MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	24 SEPTEMBER 2020	REPORT NO:	CFO/045/20
PRESENTING OFFICER	CHIEF FIRE OFFICER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2020/21 - APRIL TO JUNE		

APPENDICES:		
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Purpose of Report

1. To review the financial position, revenue and capital, for the Authority for 2020/21. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority’s finances. This report covers the period April to June 2020.

Recommendation

2. That Members;
   a) note the contents of the report, and
   b) approve the proposed revenue, capital and reserve budget alignments, and
   c) instruct the Director of Finance to continue to work with budget managers to maximise savings in 2020/21.
   d) Approve the use of any future additional savings in 2020/21 to increase the capital investment reserve in order to contribute towards the cost of a new TDA development.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 27 February 2020. The approved MTFP delivers a balanced budget for 2020/21 based on key budget assumptions around costs, in particular pay. A small financial challenge of £0.760m was forecast in 2021/22 rising to £1.490m by 2024/25. However, as Government grant support beyond 2020/21 is unknown the current MTFP strategy is to deal only the known financial challenges at this point and consider any future challenge once it is known or is more certain. This report updates members on the 2020/21 budget position and any issues arising in the year that may impact on the future years' financial position.

The Authority is on target to deliver a balanced revenue outturn position as the current assumptions remain robust and actual spend is forecast to be within the approved budget levels.

The Authority has a strategy of maximising any savings in the year in order to fund increases in reserves or other initiatives that would act as a hedge against future financial challenges or infrastructure investment. At this point in the year this report has identified that spend is forecast to be consistent with the approved budget. Officers will continue to work through the remainder of the year to maximise any savings. Members are asked to approve the use of any future additional savings in 2020/21 to increase the capital investment reserve in order to contribute towards the cost of a new TDA development.

The total budget requirement remains at the original budget level of £61.961m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2020.

Capital:
The MTFP includes a five-year capital programme. The original programme included a total investment of £33.390m over 2020/2021 – 2024/2025 period, of which £18.246m related to 2020/21. The capital programme planned spend has increased by £3.762m (net), and relates to the re-phasing of schemes from 2019/20 into 2020/21 and future years. The revised Capital Programme is outlined in Appendix B and C.

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

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

Introduction and Background

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

4. This report is the review of the Authority's position up to the end of June of the financial year 2020/21 (April – June 2020).

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

<u>Financial Review Structure</u>

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

(A) <u>Current Financial Year – 2020/21</u>

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

Revenue Position:

7. <u>Budget Movements</u>: there have been a number of budget adjustments with no net impact because they are either self-balancing virements within department budgets or budget increases financed by reserves in line with previously agreed Authority decisions. The budget adjustments in quarter 1 included:-

   - A net contribution to reserves of £3.122m to reflect the re-phasing of the TDA capital scheme from 2020/21 to 2021/22 and the reversal of the capital reserve drawdown. A breakdown of the reserve movements are outlined in Appendix A4.
   - Increase in temporary staff / other costs funded from grants and contributions (ESMCP, Street Intervention, NFCC youth lead work, other).
   - Self-balancing virements to cover small adjustments within non-employee budget lines.

8. **The net budget requirement remains at £61.961m which is consistent with the original budget**.

9. <u>Update on Budget Assumptions and actual expenditure:</u>
The key assumptions for 2020/21 are:

- Annual Pay awards will be within the 2.5% assumption, and
- The McCloud pension case remedy would not impact on the employee costs in 2020/21, although the £2m smoothing reserve would be available if needed, and
- All approved historic saving options continue to deliver the expected level of savings in the year, and
- No significant unplanned growth pressures materialise in the year.

Annual Pay awards - 2020/21 pay awards have yet to be confirmed. At the time of writing this report an offer of 2.75% for green book staff and 2.0% for firefighters has been made from the employers' side and is currently being considered by the relevant representative bodies.

McCloud remedy –

- The Government introduced changes to all public pensions in 2014 and 2015. These changes were challenged in the courts by the Fire Brigades Union (FBU) and Judges representatives as the transitional protections given to some scheme members as part of public service pensions reform was deemed discriminatory. This challenge is often referred to as the "McCloud" case. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. On the 27th June 2019 the Supreme Court refused the Government the right to appeal against this decision and therefore compensation and remedy is required to redress the situation.

- On the 16 July the Government issued its proposed remedy for consultation (ends 11 October 2020), once the Government finalises the remedy proposals they are likely to be subject to the introduction of future legislation, so potentially the remedy may not be fully "signed-off" until 2021/22 at the earliest. The remedy is likely to offer all public pension scheme members who were in service on or before 31 March 2012 and in service on or after 1 April 2015 the choice of either staying in the new scheme or moving back into their original scheme. However, all staff will move into the new scheme from April 2022.

