MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**BUDGET AUTHORITY MEETING**		
DATE:	**24 FEBRUARY 2022**	**REPORT NO:**	**CFO/007/22**
PRESENTING OFFICER	**IAN CUMMINS**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**SLT**		
TITLE OF REPORT:	**MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2022/2023 – 2026/2027**		
APPENDICES:	**APPENDIX A:**	**DRAFT SUMMARY REVENUE BUDGET ANALYSIS**	
	APPENDIX B:	**PROPOSED CAPITAL PROGRAMME 2022/23 – 2026/27**	
	APPENDIX C	**PROPOSED 2022/23 – 2026/27 FIVE YEAR MTFP**	
	APPENDIX D	**RESERVES**	
	APPENDIX E	**SPECIAL SERVICES CHARGES**	

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.

2. This will enable the Authority to set a budget for 2022/2023 whilst determining a precept level, which is in line with statutory requirements.

Recommendation

That Members consider the report and proposed budget and:-

3. Note the 2022/2023 service budget set out in the report.

4. Endorse the Director of Finance and Procurement's recommendation on maintaining the current level of general fund balance at £3.000m, and maintaining the reserves as outlined in Paragraph 141 to 162 of this report.

5. Endorse the current plan to increase the precept by just below 2% (1.96%) for 2022/2023, raising the Band D Council Tax from £82.00 to £83.61 and confirm the strategy for future precept rises (the plan assumes further increases of just under 2% in each year thereafter).

6. Endorse the assumptions in developing a five-year financial plan outlined in the report and approve the 2022/2023 budget estimate of £61.792m.

7. Approve 2022/2023 – 2026/2027 updated Medium Term Financial Plan (MTFP) outlined in the report and summarised in Appendix C.

8. Approve the discretionary fees and charges uplift outlined in the report and summarised in Appendix E.

9. Approve the capital strategy and investment strategy as summarised in Appendix B.

10. Approve the Minimum Revenue Provision (MRP) strategy for 2022/2023 as outlined in paragraph 85 to 94 of this report.

11. Note the prudential indicators relating to the proposed capital programme, outlined in paragraphs 100 to 105 of this report.

12. Approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in the section for:-

    a. External Debt
    b. Operational Boundary for Debt
    c. Upper limits on fixed interest rate exposure
    d. Upper limits on variable rate exposure
    e. Limits on the maturity structure of debt
    f. Limits on investments for more than 364 days

13. Note that the recommendations above provide an approved framework within which officers undertake the day-to-day capital and treasury management activities.

Introduction and Background

14. The Authority is required to determine its budget and precept level for 2022/2023 by 1st March 2022.

15. This report will present all the necessary financial information in a single report. This report considers:-

    a. Forecast Revenue Estimates
    b. The Proposed Capital Programme
    c. Any Revenue Savings and Growth Options
    d. The Treasury Management Strategy
    e. The Minimum Revenue Payment Policy for the Authority

16. Considering all the financial issues to be taken into account in a single report ensures that the Authority can:-

    a. Consider the borrowing freedoms available under the prudential code
    b. Reflect best practice
    c. Provide value for money
    d. Focus on the link between capital investment decisions and revenue budgets
    e. Continue developing their strategic financial plan

17. The following report structure will be adopted:-

Section	Focus	Paragraph
A	Executive Summary	18 - 34
B	Background Information	35- 67
C	Capital Programme Strategy	68- 84
D	Minimum Revenue Provision Statement	85 -94
E	Prudential Indicator Report	95 -105
F	Treasury Management Strategy Statement	106-108
G	Revenue Forecasts 2022/2023 – 2026/2027	109-140
H	Adequacy of Reserves and Balances	141-162
I	Budget Timetable & Resolution	163-166

A) EXECUTIVE SUMMARY

18. The Authority must set a balanced 2022/2023 budget and precept level by 1st March 2022.

19. The budget and financial plan should allocate resources in line with the Authority's Vision and Purpose:-

Our Vision:
To be the best Fire and Rescue Service in the UK.
One team, putting its communities first.

Purpose:
Here to serve. Here to protect. Here to keep you safe.

20. Members approved a 2021/2022 – 2025/2026 medium term financial plan (MTFP) at the Budget Authority meeting on 25th February 2021. Based on assumptions around the 2022/2023 and future years funding and expenditure, the MTFP identified a neutral position in 2022/2023 with a potential £2.164m financial challenge by 2025/2026. Due to the uncertainty over the future funding and expenditure, the Authority agreed to deal with any financial challenge once its future Government funding had been confirmed.

