| MERSEYSIDE FIRE AND RESCUE AUTHORITY | | | |
|---|---|---|---|
| MEETING OF THE: | AUTHORITY BUDGET MEETING | | |
| DATE: | 28 FEBRUARY 2019 | REPORT NO: | CFO/009/19 |
| PRESENTING OFFICER | DIRECTOR OF FINANCE | | |
| 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 2019/2020 – 2023/2024 | | |

| APPENDICES: | APPENDIX A: | DRAFT SUMMARY REVENUE BUDGET ANALYSIS |
|---|---|---|
| | APPENDIX B: | PROPOSED CAPITAL PROGRAMME 2019/20 – 2023/24 |
| | APPENDIX C | PROPOSED 2019/20 – 2023/24 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 2019/20 and a precept level in line with statutory requirements.

## Recommendation

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

- Note the 2019/20 service budget set out in the report.
- Endorse the Director of Finance's recommendation on maintaining the current level of general fund balance at £2.000m, and maintaining the reserves as outlined in Paragraph 135 to 138 of this report.
- Endorse their current plan to increase the precept by just below 3% for 2019/20, raising the Band D Council Tax from £76.56 to £78.84 and confirm the strategy for future precept rises (the plan assumes further increase of just under 2% in each year thereafter).
- Endorse the assumptions in developing a five year (2019/20 – 2023/24) Financial Plan outlined in the report and approve the Medium Term Financial Plan in Appendix C and the 2019/20 budget estimate of £60.282m.

- Approve the 2019/20 – 2023/24 amended saving plan outlined in the report and summarised in Appendix C.

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

- Approve the Minimum Revenue Payment (MRP) strategy for 2019/20 as outlined in Paragraph 66 to 77 of this report.

- Note the prudential indicators relating to the proposed capital programme, paragraph 83 to 85 of this report.

- Approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in paragraph 90(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

- 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 2019/20 by 1st March 2019.

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

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

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

    - Consider the borrowing freedoms available under the prudential code
    - Reflect best practice
    - Provide value for money
    - Focus on the link between capital investment decisions and revenue budgets
    - Continue developing their strategic financial plan

6. The following report structure will be adopted:-

| Section | Focus | Paragraph |
|---|---|---|
| A | Executive Summary | 7- 27 |
| B | Background Information | 28- 49 |
| C | Capital Programme | 50- 65 |
| D | Minimum Revenue Provision Statement | 66-77 |
| E | Prudential Indicator Report | 78-87 |
| F | Treasury Management Strategy Statement | 88-90 |
| G | Revenue Forecasts 2019/20 – 2023/24 | 91-111 |
| H | Options for Tackling the Financial Challenge | 112-125 |
| I | Adequacy of Reserves and Balances | 126-140 |
| J | Budget Timetable & Resolution | 141-144 |

## A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1st March 2019.

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 2018/19 – 2022/23 medium term financial plan (MTFP) at the Budget Authority meeting on 22nd February 2018, to deal with all known reductions in Government funding up to 2019/20. The plan approved £12.008m of savings to be delivered by 2019/20 rising to £13.038m by 2022/23. The saving options included:-

- £8.832m of efficiency savings in management and support services costs,
- a known or anticipated permanent increase in the council tax base of £2.306m,
- an operational response budget reduction of £1.900m.

10. The Government have announced the financial settlement for 2019/20 (*the last year of a four year settlement*), and the Settlement Funding Assessment, (SFA), has increased by £0.014m compared to last year's 2019/20 indicative figure as the result of the business rates uplift.

11. Section G of this report outlines all the changes in this year's MTFP compared to last year's estimates. Overall the proposed budget for 2019/20 has increased from £59.866m in last year's plan to £60.282m position, a £0.416m increase.

12. At this year's Budget Strategy day the Chief Fire Officer, (CFO), sought members' support to increase the frontline firefighter response and protection establishment from 620 Full Time Equivalent (FTE) to 642 FTE, plus a new fire engineer post in protection, and an increase in the available fire appliances from 26 to 30. The proposals would enhance the resilience and protection capabilities of the Service in light of some recent significant incidents. If the proposals are agreed by the Authority following a 12 week consultation the CFO will work with the Director of Finance to identify the additional £1m required to implement the proposals (subject to public consultation). The assumption is that a proportion of the budget currently committed to;

- the repayment of debt servicing costs (associated with historic borrowing required to fund capital expenditure), £6.1m, and
- the servicing of Local Government Pension Scheme (LGPS) deficit, £0.9m.

can be freed-up by using any revenue savings identified in the year to fund additional minimum revenue provision (debt repayment) and using the capital reserve to pay off in

full any outstanding LGPS deficit as identified in the next actuarial review, expected to be completed in December 2019 - March 2020.

13. Members' supported the CFO's proposal and the MTFP proposals contained in this report have built in the relevant budget realignment to deliver the required £1m investment. As it will take time to recruit and train the additional firefighter staff the MTFP has assumed the £1m will be required from 2020/21, however if it is possible to implement the changes earlier then any costs that cannot be contained within the budget will be funded from the capital investment reserve.

14. 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 2023/24. 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.

15. The updated Plan's key assumptions are:-
    - for **2019/20 a precept increase** of just below **3%** and just under 2% thereafter (the anticipated Government's council tax referendum limit),
    - An **annual 1% increase** in the **tax base from 2020/21 to 2021/22**,
    - A **pay bill increase of 2% per annum** in each year,
    - 2**% per annum General Price Inflation**,
    - The proposed reduction in Government financial support for **unfunded public sector pension schemes will increase the Firefighter Pension Scheme(s), FPS**, **employer contribution rate from 2019/20 by no more than 12.6%**,
    - An **increase in Government funding support of £2.100m to cover** some of the increase in the **FPS employer rate outlined above from 2020/21**,
    - **Government support** (in whatever form):– will **increase by 1.5% p.a**. on the 2019/20 Government Settlement Funding Assessment figure **from 2020/21**.

16. The Authority may choose to increase the 2019/20 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 2019/20, 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 estimated at +£1m.

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

| 2018/19 | 2019/20 | Property Band | | Increase | |
|---|---|---|---|---|---|
| | £ | | | £ | % |
| £51.04 | £52.56 | For properties in Band | A | 1.52 | 2.98 |
| £59.55 | £61.32 | For properties in Band | B | 1.77 | 2.97 |
| £68.05 | £70.08 | For properties in Band | C | 2.03 | 2.98 |
| **£76.56** | **£78.84** | **For properties in Band** | **D** | **2.28** | **2.98** |
| £93.57 | £96.36 | For properties in Band | E | 2.79 | 2.98 |
| £110.59 | £113.88 | For properties in Band | F | 3.29 | 2.97 |
| £127.60 | £131.40 | For properties in Band | G | 3.80 | 2.98 |
| £153.12 | £157.68 | For properties in Band | H | 4.56 | 2.98 |

The level of precept income expected from each Merseyside authority:-

| PRECEPT | | AUTHORITY |
|---|---|---|
| £ | | |
| 8,353,900 | Payable by | LIVERPOOL |
| 7,371,367 | Payable by | WIRRAL |
| 4,045,832 | Payable by | ST.HELENS |
| 6,628,654 | Payable by | SEFTON |
| 2,824,206 | Payable by | KNOWSLEY |
| | | |
| 29,223,959 | | |

18. The proposed 2019/20 MTFP based on the updated assumptions is outlined below, however, at this point in time Government support beyond 2019/20 is unknown:-

# 2019/20 - 2023/24 FINANCIAL PLAN FUNDING INCREASE +1.5% post 2019/20

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2018/19 MTFP** | **59,866** | **61,175** | **62,650** | **64,100** | **64,100** |
| **EXPENDITURE - 2019/20 issues:-** | | | | | |
| 2023/24 Inflation Provision | | | | | 1,200 |
| Increase in Gov Unfunded Pension Discount above 3%/£600k assumed | 2,200 | 2,200 | 2,200 | 2,200 | 2,200 |
| Gov Funding for the above | -2,592 | | | | |
| Gov Funding for the FPS discount assumed from 2020/21 (CSR 2019) | | -2,100 | -2,100 | -2,100 | -2,100 |
| 2019 Actuarial review of LGPS: employer rate 15.2% to 17.7% | | 250 | 250 | 250 | 250 |
| Increase in MRP from one-off additional resources | 858 | 156 | 59 | 0 | 0 |
| Anticipated reduction in MRP / LGPS Deficit budget requirement | | -1,000 | -1,000 | -1,000 | -1,000 |
| Increase FF Establishment +22 Posts / Fire Engineer | 250 | 1,000 | 1,000 | 1,000 | 1,000 |
| Increase in Sec 31 grants for national 2019/20 Business Rate relief(s) | -200 | -200 | -200 | -200 | -200 |
| New Insurance Tender - Price saving | -100 | -100 | -100 | -100 | -100 |
| **2019/20 Updated MTFP** | 60,282 | 61,381 | 62,759 | 64,150 | 65,350 |
| **FUNDING** | | | | | |
| **Government Funding-Settlement Funding Assessment:** | | | | | |
| Top Up Grant . | -15,586 | | | | |
| CLG Estimate of Local Business Rate Share | -4,227 | | | | |
| **Baseline Funding Level** | -19,813 | | | | |
| **RSG** | -11,000 | | | | |
| **Settlement Funding Assessment** | **-30,813** | **-30,813** | **-30,813** | **-30,813** | **-30,813** |
| Assume Uplift in SFA by 1.5% p.a. from 2020/21 | | -462 | -931 | -1,407 | -1,891 |
| **Assumed Government Funding-Settlement Funding Assessment** | **-30,813** | **-31,275** | **-31,744** | **-32,220** | **-32,704** |
| **Adjustment for Business Rates based on NNDR1 District Forecasts** | | | | | |
| Adjustment for Local Business Rate income forecast from Districts | -7 | 0 | 0 | 0 | 0 |
| NNDR Collection Fund (surplus)/deficit | -72 | 0 | 0 | 0 | 0 |
| **Adjustment to Local Business Rates income forecast** | **-79** | **0** | **0** | **0** | **0** |
| **Council Tax -** | | | | | |
| Base Precept Income | -29,224 | -29,224 | -30,106 | -31,015 | -31,635 |
| Assume increase in Council Tax Base of 1.0% each year from up to 2021/22 | | -292 | -301 | 0 | 0 |
| Assume just under 3% rise year on year in 2019/20 then 2% thereafter | | -590 | -608 | -620 | -633 |
| Council Tax Collection Fund (surplus)/deficit | -166 | 0 | 0 | 0 | 0 |
| **Forecast Council Tax Income** | **-29,390** | **-30,106** | **-31,015** | **-31,635** | **-32,268** |
| **TOTAL FUNDING** | **-60,282** | **-61,381** | **-62,759** | **-63,855** | **-64,972** |
| **Forecast (Surplus) / Deficit** | **0** | **0** | **0** | **295** | **378** |

