MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	13 FEBRUARY 2020	REPORT NO:	CFO/004/20
PRESENTING OFFICER	DIRECTOR OF FINANCE, IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2019/20 - APRIL TO DECEMBER		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A3:	CORPORATE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A4:	BUDGET MOVEMENTS ON RESERVES
	APPENDIX B:	CAPITAL PROGRAMME 2019/20
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2019/20 – 2023/24

Purpose of Report

1. To review the financial position, revenue and capital, for the Authority for 2019/20. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to December 2019.

Recommendation

2. That Members;
   - Approve an increase in the Minimum Revenue Provision (MRP) payment of £0.300m funded from the forecast revenue savings identified in this report.
   - Approve the proposed revenue and capital budget changes outlined in the report.
   - Instruct the Director of Finance to continue to work with budget managers to maximise savings in 2019/20.

Executive Summary

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

- To control Council Tax
- To continue with its modernisation programme and deliver the Authority's Mission of achieving Safer Stronger Communities – Safe Effective Firefighters
- To deliver the required savings through efficiencies, most of which are employee related, whilst minimising the impact of the cuts.
- To release revenue savings through prudent debt management to protect/enhance frontline services

The Authority is on target to deliver the approved 2019/20 budget savings and is progressing well with the required structural changes in its workforce in order to maintain the required savings on a permanent basis.

The Authority has a strategy of maximising and delivering its savings plan as early as possible in order to fund increases in reserves or other initiatives that would act as a hedge against future financial challenges. As a result of one-off savings this report has identified a saving of £0.300m. Members are asked to approve utilising this saving to fund an increase in the minimum revenue provision, MRP, in order to pay historic debt commitments early. By increasing the MRP payment the intention is to free-up future debt servicing revenue budget and re-invest it in frontline services or use it to meet any future financial challenges.

The total budget requirement remains at the original budget level of £60.282m. Appendix A1 – A4 outline in detail the revenue budget and reserve movements between April and December 2019.

Capital:
The capital programme planned spend has increased by £0.044m for new ICT hardware funded by reserves and revenue contributions. In addition £9.470m has been re-phased from 2019/20 into future years to reflect when the actual spend will be incurred. The revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £3.000m. All movements in committed reserves are outlined in Appendix A4.

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

Introduction and Background

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

4. This report is the review of the Authority's position up to the end of December of the financial year 2019/20 (April – December 2019).

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

Financial Review Structure	
Section	Content
A	Current Financial Year Review:- • Revenue Budget, • Capital Programme, and • Movement on Reserves
B	Treasury Management Review

(A) Current Financial Year – 2019/20

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

Revenue Position:

7. Budget Movements: The attached Appendix A1 – A4 to this report summarises the movements in the revenue budget, but the following paragraphs outline the most material adjustments in the second quarter.

8. There have been a number of budget adjustments with no net impact because they are either self-balancing virements within department budgets or budget increases financed by the inflation provision or reserves in line with previously agreed Authority decisions. The budget adjustments in quarter 3 included:-

    - a virement from the inflation provision of £0.295m of which £0.285m was to cover increases in energy and other utility prices over the last 2 years.
    - A net contribution to reserves of £1.621m of which £1.800m was a repayment back to the capital reserve to reflect the re-phasing of planned spend on the new St Helens fire station over 2019/20 – 2020/21. The breakdown of the reserve movements are outlined in Appendix A4.

9. **The net budget requirement remains at £60.282m which is consistent with the original budget**.

10. Update on Budget Savings Implementation:
All approved saving options remain consistent with the approved MTFP.

The operational response savings are being delivered as expected, however the structural establishment changes required as part of the station merger initiative will not be formally implemented until the new fire station at St Helens has been built. The required firefighter saving is being delivered in cash terms as the reduction in the number of firefighters has been achieved.

11. Actual expenditure in comparison to Revenue Budget**:** The Authority is concerned that any future Government may continue to reduce the level of Government support in real terms post 2020/21. It therefore has directed the Chief Fire Officer to maximise savings in the year to accommodate options to assist with any future challenge. In recent years this meant using these savings to contribute towards the building up of reserves as a hedge against the future financial challenges or to meet one-off expenditure such as capital infrastructure investment. The current strategy is to use any additional savings to increase the planned minimum revenue provision (MRP) payment so that future debt servicing budget may be freed-up to fund additional investment in frontline services.