21. The MTFP has now been updated for the 2022/2023 Government Settlement Funding Assessment, (SFA), and takes account of the changes to the MTFP's assumptions and technical adjustments that Members approved at the January 2022 Budget Strategy day. Section G of this report outlines in detail all of the changes in the proposed new MTFP, in particular the impact of a 2021/2022 pay award. The changes to the current MTFP are summarised below :-

	2022/23	2023/24	2024/25	2025/26	2026/27
Forecast (Surplus) / Deficit	**0**	**901**	**2,050**	**2,164**	**2,164**
Collection Fund Res Adjustment:					
Remove original estimate	513	459			
2022/23 updated Coll Fund Reserve Use	-1,306	-89			
Collection Fund Net Deficit change	671	0			
2020/21 Pay Awards					
Uniform 1.5%	551	551	551	551	551
Non-Uniform 1.75%	200	200	200	200	200
Increase in Employers NI rate, +1.25%	336	336	336	336	336
New Services Grant 2022/23	-1,388				
New Services Grant Allocation from 2023/24?		-1,388	-1,388	-1,388	-1,388
2026/27 Inflation provision					1,476
Increase in Borrowing / Costs for New TDA		450	450	450	450
Increase Bus Rates multiplier for 22/23 freeze	-1,000	-1,000	-1,000	-1,000	-1,000
Increase in "other" NNDR1 business relief compensation grants	-220	-220	-220	-220	-220
Impact of 2022/23 Bus Reliefs to rate income yield in 2022/23	469				
FM Contract	84	112	112	112	112
Job Evaluation / Establishment Growth	300	300	300	300	300
Removal of fully protect 1992 FPS Members	-200	-200	-200	-200	-200
One-off MRP Saving	-1,582				
New TDA Reseve increase	2,777				
LGPS Estimated Employer rate saving		-200	-200	-200	-200
2022/23 Increase in SFA above 21/22 MTFP Estimate	-29	-29	-29	-30	-30
Increase in Council Tax Base +1.58% / Yield above that assumed in current Plan	-176	-183	-187	-192	-196
2026/27 SFA/Council Tax Income increase					-1,361
Forecast (Surplus) / Deficit	**0**	**0**	**775**	**883**	**994**

22. Overall, the changes to the assumptions, technical adjustments, and funding amendments have maintained the forecast balanced position for 2022/2023 (and now in 2023/2024 as well).

23. The updated MTFP is attached to this report as Appendix C. Although a deficit is forecast from 2024/2025 onwards, uncertainty over future Government funding and potential changes to the funding mechanism means a significant level of uncertainty exists over these forecasts. Members are asked to simply note any forecast financial challenge at this time. The Government are looking to review the current methodology for calculating local government funding and aim to complete this during 2022. Hopefully, the Government will then announce at least a 2-year settlement as part of the next comprehensive spending review. A multi-year settlement would enhance the certainty around future forecasts and aid the Authority's ability to plan for the longer term.

24. 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; future pay awards; the new Services Grant allocation from 2023/2024; and the impact of any Government funding review. 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 balanced will be considered by Members' as part of this reporting process.

25. The proposed updated MTFP assumes the Authority will increase the 2022/2023 precept by 1.96%. The Authority may choose to increase the 2022/2023 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.

26. 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 H of this report. Members have supported the proposal to build a new Training and Development Academy (TDA) and fire station at an estimated to cost £35m. The final decision on going ahead with the scheme would be subject to planning approval and confirmation of the affordability of the scheme. A report covering these issues is expected to be presented to Members for consideration in May / June 2022. The Reserve Strategy includes a planned £19.8m contribution to the new TDA / station project from the Capital Investment Reserve. As a consequence, committed reserves have increased over the 2020/2021 – 2021/2022 period, reversing a 37% downward trend in total committed reserves over the 2017/2018 – 2019/2020 period. The overall movement in reserves over the next five years is outlined overleaf :-

Commmitted Reserves											
	Estimated Balance to be C/fwd From 2021/22	Increase Approved As part of 22/23 Budget	Estimated 2022/23 Opening Balance	Estimated 2022/23 Use		Estimated 2023/24 Use	Estimated 2024/25 Use	Estimated 2025/26 Use	Estimated 2026/27 Use	Estimated Future Years Use	Held to Cover Risk
				22/23 Planned Budget Use	Potential Further Use in 22/23						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Forecast Use of Reserves in the year				-21,165	-2,452	-1,093	-660	-480	-500	-1,354	
Total Earmarked Reserves Bal C/fwd	28,098	2,852	30,950	9,785	7,333	6,240	5,580	5,100	4,600	3,246	3,246
General Revenue Reserve	3,000	0	3,000	0	0	0	0	0	0	0	3,000
Total Reserves	31,098	2,852	33,950	9,785	7,333	6,240	5,580	5,100	4,600	3,246	6,246

27. The Director of Finance and Procurement recommends the Authority maintains the current General Fund Reserve of £3.000m.

28. 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.

29. The proposed five-year capital programme is detailed in section C of this report. The table below summarises the proposed £62.380m of investments which are mainly in the Authority's property (including a new TDA/station), vehicle and ICT assets.

