MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUTHORITY BUDGET MEETING		
DATE:	27 FEBRUARY 2020	REPORT NO:	CFO/008/20
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 2020/2021 – 2024/2025		

APPENDICES:	APPENDIX A:	DRAFT SUMMARY REVENUE BUDGET ANALYSIS
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2020/21 – 2024/25
	APPENDIX C	PROPOSED 2020/21 – 2024/25 FIVE YEAR MTFP
	APPENDIX D	RESERVES

Purpose of Report

1. To present information in order 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 and effective, value for money service aligned to its budget principles. This will enable the Authority to determine a budget for 2020/2021 whilst setting a precept level which is in line with statutory requirements.

Recommendation

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

- Note the 2020/2021 service budget set out in the report.

- Endorse the Director of Finance's recommendation on maintaining the current level of general fund balance at £3.000m, and maintaining the reserves as outlined in Paragraph 127 to 129 of this report.

- Endorse the current plan to increase the precept by just below 2% (1.98%) for 2020/2021, raising the Band D Council Tax from £78.84 to £80.40 and confirm the strategy for future precept rises (the plan assumes further increases of just under 2% in each year thereafter).

- Endorse the assumptions in developing a five year (2020/21 – 2024/25) Financial Plan outlined in the report and approve the Medium Term

Financial Plan in Appendix C and the 2020/2021 budget estimate of £61.961m.

- Delegate authority to the Director of Finance to take up the option of paying Merseyside Pension Fund 80% of the 2020/2021 – 2022/2023 forecast LGPS employer future service contributions **if** the advice from the Auditor and legal professionals is that it is allowable, and accept the discount offered by the Fund.

- Approve 2020/2021 – 2024/2025 amended MTFP 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 Provision (MRP) strategy for 2020/2021 as outlined in Paragraph 61 to 70 of this report.

- Note the prudential indicators relating to the proposed capital programme, paragraph 76 to 80 of this report.

- Approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in the section 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 2020/2021 by 1st March 2020.

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:-

A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1st March 2020.

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 2019/2020 – 2023/2024 medium term financial plan (MTFP) at the Budget Authority meeting on 28th February 2019 that anticipated the 2020/2021 funding position and set a 2020/2021 budget within the expected level of resources.

10. The Authority's 2020/2021 Government Settlement Funding Assessment, (SFA), increased by 1.6% compared to the 2019/2020 SFA. The actual 2020/2021 was 0.1% / £0.040m above the 2020/2021 anticipated SFA figure included in the current MTFP.

11. The current MTFP assumptions for pay, other expenditure and council tax funding were reviewed at the January 2020 Budget Strategy day. Section G of this report outlines all the changes in the proposed new MTFP compared to last year's estimates. The revised budget assumptions for 2020/2021 have increased the total expenditure forecast by £0.580m, mainly as a result of the increase in the annual pay award assumption from 2.0% to 2.5% and other new cost pressures. However, as available funding has increased by £0.580m (mainly as a result of a higher than anticipated council tax base increase and one-off increases in the collection fund(s)) the overall 2020/2021 forecast remains in a balanced position.

12. As part of last year's MTFP the Chief Fire Officer, (CFO), sought members' support to increase the frontline firefighter response and protection establishment from 620 full time equivalents (FTE) to 642, plus a new fire engineer post in protection, with a resulting increase in the available day time fire appliances from 26 to 30. The proposals enhanced the resilience and protection capabilities of the Service in light of an increase in fire and rescue risks and the need to invest in protection services. The assumption was that the additional £1m required to implement the proposals would be funded from the freeing up of budget currently committed to;

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

13. The MFRA LGPS is no longer in a deficit position and the required budget adjustments have now been actioned to permanently create the £1m budget provision to deliver the enhanced frontline services.

14. The Authority may choose to increase the 2020/2021 precept by 2% or more, the current limit before the Authority must carry out a referendum, however the increase would 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.

15. The ready reckoner below outlines the impact of a potential just under 1.98% Council Tax increase:-

2019/20	**2020/21**	**Property Band**		**Increase**		Weekly increase
	£			**£**	**%**	**£**
£52.56	£53.60	For properties in Band	A	1.04	1.98	0.020
£61.32	£62.53	For properties in Band	B	1.21	1.97	0.023
£70.08	£71.47	For properties in Band	C	1.39	1.98	0.027
£78.84	**£80.40**	**For properties in Band**	**D**	**1.56**	**1.98**	**0.030**
£96.36	£98.27	For properties in Band	E	1.91	1.98	0.037
£113.88	£116.13	For properties in Band	F	2.25	1.98	0.043
£131.40	£134.00	For properties in Band	G	2.60	1.98	0.050
£157.68	£160.80	For properties in Band	H	3.12	1.98	0.060

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

PRECEPT		**AUTHORITY**
£		
8,764,540	Payable by	LIVERPOOL
7,554,858	Payable by	WIRRAL
4,202,669	Payable by	ST.HELENS
6,826,314	Payable by	SEFTON
2,955,102	Payable by	KNOWSLEY
30,303,483		

16. The proposed 2020/2021 MTFP based on the updated assumptions is outlined below, however, at this point in time Government support beyond 2020/2021 is unknown:-

2020/21 - 2024/25 FINANCIAL PLAN					
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
2019/20 MTFP	61,381	62,759	64,150	65,350	65,350
New Issues Identified In 2019/20:-					
Revised FPS Employer Rates / Grant Announced by HO:-	**-515**	**-515**	**-515**	**-515**	**-515**
Increase 2020/21 & Future yrs Pay Award from 2% to 2.5%	**197**	**437**	**677**	**917**	**1,157**
2024/25 Inflation Provision					**1,200**
Unavoidable Growth	**674**	**919**	**991**	**991**	**991**
Additional MRP	**224**				
Recruitment reserve & drawdown based on actuals in year					
Employee Budget	**-250**	**-750**	**-200**	**-200**	**0**
Recruitment Reserve	**250**	**750**	**200**	**200**	**0**
	580	**841**	**1,153**	**1,393**	**2,833**
UPDATED MTFP Budget Requirement	**61,961**	**63,600**	**65,303**	**66,743**	**68,183**
FUNDING					
Government Funding-Settlement Funding Assessment:					
Top Up Grant .	-15,840				
CLG Estimate of Local Business Rate Share	-4,296				
Baseline Funding Level	-20,136				
RSG	-11,179				
	-31,315	**-31,315**	**-31,628**	**-31,944**	**-32,263**
Assume future SFA increase of +1% p.a.		**-313**	**-316**	**-319**	**-323**
Settlement Funding Assessment	**-31,315**	**-31,628**	**-31,944**	**-32,263**	**-32,586**
Adjustment for Business Rates based on District Forecasts					
Adjustment for Business Rate income forecast from Districts	-118	0	0	0	0
NNDR Collection Fund (surplus)/deficit	-139	0	0	0	0
Adjustment to Local Business Rates income forecast	**-257**	**0**	**0**	**0**	**0**
Council Tax -					
Base Precept Income	-29,223	-30,303	-31,212	-32,148	-33,114
Assume increase in Council Tax Base of 1.0% p.a. from 2021/22	-492	-303	-312	-322	-331
Assume a Precept increase of just under 2% (1.98%) from 2021/22	-588	-606	-624	-643	-662
Council Tax Collection Fund (surplus)/deficit	-86	0	0	0	0
Forecast Council Tax Income	**-30,389**	**-31,212**	**-32,148**	**-33,113**	**-34,107**
TOTAL FUNDING	**-61,961**	**-62,840**	**-64,092**	**-65,376**	**-66,693**
Forecast (Surplus) / Deficit	**0**	**760**	**1,211**	**1,367**	**1,490**

17. 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 2020/21 Opening Balance	Estimated 2020/21		Estimated 2021/22 Expected Use	Estimated 2022/23 Expected Use	Estimated 2023/24 Expected Use	Estimated 2024/25 Expected Use	Estimated Future Years Expected
		Base Budget	During 2020/2021					
Committed Reserves	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Emergency & Insurance Related Reserves								
Bellwin & Emergency Planning Reserve	222	0	0	0	0	0	0	-222
Insurance Reserve	383	0	0	0	0	0	0	-383
Modernisation Challenge								
Smoothing Reserve	2,000	0	-1,300	-700	0	0	0	0
Recruitment Reserve	3,000	0	-400	-400	-400	-400	-400	-1,000
Invest to Save Reserve	432	-223	0	-209	0	0	0	0
Capital, Debt Repayment Res	8,058	-5,329	0	-2,100	-629	0	0	0
Specific Projects								
PFI Annuity Reserve	1,895	-91	0	-95	-100	-110	-120	-1,379
Inflation Reserve	700	0	0	0	0	0	0	-700
Clothing Reserve	592	0	-392	-200	0	0	0	0
Training Reserve	150	0	-50	-50	-50	0	0	0
Equipment Reserve	77	0	-77	0	0	0	0	0
Healthy Community Reserve	30	0	-30					
Health & Wellbeing	25	0	-25	0	0	0	0	0
Community Engagement	7	0	-7	0	0	0	0	0
Ringfenced Reserves								
Community Risk Management Reserve	325	0	-125	-100	-100	0	0	0
Energy Reserve	18	72	0	25	-75	-40	0	0
New Dimensions Reserve	41		-41	0	0	0	0	0
Total Committed Reserves	**17,955**	**-5,571**	**-2,447**	**-3,829**	**-1,354**	**-550**	**-520**	**-3,684**
General Revenue Reserve	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
Total Reserves	**20,955**	**15,384**	**12,937**	**9,108**	**7,754**	**7,204**	**6,684**	**3,000**

18. The Director of Finance recommends the Authority maintains a £3.000m 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.

19. 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 or actual Government funding levels. 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.

20. The proposed 5 year capital programme is detailed in section C. The table below summarises the proposed £33.390m of investments which are mainly in the Authority’s property, vehicle and ICT assets.

