MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	11 FEBRUARY 2021	REPORT NO:	CFO/005/21
PRESENTING OFFICER	IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2020/21 - APRIL TO DECEMBER		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A3:	CORPORATE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A4:	BUDGET MOVEMENTS ON RESERVES
	APPENDIX B:	CAPITAL PROGRAMME 2020/21
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2020/21 – 2024/25

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 December 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) approve the use of the £0.350m favourable revenue variance identified within this report to increase the Capital Investment Reserve in order to fund investment in a new Response, Prevention & Protection ICT application.
   d) instruct the Director of Finance to continue to work with budget managers to maximise savings in 2020/21.

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 has a strategy of maximising any savings in the year in order to fund increases in reserves or additional debt payments that may free up future budgets to act as a hedge against future financial challenges or fund infrastructure investment.

This report identifies a favourable variance of £0.350m, as a result of a small saving on the employee and other non-employee budgets.

Members are asked to approve the use of this favourable variance to increase the Capital Investment Reserve in order to fund the implementation of a new Response Prevention and Protection ICT application.

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 since the last financial review report and December 2020.

Capital:
The capital programme planned spend has increased by £0.024m as the result of an increase in ICT and vehicle spend. In addition £6.124m has been re-phased from 2020/21 into future years to reflect when the actual spend will be incurred. The revised Capital Programme is outlined in Appendix B and C.

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

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

Introduction and Background

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

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

Financial Review Structure

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

(A) Current Financial Year – 2020/21

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

Revenue Position:

7. Budget Movements: there have been a number of budget adjustments 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 3 included: -

- A net contribution from reserves of £0.037m to cover planned spend on ICT application development work and project work.
- 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. Update on Budget Assumptions and actual expenditure:

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 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 16th July the Government issued its proposed remedy for consultation (ending 11th 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 31st March 2012 and in service on or after 1st 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 2020/21 Budget assumed any proposed remedy / compensation would not impact on the 2020/21 year as employer costs associated with the impact of the remedy would be taken into account in the 2020 FPS Actuarial review. This review will determine the FPS employer rates from 2023/24.

- The Authority has been advised that any compensation payments will be passed to the employer as and when they are actioned.

- 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 current McCloud assumptions do not hold true. The Director of Finance believes the Smoothing Reserve can cover any costs associated with McCloud in 2020/21, but the future funding of such costs will be considered as part of the 2021/22 and future budget preparation processes.

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 following points summarise the potential financial impact of COVID-19; -

- 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 MHCLG have made available funds to cover 95% of lost fees and charges income. Subject to the implications of any future wave(s), these grants should be sufficient to cover the loss of income and additional costs up to the end of 2020/21.

- The 2020/21 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 setting process. The Government has announced it will allow any deficit on the Collection Fund to be spread over the 2021/22 – 2023/24 period.

- Any permanent impact on the Authority's MTFP beyond 2020/21 is difficult to determine at this point, as the impact of the virus on future local government funding is unknown.

Actual expenditure in comparison to Revenue Budget**:**

10. After reviewing spend and income up to the end of December 2020 officers have identified the following savings:

Employee Costs;

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

Vacancies arising from staff turnover in the year has resulted in a forecast £0.200m or 0.4% saving on the £49.964m budget.

Income;

The Authority receives a s31 grant as compensation for loss of Small Business Rates income lost as a result of Government policy on restricting annual rate increases. The current budget income for this grant is £1.111m, however the latest forecast is for a grant of £1.186m, an additional £0.075m.

Contingency for 2020/21 Pay & Price Increases;

Officers are continuing to control the allocation of non-employee inflation. In the first instance any inflationary pressure is expected to be absorbed from within the relevant budget line. The latest forecast has identified a one-off savings on non-employee lines of £0.075m.

11. Overall the latest forecast has identified a favourable revenue variance of £0.350m, the table below summarises the year-end forecast position based on spend to the end of December 2020:

Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	Fire Authority	Lead for NRA	TOTAL BUDGET	ACTUAL as at 31.12.20	FORE-CAST	VARI-ANCE
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Expenditure							
Employee Costs	49,964	353	1,889	52,206	38,311	52,006	-200
Premises Costs	2,979			2,979	2,072	2,979	0
Transport Costs	1,269		6,243	7,512	5,216	7,512	0
Supplies and Services	3,121	101	1,794	5,016	3,355	5,016	0
Agency Services	6,309		644	6,953	4,856	6,953	0
Central Support Services	529	46	0	575	455	575	0
Capital Financing	5,879		4	5,883	0	5,883	0
Income	-10,672		-10,574	-21,246	-23,609	-21,321	-75
Net Expenditure	59,378	500	0	59,878	30,656	59,603	-275
Contingency Pay&Prices	189			189	0	114	-75
Cost of Services	59,567	500	0	60,067	30,656	59,717	-350
Interest on Balances	-172			-172	-86	-172	0
Movement on Reserves	2,066			2,066	0	2,066	0
Total Operating Cost	61,461	500	0	61,961	30,570	61,611	**-350**

12. The Service is currently finalising the award of a contract for the provision of a new ICT application to meet the information needs of Response, Prevention and Protection. Some parallel running of the old system will be required in addition to funds to implement the new system and enhance its basic functions. Officers have requested a new reserve of £0.350m to fund the one-off costs. Therefore, Members' are asked to approve the use of the identified £0.350m favourable variance to increase the Capital Investment Reserve.

13. 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.

14. Debtor accounts under £5,000 may be written off by the Director of Finance. One debtor account for £1,022 was written-off under delegated powers in the quarter as it was deemed irrecoverable.