Capital Expenditure	Total Cost £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £
Building/Land	39,634,200	32,364,200	5,350,000	360,000	880,000	680,000
Fire Safety	3,175,000	635,000	635,000	635,000	635,000	635,000
ICT	7,036,800	3,199,360	828,460	1,121,460	762,860	1,124,660
Operational Equipment & Hydrants	2,784,200	631,200	474,000	1,133,000	316,000	230,000
Vehicles	9,750,225	5,775,725	700,650	1,315,850	1,818,000	140,000
Expenditure	62,380,425	42,605,485	7,988,110	4,565,310	4,411,860	2,809,660

30. The Authority needs to be mindful of the revenue costs of borrowing. The Table overleaf outlines how the £62.380m of investment will be funded;

Financing Available	Total £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £
Capital Receipts	2,475,000	275,000	2,200,000	0	0	0
RCCO	2,470,000	970,000	375,000	375,000	375,000	375,000
Capital Reserves	19,768,000	19,768,000	0	0	0	0
Total Non Borrowing	24,713,000	21,013,000	2,575,000	375,000	375,000	375,000
Unsupported Borrowing	37,667,425	21,592,485	5,413,110	4,190,310	4,036,860	2,434,660
Total Funding	62,380,425	42,605,485	7,988,110	4,565,310	4,411,860	2,809,660

31. The proposed capital programme has a borrowing requirement of £21.592m in 2022/2023 and £37.667m across the whole life of the plan. These commitments have been built into the proposed financial plan, and 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 (see Section E of the report).

32. 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 and Procurement to manage investments and borrowing within.

33. 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

34. 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 and Procurement has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2022/2023 and future years in section D of this report.

B) BACKGROUND INFORMATION

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

36. 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 rolling five year medium term financial plan (MTFP) and capital programme.

37. During 2010 to 2020, the Government 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) 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.

38. In 2010 the Authority;

- employed approximately 1,000 Full Time Equivalents (FTE) firefighters,
- employed 42 FTE fire control staff,
- employed 425 FTE support and technical staff,
- had 42 wholetime fire appliances immediately available and 1 retained - 43 appliances in total,
- had 26 full time fire stations.

39. The current budget provides for;

- 642 FTE firefighter, (36% lower),
- 32 FTE staff in fire control, (21% lower)
- 290 FTE support and technical staff, (32% lower),
- Appliances;
  - Days: 27 immediately available plus 4 on a 30 minute recall
  - Night: 21 immediately available plus 10 on a 30 minute recall
- 22 fire stations maintained by a variety of demand led duty cover systems.

40. The Authority's revenue budget requirement (gross day-to-day revenue spending less fees, specific grants and other income) is funded approximately 50% from the Government (via the local government business rates retention funding assessment) and is based on its Settlement Funding Assessment (SFA), and 50% from Council Tax {Precept}.

Government Settlement Funding Assessment (SFA):

41. The Government announced a number of measures to assist with the Country's economic recovery post Covid-19. One of the measures was a freeze in business rates for 2022/2023, rather than apply the September 2021 CPI increase of 3.1%. This had a significant impact on the 2022/2023 SFA, as the Baseline element of the SFA is directly linked to the business rates and any freeze would impact on the amount available to distribute to authorities. The Baseline element makes-up approximately 64% of the Authority's SFA. The Government acknowledged this and announced an increase in the business rates compensation grant of £1.000m. The proposed MTFP assumes this grant will continue in future years.

42. The other element that makes up the SFA is the 2022/2023 Revenue Support Grant (RSG). The 2022/2023 allocation increased by £0.343m or 3.1%.

43. The overall change in SFA funding was 1.1%, or 0.1% / £0.029m above the assumption in the 2021/2022 MTFP. After taking into account the additional business rates freeze grant the overall increase in grant above that in the current plan was £1.029m.