19. The Authority has created reserves in recent years to meet the cost of future projects, initiatives or as a contingency against specific risks. The current reserves and planned use is considered in Section I of this report, and summarised below:-

| | Estimated 2019/20 Opening Balance | Estimated 2019/20 Expected Use | Estimated 2020/21 Expected Use | Estimated 2021/22 Expected Use | Estimated 2022/23 Expected Use | Estimated 2023/24 Expected Use | Estimated Future Years Expected |
|---|---|---|---|---|---|---|---|
| **Committed Reserves** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Emergency Related Reserves** | | | | | | | |
| Bellwin & Emergency Planning Reserve | 222 | 0 | 0 | 0 | 0 | 0 | 222 |
| Insurance Reserve | 500 | 0 | 0 | 0 | 0 | 0 | 500 |
| **Modernisation Challenge** | | | | | | | |
| Smoothing Reserve | 450 | 0 | -450 | 0 | 0 | 0 | 0 |
| Ill Health Penalty Reserve | 150 | 0 | -75 | -75 | 0 | 0 | 0 |
| Recruitment Reserve | 3,000 | -300 | -600 | -600 | -600 | -600 | 300 |
| Invest to Save | 636 | -300 | -300 | -36 | 0 | 0 | 0 |
| **Capital, Debt Repayment and LGPS Res** | 14,414 | -5,914 | -8,500 | 0 | 0 | 0 | 0 |
| **Specific Projects** | | | | | | | |
| PFI Annuity Reserve | 2,001 | -200 | -220 | -240 | -260 | -1,081 | 0 |
| Healthy Community Reserve | 65 | -38 | -27 | 0 | 0 | 0 | 0 |
| Equipment & Clothing Reserve | 369 | -369 | 0 | 0 | 0 | 0 | 0 |
| Training Reserve | 150 | -50 | -50 | -50 | 0 | 0 | 0 |
| Inflation Reserve | 700 | 0 | 0 | 0 | 0 | 0 | 700 |
| **Ringfenced Reserves** | | | | | | | |
| Princes Trust Reserve | 121 | -61 | -60 | 0 | 0 | 0 | 0 |
| Community Risk Management Reserve | 325 | -125 | -100 | -100 | 0 | 0 | 0 |
| Energy Reserve | 19 | -10 | -9 | 0 | 0 | 0 | 0 |
| **Total Committed Reserves** | **23,122** | **-7,367** | **-10,391** | **-1,101** | **-860** | **-1,681** | **1,722** |
| **General Revenue Reserve** | **2,000** | **0** | **0** | **0** | **0** | **0** | **2,000** |
| **Total Reserves** | **25,122** | **-7,367** | **-10,391** | **-1,101** | **-860** | **-1,681** | **3,722** |

20. The Director of Finance recommends the Authority maintains a £2.000m General Fund Reserve. 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 with any assumptions those built into the medium term financial plan will be at risk from factors beyond the Authority's control, such as approved pay awards. If any of these assumptions vary then the forecast budget position will be affected. The Authority receives regular financial review reports throughout the year and any corrective action to keep the budget and MTFP in balance will be considered by Members' as part of this reporting process.

22. The proposed 5 year capital programme is detailed in section C. The table below summarises the proposed £36.481m of investments which are mainly in the Authority's property, vehicle and ICT assets.

| Capital Expenditure | Total Cost £ | 2019/20 £ | 2020/21 £ | 2021/22 £ | 2022/23 £ | 2023/24 £ |
|---|---|---|---|---|---|---|
| Building/Land | 17,645,500 | 10,822,700 | 4,872,900 | 939,900 | 705,000 | 305,000 |
| Fire Safety | 3,175,000 | 635,000 | 635,000 | 635,000 | 635,000 | 635,000 |
| ICT | 4,665,500 | 1,729,100 | 914,100 | 584,100 | 724,100 | 714,100 |
| Ops Equip & Hydrants | 3,166,500 | 1,986,000 | 317,500 | 189,000 | 222,000 | 452,000 |
| Vehicles | 7,828,200 | 2,507,400 | 1,205,800 | 1,723,600 | 1,913,300 | 478,100 |
| **Expenditure** | **36,480,700** | **17,680,200** | **7,945,300** | **4,071,600** | **4,199,400** | **2,584,200** |
| **Financing Available** | **Total £** | **2019/20 £** | **2020/21 £** | **2021/22 £** | **2022/23 £** | **2023/24 £** |
| Capital Receipts | 1,875,000 | 1,875,000 | 0 | 0 | 0 | 0 |
| RCCO | 1,875,000 | 375,000 | 375,000 | 375,000 | 375,000 | 375,000 |
| Capital Reserves | 8,414,000 | 4,914,000 | 3,500,000 | 0 | 0 | 0 |
| Grants | 2,881,000 | 2,881,000 | 0 | 0 | 0 | 0 |
| Total Non Borrowing | 15,045,000 | 10,045,000 | 3,875,000 | 375,000 | 375,000 | 375,000 |
| Unsupported Borrowing | 21,435,700 | 7,635,200 | 4,070,300 | 3,696,600 | 3,824,400 | 2,209,200 |
| Total Funding | 36,480,700 | 17,680,200 | 7,945,300 | 4,071,600 | 4,199,400 | 2,584,200 |

23. The proposed capital programme has a borrowing requirement of £7.635m in 2019/20 and £21.436m 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 Director of Finance 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. The Director of Finance has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2019/20 and future years in section D of this report.

## B) BACKGROUND INFORMATION

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

29. 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.

30. 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.

31. The cumulative percentage reduction in Government revenue support for the Authority between 2010/11 (£46.3m) and 2019/20 (£30.8m) equates to a 33% cash reduction or approximately 50% in real terms. In 2010/11 the revenue budget requirement was £73.3m of which Government support funded 63%. A real cut in Government support of 50% by 2019/20 meant unavoidable reductions in the front line operational services over this period.

32. The 2019/20 Budget requirement is £60.3m, therefore over the 2010/11 – 2019/20 period the total revenue budget will have reduced from £73.3m to £60.3m or £13.0m which represents a 18% cash or approximately 40% real reduction.

33. 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 approximately 1,000 Full Time Equivalents (FTE) firefighters. At the end of 2018 the number was 620 FTEs, 38% lower than 2010/11. Support and technical staff have reduced from 425 FTE to 291 FTE, a 32% reduction. Many of these staff carry out important front line preventative work with the Merseyside community.

34. In 2010/11 the Authority had 42 wholetime fire appliances immediately available and 1 retained - 43 appliances in total. By the end of 2018 the Authority's budgeted position is 26 (18 appliances immediately available 24/7; 6 day crewed appliances (immediately available during the day and on 30 minute recall at night); and 2 fully wholetime retained appliances which are available on a 30 minute recall 24/7).

35. This report sets out in section H, the CFO's proposals to reverse some of the reduction in the firefighter establishment, increasing it to 642 FTE and also increasing the number of available appliances to 30, (20 appliances immediately available; 6 (immediately available during the day and on 30 minute recall at night); 3 fully wholetime retained appliances which are available on a 30 minute recall 24/7 and 1 Search & Rescue Appliance).

36. In order to deliver the approved saving options the Authority 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, (by 2020/21).

37. This report provides the Authority with an update on the financial challenge for any known changes and outlines the proposed financial plan to maintain a balanced position up to at least 2019/20.

38. 2020/21 and future years - any further cuts in Government support may result in further reductions in firefighters, fire appliances and stations.

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. 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. As a consequence of the CFO's proposal to re-invest in frontline services by looking to increase the firefighter establishment and the provision of appliance availability, a supplementary draft IRMP for the 2019 – 2021 period is on today's agenda for consideration by Members. The proposals contained within the supplementary IRMP will be subject to stakeholder consultation and then the supplementary IRMP will come back to Members' for approval.

40. 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

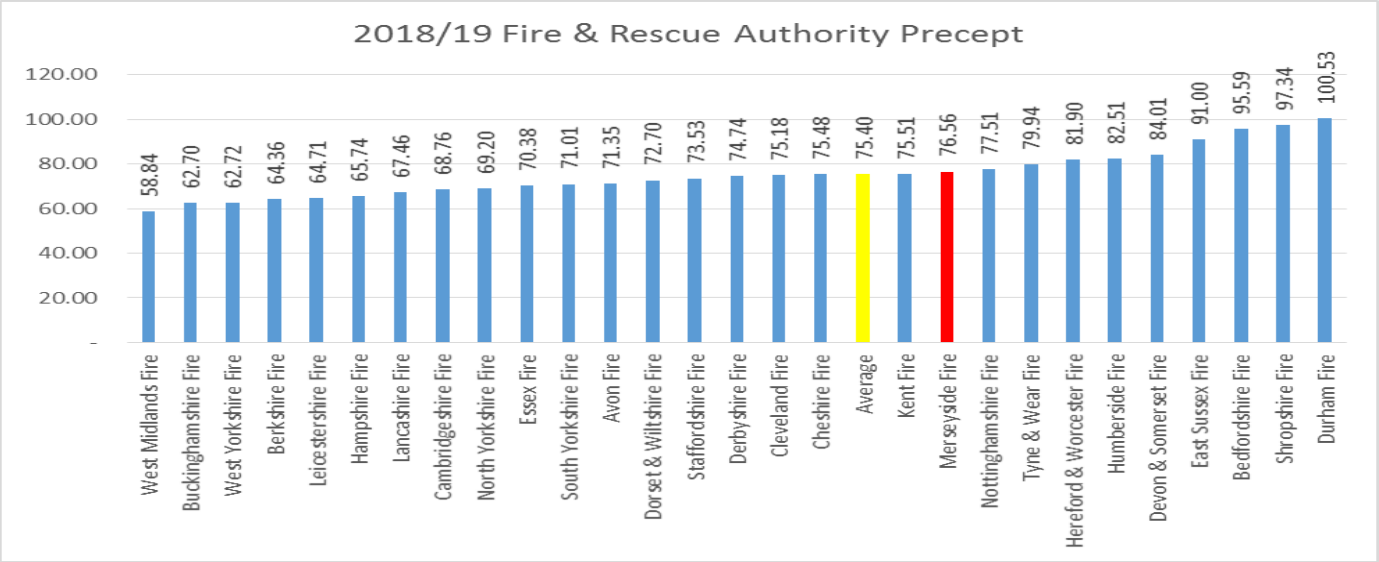
We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

41. 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),

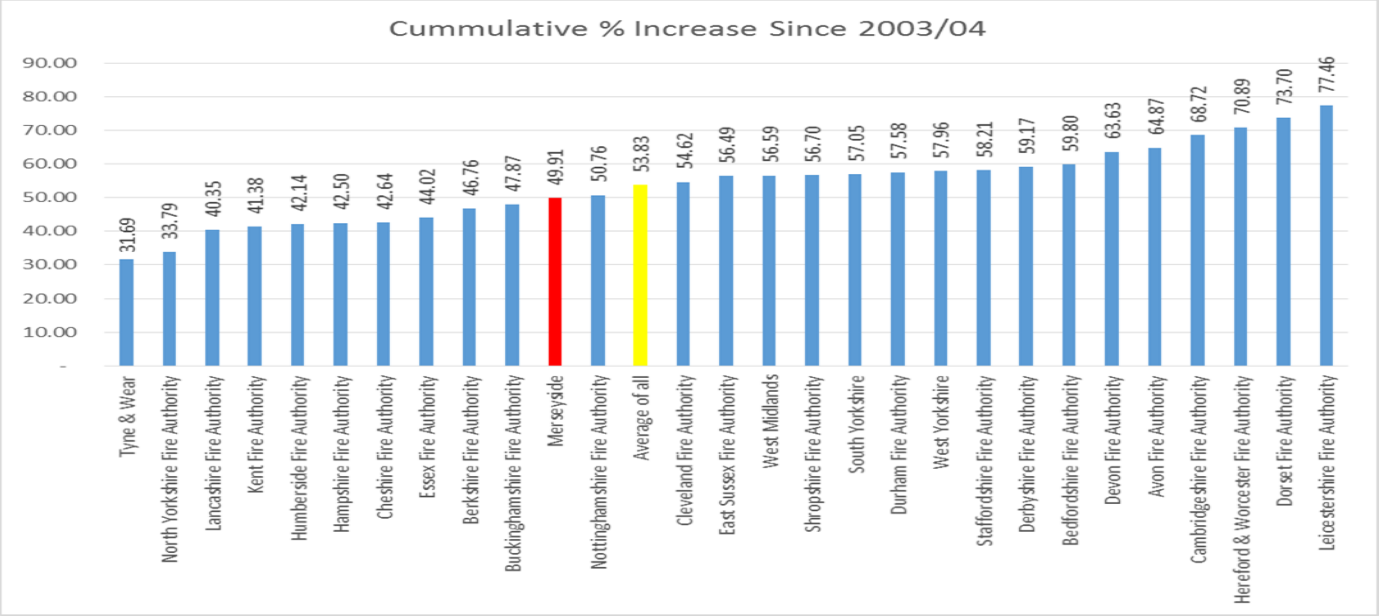
- Provided further investment in equality and health and safety,
- Attempted to plan prudently over the medium term by considering all significant risks to the assumptions in the financial plan and creating specific reserves if deemed necessary,
- Maintained a general reserve of at least £2m following 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.