- The Home Office issued guidance on 21 August 2020, informing fire and rescue authorities that members of the FPS facing immediate detriment (individuals approaching retirement) should be given the option to choose between their old scheme and the 2015 scheme. This HO guidance also stipulated that any retrospective employer and employee contributions would have to be made good.

- The 2020/21 Budget assumed any proposed remedy / compensation would not impact on the 2020/21 year as costs associated with the impact of the remedy will be taken into account in the 2020 FPS Actuarial review. This review will determine the FPS employer rates from 2023/24. However, the new HO guidance referenced in the last point now means the Authority may face a significant additional FPS employer liability that it must fund in this and the next few years.

- The Authority has also been advised that any compensation payments will be passed to the employer.

- In order to manage any risk from the McCloud case the Authority identified the Smoothing Reserve, currently £2m, as an in-year source of funding if any McCloud assumptions did not hold true. The Director of Finance believes the Smoothing reserve can cover any costs associated with McCloud and the remedy in 2020/21, but the future funding of such costs will be considered as part of the 2021/22 budget process.

Saving Options – All previously approved saving options remain robust and continue to deliver the required savings, however the structural establishment changes required as part of the St Helens / Eccleston station merger initiative will not be formally implemented until the new fire station at St Helens has been built. The required firefighter saving is being delivered in cash terms as the reduction in the number of firefighters has been achieved.

Unplanned growth – The budget assumes all spending requirements can be met from the approved budget.

- The spread of **COVID-19** has created unprecedented circumstances within which the Authority has had to respond. The anticipated financial impact in 2020/2021 is expected to be limited to a loss of commercial and other income (£0.5m) and additional expenditure on protective equipment, cleaning, ICT and other costs (£0.9m). To date the Government has awarded the Authority £1.419m to cover the impact of the virus, and subject to the implications of any future wave(s), the grant should cover the loss of income and additional costs up to the end of 2020/2021.

- The 2020/2021 budget anticipates a level of Council Tax and Business Rate income based on the collection rates assumed by the five Merseyside local authorities. COVID-19 may impact adversely on the assumed collection rates, and this will be reflected in the collection fund financial position to be taken into account during the 2021/22 budget process. The Government has announced it will allow any deficit on the Collection Fund to be spread over the 2021/22 – 2023/2024 period.

- Any permanent impact on the Authority's MTFP beyond 2020/2021 is difficult to determine at this point, as the impact of the virus on future local government funding is unknown. In addition, the Government have announced the reforms to the Fairer Funding Formula and Business Rates Retention scheme that were expected to impact on the Local Government Settlement for 2021/22 will now be delayed.

10. In order to assist the Authority deal with any future financial challenge the Chief Fire Officer (CFO) and Senior Leadership Team (SLT) are seeking to maximise

savings in the year and use them to contribute towards the building up of reserves as a hedge against the future financial challenges or to meet one-off expenditure such as capital infrastructure investment. The current strategy is to use any additional savings to increase the planned minimum revenue provision (MRP) payment so that future debt servicing budget may be freed-up to fund additional investment in frontline services approved by the Authority. The CFO is currently assessing options over the future of the TDA and is looking at the possibility of building a new TDA rather than refurbish the existing site at a cost of £6m. A new development will cost more than £6m and in order to manage any new borrowing requirement Members' are asked to approve the use of any future additional savings in 2020/21 to increase the capital investment reserve in order to contribute towards the cost of a new TDA development.

11. Further to the issues outlined above after reviewing expenditure and income up to the end of June 2020 the expectation is that the overall financial position will be consistent with the approved budget.

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

13. Debtor accounts under £5,000 may be written off by the Director of Finance. One account was written-off under delegated powers in the first quarter following advice from litigation services totalling £1,311. The debt was not recoverable following the death of the debtor.

Capital Programme Position:

14. Members approved a 5 year capital programme worth £33.390m at the Authority Budget meeting on 27th February 2020, (CFO/008/20). This has now been updated for:

    a) the approved 2019/20 year-end re-phasing of projects into 2020/21 of £3.762m as reported to the Policy and Resources Committee on 30th July 2020, CFO/042/20, and
    b) a £4.259m re-phasing of the TDA refurbishment scheme into 2021/22 identified in this quarter due to the proposed development being put on hold while proposals for an alternative new TDA development are being drawn-up for consideration during the 2021/22 budget process.
    c) Realignment of the ancillary fleet purchases to reflect latest planned spend profile, £0.096m re-phased from 2020/21 into future years.

15. The capital programme changes are summarised in Table below. The revised detailed capital programme is attached as Appendix B (2020/21 Capital Programme) and Appendix C (2020/21–2024/25 Capital Programme) to this report.