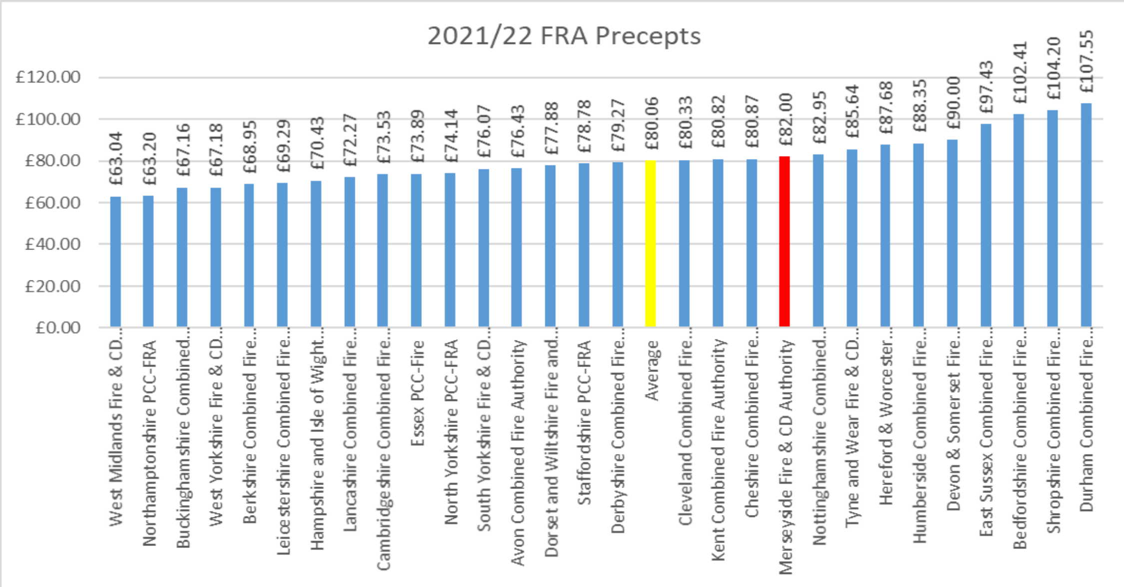
New Government Grant in 2022 Settlement Funding Assessment

44. The Government announced a new £822m unringfenced one-off Services Grant for 2022/2023. The Authority's services grant allocation was £1.388m. The grant provides funding to all tiers of local government in recognition of the vital services delivered at every level of local government. This grant includes funding the increase of 1.25% in employer National Insurance Contributions from April 2022. Although the Government has stated that this grant is a one-off, the intention is that the Government will work closely with local government on how to best distribute this funding from 2023/2024 onwards. The proposed MTFP assumes an ongoing Services Grant of £1.388m p.a.

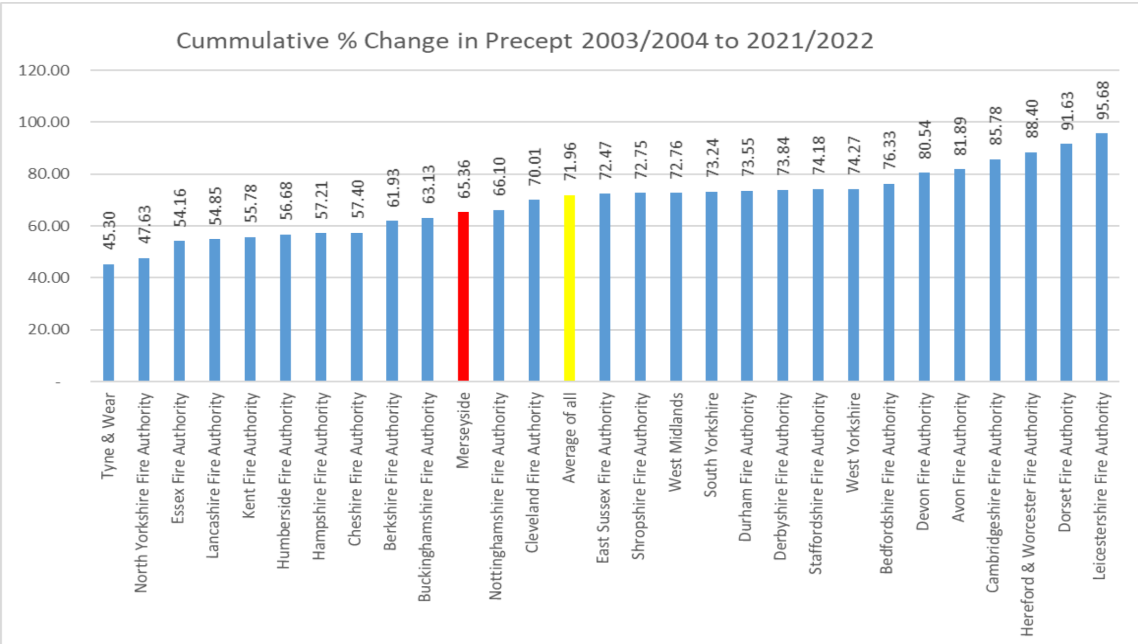
Council Tax:

45. The level of council tax yield is dictated by the number of properties and the level of charge on each. Each year the billing authorities provide the Authority with the estimated Band "D" equivalent tax base and this is then used to calculate the expected council tax income based on a Band D Precept charge. The Authority then notifies each billing authority of the Precept to charge each property band and the forecast income yield the billing authority must pay the Authority.