42. 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.

43. The Authority's 2018/19 (Band D) Council Tax is £76.56, this is slightly above the FRS national average, £75.40, as shown in the bar chart below:-

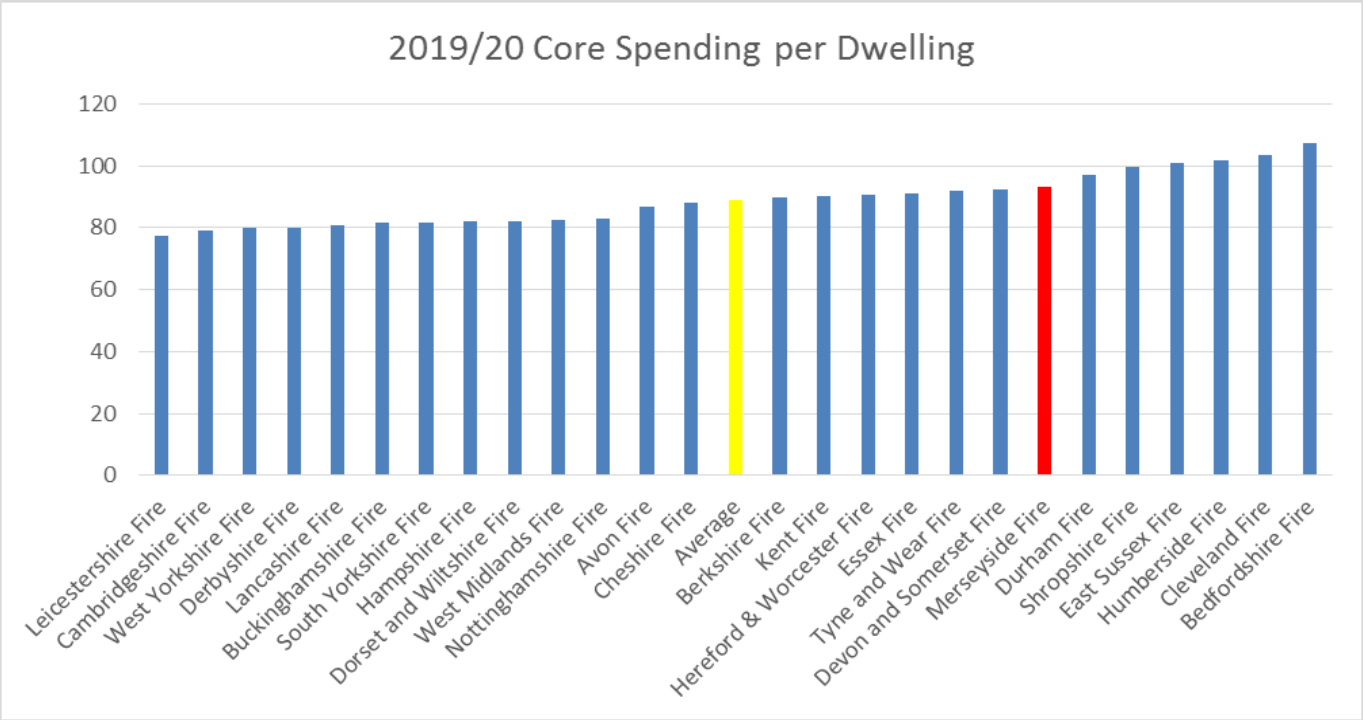



44. Over the past 15 years when compared to the other FRA's Merseyside has had one of the lowest cumulative council tax increases:




45. 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.

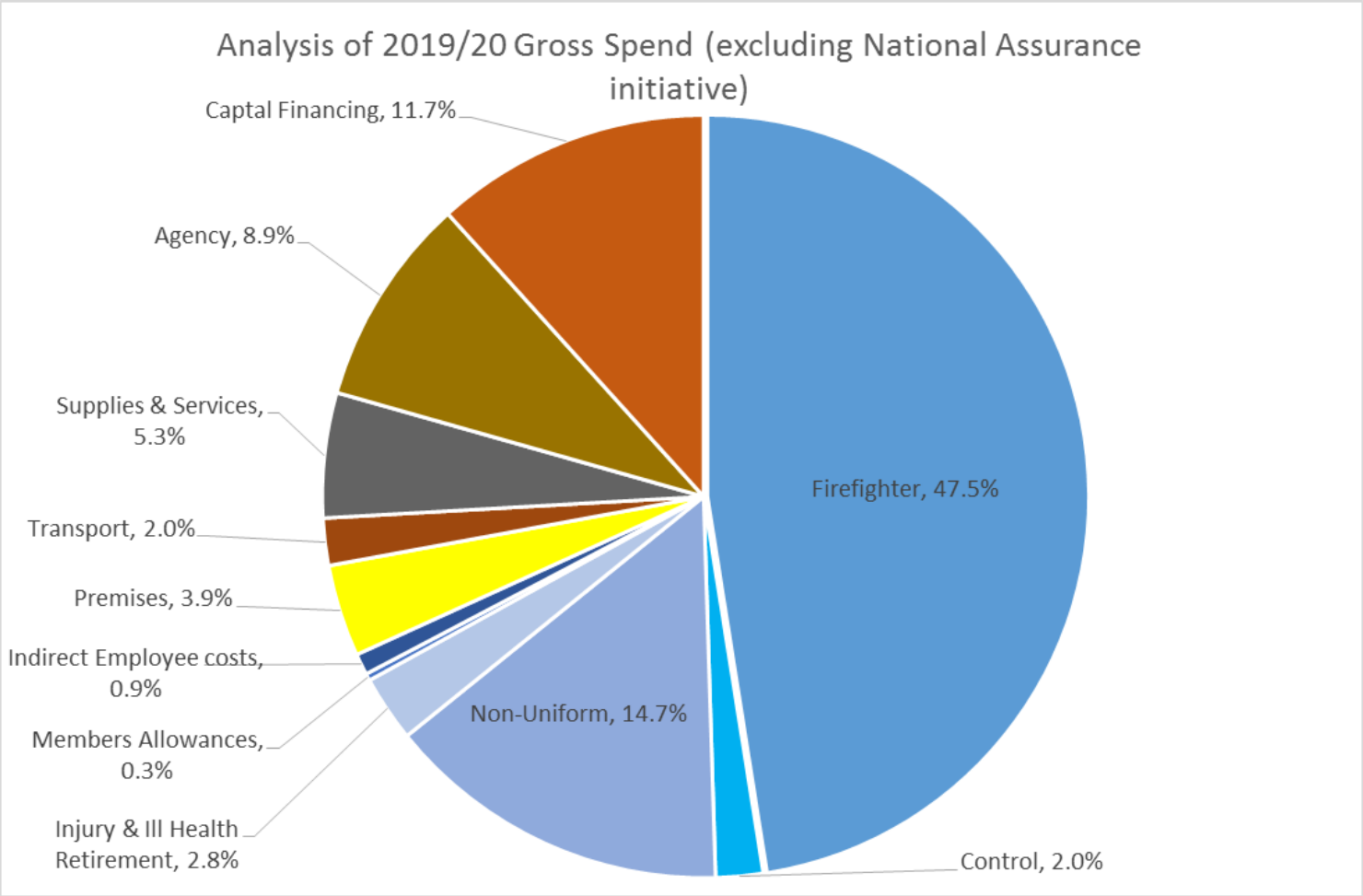
46. However, despite recent improvements it should be noted that we remain, in comparison to our peers, a relatively high spending Authority on a core spending per dwelling basis. *(Core Spending is a Government measure of estimated overall budget which includes Government funding plus council tax income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



47. 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:-

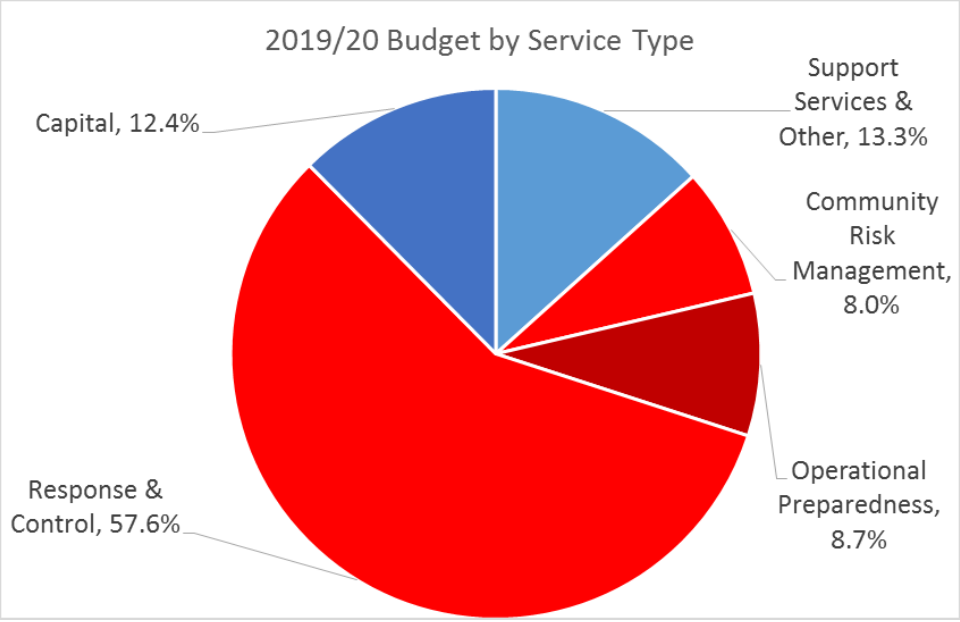
- 2017/18 Statement of Accounts were audited without qualification once again.
- Annual Audit Letter highlighted general satisfaction with financial corporate governance and reporting arrangements.
- The Authority has maintained a general revenue reserve of at least £2.0m in recent years.
- Cost centre 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.

48. Members will be aware that Merseyside Fire and Rescue Service expenditure is predominantly employee related (68%). (The blue sections relate to employee costs):-



A full subjective analysis of the base budget for 2019/20 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.

49. The Authority has an excellent track record of investing in line with its corporate priorities. It can be seen from the pie chart overleaf that most expenditure 57.6% goes on emergency and specialist response. In addition 8.7% goes on Operational Preparedness and 8.0% on Community Risk Management. Therefore over 74.3% of expenditure is on the "front line" services. In addition the 12.4% 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 £34.7m)</u>

- Service delivery and emergency response through its 24 (reducing to 22) fire stations.
- Specialist capabilities such as the Search and Rescue Team.
- Invested in staff safety – procured state of the art fire kit, helmets, boots, breathing apparatus and appliances.
- Invests £1.4m 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 £4.8m)</u>

- Prevention & Protection Teams; £2.0m.
- Community Prevention work and youth engagement; £2.0m.