Capital Expenditure	Total Cost £	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Building/Land	**12,853,800**	10,588,900	939,900	705,000	305,000	315,000
Fire Safety	**3,271,500**	731,500	635,000	635,000	635,000	635,000
ICT	**4,971,000**	1,467,600	667,100	927,100	797,100	1,112,100
Operational Equipment & Hydrants	**3,253,500**	1,908,500	256,000	240,000	462,000	387,000
Vehicles	**9,040,600**	3,549,100	1,808,600	1,913,300	478,100	1,291,500
Expenditure	**33,390,400**	**18,245,600**	**4,306,600**	**4,420,400**	**2,677,200**	**3,740,600**
Financing Available	**Total £**	**2020/21 £**	**2021/22 £**	**2022/23 £**	**2023/24 £**	**2023/24 £**
Capital Receipts	**1,325,000**	**1,325,000**	**0**	**0**	**0**	**0**
RCCO	**1,875,000**	**375,000**	**375,000**	**375,000**	**375,000**	**375,000**
Capital Reserves	**5,300,000**	**5,300,000**	**0**	**0**	**0**	**0**
Grants	**1,250,000**	**1,250,000**	**0**	**0**	**0**	**0**
Total Non Borrowing	**9,750,000**	**8,250,000**	**375,000**	**375,000**	**375,000**	**375,000**
Unsupported Borrowing	**23,640,400**	**9,995,600**	**3,931,600**	**4,045,400**	**2,302,200**	**3,365,600**
Total Funding	**33,390,400**	**18,245,600**	**4,306,600**	**4,420,400**	**2,677,200**	**3,740,600**

21. The proposed capital programme has a borrowing requirement of £9.996m in 2020/2021 and £23.640m 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 borrowing and based on the Authority considering it sustainable and affordable.

22. 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).

23. 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.

24. 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

25. 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 2020/2021 and future years in section D of this report.

B) BACKGROUND INFORMATION

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

27. 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. For many years now the Authority has maintained a comprehensive medium term financial plan (MTFP) and capital programme.

28. 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. 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. That resulted in unavoidable reductions in the front line operational services over this period.

29. Ten years ago the Authority employed approximately 1,000 Full Time Equivalents (FTE) firefighters. The current establishment is 642 FTEs, 36% 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 and response work with the Merseyside community.

30. In 2010/11 the Authority had 42 wholetime fire appliances immediately available and 1 retained - 43 appliances in total. The Authority's current budgeted position is:

    - Days: 27 immediately available plus 3 on a 30 minute recall
    - Night: 21 immediately available plus 9 on a 30 minute recall.

31. In 2010/11 the Authority had 26 full time fire stations the current budget will see that reduce to 22 (maintained by a variety of demand led duty cover systems) by the end of 2020.

32. This report provides the Authority with an updated 2020/2021 – 2024/2025 MTFP that delivers a balanced financial position in 2020/2021. While the MTFP outlines a potential financial challenge from 2021/2022 to 2024/2025 Members are asked to simply note this challenge at this point due to the significant uncertainty over future Government support and future costs (particularly pay awards and the impact of McCloud). The Government has indicated that the comprehensive spending review 2020 (CSR 2020) will provide a multi-year funding settlement for 2021/2022. The Chief Fire Officer (CFO) will lead a review of the current MTFP and Capital Programme with the Senior Leadership Team (SLT) to consider areas for future revenue savings during 2020. IF any new saving options are required, proposals will be brought back to Members for consideration during the 2021/2022 Budget process.

33. Further cuts in Government support in 2021/2022 and future years may result in reductions in firefighters, fire appliances and stations.

34. 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 2021. 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.

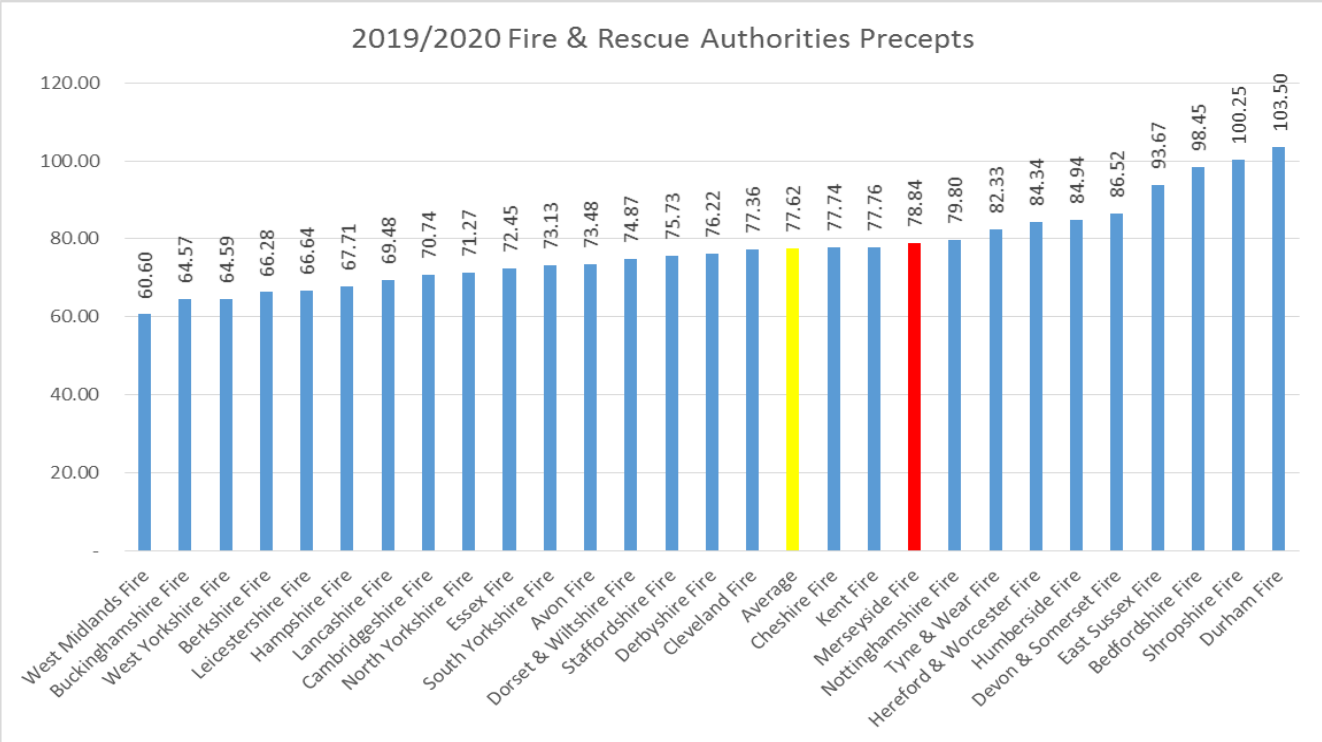
Excellent Prevention and Protection
Working with partners and our community to protect the most vulnerable.

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

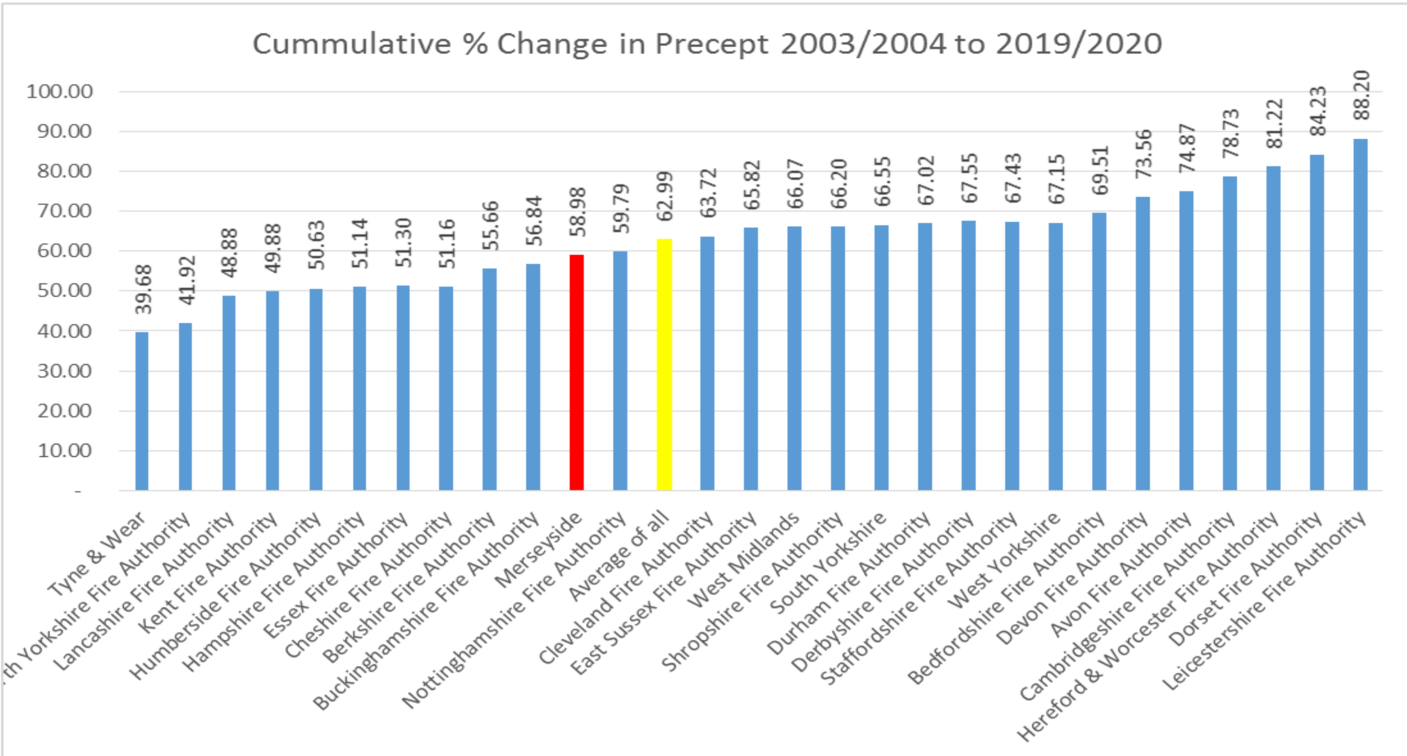
35. In recent years the Authority has adopted a financial strategy that:-
- Sought to control Council Tax increases,
- Planned for pay awards and cost increases in line with Treasury inflation forecasts,
- Sought to generate significant savings through staff reductions whilst avoiding compulsory redundancy,
- Sought to minimise the impact of cuts on frontline services including prevention,
- Made significant investment in IT and computing (including outsourcing),
- Provided investment in equality and inclusion 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 an adequate general reserve 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.

36. 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.