Capital Programme Position:

15. The last financial review report (CFO/058/20) approved a 5-year capital programme worth £37.167m. This has now been updated for scheme additions and changes during quarter 3 of +£0.024m, as outlined below:-

    a) New ICT and vehicle spend funded by revenue, £0.016m,
    b) A net increase in the vehicle replacement programme of £0.08m for price increases funded from borrowing, and

c) Following a review of the 2020/21 programme officers have now revised the timing of actual spend and have re-phased £6.124m from 2020/21 into future years. The most significant re-phasing related to :-

- National Resilience Assurance Team / National Asset Refresh- £1.000m re-phasing. The Authority acts on behalf of the Home Office (HO) to co-ordinate and procure the approved asset refresh, however ultimately the procurement of assets has to be signed-off by the HO. Until the HO are satisfied the correct assets have been identified no procurement can take place. Delays in getting agreement on the specific replacement assets has delayed likely spend until 2021/22.
- Officers have given priority to completing the new St Helens scheme by 2020/21, and therefore other non-essential smaller building refurbishment works have been re-phased into 2021/22. Plans are currently being finalised, planning approval applied for, tender evaluation work carried out etc., resulting in a re-phasing of £2.631m.
- Special Vehicle - £1.130m slippage. A review is currently being undertaken to determine what the required specification and requirements will be for the Incident Management Unit (IMU), and the planned £0.650m spend is now expected in 2021/22. Rather than refurbish the current BA support units a decision has been made to procure a new one and defer the planned £0.250m spend until 2021/22. Officers are considering the purchase of a scorpion or stinger appliance rather than a CPL appliance. They are also reviewing the ask around the pump prime movers. This has resulted in slippage of £0.230m.
- The balance, £1.363m, relates to the re-phasing of various ICT, operational equipment and miscellaneous vehicle schemes.

16. The revised detailed capital programme is attached as Appendix B (20120/21 Capital Programme) and Appendix C (2020/21–2024/25 Capital Programme) to this report.

Use of Reserves:

17. The analysis in Appendix A4 outlines a £0.037m contribution from reserves during the third quarter of 2020/21, as a result of: -
    - A £0.027m from the capital reserve to support consultancy costs for the ICT applications development work, and
    - A £0.010m drawdown from the CRM reserve to cover planned community risk management projects.

In light of the need to fund a new TDA the CFO and Director of Finance are continually reviewing the current reserves and this report proposes to re-align £0.500m from the Recruitment reserve to the Capital Investment reserve. The Recruitment reserve currently stands at £2.5m and it is expected that the cost of recruiting firefighters in advance of existing staff retirements can be contained within the overall employee budget, and it is felt a reduced reserve of £2.000m is sufficient to meet any future challenges.

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

(B) Treasury Management

18. The Authority continues to "buy in" Treasury Management services from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to December 2020.

19. **Prospects for Interest Rates;**
There was some good news in the last quarter with the announcement of the approval of two Covid-19 vaccines as well as the agreement of a Brexit trade deal in late December.

The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term. Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.

Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages. The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.

The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future. It is expected that the Bank will maintain the Bank Rate at the current 0.10% level. The central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.

Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates

On 25 November 2020, the Chancellor announced the conclusion to a review of margins over gilt yields for PWLB rates. The sudden increase of the previous year was reversed with the margin over gilts reduced by 100 bps. At the same time a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new certainty rate PWLB margin is gilts plus 80 basis points. PWLB rates are now historically low at below 2.00% across all maturity periods.

This policy change should have no immediate impact on MFRS as the current expectation is that new borrowing will not be required for a number of years. The current environment remains consistent with the strategy that indicated that the overall structure of interest rates whereby short term rates would be lower than long term rates was expected to remain throughout 2020/21. In this scenario, the strategy was 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 Oct to 31 Dec 2020 the average rate of return achieved on average principal available was 0.47%. This compares with an average seven day deposit (7 day libid) rate of -0.06%.

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 £35.4m as at 31st December 2020:

ANALYSIS OF INVESTMENTS END OF QUARTER 3 2020/21

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Aberdeen Global	AAA	3,000,000				0.70
Federated Investors	AAA	2,600,000				0.69
Close Brothers	A		2,000,000			0.76
HSBC (MFRS Deposit Account)	A		1,800,000			0.00
Santander	A		2,000,000			0.58
Newcastle B Soc				1,000,000		0.75
Coventry B Soc				1,000,000		0.75
Principality B Soc				2,000,000		0.68
Aberdeen Council					2,000,000	0.58
Blackburn Council					2,000,000	0.63
Blackpool Council					2,000,000	0.61
Broxbourne DC					2,000,000	0.53
Broxtowe BC					2,000,000	0.86
Guildford BC					2,000,000	0.55
PCC Lancashire					2,000,000	0.80
Slough BC					2,000,000	0.79
Tameside MBC					2,000,000	0.71
Thurrock Council					2,000,000	0.86
Totals		**5,600,000**	**5,800,000**	**4,000,000**	**20,000,000**	**0.66**
Total Current Investments					**35,400,000**	

**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 1st October to 31st December 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 1st October to 31st December 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 October to 31st December 2020 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	5%	1%
12 months and within 24 months	50%	0%	9%	4%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	95%	0%	91%	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. One investment of £2 million for 365 days was placed in the second quarter of 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.

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

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.

CFO/045/20 "Financial Review 2020/21 – April to June" Audit Committee 24th September 2020.

CFO/058/20 "Financial Review 2020/21 – April to September" Policy and Resources Committee 10th December 2020.

GLOSSARY OF TERMS