borrowing has remained unchanged as the additional expenditure is funded by non-borrowing resources. Details of the planned changes in quarter 2 are outlined below:

- Members approved report CFO/055/18 at the Authority meeting on 18th October 2018, and approved an increase in the St Helens new fire station scheme of £2.450m funded from the capital investment reserve. This has now been built into the building/land capital programme.
- Members approved report CFO/060/18 at the Community and Protection Committee on 4th September 2018, and approved an increase in the Formby LLAR development of £0.325m funded from the capital investment reserve. This has now been built into the building/land capital programme.
- Salix is a form of Government funding that pump prime's public capital investment that delivers energy efficient schemes that then repay Salix. A scheme to install LED lighting at a number of stations at a cost of £0.141m has been approved and will be managed by the Estates Department and has now been built into the current capital programme.
- A number of small increases to the ICT programme have been built into the latest capital budget and are being funded from revenue, £0.019m.

17. Overall the revised capital programme has increased by £2.946m. 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 for Members information.

Use of Reserves:

18. The analysis in Appendix A4 outlines a 2018/19 £0.474m movement from reserves to the revenue budget in quarter 2. Of this, £0.325m is to cover the additional Formby LLAR works and £0.141m is to fund the LED lighting works, identified in paragraph 14 above. The balance, £0.008m relates to planned spend on equipment funded from the equipment reserve.

19. An analysis of the current earmarked reserves and there intended use can be found attached to this report at Appendix D.

20. Earmarked reserves reached a peak at the end of 2016/17 at £29.9m they have now reduced by 20% or £6.0m to 23.9m and are expected to go below £17m by the end of 2019, and less than £5m by the end of 2021/22.

21. 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.

22. The general revenue reserve has remained unchanged at £2.000m or 3% of the budget.

(B) Treasury Management

23. The Authority continues to “buy in” Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to September 2018.

24. **Prospects for Interest Rates;**
In the Second quarter of 2018/19 the Bank of England Monetary Policy Committee (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. PWLB rose for longer term loans, by 0.21 % during the second 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.

25. **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.

26. **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 MHCLG 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 July to 30 Sep 2018 the average rate of return achieved on average principal available was 0.87%. This compares with an average seven day deposit (7 day libid) rate of 0.51

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 £42.6m as at 30th September 2018 (this included a £27.3m firefighters' pension grant received in July that will be utilised in the year):

ANALYSIS OF INVESTMENTS END OF QUARTER 2 2018/19

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Blackrock	AAA	3,000,000				0.66
Deutsche/DGLS/State Street	AAA	500,000				0.63
Federated Investors UK	AAA	3,000,000				0.68
JP Morgan Sterling Liquidity Fund	AAA	2,800,000				0.57
LGIM (Legal & General)	AAA	3,000,000				0.67
Morgan Stanley	AAA	300,000				0.61
Standard Life	AAA	3,000,000				0.65
Close Brothers	A		2,000,000			1.15
Goldman Sachs	A		2,000,000			0.89
Santander UK	A		2,000,000			0.85
Sumitomo/SMBCE	A		2,000,000			0.83
Cumberland BS				1,000,000		0.78
Nationwide B Soc				2,000,000		0.59
Newcastle B Soc				1,000,000		0.93
Nottingham B Soc				1,000,000		0.90
Principality B Soc				1,000,000		0.96
West Bromwich B Soc				1,000,000		0.96
Flintshire CC					1,000,000	0.80
Highland Council					2,000,000	0.96
Lancashire CC					2,000,000	1.05
Salford CC					2,000,000	0.70
Slough BC					3,000,000	0.85
South Cambridgeshire DC					2,000,000	0.75
Totals		**15,600,000**	**8,000,000**	**7,000,000**	**12,000,000**	**0.80**
Total Current Investments					**42,600,000**	

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

27. **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 period 1 July to 30 Sep 2018 was £38.2 million.

28. **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 period 1 July to 30 Sept 2018 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1st July to 30 Sept 2018 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%	0%
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%	89%	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

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

32. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

33. 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*

34. 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.

CFO/059/18 "Financial Review 2018/19 – April to June" Audit Committee 27th September 2018.

GLOSSARY OF TERMS