12. After reviewing spend and income up to the end of December 2019 officers have identified the following savings:

Employee Costs;

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

Non-firefighter employee vacancies arising from staff turnover in the year has resulted in a forecast £0.200m or 1.8% saving on the £10.870m budget.

The Government introduced changes to all public pensions in 2014 and 2015. These changes were challenged in the courts by the Fire Brigades Union (FBU) and Judges representatives as the transitional protections given to some scheme members as part of public service pensions reform was deemed discriminatory. This challenge is often referred to as the "McCloud" case. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. On the 27th June 2019 the Supreme Court refused the Government the right to appeal against this decision and therefore an employee tribunal will now decide on the compensation and remedy required to redress the situation. At this point in time the Authority has had no indication of what the agreement will be. It has been reported that the potential national cost may be as high as £4b per year if all the public pension changes introduced were reversed.

In 2015 the employer rate for FPS 1992 was 21.7% and the new FPS 2015 14.3%. This reduction in the employer rate has been built into the approved MTFP and current budget. Any amendments to the FPS rates or compensation payments as a result of McCloud that is not funded by the Government may create a significant budget challenge for the Authority. It is unlikely any details of the proposed compensation agreement will come out before the end of the financial year. While no provision has been built into the budget or MTFP to cover this issue, Members' agreed as part of the last financial review report to establish a £2.000m smoothing reserve to provide a one-off resource to cover any additional costs over the short term. This matter will be considered further as part of the 2020/21 Budget setting exercise.

Other Non-Employee Revenue Costs;
The Director of Finance is continuing to work with budget holders to maximise savings in 2019/20. At this point in time a small saving of £0.050m has been identified on the supplies and services £3.378m budget, most of which is as a result of savings on professional services costs.

Contingency for 2019/20 Pay & Price Increases;
Officers are continuing to control the allocation of non-employee inflation. In the first instance any inflationary pressure is expected to be absorbed from within the relevant budget line. The latest forecast has identified a one-off savings on non-employee lines of £0.050m.

The Director of Finance will continue to monitor the position during the year to ensure the Service continues to deliver the required savings target and report back as the year progresses.

13. Debtor accounts under £5,000 may be written-off by the Director of Finance. No account has been written-off under delegated powers in the third quarter.

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

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

Overall the latest forecast has identified a revenue saving of £0.300m. Members are asked to approve the utilisation of this saving to fund an increase in the minimum revenue provision (MRP) so that future debt servicing budget may be freed-up to fund additional investment in frontline services or contribute to any future financial saving challenge. Table B summarises the revenue year-end forecast position based on spend to the end of September 2019:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	Fire Authority	NRAT	TOTAL BUDGET	ACTUAL as at 31.12.19	FORE-CAST	VARI-ANCE
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Expenditure							
Employee Costs	48,303	389	1,882	50,574	37,164	50,374	-200
Premises Costs	3,063			3,063	2,125	3,063	0
Transport Costs	1,305		6,015	7,320	5,285	7,320	0
Supplies and Services	3,378	101	1,638	5,117	2,843	5,067	-50
Agency Services	6,083	0	530	6,613	4,625	6,613	0
Central Support Services	449	48	179	676	456	676	0
Capital Financing	12,261	0	3	12,264	0	12,264	0
Income	-10,971	0	-10,247	-21,218	-19,758	-21,218	0
Net Expenditure	63,871	538	0	64,409	32,740	64,159	-250
Contingency Pay&Prices	154			154	0	104	-50
Cost of Services	64,025	538	0	64,563	32,740	64,263	-300
Interest on Balances	-172			-172	-141	-172	0
Movement on Reserves	-4,109			-4,109	0	-4,109	0
Total Operating Cost	59,744	538	0	60,282	32,599	59,982	**-300**

The Director of Finance is continuing to work with budget holders to maximise savings in 2019/20 and will report in more detail in future financial reviews.