46. The Authority's current, 2021/2022 Band D Council Tax (£82.00), is slightly above the FRS national average of £80.06, as shown in the bar chart below. The proposed 1.96% increase to £83.61 in 2022/2023, is unlikely to change this position:-



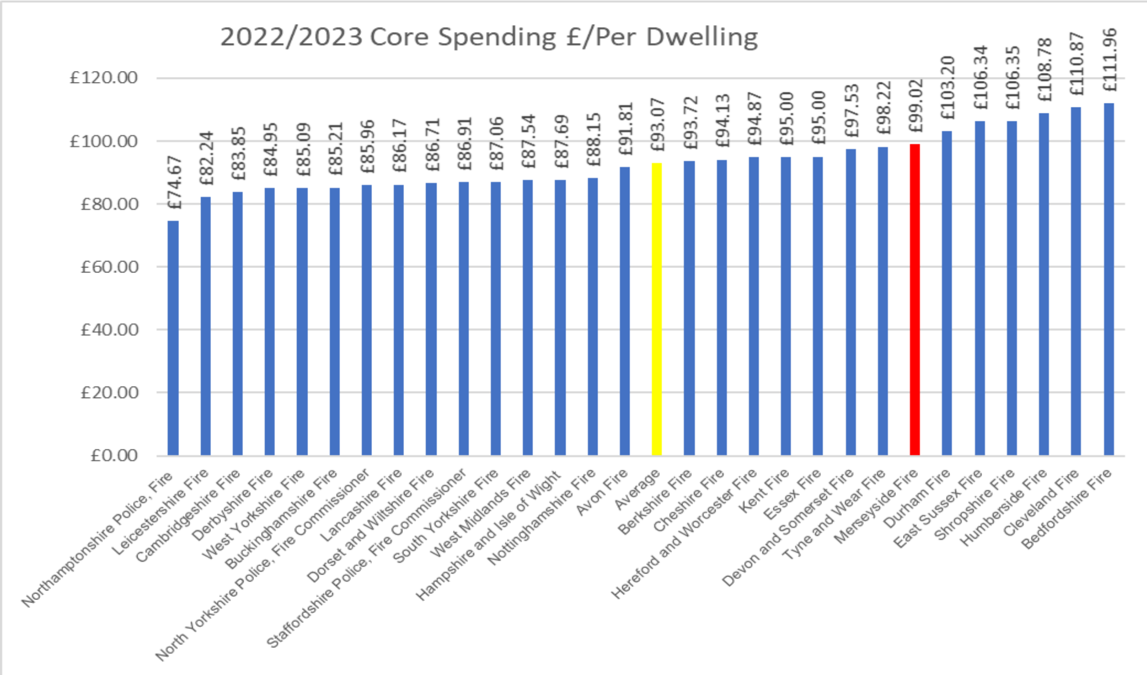
47. Over the past 18 years when compared to the other FRA's Merseyside has had one of the lowest cumulative council tax increases:



48. 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.

49. 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). The table below outlines the core spending power / per dwelling as outlined in the 2022/2023 finance settlement data produced by the Government ;-



50. The proposed updated MTFP assumes the Authority will increase the 2022/2023 precept by 1.96% to £83.61, which is just below the 2% limit that if exceeded requires the Authority to hold a referendum on a proposed increase. The updated MTFP continues to assume future years' precept increases will be at just under the anticipated referendum limit of 2%. In addition, based on the tax base information for 2022/2023 the tax base has increase by 1.58%, 0.58% higher than anticipated in the current MTFP. This has meant an increase in Council Tax yield of £0.176m above that anticipated. The proposed MTFP will continue to assume a 1.0% p.a. increase in the future years' tax base.

51. The Authority may choose to increase the 2022/2023 precept by 2% or more, 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.

Council Tax and Business Rates - Collection Fund

52. Any variation between the estimated yield of council tax and locally retained business rates income and the actual collected by the billing authorities is recovered / paid by the billing authority in the following year via a collection fund deficit or surplus adjustment.

53. In 2020/2021 and 2021/2022 the Government introduced business rate reliefs **after** the estimated business rate yields had been calculated, resulting in a reduction in the actual income collected and a significant deficit on the business rates collection fund in 2021/2022 and 2022/2023. The Government announced

grant funding to offset most of the business rates deficit in 2020/21 and 2021/22 and this has been used to create a Collection Fund Reserve to contribute towards the funding of any deficit repayment. In addition, the Government has permitted that some of the council tax and business rates deficit identified in 2021/2022 can be spread over a three-year period (2021/2022 to 2023/2024).

54. The tables below summarise the Council Tax and Business Rates Collection Fund position:-

Council Tax Collection Fund			
District	deficit/ (surplus) 2022/23	deficit/ (surplus) 2023/24	deficit/ (surplus) Total
	£	£	£
LIVERPOOL	172,883	234,327	407,210
WIRRAL	-260,000	56,000	-204,000
ST.HELENS	17,744	17,746	35,490
SEFTON	-78,569	70,105	-8,464
KNOWSLEY	-11,000	0	(11,000)
Net MFRA Impact	**-158,942**	**378,178**	**219,236**

55. The Council Tax Collection Fund forecasts a 2022/2023 surplus of £158,942, with an anticipated deficit of £378,178 in 2023/2024.