- Employment of specialist Advocates and continuation of the Princes Trust and other programmes.
- Fire Service Direct; £0.2m
- Purchase and installation of £0.3m of smoke alarms per annum (capital)

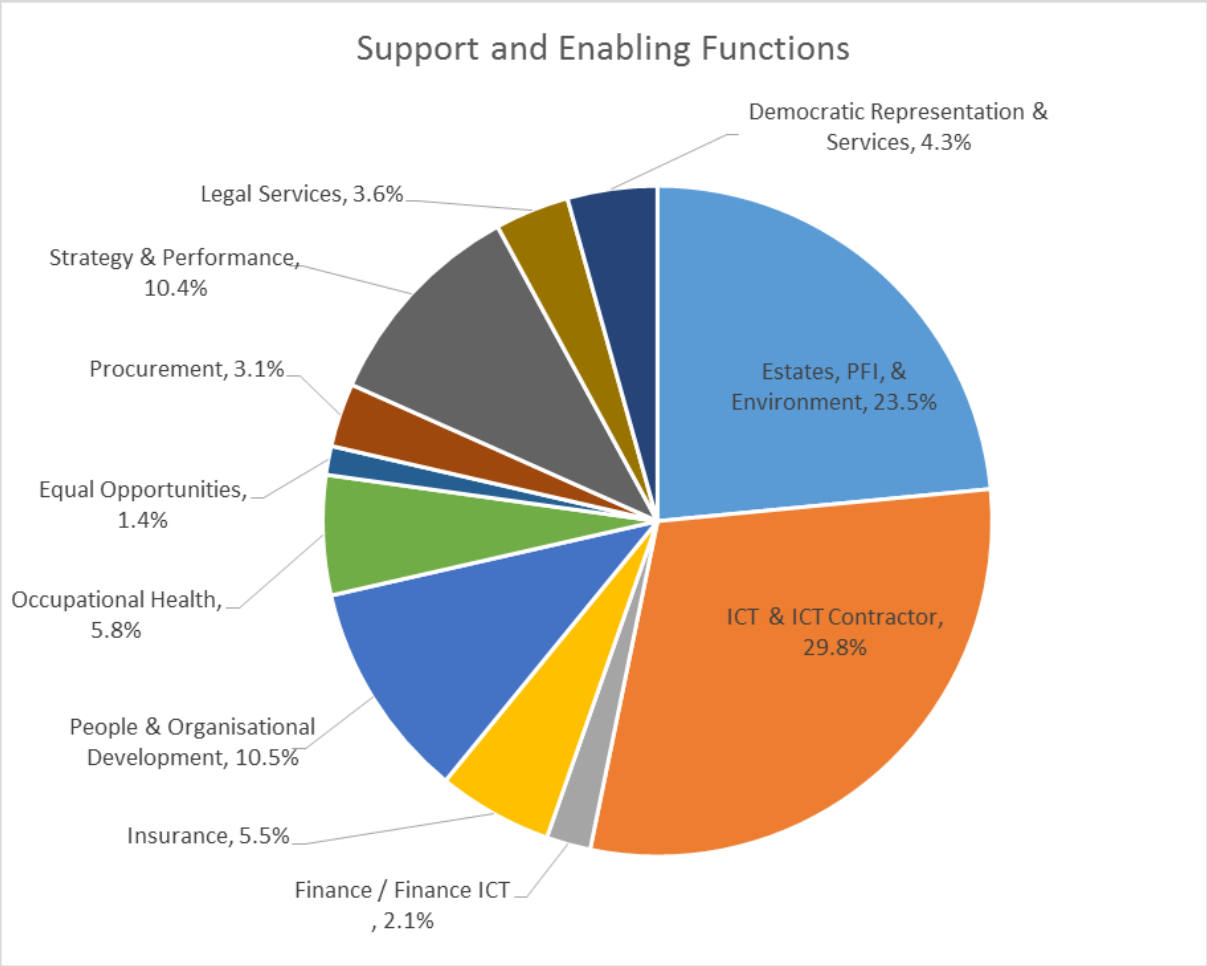
Operational Preparedness (Total £5.2m)

The investment of £5.2m 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 & Enabling Services (Total £8.0m)

The investment in support services of £8.0m 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 and enabling 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 STRATEGY AND PROGRAMME

50. 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 proposed capital investment contributes to the future provision of operational and other Authority services as it facilitates the required infrastructure investment in; property, ICT, vehicles, and equipment needed by the Service to deliver future day to day activities. ***The following sections (C) to (F) anticipate the Authority agreeing the proposed capital programme and it's financing as set out***.

51. 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. 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.

52. 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.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.

53. 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.

54. 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.

55. Proposals for capital investment are aligned to Authority and Service priorities. 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 and officers have modified the programme taking into account:-

- The updated five year asset management plans (the asset management plans can be found on today's Authority agenda), and
- 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.

56. Each financial year the Authority produces a rolling five year 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.

57. Although the proposed capital programme covers a five year period for those assets that have a significant longer life an extended term view of future capital investment exists. This is true specifically for property investment as these assets may have a +50 year asset life. Property asset management objectives exist to identify planned spend over a +10 year period. In addition, fire appliances and specialist vehicles have a 10 to 15 year asset life and a replacement strategy exists that ensures the Authority maintains the appropriate levels of operational capability. The vehicle replacement strategy ensures appliance and specialist vehicle refresh is spread over a number of years to allow flexibility on model options and to keep pace with new technology and innovations in design and development.

58. The proposed £36.481m five-year programme, set out in Appendix B, is summarised in the table below. This table also identifies funding of the programme and a resultant borrowing requirement of £21.436m.

**Proposed Capital Programme for 2019/2020 - 2023/2024**

| Capital Expenditure | Total Cost £ | 2019/20 £ | 2020/21 £ | 2021/22 £ | 2022/23 £ | 2023/24 £ |
|---|---|---|---|---|---|---|
| Building/Land | 17,645,500 | 10,822,700 | 4,872,900 | 939,900 | 705,000 | 305,000 |
| Fire Safety | 3,175,000 | 635,000 | 635,000 | 635,000 | 635,000 | 635,000 |
| ICT | 4,665,500 | 1,729,100 | 914,100 | 584,100 | 724,100 | 714,100 |
| Operational Equipment & Hydrants | 3,166,500 | 1,986,000 | 317,500 | 189,000 | 222,000 | 452,000 |
| Vehicles | 7,828,200 | 2,507,400 | 1,205,800 | 1,723,600 | 1,913,300 | 478,100 |
| **Expenditure** | 36,480,700 | 17,680,200 | 7,945,300 | 4,071,600 | 4,199,400 | 2,584,200 |
| **Financing Available** | Total £ | 2019/20 £ | 2020/21 £ | 2021/22 £ | 2021/22 £ | 2021/23 £ |
| Capital Receipts | 1,875,000 | 1,875,000 | 0 | 0 | 0 | 0 |
| RCCO | 1,875,000 | 375,000 | 375,000 | 375,000 | 375,000 | 375,000 |
| Capital Reserves | 8,414,000 | 4,914,000 | 3,500,000 | 0 | 0 | 0 |
| Grants | 2,881,000 | 2,881,000 | 0 | 0 | 0 | 0 |
| Total Non Borrowing | 15,045,000 | 10,045,000 | 3,875,000 | 375,000 | 375,000 | 375,000 |
| Unsupported Borrowing | 21,435,700 | 7,635,200 | 4,070,300 | 3,696,600 | 3,824,400 | 2,209,200 |
| Total Funding | 36,480,700 | 17,680,200 | 7,945,300 | 4,071,600 | 4,199,400 | 2,584,200 |

59. New additions to the capital programme have increased the overall expenditure by £3.637m, the reasons for this are :-

(a) The addition of the “extra year” to the programme 2023/24, £2.584m.

(b) New Expenditure Proposals in 2019/20 – 2022/23 of £1.053m have been included. The key items are for investment are; an upgrade in the current fire control ICT system (£0.312m), replacement of the financial and HR information system (£0.250m); other ICT investment (£0.150m); operational equipment purchases (£0.020m); and to cover vehicle price increases (£0.321m).

60. **Appendix B** provides a full analysis of the current 5 year capital programme. The main areas of capital programme expenditure are summarised below:-

A. Building Investment Strategy (£17.646m)
The estate comprises of 24 fire stations (*that will reduce to 22 following the completion of the current station merger programme at Saughall Massie and St Helens*), 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 or specific contributions (capital grants, capital receipts, capital reserves) to reduce the level of borrowing required. Estates maintain and revise a 5 year property asset management plan supported by a 10 year property strategy. 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 £7.245m 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 (£4.665m)
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 £1.4m; software licenses £1.5m and the Fire Control ICT upgrade £1.2m.

D. Operational Equipment & Hydrants (£3.167m)
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 resuscitation equipment, £0.1m
c. Bulk foam, £0.1m
d. Radiation/gas detection equip, £0.1m
e. Thermal imaging cameras, £0.2m
f. Water rescue equipment, £0.2m
g. Operational ladders, £0.2m
h. Other specialist equipment, £0.6m
i. National Resilience Assurance Team (NRAT) asset refresh, £1.2m
j. Installation of new or replacement hydrants in line with our water strategy, £0.2m.

The Authority acts as lead authority for the Home Office in relation to national assurance and as such receives grant funding to procure all national assurance asset refresh. The £1.2m identified above is fully funded by the Home Office and assets once procured are redistributed to the national assurance teams.

E. Vehicle Replacement Strategy (£7.828m)
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 12 new appliances. The total appliance fleet is 37, of which 29 are left on stations including the SRT and 8 held in reserve. The CFO is proposing to have 30 appliance available in the future and this will mean bringing a fully kitted appliances back from the reserve.

b. Specialist Vehicles;
There is a need to make provision for the purchase of specialist vehicles 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 (3)
- 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 2019/20.

61. 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. 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.

62. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £1.875m. 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.

63. 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 £1.631m remains unapplied at the time of writing this report and is committed to the St Helens new fire station. As outlined in the capital operational equipment schemes the Authority has received £1.250m for NRAT asset refresh. The proposed capital programme assumes £2.881m funding from capital grants for these schemes.

64. 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. The proposed capital programme represents an overall expenditure increase of £3.637m reflecting the proposed new starts expenditure. 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 £3.262m. The level of prudential "unsupported" borrowing in the proposed 5 year programme is £21.436m and the future revenue servicing cost of this debt has been built into the medium term financial plan as outline below.

65. 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 2019/20 – 2023/24 and the methodology for calculating the MRP. More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (Section E).

## (D) MINIMUM REVENUE PROVISION STATEMENT

66. 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.

67. 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).

68. 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.

69. 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.

70. The 2019/20 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2018/19. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2018/19;

- 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.

71. 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 Director of Finance views this to be prudent methodology as it ensures that all of the debt is repaid over a finite timeframe.

72. 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.

73. 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.

74. As part of the financial strategy to "free-up" £1m future debt and LGPS deficit commitments, any revenue budget savings identified in a year may be used to make additional one-off MRP payments.

75. By adopting the recommendations above the MRP charge for 2019/2020 would be £4.6m, consisting of £0.9m funded from one-off windfall savings in the year, and £3.5m for historic capital schemes funded from borrowing. 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.

76. Interest on loans taken out to fund capital expenditure is estimated at £2.1m.

77. 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

78. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2019/20, 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.

79. 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 2019/20.

80. The financial plans prepared in respect of the financial years 2020/21 and 2021/22 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 2019/20 and just under 2% thereafter.

81. 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.***

82. 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.

83. The prudential indicators for the Authority are:-

a) Capital Expenditure
The actual capital expenditure that was incurred in 2017/18 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

| | Actual 2017/18 | Estimate 2018/19 | Estimate 2019/20 | Estimate 2020/21 | Estimate 2021/22 | Estimate 2022/23 | Estimate 2023/24 |
|---|---|---|---|---|---|---|---|
| | £000,s | £000,s | £000,s | £000,s | £000,s | £000,s | £000,s |
| Capital Expenditure | 10,159 | 13,545 | 17,680 | 7,945 | 4,072 | 4,199 | 2,584 |

Members will note that the increased expenditure in 2017/18 – 2019/20 reflects a number of significant investments including;

- The planned new fire stations in Prescot, St Helens, and Saughall Massie, £17.756m over the 2017/18 – 2018/19 period.

