MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	10TH FEBRUARY 2022	REPORT NO:	CFO/002/22
PRESENTING OFFICER	IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2021/22 - OCTOBER 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 2021/22
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2021/22 – 2025/26

Purpose of Report

1. To review the financial position, (revenue, capital, reserves, and treasury management activities), for the Authority for 2021/22. 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 October to December 2021.

Recommendation

2. That Members;

   a. note the contents of the report;
   b. approve the proposed revenue and capital budget alignments;
   c. approve the reserve adjustments as outlined in the report, and use the £0.800m forecast favourable revenue variance to fund an increase in the capital investment reserve in order to contribute towards the cost of a new TDA development; and
   d. instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2021/22.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 25 February 2021. The approved MTFP delivered a balanced budget for 2021/22 based on key budget assumptions around future costs, in particular pay awards. This report updates members on the 2021/22 budget position and any issues arising in the year that may impact on the current and future years' financial position.

This report identifies a net favourable variance of £0.800m, of which £0.356m relates to the PFI refinancing gain.

Members are asked to approve the use of this favourable variance to fund an increase in 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 £59.250m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between October and December 2021.

Capital:
The capital programme planned spend has increased by £0.810m in the quarter, of which £0.770m relates to the Emergency Service Network (ESN) investment approved at Policy and Resources Committee in December. The balance, £0.040m, is for new schemes funded from revenue. 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 2021/22 (April – December 2021).

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 – 2021/22**

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 £0.026m contribution to the capital reserve to reflect previously drawndown funds for the development of the CFRMIS application that are no longer required in 2021/22.
- A £3.556m contribution to the capital reserve to reflect previously drawndown funds for the new TDA development that are no longer required in 2021/22 as the scheme is not expected to commence until 2022/23.
- Various drawdowns from reserves totally £0.059m to fund planned investment in equipment and refurbishment works.
- Self-balancing virements to cover small adjustments within other budget lines.

8. **The net budget requirement remains at £59.250m that is consistent with the original budget**.

9. Update on Budget Assumptions and actual expenditure:

10. **No significant unplanned growth pressures would materialise in the year -** The budget assumes all spending requirements can be met from the approved budget. The following paragraphs consider the December forecast outturn position and the identified variances;

11. **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.

    A small £0.144m favourable variance is forecast that is mainly due to some costs now being funded from external resources and freeing up the base employee budget in 2021/22.

12. **Non-Employee Costs;**

    Premises;
    Following successful rating valuation appeals and the freeing up of the old St Helens fire station rates, officers have identified a one-off saving on business rates of £0.100m.

    PFI Re-Financing Gain;
    The November Authority meeting considered report CFO/61/21 on the potential savings that may arise if the Service supported the PFI provider's request to allow the refinancing of the senior debt associated. The Authority supported the request and the estimated saving for the Authority was upwards of £0.260m. The actual saving following the completion of the refinancing arrangement with the bank is £0.356k. The saving has been taken as a one-off saving in 2021/22.

    Contingency for 2021/22 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. A favourable variance of £0.200m has been identified.

13. Overall the latest forecast has identified a favourable net revenue variance of £0.800m, the table overleaf summarises the year-end forecast position based on spend to the end of December 2021:

Anticipated Year-End Revenue Position

	TOTAL BUDGET	ACTUAL as at 31.12.21	FORE-CAST	VARI-ANCE
	£'000	**£'000**	**£'000**	**£'000**
Expenditure				
Employee Costs	53,478	40,111	53,334	-144
Premises Costs	3,043	1,625	2,943	-100
Transport Costs	7,736	5,985	7,736	0
Supplies and Services	7,218	4,911	7,218	0
Agency Services	7,223	4,604	6,867	-356
Central Support Services	588	412	588	0
Capital Financing	5,842	0	5,842	0
Income	-26,641	-26,052	-26,641	0
Net Expenditure	58,487	31,596	57,887	-600
Contingency Pay&Prices	644	0	444	-200
Cost of Services	59,131	31,596	58,331	-800
Interest on Balances	-172	-43	-172	0
Movement on Reserves	291	0	291	0
Total Operating Cost	59,250	31,553	58,450	**-800**

14. The Director of Finance and Procurement recommends that members use the favourable variance to fund a £0.800m increase in the capital reserve in order to contribute towards the cost of a new TDA development.