Business Rates Collection Fund			
District	deficit/ (surplus) 2022/23	deficit/ (surplus) 2023/24	deficit/ (surplus) Total
	£	£	£
LIVERPOOL	736,314	33,439	769,753
WIRRAL	214,519	24,130	238,649
ST.HELENS	84,332	6,733	91,065
SEFTON	187,022	16,492	203,514
KNOWSLEY	84,282	18,133	102,415
Net MFRA Impact	1,306,469	98,927	1,405,396

56. The Business Rates Collection Fund forecasts a 2022/2023 deficit of £1,306,469, and an estimated deficit of £98,927 2023/2024. Although the 2022/2023 deficit on the Business Rates Collection Fund has increased significantly, it relates to the Government's decision to continue Covid-19 rate reliefs for businesses into 2021/22. This increase is expected to be offset by compensating s31 grants in 2021/2022 that will be carried forward into 2022/2023 in the Collection Fund Reserve to cover the deficit recovery.

57. Overall, the Collection Fund has a deficit in 2022/23 of £1,147,527, this is an increase of £671,580 when compared to the current MTFP. Sufficient funds have been set-aside in the Collection Fund Reserve to cover this deficit and therefore no additional budget will be required from the 2022/2023 MTFP.

Pay:

58. The current MTFP assumption is for a 2.5% annual pay award increase in 2022/2023 and future years. The 2021/2022 MTFP had, based on the Government's statement about a public sector pay freeze, assumed no pay award in the year. The firefighters' received a 1.5% increase and other employees have been offered 1.75% in 2021/2022, the proposed MTFP has included a permanent provision to cover these awards. In addition the proposed MTFP has included a provision for the increase in Employers National Insurance of 1.25% from April 2022.

Amendments to the current MTFP Assumptions;

59. As well as the changes identified above to the current MTFP**, Section G** of this report outlines all the changes in the proposed new MTFP in more detail.

Updated 2022/2023 – 2026/2027 MTFP:

60. This report provides the Authority with an updated MTFP covering a five-year period, 2022/2023 – 2026/2027. The proposed MTFP takes into account the Government's 2022/2023 financial settlement and updated council tax funding and other budget assumptions, and is attached to this report as Appendix C. The change in the forecast position from the current to the updated MTFP is summarised below;

2022/23 - 2026/27 PROPOSED MTFP					
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Forecast (Surplus) / Deficit	**0**	**901**	**2,050**	**2,164**	**2,164**
Collection Fund Res Adjustment:					
Remove original estimate	513	459			
2022/23 updated Coll Fund Reserve Use	-1,306	-89			
Collection Fund Net Deficit change	671	0			
2020/21 Pay Awards					
Uniform 1.5%	551	551	551	551	551
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Increase in Employers NI rate, +1.25%	336	336	336	336	336
New Services Grant 2022/23	-1,388				
New Services Grant Allocation from 2023/24?		-1,388	-1,388	-1,388	-1,388
2026/27 Inflation provision					1,476
Increase in Borrowing / Costs for New TDA		450	450	450	450
Increase Bus Rates multiplier for 22/23 freeze	-1,000	-1,000	-1,000	-1,000	-1,000
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Impact of 2022/23 Bus Reliefs to rate income yield in 2022/23	469				
FM Contract	84	112	112	112	112
Job Evaluation / Establishment Growth	300	300	300	300	300
Removal of fully protect 1992 FPS Members	-200	-200	-200	-200	-200
One-off MRP Saving	-1,582				
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LGPS Estimated Employer rate saving		-200	-200	-200	-200
2022/23 Increase in SFA above 21/22 MTFP Estimate	-29	-29	-29	-30	-30
Increase in Council Tax Base +1.58% / Yield above that assumed in current Plan	-176	-183	-187	-192	-196
2026/27 SFA/Council Tax Income increase					-1,361
Forecast (Surplus) / Deficit	**0**	**0**	**775**	**883**	**994**

61. The MTFP delivers a balanced financial position in 2022/2023 and 2023/2024 but outlines a potential financial challenge from 2024/2025. Members are asked to simply note this at this point due to the significant uncertainty over future Government support; the Services Grant; and future costs (particularly pay awards and the impact of the McCloud remedy).

Allocation of Resources;

62. 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.

63. 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 has approved the IRMP for 2021 – 2024 in 2021 and the 2022/2023 MTFP includes budget (revenue and capital) to deliver the proposals in the IRMP, including £35m to build a new TDA and fire station (subject to various planning and cost conditions being satisfied).