- Refurbishment of the Training and Development Academy of £4.854m 2018/19 – 2020/21
- New fire appliances spend of £4.672m over 2017/18 – 2021/22

This explains why the total expenditure in 2017/18 – 2020/21 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 capital financing costs to net revenue stream (excludes capital amounts met from Government grants and specific funding) for the current and future years, and the actual figures for 2017/18 are:

| | Actual 2017/18 | Estimate 2018/19 | Estimate 2019/20 | Estimate 2020/21 | Estimate 2021/22 | Estimate 2022/23 | Estimate 2023/24 |
|---|---|---|---|---|---|---|---|
| **Ratio of Financing costs to Net Revenue Stream** | **10.39%** | **12.81%** | **6.79%** | **7.91%** | **8.47%** | **9.07%** | **10.00%** |

This shows that forecast debt financing costs will increase from 10.4% in 2017/18 to 12.8% in 2018/19 reflecting the strategy to make additional MRP payments from any identified revenue savings in the years in order to free-up future debt servicing budget to invest in front line services. As stated previously the impact of the Government's decision to issue no new supported borrowing for CSR10 & CSR15 has meant all MRP calculations are now based on asset life and this has resulted in a steady increase on the ratio over the 2019/20 to 2023/24 period. 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 2018/19 | Estimate 2019/20 | Estimate 2020/21 | Estimate 2021/22 | Estimate 2022/23 | Estimate 2023/24 |
|---|---|---|---|---|---|---|
| **Incremental Impact of Capital Investment Decisions** | -£0.20 | £1.43 | £0.44 | £0.29 | -£0.10 | £0.79 |

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 2018/19 into 2019/20 approved during the year and the new starts in 2019/20 – 2023/24 explains the movement in the figures over this period (some vehicle spend was re-phased from 2022/23 into 2023/24 during 2018/19 resulting in the negative figure in 2022/23).

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

85. Based on current commitments for 2018/19 and the latest estimates of capital investment decisions in future years, the capital financing requirement at 31st March is as follows:

| | Estimate | Estimate | Estimate | Estimate | Estimate | Estimate |
|---|---|---|---|---|---|---|
| | 31.3.19 | 31.3.20 | 31.3.21 | 31.3.22 | 31.3.23 | 31.3.24 |
| | £000,s | £000,s | £000,s | £000,s | £000,s | £000,s |
| Capital Financing Requirement | 46,368 | 51,882 | 53,076 | 53,504 | 53,863 | 52,032 |

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.

86. 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."

87. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach £53.504m by the end of 2021/22 and the expected maximum debt position, (the "operational boundary" – see Treasury Management Strategy) for 2021/22 is £50.000m. 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 2019/20

### INTRODUCTION

88. 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, (Section D of this report).

    Updated Treasury Management and Prudential Codes have recently been released that include a requirement to produce a Capital Strategy, this has been built into section C of this report.

### PROPOSED STRATEGY

89. 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 2019/20.
    - The External Debt and Treasury Management Prudential Indicators and Limits for 2019/20 to 2021/22.
    - The Investment Strategy 2019/20.
    - The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

### TREASURY MANAGEMENT STRATEGY

90. The suggested strategy for 2019/20 in respect of Treasury Management is based upon treasury officers' views on interest rates supplemented by leading market forecasts. The strategy covers:-

- prospects for interest rates;
- capital borrowing and debt rescheduling;
- annual investment strategy;
- external debt prudential indicators;
- treasury management prudential indicators;
- performance indicators;
- 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 0.75% at its meeting on 2 November 2018. This was the first time the base rate has been increased above 0.5% since the base rate was reduced to the historically low level in March 2009 as part of the monetary policy response to the financial panic of 2008. The MPC has since then put any further action on hold, probably until such time as the fog of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase the base rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. On the assumption that an orderly Brexit agreement is reached there is speculation that the MPC could return to increasing the bank rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in the base rate could well be the next move.

PWLB rates and gilt yields have continued to experience exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Long Term PWLB rates peaked during quarter 3 of 2018/19 at 2.99% before falling sharply to a low of 2.59%, a spread of 40 bps in a relatively short period of time. The 50 year PWLB rate ended the quarter at 2.69%

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 2019/20. 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.
- Ultra-Short Duration Bond 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 2019/20 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 |
| Ultra-Short Duration Bond 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 Director of Finance, 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 were new requirements introduced in 2018/19, and 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 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:

- Authorised limit for external debt
- 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 Director of Finance, 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** | | **2019/20** | **2020/21** | **2021/22** |
|---|---|---|---|---|
| | | **£'000** | **£'000** | **£'000** |
| Gross Borrowing | | 52,000 | 53,000 | 53,000 |
| Other Long Term Liabilities | | 18,000 | 18,000 | 18,000 |
| **TOTAL** | | **70,000** | **71,000** | **71,000** |

**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 Director of Finance, 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** | | **2019/20 £'000** | **2020/21 £'000** | **2021/22 £'000** |
|---|---|---|---|---|
| External Borrowing | | 41,000 | 47,000 | 50,000 |
| Other Long Term Liabilities | | 18,000 | 18,000 | 18,000 |
| **TOTAL** | | **59,000** | **65,000** | **68,000** |

**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 £37.6 million at 31st March 2019.

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 | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **2021/22** |
|---|---|---|---|---|---|
| | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| | **£'m** | **£'m** | **£'m** | **£'m** | **£'m** |
| Capital Financing Requirement | 64.3 | 64.5 | 69.6 | 70.4 | 70.4 |
| Less: PFI | (18.6) | (18.1) | (17.8) | (17.3) | (16.9) |
| Less:MRD | (0.3) | (0.3) | (0.2) | (0.2) | (0.2) |
| **Borrowing CFR** | **45.4** | **46.1** | **51.6** | **52.9** | **53.3** |
| Existing Debt Portfolio | 38.1 | 37.6 | 37.3 | 36.9 | 37.9 |
| **Over(-)/Under borrowing** | **7.3** | **8.5** | **14.3** | **16.0** | **15.4** |
| **Borrowing as a % of CFR** | **83.9%** | **81.6%** | **72.3%** | **69.8%** | **71.1%** |

**(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** | | **2019/20** | **2020/21** | **2021/22** |
|---|---|---|---|---|
| | | **%** | **%** | **%** |
| Fixed | | 100 | 100 | 100 |
| Variable | | 50 | 50 | 50 |

This means that the Director of Finance will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2019/20.

**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 2019/20, 2020/21 and 2021/22.

**(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 Director of Finance to ensure that members with responsibility for treasury management receive adequate training in treasury management.

**(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 2019/20 – 2023/24

91. 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.

92. 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.

93. 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 Saughall Massie fire station is expected to be completed by the end of this financial year, and a detailed plan for a new station in St Helens is near completion.

94. In 2016/17 the Government offered and the Authority accepted a four-year funding settlement for 2016/17 to 2019/20. The cut in Government support and financial plan assumptions meant that at the Authority's 2016/17 Budget meeting it was facing an £11m financial challenge by 2019/20. The Authority approved a financial plan at the 2016/17 Budget meeting that would deliver the required savings to meet the challenge. Since then and as part of the budget setting process the financial plan has been updated for any changes to the key assumptions such as pay awards and the inclusion of additional years beyond 2019/20 have required the plan to be updated each year.

95. The 2018/19 plan approved a strategy that delivered based on the information at that time a balanced financial position for 2018/19 and 2019/20. Due to the significant uncertainty over future Government funding support beyond 2019/20 Members noted any financial challenges beyond 2019/20 and agreed to deal with any challenge once future funding became clearer. Currently the Government is preparing for the comprehensive spending review 2019 (CSR2019) to set the Government departmental spending limits for 2020/21 and possibly beyond. In addition to uncertainty around what CSR2019 will mean for the Authority other reviews are being carried out by the Government on how it assess relative need and the funding arrangements for fire and local authorities for implementation in 2020/21. An attempt has been made to prepare a MTFP for the next five years up to 2023/24 and the following paragraphs will consider what assumptions have been made.

96. The current plan relies upon the delivery of the savings and efficiencies approved by Members although most have already been delivered, but to assist Members a summary of the key efficiencies and savings are outlined overleaf:

| | 2019/20 £m |
|---|---|
| • 2016/17 – 2018/19 Pay Bill Increase of 1%, then 2% thereafter | -£0.8m |
| • Technical (*non-pay inflation, MRP, FPS etc*) | -£6.5m |
| • Council Tax Base increase / Precept Increase 3% 18/19 + 19/20 | -£2.3m |
| • Non-Operational savings | -£9.6m |
| • Operational Service Savings (*up to 49 FF posts*) | -£1.9m |
| Total | -£11.5m |

97. This report now advances the current plan to incorporate the years up to 2023/24. The proposed 2019/20 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 24th January 2019:-

**Inflation - Pay & Prices Changes:-**

98. The plan includes a contingency for pay awards and price increases in each year. This has been prepared using the following assumptions –
   - In all years of the plan an annual increase in the pay bill of 2%,
   - 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 eleventh consecutive year.

**Pensions:-**

99. 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:-

   - The Merseyside Local Government Pension scheme (LGPS), which is a funded public pension scheme undertakes, a three year actuarial review. The next review will be undertaken in 2019 and will impact on 2020/21 and future years. The most recent indicative figures suggest an increase in employer rates to fund future service benefits and the Authority's employer rate may increase from 15.2% to 17.5% with effect from April 2020 adding £0.250m p.a. to the pay bill. The plan assumes this rate will be applied from 2020/21.
   - As well as paying an employer contribution to cover the cost of current and future benefits, the Authority must make good any deficit in historic contributions. At the last actuarial review (2016) the fund was 85% funded. The Actuary indicated that a payment of just under £1m a year was required from the Authority for potentially the next 16 years to cover this deficit. The fund position can change with each actuarial review as the funds assets and liabilities can go up and down. Before Christmas 2018 the Actuary indicated the fund was approaching nearly a 100% funding level. The next valuation will be based on the situation as at 31 March 2019.
   - 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. The Government has yet to announce the impact this will have on the various Firefighter Pension Schemes (FPS) but they have announced the "average" increase will be +12.6%, significantly above the 3% or

£0.600m p.a. assumed in the 2018/19 plan from 2019/20. A 12.6% increase is estimated at a £2.8m p.a. increase, £2.2m higher than expected. The Government will announce the actual rate increases at some point in the near future. For 2019/20 the Government will make a one-off grant payment of £2.6m or 90% of the additional cost, reducing the impact to £0.2m or actually a £0.4m favourable variance to the 2019/20 position assumed in the current plan. However, the Government have said future support will be built into the CSR2019 but they have not said how much. The proposed plan assumes the funding will reduce from the 2019/20 90% grant funding level to a 75% level that will be built into the general Government support the Authority receives.

- The FBU challenged the way the Government implemented the 2015 FPS and had some partial success in that the transitional protection arrangements introduced with the 2015 FPS were unlawfully discriminatory on grounds of age. Currently the impact on MTFP of any remedy is unknown and it is expected that the Government will try to appeal the decision. No provision has been built into the MTFP for any potential cost associated with this issue.

**Review of Approved Saving Options:-**

100. **£1.9m Operational Response saving** - The current plan includes the £1.9m operational response saving that resulted in a loss of 49 firefighter posts and changes to a number of duty systems. The budgeted establishment for firefighters is 620 FTE, however since Members approved this option a number of major fire incidents have occurred, particularly the Grenfell Tower Fire, Liverpool Arena Car Park fire and terror incidents in London and Manchester. The CFO has also considered the increased risk around Liverpool City centre and waterfront and the increasing demand being placed on protection services following the Grenfell Tower fire. As the CFO identified at the Members' budget strategy day he is recommending the firefighter establishment now be increased by 22 posts and a Fire Engineer post be created. This investment will require the identification of £1m from existing budgets, which will be considered in the next section of the report. The proposed supplementary IRMP for 2019 – 2021 elsewhere on today's agenda provides Members with more background on the growing risk and need for the increase in establishment and appliances and options for achieving the required cover. Therefore the plan will assume an increase in the firefighter establishment and a new Fire Engineer post, from late 2019 as it will take time to consult, recruit and implement the changes.