37. The Authority's 2019/2020 (Band D) Council Tax is £78.84, this is slightly above the FRS national average, £77.62, as shown in the bar chart below:-

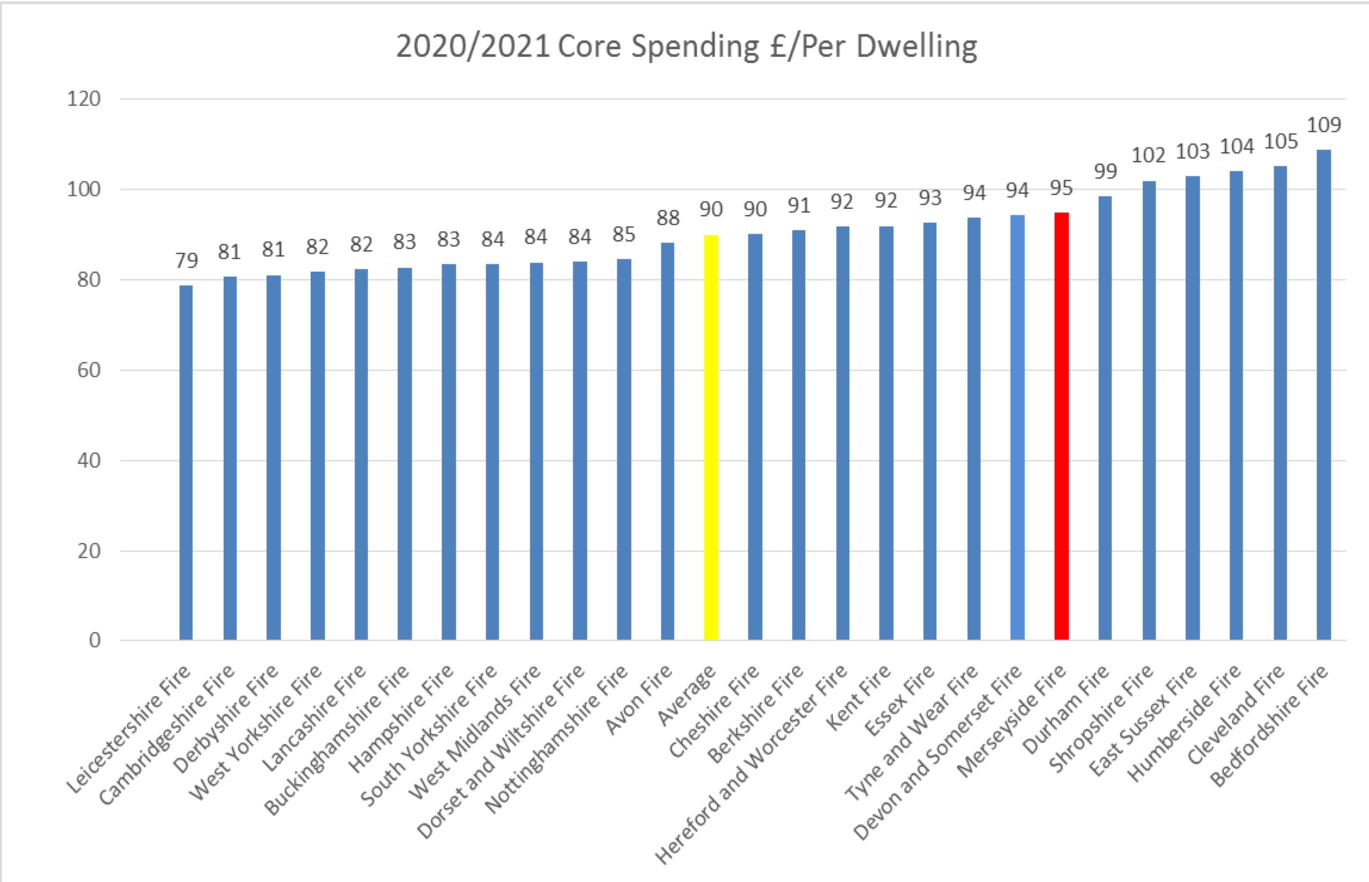


38. Over the past 16 years when compared to the other FRA's Merseyside has had one of the lowest cumulative council tax increases:



39. 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.

40. 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)*

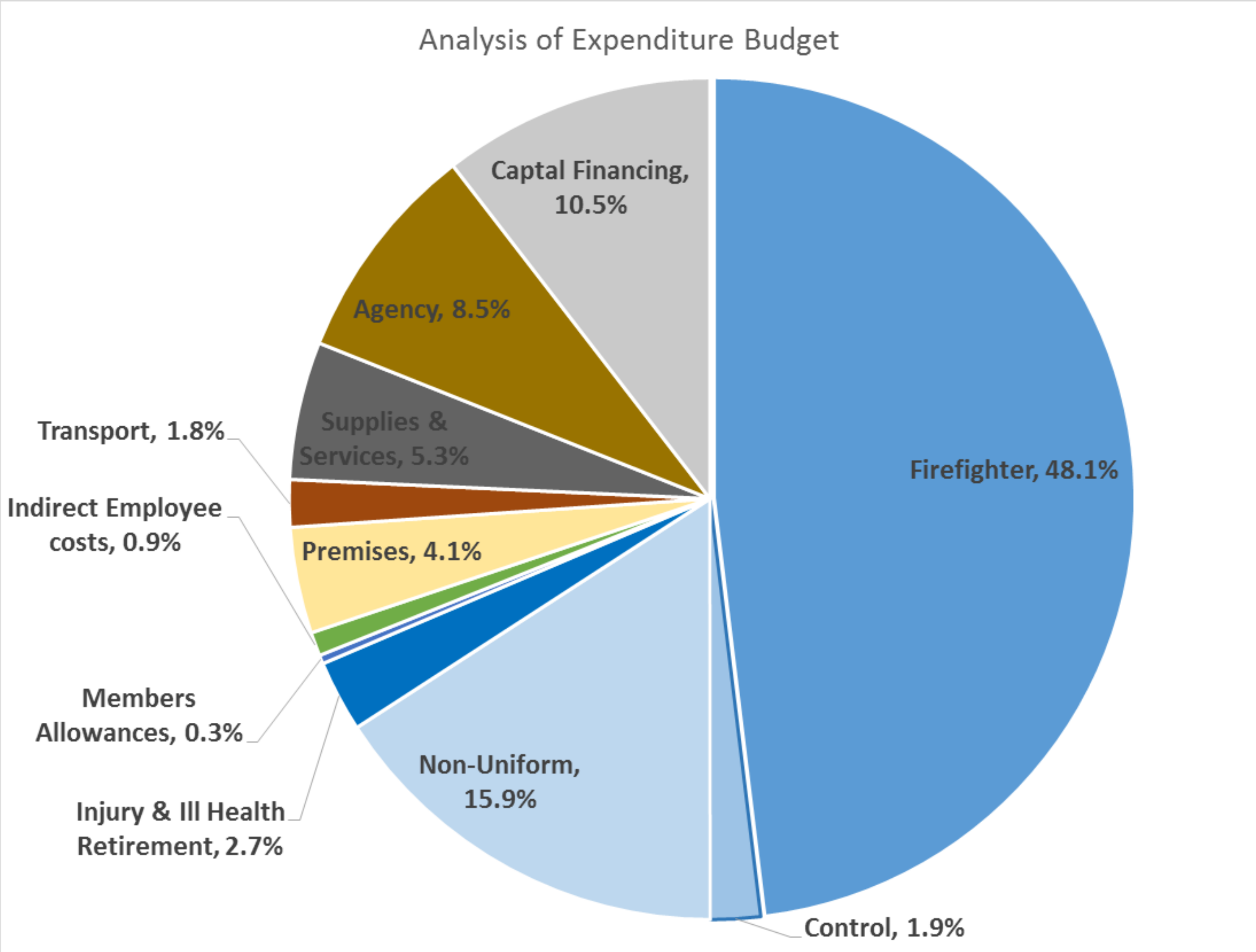


41. The unprecedented reductions in Government funding over the 2011/2012 to 2019/2020 period required difficult decisions to be made but the Authority has a proven track record in managing its financial affairs well as can be seen in the following indicators:-

- 2018/19 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 £3.0m.
- 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.

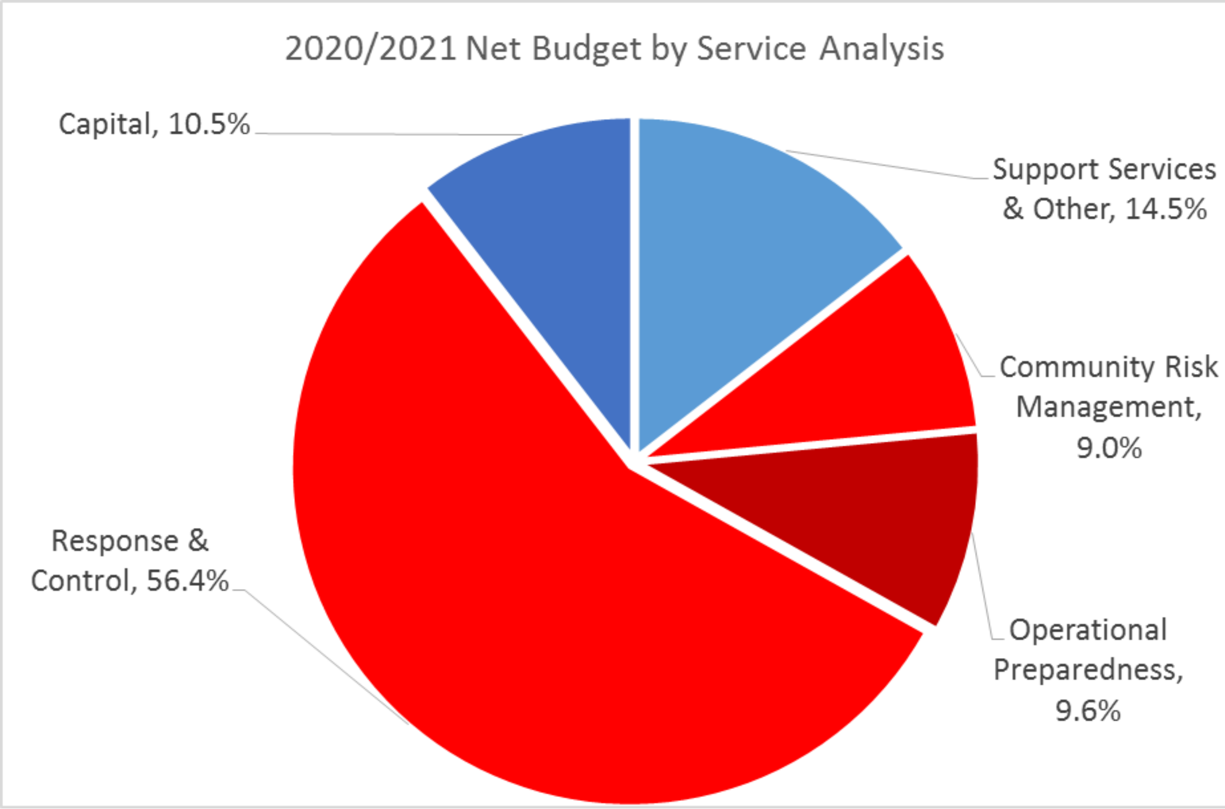
- Successfully delivered large-scale changes and savings.