64. The financial plan also seeks to aim the allocation of resources to deliver the Authority's Vision and Purpose:-

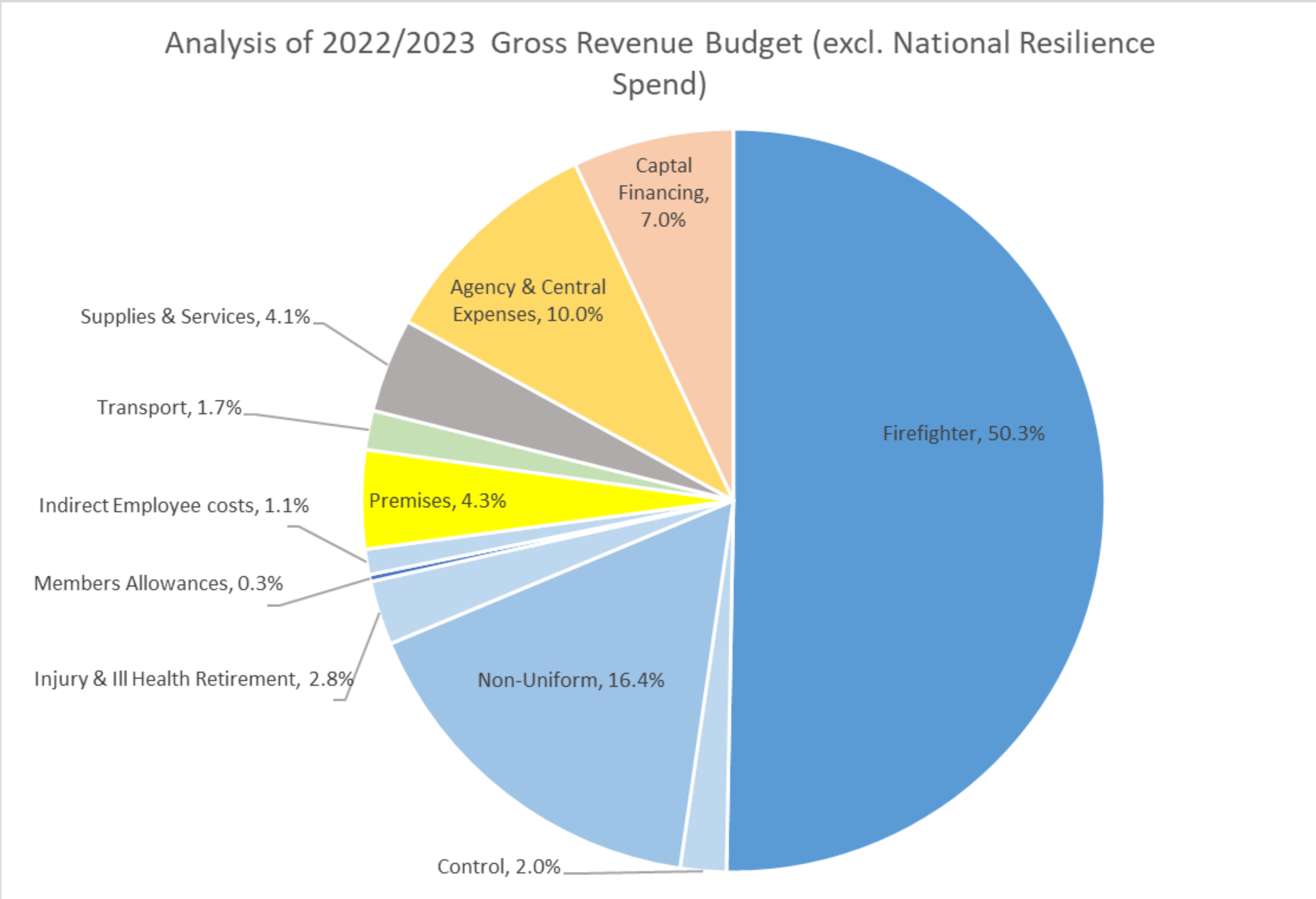
Our Vision:
To be the best Fire and Rescue Service in the UK.
One team, putting its communities first.

Purpose:
Here to serve. Here to protect. Here to keep you safe.

65. The updated 2022/2023 MTFP will support the delivery of the IRMP proposals and the Authority's key strategic aims and priorities. The updated MTFP is attached to this report as Appendix C and it delivers a balanced financial position in 2022/2023 and 2023/2024 subject to the key assumptions remaining robust throughout the coming years. Members' are asked to note any financial challenge forecast in future years at this time due to the significant uncertainty around funding and costs beyond 2022/2023.