101. **£6.5m 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.

102. **Council Tax income & Pay savings** – The council tax base increase have been slightly higher than the level set in the plan, up to and including 2019/20. Members amended the assumption around annual pay increases to 2% from 2018/19. The firefighter pay award for 2017/18 – 2019/20 has yet to be settled but the proposed plan has kept the assumption at 2%.

**Firefighter Recruitment:-**

103. Over the next eight years the Service is forecasting approximately 50% of the current firefighters will retire and leave the Service. By 2025 without any recruitment this would leave less than 300 competent firefighters.

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 continue with the strategy of recruiting in advance of the expected retirements and therefore exceed the budgeted establishment on a temporary basis. Between 2018 to 2025 the cost of recruitment in advance of retirements is likely to result in firefighter employee costs exceeding the budget by at least £3m. Members have agreed to the creation of a Recruitment Reserve to meet the recruitment of firefighters in advance of expected retirements. The use of the reserve and its adequacy will be monitored over the coming years.

**Cost of Capital Borrowing:-**

104. The revenue impacts of capital investment decisions and proposed 2019/20 – 2023/24 capital programme are included within forecasts. The plan also takes into account the proposed MRP policy discussed previously in section D. In addition as approximately 10% of the revenue budget is committed over the long term to service historic debt the MRP policy in this report sets a strategy of using any one-off savings or resources to make additional MRP payments with the view of freeing-up debt servicing budget in the near future to re-invest in frontline services.

**Insurance Saving**

105. The Authority's insurance requirements have recently gone out to tender and elsewhere on today's agenda the results of that process are outlined for Members consideration. The recommended tender will deliver a net saving of £0.1m and this has been taken into account in the proposed MTFP.

**Resources Available:-**

106. 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 indicative Settlement Funding Assessment (SFA) for the Authority in February 2018, and the 2019/20 settlement has now been confirmed at a marginally higher figure, £0.014m as the business rates annual uplift is slightly higher than anticipated. The Government also compensates the Authority by the payment of s31 grants for the loss of business rates due to Government discounts for small business rates and other adjustments. The 2019/20 s31 grants have increased by £0.2m and this has been built into the proposed plan as a permanent increase. In addition, based on the Merseyside district council local business rates forecasts for 2019/20, the Authority will receive an additional £0.007m above the amount estimated in the SFA.

In reality the format and level of Government funding from 2020/21 is unpredictable due the number of unknowns; the CSR2019 outcome; the future level of FPS support; the impact of the fair funding review; Brexit and many more issues. The proposed plan attempts to forecast future Government support beyond 2019/20 however, for the

reasons stated in the above, it is very challenging to forecast with any certainty the likely levels of support beyond 2019/20. That being said the plan assumes a 1.5% increase in the SFA on the basis the baseline element of the SFA, business rates, would go up by the September CPI increase each year. However, the Government may reduce the revenue support grant (or equivalent) if austerity continues beyond 2019/20 or fire is deemed a lower priority than other services for any growth in Government support.

**Council Tax:-**

107. The current plan assumes a Council Tax Base Increase of 1% year on year up to 2021/22. The actual increase in 2019/20 was +1.5%:-

| District | 2018/19 Council Tax Taxbase | 2019/20 Council Tax Taxbase | Variance | |
|---|---|---|---|---|
| | | | | % |
| LIVERPOOL | 104,171.03 | 105,960.17 | 1,789.14 | 1.72% |
| WIRRAL | 92,255.90 | 93,497.80 | 1,241.90 | 1.35% |
| ST.HELENS | 50,563.00 | 51,317.00 | 754.00 | 1.49% |
| SEFTON | 82,939.50 | 84,077.30 | 1,137.80 | 1.37% |
| KNOWSLEY | 35,093.00 | 35,822.00 | 729.00 | 2.08% |
| | 365,022.43 | 370,674.27 | 5,651.84 | 1.55% |
| 2018/19 Band D Tax Level | 76.56 | 76.56 | | |
| Total Income £ | 27,946,117 | 28,378,822 | 432,705 | 1.55% |

This means that for each £1 of Council Tax the level of income will be greater than that generated in 2018/19 by £5,651.84. The result of this is that the income from the current level of Council Tax is anticipated to be higher by £432,705 (this is assumed to be a permanent increase). The current plan had assumed a 1% or £0.279m increase, therefore the actual increase has resulted in additional tax income of £0.154m.

The Government announced last year that for 2018/19 and 2019/20 the maximum level of increase in Council Tax before holding a referendum will be **just under 3%** (previously 2%). Members agreed at 2018 and 2019 budget strategy days to include a precept increase of just under 3% for 2018/19 and 2019/20 and this has been assumed in the proposed plan. The plan also assumes that Members will uplift the Precept by just under 2% in 2020/21 and each year up to 2022/23 on the basis the referendum limit reverts back to its previous limit. A just under 3% increase for 2019/20 will see the Band D precept increase from £76.56 to £78.84, an increase of £2.28. The precept increase will raise an additional £0.845m in 2019/20.

| District | 2019/2020 Council Tax Taxbase | 2019/2020 Band D Precept NO Change | 2019/20 Band D Precept <3% | 2019/20 Change |
|---|---|---|---|---|
| | | £76.56 | £78.84 | £2.28 |
| | | £ | £ | £ |
| LIVERPOOL | 105,960.17 | 8,112,311 | 8,353,900 | 241,589 |
| WIRRAL | 93,497.80 | 7,158,192 | 7,371,367 | 213,175 |
| ST.HELENS | 51,317.00 | 3,928,829 | 4,045,832 | 117,003 |
| SEFTON | 84,077.30 | 6,436,958 | 6,628,654 | 191,696 |
| KNOWSLEY | 35,822.00 | 2,742,532 | 2,824,206 | 81,674 |
| | 370,674.27 | 28,378,822 | 29,223,959 | 845,137 |

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 below and show a net surplus of £238,554. This impact is a one-off.

| District | 2018/2019 Council Tax Coll fund deficit/ (surplus) |
|---|---|
| | £ |
| LIVERPOOL | -79,388 |
| WIRRAL | -26,078 |
| ST.HELENS | -16,283 |
| SEFTON | -49,587 |
| KNOWSLEY | 5,000 |
| | -166,336 |

| District | 2018/2019 NNDR Coll fund deficit/ (surplus) |
|---|---|
| | £ |
| LIVERPOOL | -36,864 |
| WIRRAL | -691 |
| ST.HELENS | -9,081 |
| SEFTON | -17,679 |
| KNOWSLEY | -7,903 |
| | -72,218 |

| District | 2018/2019 Coll fund deficit/ (surplus) |
|---|---|
| | £ |
| LIVERPOOL | -116,252 |
| WIRRAL | -26,769 |
| ST.HELENS | -25,364 |
| SEFTON | -67,266 |
| KNOWSLEY | -2,903 |
| | -238,554 |

**OVERALL IMPACT**

108. The overall impact of all these changes to the 2018/19 MTFP is that the Authority maintains a balanced position for 2019/20, but faces a potential financial challenge of **£0.844m in 2020/21** rising to **£1.378m by 2023/24:-**

| Changes from 2018/19 MTFP | | | | | |
|---|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | New Year 2023/24 |
| | £'m | £'m | £'m | £'m | £'m |
| **2018/19 MTFP net position** | **0.000** | **0.041** | **0.214** | **0.635** | **0.635** |
| New Year (inflation) | | | | | 1.200 |
| New Year 2% precept increase yield | | | | | -0.633 |
| FPS Government Actuary adjustment (discount rate adj.) | 2.200 | 2.200 | 2.200 | 2.200 | 2.200 |
| 2019/20Gov Grant for above | -2.592 | 0.000 | 0.000 | 0.000 | 0.000 |
| CSR2019 Estimated funding for above | 0.000 | -2.100 | -2.100 | -2.100 | -2.100 |
| 2019 LGPS Actuarial Review - Estimated Employer rate increase 15.2% to 17.7% | 0.000 | 0.250 | 0.250 | 0.250 | 0.250 |
| Increase FF Establishment +22 FTE & Fire Engineer Post | 0.250 | 1.000 | 1.000 | 1.000 | 1.000 |
| Increase in s31 Grant for Bus Rates Adj. | -0.200 | -0.200 | -0.200 | -0.200 | -0.200 |
| New Insurance contact - Saving | -0.100 | -0.100 | -0.100 | -0.100 | -0.100 |
| Settlement Funding Assement - 19/20 Increase | -0.014 | -0.014 | -0.014 | -0.014 | -0.014 |
| Forecast SFA 2020/21 adjustment (2018/19 to 2019/20 plan) | | -0.066 | -0.131 | -0.195 | -0.679 |
| Local Business Rates yield adjustment | -0.007 | | | | |
| Collection Fund Surplus | -0.238 | | | | |
| Higher Tax Base Increase impact (£0.154m) & Impact on Precept yield (£0.003m) | -0.157 | -0.157 | -0.157 | -0.157 | -0.157 |
| C T Base increase impact on Future Income forecast | | -0.010 | -0.021 | -0.024 | -0.024 |
| Increase MRP based on one-off favourable position | 0.858 | | | | |
| **Overall Impact** | **0.000** | **0.844** | **0.941** | **1.295** | **1.378** |

109. Members have previously been advised simply to note any challenge beyond 2019/20 due to the uncertainty over Government support. As Members' supported the CFO's request to include the re-investment of £1m back into frontline response and protection services this has been built into the proposed plan from late 2019. At the Budget Strategy day it was agreed that this investment would be built back into the plan subject to the Director of Finance identifying budget to cover this investment. Therefore the next section of this report looks at how this can be achieved over the 2019/20 – 2020/21 period and built into the 2019/20 MTFP on a permanent basis.

110. The updated financial plan before any new savings are put forward to cover the £1m investment is outlined in the table overleaf:-