Capital Programme Position:

15. The last financial review report (CFO/056/19) approved a 5 year capital programme of £41.021m. This has now been updated for scheme additions and changes during quarter 3 of +£0.044m, as outlined below:-

- New ICT schemes funded by revenue, £0.002m, and new Legal Service case management system funded by the capital reserve, £0.042m.
- Following a review of the 2019/20 programme officers have now revised the timing of actual spend and have re-phased £9.470m from 2019/20 into future years. The most significant re-phasing related to:-
  - National Resilience Assurance Team / National Asset Refresh- £1.250m re-phasing. The Authority acts on behalf of the Home Office to co-ordinate and procure the approved asset refresh, however ultimately the procurement of assets has to be signed-off by the Home Office. Until the HO are satisfied the correct assets have been identified no procurement can take place. Delays in getting agreement on the specific replacement assets has delayed likely spend until 2020/21.
  - Special Vehicle & Fire Appliances, £1.283m slippage. A review is currently being undertaken to determine what the required specification and requirements will be for the Incident Management Unit (IMU), £0.650m. The review is expected to be completed in the next couple of months and the procurement of the asset will

then commence. The purchase order for the planned new fire appliances has gone out to the supplier and the chassis should arrive in the coming weeks, but the required build will not be completed until early in the new financial year, £0.633m.

- Technical refresh and upgrade for Control's computer aided despatch, £0.138m slippage – officers are unlikely to complete the due diligence work on the offer from Capita in time to complete the scheme before the end of this year.
- The new St Helens fire station as planned will not be completed until October / November 2020. The capital programme has been correctly realigned to reflect this and £2.500m has been re-phased into 2020/21.
- Officers are still waiting for the final planning approval for the refurbishment of the current TDA site, therefore the planned £0.994m spend has been re-phased into 2020/21.
- Officers have given priority to the new St Helens scheme in 2019/20, therefore other non-essential smaller building refurbishment works have been re-phased into 2020/21 as plans are currently being finalised, planning approval applied for, tender evaluation work carried out etc., resulting in a re-phasing of £2.107m.
- The balance, £1.336m, relates to the re-phasing of various ICT, operational equipment and miscellaneous vehicles schemes.

16. The capital programme changes are summarised in the Table below. The revised detailed capital programme is attached as Appendix B (2019/20 Capital Programme) and Appendix C (2019/20–2023/24 Capital Programme) to this report.

Movement in the 5 Year Capital Programme						
	Total Cost	2019/20	2020/21	2021/22	2022/23	2023/24
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amendments to Approved Schemes;						
New ICT hardware	44.5	44.5				
Re-phasing of schemes	0.0	-9,469.5	9,696.5	-227.0		
	44.5	**-9,425.0**	**9,696.5**	**-227.0**	**0.0**	**0.0**
Funding						
Revenue Contribution to Capital Outlay(RCCO)						
New ICT hardware	2.0	2.0				
Capital Receipts						
Re-phase expected sale of:						
Sale of St Helens	0.0	-100.0	100.0			
Sale of Eccleston	0.0	-600.0	600.0			
Sale of LLAR House Formby	0.0	-350.0	350.0			
Sale of LLAR House Newton	0.0	-275.0	275.0			
Capital Grant						
NRAT Home Office Grant	0.0	-1,250.0	1,250.0			
Capital Reserve						
Re-phase of St Helens Fire Station New Build	0.0	-1,800.0	1,800.0			
Fund new Legal case mgt system	42.5	42.5				
Borrowing						
Re-phasing of schemes	0.0	-5,094.5	5,321.5	-227.0		
	44.5	**-9,425.0**	**9,696.5**	**-227.0**	**0.0**	**0.0**

Use of Reserves:

17. The analysis in Appendix A4 outlines a £1.621m increase in reserves in quarter 3. Of this, £1.800m is due to the re-phasing of planned spend on the new St Helens fire station of £2.500m of which £1.800m was being funded by the capital reserve. Therefore, £1.800m has been returned to the capital reserve and will be drawndown in 2020/21. The balance, a £0.179m drawndown of reserves in the quarter, is required to fund planned spend on; a new legal case management system, £0.042m; temporary additional staff in the Application Development Team, £0.126m; and £0.010m for the Service's contribution to the LFC Foundation schemes as part of the approved partnership arrangements.

18. Committed reserves reached a peak at the end of 2016/17 at £29.9m they have now reduced by 33% to £18.0m and are expected to go below £10m by the end of 2021/22.

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

19. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to December 2019.