Movement in the 5 Year Capital Programme						
	Total Cost	2020/21	2021/22	2022/23	2023/24	2024/25
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amendments to Approved Schemes;						
Re-phasing of Schemes from 2019/20 into 2020/21	3,762.4	3,762.4				
Re-phasing of TDA investment	0.0	-4,259.0	4,259.0			
Re-phasing of ancillary fleet	0.0	-103.3	79.3			24.0
	3,762.4	**-599.9**	**4,338.3**	**0.0**	**0.0**	**24.0**
Funding						
Reserves						
TDA investment funded from Cap Reserve	0.0	-3,500.0	3,500.0			
Grants						
NRAT National Resilience Grant	239.9	239.9				
Borrowing						
Rephasing impact	3,522.5	2,660.2	838.3			24.0
	3,762.4	**-599.9**	**4,338.3**	**0.0**	**0.0**	**24.0**

Use of Reserves:

16. The analysis in Appendix A4 outlines a £3.122m contribution to reserves during the first quarter of 2020/21, as a result of:-
    - A planned £0.378m drawdown from the capital reserve to fund the new St Helens fire station, and
    - A £3.500m refund back to the capital reserve as a result of the review of the planned investment in the TDA investment pending a decision on either a refurbishment of the existing site or the approval for a new TDA build on a new site.

    The general revenue reserve has remained unchanged at £3.000m.

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

17. The Authority continues to “buy in” Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to June 2020.

18. **Prospects for Interest Rates;**
    The medium-term global economic outlook is exceedingly weak in light of the coronavirus pandemic. In the UK the current bank rate of 0.10% is likely to remain low for a very long time, with a distinct possibility of being cut to zero or perhaps even into negative territory. Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances, the risk of a second wave develops and Brexit looms closer.

PWLB rates and gilt yields have remained low throughout the first quarter of 2020/21 and this is likely to remain the case throughout this financial year. PWLB rates rose only slightly for longer term loans, from 2.48% at the start of the financial year to 2.54% by the end of the first quarter.

19. The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates has continued for some time. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

20. **Capital Borrowings and the Portfolio Strategy;**
The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2020/21. Current market conditions continue to be unfavourable for any debt rescheduling.

21. **Annual Investment Strategy;**
The investment strategy for 2020/21 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 June 2020 the average rate of return achieved on average principal available was 0.79%. This compares with an average seven day deposit (7 day libor) rate of 0.08%.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2020/21 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
Ultra-Short Duration Bond Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

No limits on investments with the UK Government and Local Authorities have been set because they are considered to be of the highest credit quality and are essentially risk free. The limits placed on other categories reflect some uncertainty and marginally higher risk profile of the institutions within those categories.

The Authority had investments of £30.8m as at 30th June 2020:

ANALYSIS OF INVESTMENTS END OF QUARTER 1 2020/21

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Aberdeen Global	AAA	700,000				0.70
Bank of Scotland (HBOS)	A		2,000,000			1.25
Federated Investors	AAA	2,800,000				0.70
LGIM (Legal & General)	AAA	2,800,000				0.70
Close Brothers	A		2,000,000			1.25
Goldman Sachs	A		1,000,000			0.54
HSBC (MFRS Deposit Account)	A		500,000			0.00
Santander	A		2,000,000			0.30
Cumberland BS				1,000,000		1.00
Newcastle B Soc				1,000,000		0.93
Nottingham B Soc				1,000,000		1.15
Principality B Soc				1,000,000		0.96
West Bromwich B Soc				1,000,000		1.10
Broxtowe Council					2,000,000	0.86
Lancashire CC					2,000,000	1.05
North Lanarkshire					2,000,000	1.00
PCC Lancashire					2,000,000	1.00
Slough BC					2,000,000	0.79
Thurrock Council					2,000,000	0.86
Totals		**6,300,000**	**7,500,000**	**5,000,000**	**12,000,000**	**0.85**
Total Current Investments					**30,800,000**	

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

22. **External Debt Prudential Indicators;**
The external debt indicators of prudence for 2020/21 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £64 million
Operational boundary for external debt: £58 million

Against these limits, the maximum amount of debt reached at any time in the period 1 April to 30 June 2020 was £37.3 million.

23. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2020/21 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the period 1 April to 30 June 2020 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1st April to 30 June 2020 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	1%	1%
12 months and within 24 months	50%	0%	8%	8%
24 months and within 5 years	50%	0%	1%	1%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	95%	0%	90%	90%

c) Total principal sums invested for periods longer than 365 days

The limit for investments of longer than 365 days was set at £2 million for 2020/21. No such investments have been placed during 2020/21.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

27. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

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

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

BACKGROUND PAPERS

CFO/008/20	"MFRA Budget and Financial Plan 2020/2021-2024/2025" Authority 27th February 2020.

GLOSSARY OF TERMS