| 2019/20 - 2023/24 FINANCIAL PLAN FUNDING INCREASE +1.5% post 2019/20 | | | | | |
|---|---|---|---|---|---|
| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2018/19 MTFP** | **59,866** | **61,175** | **62,650** | **64,100** | **64,100** |
| **EXPENDITURE - 2019/20 issues:-** | | | | | |
| **2023/24 Inflation Provision** | | | | | 1,200 |
| **Increase in Gov Unfunded Pension Discount above 3%/£600k assumed** | 2,200 | 2,200 | 2,200 | 2,200 | 2,200 |
| **Gov Funding for the above** | -2,592 | | | | |
| **Gov Funding for the FPS discount assumed from 2020/21 (CSR 2019)** | | -2,100 | -2,100 | -2,100 | -2,100 |
| **2019 Actuarial review of LGPS: employer rate 15.2% to 17.7%** | | 250 | 250 | 250 | 250 |
| **Increase in MRP from one-off additional resources** | 858 | 0 | 0 | 0 | 0 |
| **Increase FF Establishment +22 Posts / Fire Engineer** | 250 | 1,000 | 1,000 | 1,000 | 1,000 |
| **Increase in Sec 31 grants for national 2019/20 Business Rate relief(s)** | -200 | -200 | -200 | -200 | -200 |
| **New Insurance Tender - Price saving** | -100 | -100 | -100 | -100 | -100 |
| **2019/20 Updated MTFP** | 60,282 | 62,225 | 63,700 | 65,150 | 66,350 |
| **FUNDING** | | | | | |
| **Government Funding-Settlement Funding Assessment:** | | | | | |
| Top Up Grant . | -15,586 | | | | |
| CLG Estimate of Local Business Rate Share | -4,227 | | | | |
| **Baseline Funding Level** | -19,813 | | | | |
| **RSG** | -11,000 | | | | |
| **Settlement Funding Assessment** | **-30,813** | **-30,813** | **-30,813** | **-30,813** | **-30,813** |
| Assume Uplift in SFA by 1.5% p.a. from 2020/21 | | -462 | -931 | -1,407 | -1,891 |
| **Assumed Government Funding-Settlement Funding Assessment** | **-30,813** | **-31,275** | **-31,744** | **-32,220** | **-32,704** |
| **Adjustment for Business Rates based on NNDR1 District Forecasts** | | | | | |
| Adjustment for Local Business Rate income forecast from Districts | -7 | 0 | 0 | 0 | 0 |
| NNDR Collection Fund (surplus)/deficit | -72 | 0 | 0 | 0 | 0 |
| **Adjustment to Local Business Rates income forecast** | **-79** | **0** | **0** | **0** | **0** |
| **Council Tax -** | | | | | |
| Base Precept Income | -29,224 | -29,224 | -30,106 | -31,015 | -31,635 |
| Assume increase in Council Tax Base of 1.0% each year from up to 2021/22 | | -292 | -301 | 0 | 0 |
| Assume just under 3% rise year on year in 2019/20 then 2% thereafter | | -590 | -608 | -620 | -633 |
| Council Tax Collection Fund (surplus)/deficit | -166 | 0 | 0 | 0 | 0 |
| **Forecast Council Tax Income** | **-29,390** | **-30,106** | **-31,015** | **-31,635** | **-32,268** |
| **TOTAL FUNDING** | **-60,282** | **-61,381** | **-62,759** | **-63,855** | **-64,972** |
| **Forecast (Surplus) / Deficit** | **0** | **844** | **941** | **1,295** | **1,378** |

111. Section H of this report will now consider what saving options are available to the Authority to meet the £1m investment in frontline response and protection.

## (H) Options for Tackling the Future Financial Challenge (2019/20 – 2023/24)

112. The Budget Authority on the 22nd February 2018, CFO/004/18, approved saving options to deal with the financial challenge up to 2019/20 arising from Government funding reductions. Section G of this report has updated members on any changes to the approved plan and confirmed that the proposed plan for 2019/20 maintains a balanced position. However, as the updated plan now has built in the £1m re-investment into frontline services this section needs to consider how this will be funded.

113. 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 2023/24. As the level of uncertainty over future costs and funding is significant beyond 2019/20, particularly regarding the level of future Government support, Members are asked to simply note any financial challenge outside the £1m investment funding issue. The uncertainty over future Government funding is so significant it is impossible to rationalise any decisions that may have an adverse impact on services that keep the Merseyside community safe from fire risk. Future Budget Authority meetings will consider the challenge beyond 2019/20 as the financial information becomes more certain.

114. 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***.

115. 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,

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.

116. **<u>Identification of £1m Budget to fund frontline response & Protection Investment</u>**:-

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

117. **Pay & Price Inflation** – Pay pressure is growing after years of pay freezes or limited increases of 1%. While the current plan assumption of 2% p.a. is probably on the lower side of employees' expectations any opportunity to reduce the assumption below 2% is felt to be unrealistic.

118. **Non-employee Budgets** – since 2010/11 most of these budgets have been reduced or frozen at historic levels. As the 2018/19 MTFP included a £0.426m saving from non-employee support services budgets with effect from 2019/20, it may be prudent at this point to see if this and previous cuts to these budgets are sustainable before considering further additional savings at this point.

119. Repayment and servicing of historic debt associated with borrowing for capital investment – **Minimum Revenue Provision (MRP)**. Historic borrowing and planned future new borrowing of £21.4m (based on the 5 year capital programme) means the Authority has a capital financing requirement (CFR) of approximately £50m. Because the Authority holds reserves, grants unapplied, and other cash it has been able through an effective treasury management strategy to keep actual borrowing to £38m and use internal cash as a temporary funding source. In addition any savings on interest payments or other capital servicing costs have been used to make additional MRP payments, basically paying debt off early. The MRP statement in section D of this report is now recommending Members use any future identified one-off savings to make additional MRP payments. This approach will hopefully result in the annual £6m revenue budget committed for MRP and interest payments being reduced in the near future and contribute towards any required re-investment in the front line services. Members are asked to support this strategy. **An estimate of £0.150m to £0.250m can be freed-up from the MRP budget from 2020/21 to go towards the CFO's £1m ask.**

120. **Local Government Pension Scheme – MFRA annual deficit payments**. Based on the **2016** actuarial assessment the LGPS was approximately **85% funded** (it needs to be 100% as it is a fully funded scheme). The Authority was assessed as having a potential £16m deficit on historic benefits and had to pay this off through a payment of approximately £1m p.a. over the next 16 years. This annual deficit payment has been built into the 2020/21 budget and future years at a provision of £0.84m. The next actuarial review will be carried out during 2019 and will assess the value of the fund's assets and expected liabilities as at 31.03.19. The Actuary has indicated the fund may be closer to 100% funded, but this may change when the assessment has been completed, or, at some future point as it will reflect the fund's assets and liabilities value at that time. If the improved situation is confirmed when the 2019 actuarial review has been completed in early 2020 then potentially it may be possible to free-up the £0.84m deficit payment budget. The Director of Finance will commence discussions with the Actuary over the next 12 months to consider if this is feasible. The Actuary has a statutory duty to ensure the fund is fit for purpose and may view the fund needs to be

+100% funded to cover the risk from an adverse performance in the fund's asset value. Indicative estimates suggest a one-off payment between £2m - £6m, (this will be credited to the Authority's LGPS fund) may be required to cover any risk from increased liabilities or reduction in asset value. **Members are asked to support the assumption that the £0.84m LGPS deficit payment budget can be freed-up and any one-off payment to the fund (£2m - £6m) can be covered from the capital reserve (see next section on reserves).**

**Council Tax – Precept Increase**.

121. The Financial Plan assumes a just below 2% council tax increase for 2020/21 and future years which is expected to be the maximum level of increase before holding a referendum. The referendum limit will not be known before the 2020/21 local government settlement announcement in December 2019.

The Authority might consider **a higher (above 2%) Council Tax increase** in future years but 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 referendum that 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 +£1m) 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

**Therefore the assumption is that Members would want to keep future Precept increases to within the council tax referendum limit, just under 2%, (1.99%), as currently reflected in the updated MTFP.**

122. **Support Services and Management Costs**
The proposed plan assumes the 2019/20 £0.426m saving approved as part of the 2018/19 MTFP is achievable. The Senior Leadership Team have made the necessary changes to support services to deliver this saving.

123. **Operational Response Staff Savings.**
The £1.9m operational response saving that reduced the firefighter establishment to 620 FTE and necessitated a number of changes to duty systems at various stations and the availability of appliance numbers has been implemented. Obviously the investment of £1m back into frontline response means the CFO can consider how best to use the additional firefighter and appliance provision. The supplementary 2019 – 2021 IRMP outlines those options and will go out for the relevant consultation before the preferred option is implemented at some point in 2019.

124. 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. Also future Government settlements will impact on the Authority's ability to deliver the service it believes is required to protect the Merseyside community. The Director of Finance will constantly

monitor the financial plan and report back to the Authority via the quarterly financial monitoring reports if any action is required by the Authority to amend or adjust the proposed MTFP or put the £1m investment at risk.

125. The proposed financial plan for 2019/20 – 2023/24 is summarised in the table overleaf and attached to this report as Appendix C.

# 2019/20 - 2023/24 FINANCIAL PLAN FUNDING INCREASE +1.5% post 2019/20

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2018/19 MTFP** | **59,866** | **61,175** | **62,650** | **64,100** | **64,100** |
| **EXPENDITURE - 2019/20 issues:-** | | | | | |
| 2023/24 Inflation Provision | | | | | 1,200 |
| Increase in Gov Unfunded Pension Discount above 3%/£600k assumed | 2,200 | 2,200 | 2,200 | 2,200 | 2,200 |
| Gov Funding for the above | -2,592 | | | | |
| Gov Funding for the FPS discount assumed from 2020/21 (CSR 2019) | | -2,100 | -2,100 | -2,100 | -2,100 |
| 2019 Actuarial review of LGPS: employer rate 15.2% to 17.7% | | 250 | 250 | 250 | 250 |
| Increase in MRP from one-off additional resources | 858 | 156 | 59 | 0 | 0 |
| Anticipated reduction in MRP / LGPS Deficit budget requirement | | -1,000 | -1,000 | -1,000 | -1,000 |
| Increase FF Establishment +22 Posts / Fire Engineer | 250 | 1,000 | 1,000 | 1,000 | 1,000 |
| Increase in Sec 31 grants for national 2019/20 Business Rate relief(s) | -200 | -200 | -200 | -200 | -200 |
| New Insurance Tender - Price saving | -100 | -100 | -100 | -100 | -100 |
| **2019/20 Updated MTFP** | 60,282 | 61,381 | 62,759 | 64,150 | 65,350 |
| **FUNDING** | | | | | |
| **Government Funding-Settlement Funding Assessment:** | | | | | |
| Top Up Grant . | -15,586 | | | | |
| CLG Estimate of Local Business Rate Share | -4,227 | | | | |
| **Baseline Funding Level** | -19,813 | | | | |
| **RSG** | -11,000 | | | | |
| **Settlement Funding Assessment** | **-30,813** | **-30,813** | **-30,813** | **-30,813** | **-30,813** |
| Assume Uplift in SFA by 1.5% p.a. from 2020/21 | | -462 | -931 | -1,407 | -1,891 |
| **Assumed Government Funding-Settlement Funding Assessment** | **-30,813** | **-31,275** | **-31,744** | **-32,220** | **-32,704** |
| **Adjustment for Business Rates based on NNDR1 District Forecasts** | | | | | |
| Adjustment for Local Business Rate income forecast from Districts | -7 | 0 | 0 | 0 | 0 |
| NNDR Collection Fund (surplus)/deficit | -72 | 0 | 0 | 0 | 0 |
| **Adjustment to Local Business Rates income forecast** | **-79** | **0** | **0** | **0** | **0** |
| **Council Tax -** | | | | | |
| Base Precept Income | -29,224 | -29,224 | -30,106 | -31,015 | -31,635 |
| Assume increase in Council Tax Base of 1.0% each year from up to 2021/22 | | -292 | -301 | 0 | 0 |
| Assume just under 3% rise year on year in 2019/20 then 2% thereafter | | -590 | -608 | -620 | -633 |
| Council Tax Collection Fund (surplus)/deficit | -166 | 0 | 0 | 0 | 0 |
| **Forecast Council Tax Income** | **-29,390** | **-30,106** | **-31,015** | **-31,635** | **-32,268** |
| **TOTAL FUNDING** | **-60,282** | **-61,381** | **-62,759** | **-63,855** | **-64,972** |
| **Forecast (Surplus) / Deficit** | **0** | **0** | **0** | **295** | **378** |

## (I) ADEQUACY OF RESERVES AND BALANCES

126. 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.

127. 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.

128. In the Authority the Chief Finance Officer is the Director of Finance. For the purposes of the Act the "financial reserves" of the Authority would incorporate Committed Reserves and Working Balances.

129. 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**

130. 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 committed 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**

131. 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.

132. 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.

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

**Fire and Rescue National Framework for England**

134. The Framework requires that each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. This section of the proposed MTFP fulfils that requirement, as it includes details of current and future planned reserve levels and it sets out a total amount of reserves and the amount of each specific reserve that is held for each year over the next 5 years.

**General Revenue Reserve £2m** (**3%** of Revenue Budget)

135. In recent years the Authority has maintained a general revenue reserve of £2m. 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. In addition the Fire and Rescue National Framework requires a statement within the reserves strategy outlining the justification for a general reserve larger than 5%.