Capital Programme Position:

15. The last financial review report (CFO/061/21) approved a 5-year capital programme worth £57.742m. This has now been updated for scheme additions and changes during quarter 3 of £0.810m, as outlined below:-

16. Following a review of the 2021/22 programme, officers have now revised the timing of actual spend and have re-phased £10.485m from 2021/22 into future years. The most significant re-phasing related to:-

    a) The Building & Land Programme, £6.264m. As Members are aware officers are currently seeking planning permission for a new TDA scheme and subject to Members final approval the scheme is likely to commence in the summer of 2022. Therefore, £3.556m of the new TDA scheme budget has been re-phased into 2022/23. Plans are currently being finalised, planning approval applied for, tender evaluation work carried out on a number of smaller building projects resulting in a re-phasing of £2.708m from 2021/22 into 2022/23.
    b) Vehicles, £3.612m. Orders have been raised for fire appliances but the delivery of the vehicles is expected in early 2022/23 resulting in the re-phasing of £1.140m of planned spend. Officers are considering various options around the provision of the marine rescue vessels and therefore have re-phased the purchase of a new vessel, £0.358m into 2022/23. The specification for the new Incident Command Unit (ICU) £0.650m, is to be based around the command room for the new TDA, and therefore is being delayed while the new TDA plans are being finalised. The ICU specification

will be written this year and the order for the vehicle is expected to be made in 2022/23. Orders for the remaining ancillary and other vehicles will be made in early 2022/23, once the Strategic Estates Group review the project management requirements for MFRA to ensure compliance with the Government's "Green Plan", and therefore a further £1.464m has been re-phased into 2022/23.

c) The balance, £0.609n relates to the re-phasing of various ICT, operational equipment and is due to delays in finalising specifications, ongoing reviews to establish the preferred solution, or assets having a longer life than expected.

17. Members considered report CFO/073/21 at the Policy and Resources Committee in December 2021, on the ICT investment required to make the Authority Emergency Service Network (ESN) technically ready. This required investment in the existing Dispatch Communications Server (DCS) of £0.108m, and new ESN ICT equipment of £0.662m.

18. New ICT hardware funded by revenue, £0.020m, and new energy conservation schemes, £0.020m, funded from the energy reserve have been added to the capital programme in the quarter.

19. The capital programme changes are summarised in table below;

Movement in the 5 Year Capital Programme						
	Total Cost	2021/22	2022/23	2023/24	2024/25	2025/26
Expenditure	£'000	£'000	£'000	£'000	£'000	£'000
Amendments to Approved Schemes;						
CFO/073/21 ESN Ready & DCS Upgrade	770.0		770.0			
Additional ICT hardware	19.5	19.5				
Energy Conservation Schemes	20.0	20.0				
Qtr 3 Re-phasing	0.0	-10,484.8	10,460.8	24.0		
	809.5	**-10,445.3**	**11,230.8**	**24.0**	**0.0**	**0.0**
Funding						
Reserves						
Energy Reserve	20.0	20.0				
Revenue (RCCO)						
CFO/073/21 ESN Ready & DCS Upgrade	595.0		595.0			
ICT Hardware	19.5	19.5				
Borrowing						
CFO/073/21 ESN Ready & DCS Upgrade	175.0		175.0			
Qtr 3 Re-phasing	0.0	-10,484.8	10,460.8	24.0		
	809.5	**-10,445.3**	**11,230.8**	**24.0**	**0.0**	**0.0**

20. The revised detailed capital programme is attached as Appendix B (2021/22 Capital Programme) and Appendix C (2021/22–2025/26 Capital Programme) to this report.

Use of Reserves:

21. The analysis in Appendix A4 outlines a net £3.523m contribution to reserves during the third quarter of 2021/22, as a result of: -
    - A £3.556m contribution to the capital reserve to reflect previously drawndown funds for the new TDA development that are no longer

required in 2021/22 as the scheme is not expected to commence until 2022/23.
- A £0.026m contribution to the capital reserve to reflect previously drawndown funds for the development of the CFRMIS application that are no longer required in 2021/22.
- A £0.020m drawdown from the energy reserve to fund new energy conservation schemes in the capital programme.
- Various drawdowns from reserves, £0.039m, to fund the planned investment in equipment and projects.

22. As outlined in paragraph 14, and subject to Members' approval, this report recommends using the quarter 3 forecast £0.800m favourable variance to fund an increase in the capital reserve in order to contribute towards the cost of a new TDA development.