42. Members will be aware that Merseyside Fire and Rescue Authority expenditure is predominantly employee related (70%). (The blue sections relate to employee costs):-



A full subjective analysis of the base budget for 2020/2021 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.

43. 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 56.4% goes on emergency and specialist response. In addition 9.6% goes on Operational Preparedness and 9.0% on Community Risk Management. Therefore 75.0% of expenditure is on the "front line" services. In addition the 10.5% on capital costs relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 14.5% is on support services.



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

<u>Operational Response & Control (Total £34.9m)</u>

- Service delivery and emergency response through its 23 (reducing to 22) fire stations and its control room.
- 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.
- 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 £5.6m)</u>

- Protection Teams; £2.5m.
- Community Prevention work and youth engagement; £2.4m
- 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)

<u>Operational Preparedness (Total £6.0m)</u>

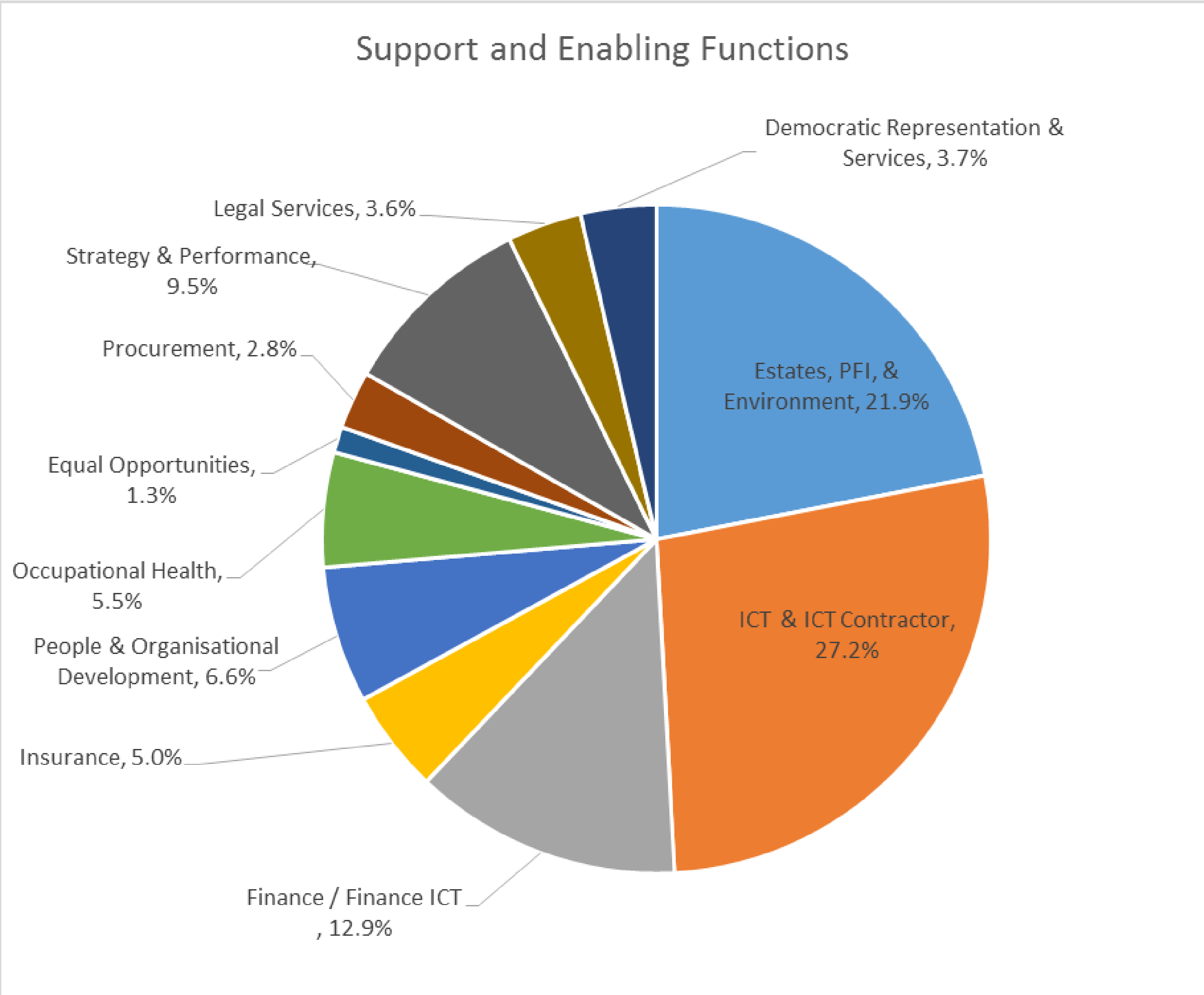
The investment of £6.0m delivers a variety of services which helps prepare for a full range of possible incidents in Merseyside and ensure Firefighter safety.

- Training Delivery

- Operational Planning and Policy
- Contingency Planning
- New Dimensions (National Resilience) to cope with major disasters and terrorist threats
- Invests £1.7m operating a Training and Development Academy.
- Operational Equipment Team
- Water Section
- Health and Safety Department
- Transport/Fleet Management – to keep vehicles operating effectively
- Workshops
- National Operational Guidance Review Team

<u>Support Services & Enabling Services (Total £9.0m)</u>

The investment in support services of £9.0m represents 14.5% 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 23 Community Fire Stations;
- ICT – includes the cost of the ICT Fire for Control;
- Occupational Health – to support staff wellbeing and manage attendance.

In addition some support functions are unavoidable for any organisation;
- Insurance - to cover 3rd party, vehicle, public and employer liabilities;
- Legal; Payroll; Accountancy; Human Resources; Procurement etc. to support the organisation in paying its staff, suppliers, and ensuring activities are carried out within the relevant laws.

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

C) CAPITAL STRATEGY AND PROGRAMME

44. 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***.

45. 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.

46. 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.

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

52. The proposed £33.390m 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 £23.640m.

Capital Programme 2020/21 to 2024/25

Capital Expenditure	Total Cost £	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Building/Land	12,853,800	10,588,900	939,900	705,000	305,000	315,000
Fire Safety	3,271,500	731,500	635,000	635,000	635,000	635,000
ICT	4,971,000	1,467,600	667,100	927,100	797,100	1,112,100
Operational Equipment & Hydrants	3,253,500	1,908,500	256,000	240,000	462,000	387,000
Vehicles	9,040,600	3,549,100	1,808,600	1,913,300	478,100	1,291,500
Expenditure	**33,390,400**	**18,245,600**	**4,306,600**	**4,420,400**	**2,677,200**	**3,740,600**
Financing Available	**Total £**	**2020/21 £**	**2021/22 £**	**2022/23 £**	**2023/24 £**	**2023/24 £**
Capital Receipts	1,325,000	1,325,000	0	0	0	0
RCCO	1,875,000	375,000	375,000	375,000	375,000	375,000
Capital Reserves	5,300,000	5,300,000	0	0	0	0
Grants	1,250,000	1,250,000	0	0	0	0
Total Non Borrowing	9,750,000	8,250,000	375,000	375,000	375,000	375,000
Unsupported Borrowing	23,640,400	9,995,600	3,931,600	4,045,400	2,302,200	3,365,600
Total Funding	**33,390,400**	**18,245,600**	**4,306,600**	**4,420,400**	**2,677,200**	**3,740,600**

53. New additions to the capital programme have increased the overall expenditure by £4.913m, the reasons for this are :-

(a) The addition of the “extra year” to the programme 2024/25, £3.741m.

(b) New Expenditure Proposals in 2020/2021 – 2023/24 of £1.172m have been included. The key items are for investment in; upgrades to a number of current ICT applications and a price increase in the Microsoft agreement (+£0.618m); additional specialist response vehicles (+£0.311m); operational equipment purchases (+£0.068m); and additional building works at Heswall fire station (+£0.175m).

54. **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 (£12.854m)
The estate comprises of 23 fire stations (*that will reduce to 22 following the completion of the current station merger programme at 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 completion of the construction of a new community fire station in St Helens as part of the station merger programme accounts for £2.500m of the planned spend. The planned refurbishment of the current Training & Development Centre (TDA) commits £4.494m, but the CFO and SLT will consider during 2020 if an alternative option of a new site and potential station mergers offers a more preferable solution. Essential work at fire stations and other property makes up most of the balance.

B. Fire Safety (Community Risk Management) (£3.272m)
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 (£4.971m)
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 £1.8m; software licenses £1.9m and the planned upgrade to the control room ICT and other applications, £1.2m.

D. Operational Equipment & Hydrants (£3.254m)
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, £0.6m
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, £0.1m
g. Operational ladders, £0.1m
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 (£9.041m)
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 30 are left on stations including the SRT and 7 held in 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.

55. As significant uncertainty exists around the level of Government revenue funding beyond 2020/2021, the CFO will undertake a review of the current capital programme to determine if it is possible to free up funds to re-invest and modernise the Service's infrastructure. This may allow additional new capital spend (funded through borrowing).

The review will consider not just specific projects within the programme but the assumed asset life and refresh period.

56. 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.

57. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £1.325m. 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.

58. 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. As outlined in the capital operational equipment schemes the Authority has received £1.250m for NRAT asset refresh.

59. 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 £4.913m 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 £4.538m. The level of prudential "unsupported" borrowing in the proposed 5 year programme is £23.640m and the future revenue servicing cost of this debt has been built into the medium term financial plan as outline below.

60. 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 2020/2021 – 2024/2024 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

61. 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.

62. 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 a 4% MRP methodology).

63. 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.

64. 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.

65. The 2020/2021 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2019/2020. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2019/2020;

- 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.

66. 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.

67. 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.