136. For this Authority, a 5% forecast Net Operating Expenditure equates to approximately £3m. However, a £2m reserve is felt to be adequate as:-

    - The Authority's has a comprehensive risk management strategy (Corporate Risk Register) that identifies all material risks and reports these and the mitigating arrangements via a quarterly report to members.
    - The Authority maintains a number of specific committed reserves against risk, for example inflation and self-insured claims.
    - The Authority is a single purpose entity and does not face as full a range of risks to manage as a multi-purpose local authority.
    - The Authority is unlikely to face significant increases in cost because of uncontrollable demand lead service issues (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 Director of Finance (Chief Finance Officer) recommends **maintaining the general reserve at its current £2.000m level**.

**Committed (Earmarked) Reserves**

137. The Authority has created these reserves for specific purposes and involve funds being set aside to meet known or predicted future liabilities or risks. The CFO has outline the need to re-invest in frontline response and protection services and is looking to free-up

£1m of budget from existing debt servicing and LGPS budgets as outlined previously in this report. To this end the Director of Finance 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 proposed reserves for 2019/20 and future years are outlined below and the planned use over the MTFP in the table at the end.

- **Capital, Debt Repayment and LGPS Reserve, £14.4m** - £8.4m of the reserve is committed to fund the remaining station merger work relating to a new fire station in St Helens and the refurbishment of the TDA. The balance, £6m has been committed to fund the LGPS deficit (potentially up to £10m but the figure is subject to the 2019 actuarial review and may reduce significantly if the Fund's asset valuation continues to improve - a figure of £6m is the current worst case scenario). Without the reserve the Authority would have to borrow to fund the new St Helens station and TDA works meaning an increase in the debt servicing budget (currently £6m), and, continue to pay the LGPS deficit over the next 10 plus years at up to £1m p.a.

- **Recruitment Reserve, £3.0m** - Given over 50% of the current firefighters will retire over the next 5 to 8 years the Authority is currently planning to recruit in advance of these employees leaving over this period. This means the firefighter establishment will be on average +20 FTE above the budgeted establishment at a potential +£0.7m p.a. This reserve may need to be increased over the next 5 years.

- **PFI Annuity Reserve, £2.0m** - PFI schemes have an affordability gap (existing budget plus grant never covers the proposed total cost of the scheme). As grant is paid in advance of the full PFI scheme being completed PFI authorities therefore receive "excess" grant relative to the unitary charge payments at the beginning of the scheme. This available grant is put into a reserve and is then drawndown to smooth out the affordability gap over the life of the PFI. This reserve provides the Authority with that resource and will be fully utilised over the PFI life.

- **Inflation Reserve, £0.7m** - This reserve provides some resilience if the key assumption in the Budget & Financial Plan around pay and price inflation of 2% p.a. proves to be too low. The current 2017/18 - 2019/20 firefighter pay claim is for 17% over this period. For each additional 1% it would require a permanent budget increase of £0.4m p.a. This reserve would hopefully allow the Authority time to identify and implement any new savings to fund the pay award if it exceeded they level assumed in the plan.

- **Invest to Save Reserve, £0.6m** - This reserve was established to pump prime efficiency initiatives required to deliver longer term savings. The reserve will fund a temporary increase in the Applications team up to 2021/22 in order to facilitate the development of in-house applications that will reduce staff administration support costs in the future.

- **Insurance Reserve, £0.5m** - The Authority has a number of insurance premiums that require it to cover an excess, (£250k on employee & public liability, £10k on vehicles). Based on recent claims history this reserve has been established as a

contingency to cover those costs that can't be contained within the base revenue budget.

- **Smoothing Reserve, £0.5m** - This reserve was created to allow the Authority the time to re-engineer the Service and deliver future saving options if future Government funding is less than anticipated. Currently the 2020/21 and future years Government funding is unknown and is subject to a spending review, funding mechanism review, and change to the current Business Retention funding mechanism. This level of uncertainty means the Authority may face significant future funding cuts but with little time to manage any required budget reductions. By having the reserve the Authority may be able to avoid compulsory redundancies.

- **Equipment & Clothing Reserve, £0.4m** - These reserves reflect those planned projects or invests that had been budgeted for but not completed in the anticipated year and therefore the budget has been carried forward. The refresh of firefighter personal protective equipment (PPE), £0.3m, and operational equipment, £0.1m, is expected to be finalised over the next 12 months.

- **Bellwin & Emergency Planning Reserve, £0.2m** - The Bellwin scheme is intended to reimburse the eligible cost of local authority actions taken in the immediate phase of an emergency. The Government expects councils to cover costs themselves up to a certain level - an individual authority is required to have spent 0.2% of its calculated annual budget on works that have been reported. This reserve is held as a contingency in order to provide the Authority with the funds to meet those cost not deemed to be eligible for grant support and any other emergency planning costs.

- **Training Reserve, £0.2m** – The Authority intends to take on significant numbers of firefighter recruits over the next few years. This reserve has been created to ensure the base revenue training budget can be flexed upwards if training demands exceed the available budget.

- **Ill Health Penalty Reserve, £0.2m** - Any firefighter ill health retirement results in a one-off charge to the Authority of either 2 or 4 times the relevant salary. This charge is currently spread over three years and the reserve is used to ensure the cost can be contained within the revenue budget provision.

- **Ringfenced Reserves, £0.5m** - External grants / contributions have been received to fund specific projects (Prince's Trust, Local Authorities funds for community initiatives). This reserve ensures the funds are brought forward until they have been fully spent.

138. The anticipated planned use over the MTFP is outlined in the table overleaf:-

| | Estimated 2019/20 Opening Balance | Estimated 2019/20 Expected Use | Estimated 2020/21 Expected Use | Estimated 2021/22 Expected Use | Estimated 2022/23 Expected Use | Estimated 2023/24 Expected Use | Estimated Future Years Expected |
|---|---|---|---|---|---|---|---|
| **Committed Reserves** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Emergency Related Reserves** | | | | | | | |
| Bellwin & Emergency Planning Reserve | 222 | 0 | 0 | 0 | 0 | 0 | 222 |
| Insurance Reserve | 500 | 0 | 0 | 0 | 0 | 0 | 500 |
| **Modernisation Challenge** | | | | | | | |
| Smoothing Reserve | 450 | 0 | -450 | 0 | 0 | 0 | 0 |
| Ill Health Penalty Reserve | 150 | 0 | -75 | -75 | 0 | 0 | 0 |
| Recruitment Reserve | 3,000 | -300 | -600 | -600 | -600 | -600 | 300 |
| Invest to Save | 636 | -300 | -300 | -36 | 0 | 0 | 0 |
| **Capital, Debt Repayment and LGPS Res** | 14,414 | -5,914 | -8,500 | 0 | 0 | 0 | 0 |
| **Specific Projects** | | | | | | | |
| PFI Annuity Reserve | 2,001 | -200 | -220 | -240 | -260 | -1,081 | 0 |
| Healthy Cmmunity Reserve | 65 | -38 | -27 | 0 | 0 | 0 | 0 |
| Equipment & Clothing Reserve | 369 | -369 | 0 | 0 | 0 | 0 | 0 |
| Training Reserve | 150 | -50 | -50 | -50 | 0 | 0 | 0 |
| Inflation Reserve | 700 | 0 | 0 | 0 | 0 | 0 | 700 |
| **Ringfenced Reserves** | | | | | | | |
| Princes Trust Reserve | 121 | -61 | -60 | 0 | 0 | 0 | 0 |
| Community Risk Management Reserve | 325 | -125 | -100 | -100 | 0 | 0 | 0 |
| Energy Reserve | 19 | -10 | -9 | 0 | 0 | 0 | 0 |
| **Total Committed Reserves** | **23,122** | **-7,367** | **-10,391** | **-1,101** | **-860** | **-1,681** | **1,722** |
| **General Revenue Reserve** | **2,000** | **0** | **0** | **0** | **0** | **0** | **2,000** |
| **Total Reserves** | **25,122** | **-7,367** | **-10,391** | **-1,101** | **-860** | **-1,681** | **3,722** |

139. The Director of Finance recommends that the Authority hold the £25.122m 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.**

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

## (J) BUDGET TIMETABLE & RESOLUTION

141. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2019. The Authority meeting is now invited to:

- Confirm the financial plan set out in Appendix C, approve the budget requirement of £60.282m for 2019/20 as outlined in Appendix C.
- note that the Authority's council tax base for 2019/20 is 370,674.27, 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 Expenditure 2019/20 | Gross Income 2019/20 | Estimate 2019/20 |
| | | | £'000 | £'000 | £'000 |
| (A) | sec 42 (2) (a) | Service Budget | 84,760 | | 84,760 |
| (B) | sec 42 (3) (a) | Income | | -20,201 | -20,201 |
| | | Reserves Movement: | | | |
| (A) | sec 42 (2) (c) | Contribution to reserves | 40 | | 40 |
| (B) | sec 42A (3) (a) | Contribution from reserves | | -4,317 | -4,317 |
| | | **Budget Requirement** | 84,800 | -24,518 | 60,282 |
| (B) | sec 42A (3) (a) | Spending Funding Assessment | | -30,813 | -30,813 |
| (B) | sec 42A (3) (a) | Local NNDR Estimate Adjustment | | -7 | -7 |
| (B) | sec 42A (3) (a) | Collection Fund Deficit / (Suplus) | | -238 | -238 |
| | | **Non-Precept Income** | | -31,058 | -31,058 |
| ( C) | In accordance with Sec 42A (4), aggregate of (A) over (B) | **Precept Requirement** | | | **29,224** |
| | | **Tax Base** | | | **370,674.27** |
| | | **Precept Requirement / Tax Base:** | | | **£78.84** |
| | | **Basic Tax Amount At Band 'D'** | | | **£78.84** |

142. 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:

| 2018/19 | 2019/20 | Property Band | | Increase | |
|---|---|---|---|---|---|
| | £ | | | £ | % |
| £51.04 | £52.56 | For properties in Band | A | 1.52 | 2.98 |
| £59.55 | £61.32 | For properties in Band | B | 1.77 | 2.97 |
| £68.05 | £70.08 | For properties in Band | C | 2.03 | 2.98 |
| **£76.56** | **£78.84** | **For properties in Band** | **D** | **2.28** | **2.98** |
| £93.57 | £96.36 | For properties in Band | E | 2.79 | 2.98 |
| £110.59 | £113.88 | For properties in Band | F | 3.29 | 2.97 |
| £127.60 | £131.40 | For properties in Band | G | 3.80 | 2.98 |
| £153.12 | £157.68 | For properties in Band | H | 4.56 | 2.98 |

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

| PRECEPT | | AUTHORITY |
|---|---|---|
| £ | | |
| 8,353,900 | Payable by | LIVERPOOL |
| 7,371,367 | Payable by | WIRRAL |
| 4,045,832 | Payable by | ST.HELENS |
| 6,628,654 | Payable by | SEFTON |
| 2,824,206 | Payable by | KNOWSLEY |
| 29,223,959 | | |

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

| | |
|---|---|
| Thursday | 18th April 2019 |
| Thursday | 30th May 2019 |
| Friday | 5th July 2019 |
| Monday | 12th August 2019 |
| Wednesday | 18th September 2019 |
| Thursday | 24th October 2019 |
| Friday | 29th November 2019 |
| Thursday | 9th January 2020 |
| Friday | 14th February 2020 |
| Tuesday | 17th March 2020 |

## Equality and Diversity Implications

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

146. 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

147. 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

148. 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 2019.

## Financial Implications & Value for Money

149. See Executive Summary

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

150. 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*

151. 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/004/18** | "MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2018/2019 – 2022/2023" Budget Authority 22nd February 2018 |

## 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 |
| **PWLB** | Public Works Loans Board |
| **MPC** | Monetary Policy Committee |