20. **Prospects for Interest Rates;**

After the August 2018 increase in Bank Rate to 0.75%, the Bank of England monetary Policy Committee (MPC) has put any further action on hold. This year, 2019, has been one of significant upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU has agreed an extension to 31 January 2020. In addition, a general election held on 12 December 2019, has delivered a new majority conservative government. If Parliament agrees to a deal on 31 January then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. However, recent inflation statistics have under shot against expectations and there is now mounting speculation that the next policy decision, could in fact be a cut to the Bank Rate.

At the beginning of the financial quarter on the 9th October 2019 HM Treasury suddenly announced that with immediate affect the PWLB margin above UK gilts would be increased from 80 bps to 180 bps. This announcement increased the borrowing cost on newly arranged loans from PWLB by 1%. At the same time the Treasury increased the lending limit of the PWLB from £85bn to £95bn. There has been speculation that the increase in rate was designed to halt the pace at which the new limit would be reached following record levels of new loan issuance by the PWLB in the months of August and September.

This policy change should have no immediate impact on the Authority as the current expectation is that new borrowing will not be required for a number of years during which the policy and the market could change. The current environment is consistent with the strategy that indicated that the overall structure of interest rates whereby short term rates would be lower than long term rates was expected to remain throughout 2019/20. In this scenario, the strategy was to reduce investments and borrow for short periods and possibly at variable rates when required.

21. **Capital Borrowings and the Portfolio Strategy;**
The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2019/20. Current market conditions continue to be unfavourable for any debt rescheduling.

22. **Annual Investment Strategy;**
The investment strategy for 2019/20 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st October to 31 December 2019 the average rate of return achieved on average principal available was 0.85%. This compares with an average seven day deposit (7 day libid) rate of 0.57%.

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 Authority had investments of £31.8m as at 31st December 2019:

ANALYSIS OF INVESTMENTS END OF QUARTER 3 2019/20						
Institution	**Credit Rating**	**MM Fund***	**Bank / Other**	**Building Society**	**Local Authority**	**Average Interest**
		£	**£**	**£**	**£**	**%**
Aberdeen Global	AAA	1,800,000				0.77
Bank of Scotland (HBOS)	A		2,000,000			1.25
Close Brothers	A		2,000,000			1.25
Goldman Sachs	A		2,000,000			0.66
HSBC (MFRS Deposit Account)	A		2,000,000			0.50
Santander	A		2,000,000			0.75
Coventry BS				2,000,000		0.91
Cumberland BS				1,000,000		1.00
Leeds BS				2,000,000		0.69
Newcastle BS				1,000,000		1.25
North Lanarkshire BS				2,000,000		1.00
Nottingham BS				1,000,000		1.15
Principality BS				1,000,000		0.96
Skipton BS				1,000,000		0.92
Surrey Heath BS				2,000,000		0.85
West Bromwich BS				1,000,000		1.10
Cherwell DC					2,000,000	0.83
Lancashire CC					2,000,000	1.05
Wirral BC					2,000,000	0.75
Totals		**1,800,000**	**10,000,000**	**14,000,000**	**6,000,000**	
Total Current Investments					**31,800,000**	

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

23. **External Debt Prudential Indicators;**
The external debt indicators of prudence for 2019/20 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £70 million
Operational boundary for external debt: £59 million

Against these limits, the maximum amount of debt reached at any time in the period 1 October to 31 December 2019 was £37.6 million.

24. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2019/20 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the period 1 October to 31 December 2019 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1 October to 31 December 2019 was as follows:

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

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

The limit for investments of longer than 364 days was set at £2 million for 2019/20. No investments for 365 days were as placed during the third quarter 2019/20.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

28. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

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

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

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

BACKGROUND PAPERS

CFO/009/19 "MFRA Budget and Financial Plan 2019/2020-2023/2024" Authority 28th February 2019.

CFO/050/19 "Financial Review 2019/20 – April to June" Audit Committee 26th September 2019.

CFO/056/19 "Financial Review 2019/20 – April to September" Policy and Resources Committee 19th December 2019.

GLOSSARY OF TERMS

CIPFA Chartered Institute of Public Finance and Accountancy

MRP Minimum Revenue Provision. 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).

PWLB The Public Works Loan Board (PWLB) is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury.

MTFP The Authority's Medium Term Financial Plan, currently covering 2019/20 – 2023/24.