68. In addition, it is proposed that any revenue budget savings identified in a year may be used to make additional one-off MRP payments if the overall financial position of the Authority in that year remains consistent with the approved financial plan.

69. Interest on loans taken out to fund capital expenditure is estimated at £2.0m.

70. 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

71. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2020/2021, 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.

72. 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 2020/2021.

73. The financial plans prepared in respect of the financial years 2021/2022 and 2022/2023 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 2% in 2020/2021 and thereafter.

74. 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.***

75. 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.

76. The prudential indicators for the Authority are:-

a) Capital Expenditure

The actual capital expenditure that was incurred in 2018/19 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2017/18 £000,s	Actual 2018/19 £000,s	Estimate 2019/20 £000,s	Estimate 2020/21 £000,s	Estimate 2021/22 £000,s	Estimate 2022/23 £000,s	Estimate 2023/24 £000,s	Estimate 2024/25 £000,s
Capital Expenditure	10,159	9,698	12,587	18,246	4,307	4,420	2,677	3,741

Members will note that the increased expenditure in 2018/2019 – 2020/2021 reflects a number of significant investments including;

- The planned new fire stations in St Helens, and Saughall Massie, £12.600m over the period.
- Refurbishment of the Training and Development Academy of £3.775m in 2020/21

- New fire appliances spend of £4.672m over 2018/2019 – 2021/2022

This explains why the total expenditure in 2018/2019 – 2020/2021 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 2018/2019 are:

	Actual 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25
Ratio of Financing costs to Net Revenue Stream	**16.51%**	**14.28%**	**6.87%**	**8.27%**	**8.87%**	**9.73%**	**9.73%**

This shows that forecast debt financing costs will reduce from 16.51% in 2018/2019 to 8.87% in 2022/2023 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.

(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 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25
Incremental Impact of Capital Investment Decisions.	**-£1.31**	**£2.34**	**£0.09**	**£0.02**	**£0.04**	**£1.28**

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 2019/2020 into 2020/20210 approved during the year and the new starts in 2020/2021 – 2024/2025 explains the movement in the figures over this period.

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

78. Based on current commitments for 2019/2020 and the latest estimates of capital investment decisions in future years, the capital financing requirement forecast as at 31st March 2020 and future years is as follows:

	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	31.3.19	31.3.20	31.3.21	31.3.22	31.3.23	31.3.24	31.3.25
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement	40,203	37,728	45,672	46,441	46,936	45,245	44,527
(Excluding PFI/MRD)							

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.

79. 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."

80. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach £46.9m by the end of 2022/2023 and the expected maximum debt position for 2022/2023 is £41.7m. 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 2020/2021

INTRODUCTION

81. 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

82. 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 2020/2021.
- The External Debt and Treasury Management Prudential Indicators and Limits for 2020/21 to 2022/2023.
- The Investment Strategy 2020/2021.
- The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

83. The suggested strategy for 2020/2021 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. There has been some recent speculation of a possible cut in the Bank Rate, as a response to recent inflation statistics that have been lower than the market expectation.

PWLB rates and gilt yields have continued to experience exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Following a decline in gilt yields over the summer months, 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 costs 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.

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 2020/2021. 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 2020/2021 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		**2020/21**	**2021/22**	**2022/23**
		£'000	**£'000**	**£'000**
Gross Borrowing		46,000	46,000	47,000
Other Long Term Liabilities		18,000	18,000	18,000
TOTAL		**64,000**	**64,000**	**65,000**

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		**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
External Borrowing		40,000	40,000	50,000
Other Long Term Liabilities		18,000	18,000	18,000
TOTAL		**58,000**	**58,000**	**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 £37.3 million at 31st March 2020.

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.

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Capital Financing Requirement	55.5	63.0	63.3	63.3	61.0	59.7
Less: PFI	(17.8)	(17.3)	(16.9)	(16.4)	(15.8)	(15.2)
Less:MRD	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.0)
Borrowing CFR	**37.5**	**45.5**	**46.2**	**46.8**	**45.1**	**44.5**
Existing Debt Portfolio	37.3	36.9	37.9	41.7	44.7	45.7
Over(-)/Under borrowing	**0.2**	**8.6**	**8.3**	**5.1**	**0.4**	**(1.2)**
Borrowing as a % of CFR	**99.5%**	**81.1%**	**82.0%**	**89.1%**	**99.1%**	**102.7%**

(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		**2020/21**	**2021/22**	**2022/23**
		%	**%**	**%**
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 2020/2021.

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	95%	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 2020/2021, 2021/2022 and 2022/2023.

(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 2020/2021 – 2024/2025

84. The Authority has in recent years maintained a robust medium term financial plan, MTFP. 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.

85. Following the financial crisis of 2008 the Government implemented a programme of austerity that resulted in significant reductions in Government grant funding for the Authority since 2010/2011. The cumulative percentage reduction in Government revenue support for the Authority between 2010/2011 (£46.3m) and 2019/2020 (£30.8m) equated to a 33% cash reduction or approximately 50% in real terms. That resulted in unavoidable reductions in the front line operational services over this period.

86. The 2019/2020 MTFP approved at the Budget Authority meeting on 28th February 2019 delivered, based on the information at that time, a **balanced financial position up to 2020/2021**. The structural changes required to sustain the approved saving within that plan have all been actioned bar the final station merger proposal, but this should be completed following the opening of the new St Helens fire station towards the end of 2020. As significant uncertainty existed over future Government funding and future cost increases from 2020/2021 Members were simply asked to note any financial challenges beyond 2020/2021, and deal with any challenge once future funding became clearer.

87. The current plan assumptions, that delivered a balanced 2020/2021 financial position, were considered by Members at the January 2020 budget strategy day. The following paragraphs summarise the key assumptions and approved amendments by Members at the Strategy day:-

88. **Inflation - Pay & Prices Changes:-**
The current plan included a provision for 2% p.a. pay and 2% p.a. for general price increases.

In light of some 2019/2020 public sector pay awards being above 2% and growing pressure from staff to offer higher awards, Members agreed to support the proposal from the Director of Finance to increase the 2% p.a. annual pay award assumption to 2.5% for the proposed new MTFP. This would increase annual employee costs by £0.240m in a full year (the firefighter pay award effective date is the 1st July).

The proposed plan has not changed the current assumption for future price increases of 2% p.a.

The proposed plan also assumes that Members will continue with their commitment to reduce their own costs (previously Members made reductions in allowances of £24,000) and the plan once again assumes a freeze in Member allowances for the twelfth consecutive year.

89. **Pensions:-**

Local Government Pension scheme (LGPS):-

- The scheme is required to undertake an **actuarial review** every 3 years. Such a review was carried out in 2019. The review requires an increase in employer future service rates of 2.3%, from 15.2% to 17.5%, with effect from April 2020 adding £0.250m p.a. to the pay bill. The current MTFP had taken this rate increase into account. In addition the rate increase includes an estimate for the impact of any remedy associated with the McCloud case, which challenged the protection offered to some members of the scheme when the new LGPS was introduced in 2014, and was found to be age discriminatory.

- As well as paying an employer contribution to cover the cost of future benefits, the Authority must make good any **deficit in historic contributions**, currently £0.9m p.a. The fund's deficit position can change with each actuarial review as the funds assets and liabilities can go up and down. The 2019 Actuary review has now established the fund is 100% funded. The current MTFP had assumed this would be the case and used the freed-up budget to fund a £1m re-investment back into the frontline.

- Merseyside Pension Fund (MPF) have offered the Authority a small discount IF 80% of the 2020/2021 – 2022/2023 **forecast employer future service contributions** are paid in advance in 2020/2021. The Director of Finance is in discussions with the Auditor and legal experts to validate if this option is allowable, and if it is would recommend that the Authority accept the offer. The discount would equate to a total £0.2m discount over the 3 year period but would require a £2.3m upfront payment for 2021/22 – 2022/2023. This would be funded on a temporary basis from reserves, which would then be refunded over the relevant period. **Members are asked to delegate the authority to the Director of Finance to take up this option if the advice from the Auditor and legal professionals is that it is allowable.**

Firefighter Pension Scheme(s):-

- **Reduction in the Government discount rate from 2019/2020**:- 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 2019/2020. 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. Members approved the 2019/2020 MTFP at the Budget Authority meeting on 28th February 2019, and at that time the Government had yet to announce the impact this would have on the various FPS(s), the plan had used the LGA assumption that the "average" increase would be +12.6% or +£2.8m p.a. The Government was expected to fund 90% or £2.6m of the additional cost in 2019/2020 only with future years funding being considered as part of the comprehensive spending review. The current plan assumed that the funding would reduce from the 2019/2020's 90% grant funding level to 75% or £2.1m.

The Authority received a letter from the Home office in March 2019 that advised that the employer rate would actually be increased by 14.5% and 15.6% for the 2015 FPS and 1992 FPS respectively, resulting in an overall increase in the employer cost of £3.210m, an additional £0.410m in 2019/2020. The Director of Finance challenged the Home Office over the level of grant support and successfully got the Home Office / Treasury to increase the grant by £0.433m to £3.025m. The Home Office have confirmed that the grant funding will continue at the 2019/2020 level for 2020/2021 only. Funding beyond that will be considered as part of CSR 2020 and will not be known until at least December 2020. **The proposed plan will build in the actual costs associated with the known FPS(s) employer rates and assume grant funding will continue at the 2019/2020 level for the MTFP period.**

- **McCloud** - The FBU made a legal challenge in relation to the way the Government implemented the 2015 FPS as a result the transitional protection arrangements introduced with the 2015 FPS were deemed unlawful and discriminatory on grounds of age. Currently the impact on MTFP of any remedy is unknown as only an interim announcement has been made. The current and proposed MTFP have made **NO** provision for any potential cost associated with this issue, as it is hoped the Government would fund any remedy and compensation payments. Later on in this report Members are advised on the proposed committed reserves within the plan, of which £2.000m has been earmarked within a smoothing reserve. IF any McCloud costs fall on the Authority in 2020/2021, the smoothing reserve will provide a temporary resource and the matter will be considered as part of the 2021/2022 budget process.

90. **Review of Approved Saving Options**
All savings have been delivered, 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 (October / November 2020). The required firefighter saving is being delivered in cash terms as the reduction in the number of firefighters has been achieved.