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

(B) **Treasury Management**

24. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period October to December 2021.

25. **Prospects for Interest Rates;**
The economic recovery from coronavirus pandemic, together with higher inflation and higher interest rates were major issues over the period.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 but maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

Gross domestic product (GDP) grew by 1.1% in the third calendar quarter of 2021 according to the final estimate (initial estimate 1.3%) with the annual rate slowing to 6.8% from 23.6%. The data however predates the escalation in virus infections caused by the Omicron variant in December which will very likely result in a slowdown in activity in Q4.

The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

Treasury advisors now expect Bank Rate to rise again in Q1 2022. It is anticipated that the MPC will want to build on the strong message it delivered in December by tightening policy despite Omicron uncertainty. Therefore, it is expected that the BOE rate will rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time.

Gilt yields are expected to remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.

Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations. The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

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 2021/22. In this scenario, the strategy was to reduce investments and borrow for short periods and possibly at variable rates when required.

26. **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 2021/22. Current market conditions continue to be unfavourable for any debt rescheduling.

27. **Annual Investment Strategy;**
The investment strategy for 2021/22 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DLUHC 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 2021, the average rate of return achieved on average principal available was 0.08%. This compares with an average seven-day deposit (7-day libid) rate of -0.07%. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2021/22 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 £51.200m as at 31st December 2021:-

ANALYSIS OF INVESTMENTS END OF QUARTER 3 2021/22

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
CCLA Investment Management	AAA	2,300,000					0.26
Debt Management Account Deposit Facility	AAA		5,000,000				0.10
Federated Investors	AAA	1,500,000					0.10
Morgan Stanley	AAA	1,400,000					0.30
Bank of Scotland (HBOS)	A			2,000,000			0.30
HSBC (MFRS Deposit Account)	A			1,000,000			0.10
Santander	A			2,000,000			0.76
Sumitomo	A			2,000,000			0.50
Coventry BS					2,000,000		0.30
Cumberland B Soc					1,000,000		0.30
Leeds B Soc					2,000,000		0.90
Nationwide BS					2,000,000		0.30
Newcastle BS					2,000,000		0.18
Principality B Soc					1,000,000		0.60
West Bromwich BS					1,000,000		0.10
Ashford BC						2,000,000	0.30
Blackpool Council						2,000,000	0.61
Cheshire East BC						3,000,000	0.60
City of Kingston upon Hull						3,000,000	0.36
Eastleigh BC						3,000,000	0.60
Lancashire CC						2,000,000	0.60
London Fire Commissioner						2,000,000	0.80
North Lanarkshire						2,000,000	0.60
PCC Merseyside						2,000,000	0.60
Surrey Heath BC						2,000,000	0.71
Totals		**5,200,000**	**5,000,000**	**7,000,000**	**11,000,000**	**23,000,000**	**0.44**
Total Current Investments						**51,200,000**	

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

***DMADF is an account offered by the Debt Management Office, (DMO), and is guaranteed by the UK government. The DMO is an Executive Agency of Her Majesty's Treasury. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. As the DMADF is part of HM Treasury and represent the safest counterparty the Authority can use and as such the investment limit in the strategy is unlimited.*

28. **External Debt Prudential Indicators;**
The external debt indicators of prudence for 2021/22 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£62 million
Operational boundary for external debt:	£57 million

Against these limits, the maximum amount of debt reached at any time in the period 1 Oct to 30 Sept 2021 was £36.9 million.

29. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2021/22 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 Oct to 31 Dec 2021 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 Oct to 31st Dec 2021 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	9%	5%
12 months and within 24 months	50%	0%	1%	0%
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%	95%	91%

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 2021/22. No such investments were placed in the third quarter of 2021/22.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

33. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

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

Contribution to Our Vision:	***To be the best Fire & Rescue Service in the UK.***
Our Purpose:	*Here to serve, Here to protect, Here to keep you safe.*

35. 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/010/21	"MFRA Budget and Financial Plan 2021/2022-2025/2026" Authority 25th February 2021.
CFO/067/21	"Financial Review 2021/22 – April to September" Policy and Resources Committee 16th December 2021.

GLOSSARY OF TERMS

CFRMIS	Community Fire Risk Management Information System
TDA	Training and Development Academy
ICT	Information and communications technology
PFI	Private Finance Initiative
ESN	Emergency Service Network
DCS	Dispatch Communications Server