91. **Revenue Growth**
The current plan assumed no future unavoidable growth requirements. The CFO and SLT have identified a number of unavoidable growth issues totalling £0.674m. Over 50%, £0.365m of this is to reduce current income budgets to the current income attainment levels for: secondment (£0.200m); TDA commercial (£0.070m): workshops (£0.050m) and Marine 1 (£0.045m) services. Investment required to upgrade current ICT applications, £0.084m; equality, staff and consultation initiatives, £0.058m; funding job evaluation reviews, £0.075m; and the cost of outsourced contract uplifts, £0.092m make up the balance. The proposed MTFP now includes these unavoidable uplifts.

92. **Cost of Capital Borrowing**
The plan also takes into account the proposed MRP policy discussed previously in section D. 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. As a result of one-off funding increases, see further on regarding the collection fund(s) position, £0.224m funding is available. The proposed MTFP assumes this will be used to fund an additional MRP payment in 2020/2021.

93. **Firefighter Recruitment**
The Authority established a £3m firefighter recruitment reserve to fund firefighter recruitment ahead of expected retirements to ensure sufficient competent firefighters were available to staff appliances. The current MTFP anticipates a drawdown from the reserve each year to cover the employee costs of these additional staff above the establishment. In 2019/2020 and previous years the Service has managed to fund this cost from within the existing employee budget as firefighters have left earlier than expected, staff have left the service or are not at the top of their grade. The proposed plan removes from 2020/2021 and future years the planned use of the reserve and instead the reserve will be drawndown when actual levels of spend require additional funding.

Resources Available:-

94. The Authority has two main sources **Government Funding** and **Council Tax**.

Government Funding:-

95. In 2013/2014 the Government reformed the Fire and Local Government funding system and introduced the 50% 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.

The Government have announced a one year 2020/2021 settlement, the Settlement Funding Assessment (**SFA**), for the Authority. The actual SFA is marginally higher than the estimated figure by £0.040m as the uplift is 1.6%, 0.1% above that assumed. In addition the SFA includes a forecast of the Authority's local business rates share, however based on the Merseyside district council local business rates forecasts for 2020/2021 the Authority will receive an additional £0.139m above the amount estimated in the SFA.

The proposed plan attempts to forecast future Government support beyond 2020/2021 however, it is very challenging to forecast with any certainty the likely levels of support beyond 2020/2021. That being said the plan assumes a 1.0% 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. This is a reduction on the current plan's 1.5% assumption as the Government has identified other public sector services as its priority. In addition the National Fire Chiefs Council and Home Office will need to identify to the Treasury spending pressures within the fire and rescue services to justify any significant increase in departmental spending levels. The Government has also reviewed the Fair Funding system, Business Rates retention system and may carry out a full reset of the current business rates base, and these may all impact on the Authority's future share of Government funding. For all these reasons it is difficult to forecast the future SFA support and a 1% uplift assumption may be more realistic. It is hoped that the CSR 2020 will announce a multi-year settlement to aid planning for the future resource availability.

96. **Council Tax income** –
The current plan assumed a Council Tax Base Increase of 1% for 2020/2021 and 2021/2022. The actual increase in 2020/2021 was +1.7%, and the proposed plan now incorporates this increase and extends the assumption of a 1% tax base increase in each year of the plan. The 2020/2021 Tax Base increases were:-

District	2019/20 Council Tax Taxbase	2020/21 Council Tax Taxbase	Variance	
LIVERPOOL	105,960.17	109,011.69	3,051.52	2.88%
WIRRAL	93,497.80	93,965.90	468.10	0.50%
ST.HELENS	51,317.00	52,272.00	955.00	1.86%
SEFTON	84,077.30	84,904.40	827.10	0.98%
KNOWSLEY	35,822.00	36,755.00	933.00	2.60%
	370,674.27	376,908.99	6,234.72	1.68%
2019/20 Band D Tax Level	78.84	78.84		
Total Income £	29,223,959	29,715,505	491,545	1.68%

This means that for each £1 of Council Tax the level of income will be greater than that generated in 2019/2020 by £6,234.72. The result of this is that the income from the current level of Council Tax is anticipated to be higher by £0.492m (this is assumed to be a permanent increase). The current plan had assumed a 1% or £0.292m increase, therefore the actual increase has resulted in additional tax income of £0.200m.

The Government has announced that for 2020/2021 the maximum level of increase in Council Tax before holding a referendum will be **just under 2%**. The current and proposed MTFP assumes that Members will uplift the Precept by the referendum limit of just under 2% in 2020/21 and each year after that. A just under 2% (1.98%) increase for 2020/2021 will see the Band D precept increase from £78.84 to £80.40, an increase of £1.56. The precept increase will raise an additional £0.588m in 2020/2021.

Council Tax Increase			
	0%	1.98%	Change
Band D Tax	78.84	80.40	1.56
LIVERPOOL	8,594,482	8,764,540	170,058
WIRRAL	7,408,272	7,554,858	146,586
ST.HELENS	4,121,124	4,202,669	81,545
SEFTON	6,693,863	6,826,314	132,451
KNOWSLEY	2,897,764	2,955,102	57,338
	29,715,505	30,303,483	587,978

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 £0.224m. This impact is a one-off.

District	**2019/20** Council Tax Coll fund deficit/ (surplus)
	£
LIVERPOOL	-39,931
WIRRAL	-82,080
ST.HELENS	-18,924
SEFTON	98,306
KNOWSLEY	-43,000
	-85,629

District	**2019/20** NNDR Coll fund deficit/ (surplus)
	£
LIVERPOOL	-41,624
WIRRAL	-1,767
ST.HELENS	-44,929
SEFTON	-6,161
KNOWSLEY	-44,227
	-138,708

District	**2019/20** Coll fund deficit/ (surplus)
	£
LIVERPOOL	-81,555
WIRRAL	-83,847
ST.HELENS	-63,853
SEFTON	92,145
KNOWSLEY	-87,227
	-224,337

OVERALL IMPACT

97. The overall impact of all these changes to the 2019/2020 MTFP is that the Authority maintains a balanced position for 2020/2021, but faces a potential financial challenge of **£0.760m in 2021/2022** rising to **£1.491m by 2024/2025.**

98. Summary of changes:-

Proposed Amendments to Current 2019/2020 MTFP	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
2019/20 MTFP forecast position	**0**	**0**	**295**	**378**	**378**
Budget Requirement					
Reflect known Firefighter Pension Rates / Grant per HO	-515	-515	-515	-515	-515
Increase 2020/21 & Future yrs Pay Award from 2% to 2.5%	197	437	677	917	1,157
New Year, 2024/25, Inflation Provision					1,200
Unavoidable Growth	674	919	991	991	991
Additional MRP	224				
Overall increase	**580**	**841**	**1,153**	**1,393**	**2,833**
Funding					
Government Funding-Settlement Funding Assessment:					
Known 2020/2021 funding (increase to that in MTFP)	-40	-40	-40	-40	-40
Future SFA increase of +1% p.a, previously +1.5%.	0	156	316	481	481
New Year SFA for 2024/2025					**-323**
Adjustment for Business Rates based on District Forecasts					
Adjustment for Business Rate income forecast from Districts	-118	0	0	0	0
NNDR Collection Fund (surplus)/deficit	-139	0	0	0	0
Council Tax -					
Increase in 2020/2021 Tax Base above 1% in current MTFP	-200	-204	-208	-212	-212
Assume Increase in Base of 1%, previously up to 2021/22			-312	-633	-633
Increase in Tax Base of 1% new year, 2024/2025					-331
Amend Precept increase from 2% to 1.98% from 2020/21 net impact	3	7	7		
Precept increase of 1.98% new year, 2024/2025					-662
Council Tax Collection Fund (surplus)/deficit	-86	0	0	0	0
Overall increase	**-580**	**-81**	**-237**	**-404**	**-1,720**
Assumption / Known changes impact on 2020/2021 MTFP	**0**	**760**	**916**	**989**	**1,113**
Overall 2020/2021 MTFP Forecast (Surplus) / Deficit	**0**	**760**	**1,211**	**1,367**	**1,491**

99. As the updated MTFP results in a balanced financial position for 2020/2021 Members do not need to consider options for additional savings in 2020/2021, subject to the key assumptions, particularly 2020/2021 annual pay awards remaining robust.

100. The Government has reviewed the way it assess relative need (fair funding review) and the funding arrangements for fire and local authorities (75% Retained Business Rates) and both these reviews may impact on the allocation of funds to MFRA within the CSR2020. That being said an attempt has been made to prepare a MTFP for the next five years up to 2024/2025. The updated financial plan is outlined in the table overleaf:-

2020/21 - 2024/25 FINANCIAL PLAN

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
2019/20 MTFP	61,381	62,759	64,150	65,350	65,350
New Issues Identified In 2019/20:-					
Revised FPS Employer Rates / Grant Announced by HO:-	**-515**	**-515**	**-515**	**-515**	**-515**
Increase 2020/21 & Future yrs Pay Award from 2% to 2.5%	**197**	**437**	**677**	**917**	**1,157**
2024/25 Inflation Provision					**1,200**
Unavoidable Growth	**674**	**919**	**991**	**991**	**991**
Additional MRP	**224**				
Recruitment reserve & drawdown based on actuals in year					
Employee Budget	**-250**	**-750**	**-200**	**-200**	**0**
Recruitment Reserve	**250**	**750**	**200**	**200**	**0**
	580	**841**	**1,153**	**1,393**	**2,833**
UPDATED MTFP Budget Requirement	**61,961**	**63,600**	**65,303**	**66,743**	**68,183**
FUNDING					
Government Funding-Settlement Funding Assessment:					
Top Up Grant .	-15,840				
CLG Estimate of Local Business Rate Share	-4,296				
Baseline Funding Level	-20,136				
RSG	-11,179				
	-31,315	**-31,315**	**-31,628**	**-31,944**	**-32,263**
Assume future SFA increase of +1% p.a.		**-313**	**-316**	**-319**	**-323**
Settlement Funding Assessment	**-31,315**	**-31,628**	**-31,944**	**-32,263**	**-32,586**
Adjustment for Business Rates based on District Forecasts					
Adjustment for Business Rate income forecast from Districts	-118	0	0	0	0
NNDR Collection Fund (surplus)/deficit	-139	0	0	0	0
Adjustment to Local Business Rates income forecast	**-257**	**0**	**0**	**0**	**0**
Council Tax -					
Base Precept Income	-29,223	-30,303	-31,212	-32,148	-33,114
Assume increase in Council Tax Base of 1.0% p.a. from 2021/22	-492	-303	-312	-322	-331
Assume a Precept increase of just under 2% (1.98%) from 2021/	-588	-606	-624	-643	-662
Council Tax Collection Fund (surplus)/deficit	-86	0	0	0	0
Forecast Council Tax Income	**-30,389**	**-31,212**	**-32,148**	**-33,113**	**-34,107**
TOTAL FUNDING	**-61,961**	**-62,840**	**-64,092**	**-65,376**	**-66,693**
Forecast (Surplus) / Deficit	**0**	**760**	**1,211**	**1,367**	**1,490**

101. The Government's comprehensive spending review 2020 (CSR2020) will provide some certainty around future funding as it is expected to announce a multi-year settlement for two to four years (2021/2022 up to possibly 2024/2025) in early December 2020.

102. At the Budget Strategy day Members were advised that in order to tackle any potential financial challenges as a result of:

- CSR 2020 funding cuts, and/or
- The need to fund new investments in infrastructure (new fire stations, a new training centre etc), and/or
- Unavoidable cost pressures (the McCloud remedy), and/or
- Actual costs exceeding the MTFP assumptions,

The CFO and SLT would consider options during 2020 to bring back to Members during the 2021/2022 budget process for consideration.

103. The next section considers the process of identifying new saving options for 2021/2022 and future years IF required.

(H) Options for Tackling the Future Financial Challenge (2021/22 – 2024/25)

104. The Budget Authority on the 28th February 2019, CFO/009/19, approved saving options to deal with the expected financial challenge in 2020/2021. Section G of this report has updated members on any changes to the approved plan and **confirmed that the proposed plan for 2020/2021 maintains a balanced position**.

105. 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 2024/2025. As the level of uncertainty over future costs and funding is significant beyond 2021/2022, particularly regarding the level of future Government support, Members are asked to simply note any financial challenge at this point. Future Budget Authority meetings will consider the challenge in and beyond 2021/2022 as the financial information becomes more certain.

106. Section G of this report indicated a potential £1.491m challenge by 2024/2025, but this is based on a number of assumptions around future cost and funding changes. Small variations in any of the key assumptions will have a material impact on the level of challenge facing the Authority. To provide some indication of this the following bullet points outline some potential scenarios and the financial implications:-

- For each additional 1% pay increase above the 2.5% assumption would increase the challenge by +£0.4m p.a. An additional 1% in each of the 5 years of the MTFP would mean a +£2m additional challenge by 2024/2025
- If the Government withdraws the current grant that supports the additional employer cost of the firefighter pension scheme(s) following the 2016 actuarial review, that would add +£3m p.a. to the challenge.
- The McCloud pension case may see eligible firefighters moving back from the FPS 2015 to FPS 1992 resulting in a +8.5% increase in the employer contribution rate. If this cost falls on the Authority then it may increase employer costs by +£1m p.a.
- The CSR 2020 will establish the level of funding for the various Government Departments. If priority is given to Police, Social Care, Education etc, Fire and Rescue funding may be frozen or even reduced. The proposed MTFP assumes a +1% p.a. increase. Each 1% variation would result in a £0.3m cost / additional funding. If in each year of the CSR 2020 the cash settlement is reduced by 1%, then potentially the loss of funding could be closer to +£1.2m in real terms by 2024/2025.
- Based on the above it is easy to see a scenario in which the financial challenge may be +£7m by 2024/2025.

107. The CFO outlined to Members at the January strategy day potential areas for future investment not currently built into the MTFP or capital programme. Significant further work is required before any of the potential investment proposals can be considered, but a new fire station would tend to cost around £5m to £6m depending on the available land. A new training academy / fire station may be at least £20m. These investments would be funded by borrowing that would result in additional debt serving costs of £1m to £2m p.a.

108. It therefore makes sense for the CFO and SLT to consider during 2020 potential options for delivering savings **IF** they were required. The rest of this section will briefly outline some of the issues any discussion would need to take account of**, BUT no formal proposals will be developed unless the CSR 2020 or other circumstances arise that necessitate savings to be identified**. Any **proposals would be considered by Members as part of the future budget making process**.

109. 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

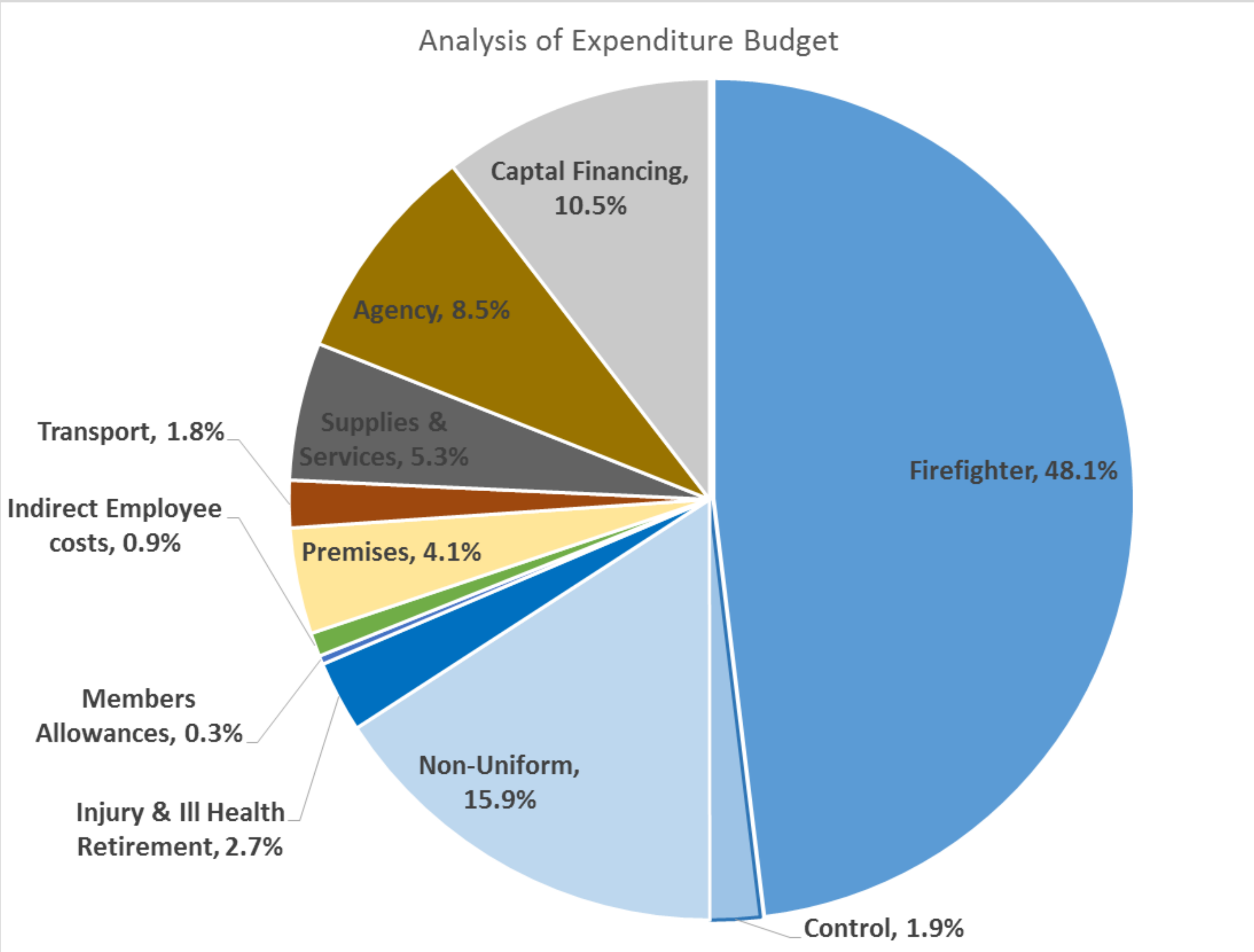
Principle 4 – To consider budget approaches which ensure the right balance between local and national funding levels and considers the views of local people on the right level of council tax balanced against aspirations for service levels

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

110. In addition the Service has established a 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.

111. A subjective analysis of the budget requirement outlines that 70% / £53m of the expenditure budget is on employee related costs; 20% / £12m is on non-employee costs associated mainly with the provision of fire stations, firefighter vehicles, equipment / PPE, and services as ICT; and 10% / £6m for servicing historic borrowing costs associated with capital investment. The pie chart overleaf outlines the 2020/2021 subjective spend:-



112. In the first instance IF future saving are required the CFO & SLT would look at the **Non-Employee and the "Technical" budgets.**
    - **Non-employee expenditure**:- Since 2010/2011 most of these budgets have been reduced or frozen at historic levels. Unless the number of fire stations, firefighters or general staff reduce significantly it is difficult to see how any material savings can be identified. That being said the CFO and SLT will go through the relevant budget lines to see if any opportunities can be identified:-
        - Approximately £6m budget is earmarked for the servicing of historic debt associated with borrowing for capital investment (**Minimum Revenue Provision (MRP))**. The reality is that current and future planned capital expenditure that is funded by borrowing is putting pressure on this budget and only through good treasury management activities (using internal cash, reducing investments,making additional MRP payments whenever possible) is ensuring the MRP commitment over the MTFP period stays within the available budget. The CFO and SLT will review the proposed 5 year capital programme and consider; the asset refresh period to determine if it can be extended; specification levels; and also the necessity for scheme spend. This may reduce

borrowing requirements to allow a reduction in the MRP budget or facilitate new additional investment to modernise the Service.

- **Non-employee inflation:–** The proposed MTFP assumes that all non-employee costs will require an inflationary uplift. While some categories of spend have a specific indicex (utilities, business rates) most are assumed to go up by general inflation of 2% p.a. Over recent years any inflationary pressure in the first instance is expected to be covered from within the base budget and this had led to significant savings over the years. The option to continue with the practice is more difficult now but going forward the practice will continue and potentially deliver a saving.

113. **Council Tax – Precept Increase.** The MTFP assumes a just below 1.98% council tax increase for 2021/2022 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 2021/2022 local government settlement announcement in December 2020.

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.

114. **Support Services and Management Costs.** The CFO and SLT will review current staffing levels and work requirements to see if any saving can be made. It is important to remember that some of these functions; advocates; protection staff; Marine 1 are providing services that could be viewed as frontline activities. Also others provide enabling services to allow frontline staff to do their work; ICT support; workshops; procurement of goods and services etc. Therefore any reduction in the 290 FTE staff may impact on the effectiveness of frontline services.

115. **Operational Response Staff Savings.**
The current establishment of 642 FTE is at a level the CFO believes is the minimum required by the Service. The range of duty cover systems and use of retained contracts delivers one if not the most productive staffing arrangements within the UK fire and rescue service. However IF the worst case scenario for the future financial challenge does materialise the Authority may have no choice but to review the firefighter establishment. But this would be the last option to be considered.

116. Once the CSR 2020 announcement is made, December 2020, Members will be advised at the earliest opportunity on what this may mean for the Authority and the Service in future years. The work undertaken by the CFO and SLT would hopefully identify saving option proposals for Members to consider IF required.

117. The next section discusses the reserve strategy, part of which will be to provide the Authority with a temporary resource to facilitate the time required to develop plans to

meet any future challenge and implement the long term structural changes to sustain any saving requirement.

(I) ADEQUACY OF RESERVES AND BALANCES

118. 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.

119. 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.

120. 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.

121. 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

122. 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

123. 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.

124. 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.

125. 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

126. 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 £3m (5**%** of Revenue Budget)

127. 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%.

128. For this Authority, a 5% forecast Net Operating Expenditure equates to approximately £3m, the current General Revenue Reserve. The Director of Finance (Chief Finance Officer) recommends **maintaining the general reserve at its current £3.0m level**.

Committed (Earmarked) Reserves

129. 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 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 2020/2021 and future years are outlined below and the planned use over the MTFP is in the table at the end of this section.

- **Emergency & Insurance Related Reserves:-**
    - **Bellwin & Emergency Planning, £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.

    - **Insurance Reserve, £0.4m** - 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.

- **Modernisation Challenge Reserves**:-
  - **Smoothing Reserve, £2.0m** - This reserve was created to allow the Authority the time to re-engineer the Service and deliver future saving options if future Government funding or Pension (McCloud) assumptions in the proposed plan do not reflect the actual future change. Currently the 2021/2022 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. In addition this report has outlined the uncertainty around the McCloud remedy, and in particular whether the Government will cover the cost of any compensation payments and moving firefighters back onto the FPS 1992 scheme from April 2015. By having the reserve the Authority may be able to avoid compulsory redundancies by allowing it time to identify permanent savings to cover any additional costs or reduced funding.

  - **Recruitment Reserve, £3.0m** - Given nearly 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 +£0.4m p.a. This reserve will cover any costs that can’t be contained within the establishment budget.

  - **Invest to Save Reserve, £0.4m** - 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.

- **Capital & Debt Repayment Reserve, £8.1m** - £7.4m of the reserve is committed to fund the remaining station merger work relating to a new fire station in St Helens and the investment into the Authority’s TDA. The balance, £0.7m has been committed to fund investment into ICT systems and fire station upgrades. 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).

- **Specific Projects:-**
  - **PFI Annuity Reserve, £1.9m** - 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 the pay, 2.5%, and price, 2% p.a., inflation assumptions are wrong and the actual inflation increase is higher. Each additional 1% above the pay inflation assumption 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 the level assumed in the plan.

- **Clothing Reserve, £0.6m** - the issue of PPE is being amended from the current "pooled" issue to individual issue for operational and health and safety reasons. This will mean an increase in PPE from 1.6 to 2 for each firefighter. The clothing reserve will fund the initial issue of kit, after which replacement issue can be contained within the existing revenue budget.

- **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.

- **Equipment, £0.1m** – this reserve has been established to fund those planned projects or investments in equipment that had been budgeted for but not completed in the anticipated year and therefore the budget has been carried forward. The refresh of equipment is expected to be finalised over the next 12 months.

- **Other, £0.1m** – this reserve is to fund community based initiatives that have been budgeted for in the year but will take place over 2019/2020 – 2020/2021 and look to improve prevention and wellbeing within the Merseyside community.

- **Ringfenced Reserves, £0.4m** - 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.

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

	Estimated 2020/21 Opening Balance	Estimated 2020/21		Estimated 2021/22 Expected Use	Estimated 2022/23 Expected Use	Estimated 2023/24 Expected Use	Estimated 2024/25 Expected Use	Estimated Future Years Expected
		Base Budget	During 2020/2021					
Committed Reserves	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Emergency & Insurance Related Reserves								
Bellwin & Emergency Planning Reserve	222	0	0	0	0	0	0	-222
Insurance Reserve	383	0	0	0	0	0	0	-383
Modernisation Challenge								
Smoothing Reserve	2,000	0	-1,300	-700	0	0	0	0
Recruitment Reserve	3,000	0	-400	-400	-400	-400	-400	-1,000
Invest to Save Reserve	432	-223	0	-209	0	0	0	0
Capital, Debt Repayment Res	8,058	-5,329	0	-2,100	-629	0	0	0
Specific Projects								
PFI Annuity Reserve	1,895	-91	0	-95	-100	-110	-120	-1,379
Inflation Reserve	700	0	0	0	0	0	0	-700
Clothing Reserve	592	0	-392	-200	0	0	0	0
Training Reserve	150	0	-50	-50	-50	0	0	0
Equipment Reserve	77	0	-77	0	0	0	0	0
Healthy Community Reserve	30	0	-30					
Health & Wellbeing	25	0	-25	0	0	0	0	0
Community Engagement	7	0	-7	0	0	0	0	0
Ringfenced Reserves								
Community Risk Management Reserve	325	0	-125	-100	-100	0	0	0
Energy Reserve	18	72	0	25	-75	-40	0	0
New Dimensions Reserve	41		-41	0	0	0	0	0
Total Committed Reserves	**17,955**	**-5,571**	**-2,447**	**-3,829**	**-1,354**	**-550**	**-520**	**-3,684**
General Revenue Reserve	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
Total Reserves	**20,955**	**15,384**	**12,937**	**9,108**	**7,754**	**7,204**	**6,684**	**3,000**

131. The Director of Finance recommends that the Authority hold the £20.955m 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.

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

(J) BUDGET TIMETABLE & RESOLUTION

133. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2020. The Authority meeting is now invited to:

- Confirm the financial plan set out in Appendix C, approve the budget requirement of £61.961m for 2020/2021 as outlined in Appendix C.
- note that the Authority's council tax base for 2020/2021 is 376,908.99, 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 2020/21	**Gross Income 2020/21**	**Estimate 2020/21**
			£'000	**£'000**	**£'000**
(A)	sec 42 (2) (a)	Service Budget	87,977		87,977
(B)	sec 42 (3) (a)	Income		-20,445	-20,445
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	72		72
(B)	sec 42A (3) (a)	Contribution from reserves		-5,643	-5,643
		Budget Requirement	88,049	-26,088	61,961
(B)	sec 42A (3) (a)	Spending Funding Assessment		-31,315	-31,315
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		-118	-118
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-225	-225
		Non-Precept Income		-31,658	-31,658
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	**Precept Requirement**			**30,303**
		Tax Base			**376,908.99**
		Precept Requirement / Tax Base:			**£80.40**
		Basic Tax Amount At Band 'D'			**£80.40**

134. 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:

2019/20	2020/21	Property Band		Increase		Weekly increase
	£			£	%	£
£52.56	£53.60	For properties in Band	A	1.04	1.98	0.020
£61.32	£62.53	For properties in Band	B	1.21	1.97	0.023
£70.08	£71.47	For properties in Band	C	1.39	1.98	0.027
£78.84	**£80.40**	**For properties in Band**	**D**	**1.56**	**1.98**	**0.030**
£96.36	£98.27	For properties in Band	E	1.91	1.98	0.037
£113.88	£116.13	For properties in Band	F	2.25	1.98	0.043
£131.40	£134.00	For properties in Band	G	2.60	1.98	0.050
£157.68	£160.80	For properties in Band	H	3.12	1.98	0.060

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

PRECEPT		AUTHORITY
£		
8,764,540	Payable by	LIVERPOOL
7,554,858	Payable by	WIRRAL
4,202,669	Payable by	ST.HELENS
6,826,314	Payable by	SEFTON
2,955,102	Payable by	KNOWSLEY
30,303,483		

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

Tuesday	21st April 2020
Friday	29th May 2020
Monday	6th July 2020
Tuesday	11th August 2020
Thursday	17th September 2020
Friday	23rd October 2020
Monday	30th November 2020
Friday	8th January 2021
Monday	15th February 2021
Wednesday	17th March 2021

Equality and Diversity Implications

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

138. 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

139. 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

140. 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 2020.

Financial Implications & Value for Money

141. See Executive Summary

Risk Management, Health & Safety, and Environmental Implications

142. 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*

143. 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/009/19 "MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2019/2020 – 2023/2024" Budget Authority 28th February 2019

GLOSSARY OF TERMS

CAPITAL The capital budget covers the money the Authority spends on investing in buildings, infrastructure and expensive pieces of equipment with an asset life of more than one year.

CFO Chief Fire Officer

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.).

CIPFA Chartered Institute of Public Finance and Accountancy

CSR2020	Comprehensive Spending Review. This Spending Round will set out the government's spending plans for 2020-21 and possibly future years.
FPS	Firefighters' Pension Scheme
FTE	Full Time Equivalent employee number
LGPS	Local Government Pension Scheme
LIBID	London Interbank Bid Rate (LIBID). The bid rate that a Euromarket bank is willing to pay to attract a deposit from another Euromarket bank in London.
MFRA	Merseyside Fire and Rescue Authority
MFRS	Merseyside Fire and Rescue Service
MHCLG	Ministry of Housing, Communities and Local Government
MPC	Monetary Policy Committee
MRP	Minimum revenue provision, an amount set aside from revenue towards the repayment of loan debt.
MTFP/ PLAN	Medium Term Financial Plan
NRAT	National Resilience Assurance Team
PPE	Personal Protective Equipment
PWLB	Public Works Loans Board
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.
REVENUE	The revenue budget is the term used to describe the amount that the Authority spends on its day-to-day running of services. This includes wages and salaries, property and transport running costs and payments to suppliers. In addition to the running costs of services, the Authority must fund the costs of borrowing money to pay for their capital assets.
RSG	Revenue Support Grant
SFA	Settlement Funding Assessment. Government's estimated funding assessment for the Authority, from share of Business Rates (local business rates share plus a Top-Up grant) and Revenue Support Grant.
SLT	Senior Leadership Team (CFO plus Deputy & Assistant Chiefs, relevant Directors and Area Managers.

TDA	The Training and Development Academy
UNSUPPORTED BORROWING	No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.