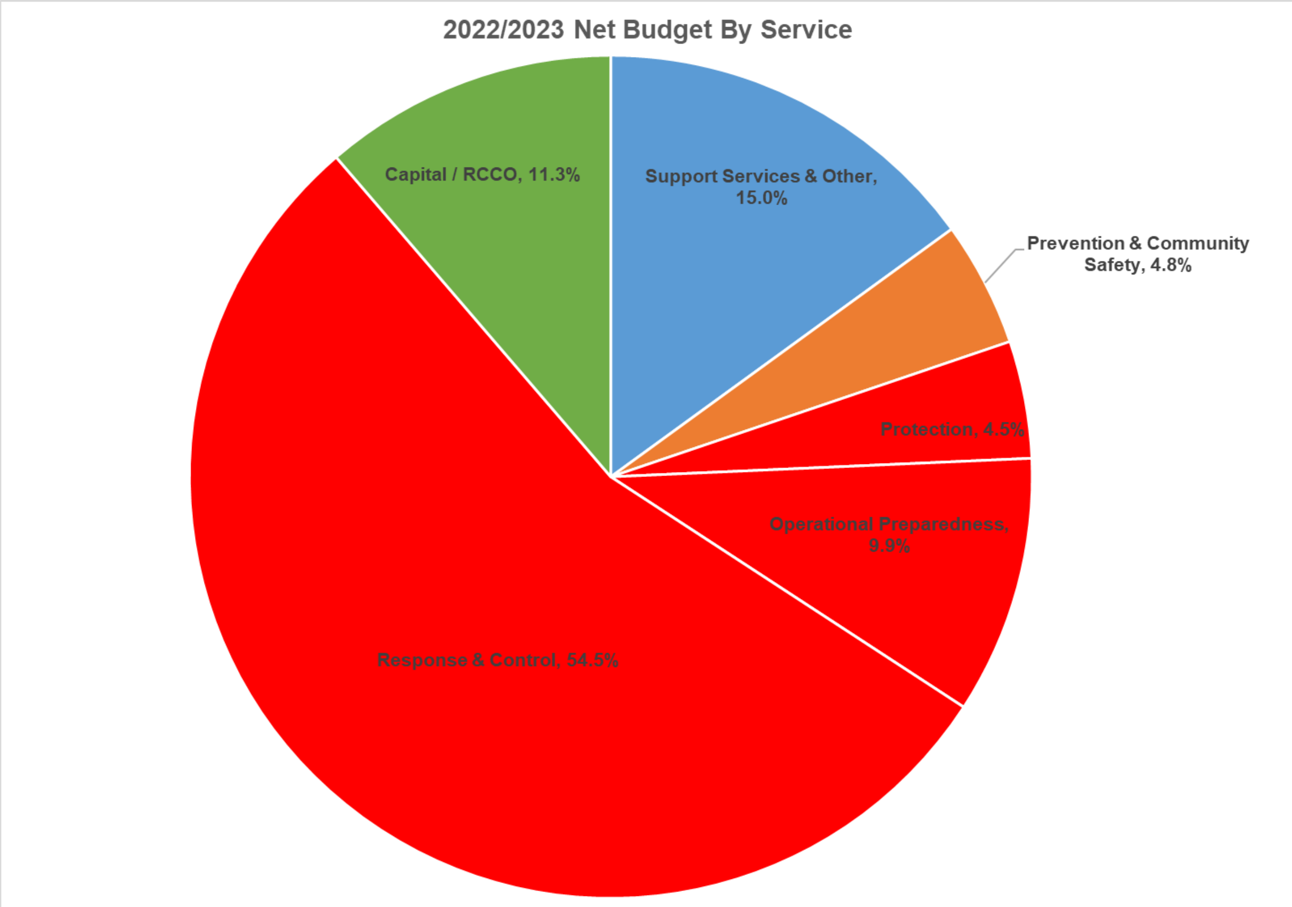
Analysis of the Budget Allocation by Service and Spend type (*Note Section C covers Capital and Section H Reserves***);**

66. An analysis of the planned revenue expenditure outlines that it is predominantly employee related (73%). The pie chart overleaf, analyses the revenue expenditure over the different main subjective headings, (the blue sections relate to employee costs) :-



A full subjective analysis of the base budget for 2022/2023 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 in the following paragraphs and is based upon the Service's strategic objectives.

67. The Authority has an excellent track record of investing in line with its corporate priorities. The pie chart overleaf outlines that most expenditure, 54.5%, goes on emergency and specialist response. In addition, 9.9% goes on Operational Preparedness and 9.3% on Protection, Prevention & Community Safety. Therefore 73.7% of expenditure is on the "front line" services. The 11.3% on capital costs relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 15.0% is on support and operational enabling services.



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

Operational Response & Control (Total £33.4m)

- Service delivery and emergency response through its 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.
- Delivering a HFSC programme.
- Investing in a new community fire station and TDA.
- Marine Rescue Unit to support John Lennon Airport and safety on the River Mersey.

Prevention & Community Safety (Total £3.0m)

- Community Prevention work and youth engagement; £2.7m
- Employment of specialist Advocates and continuation of the Princes Trust and other programmes.
- Fire Service Direct; £0.1m.
- Purchase and installation of £0.3m of smoke alarms per annum (**capital expenditure**)

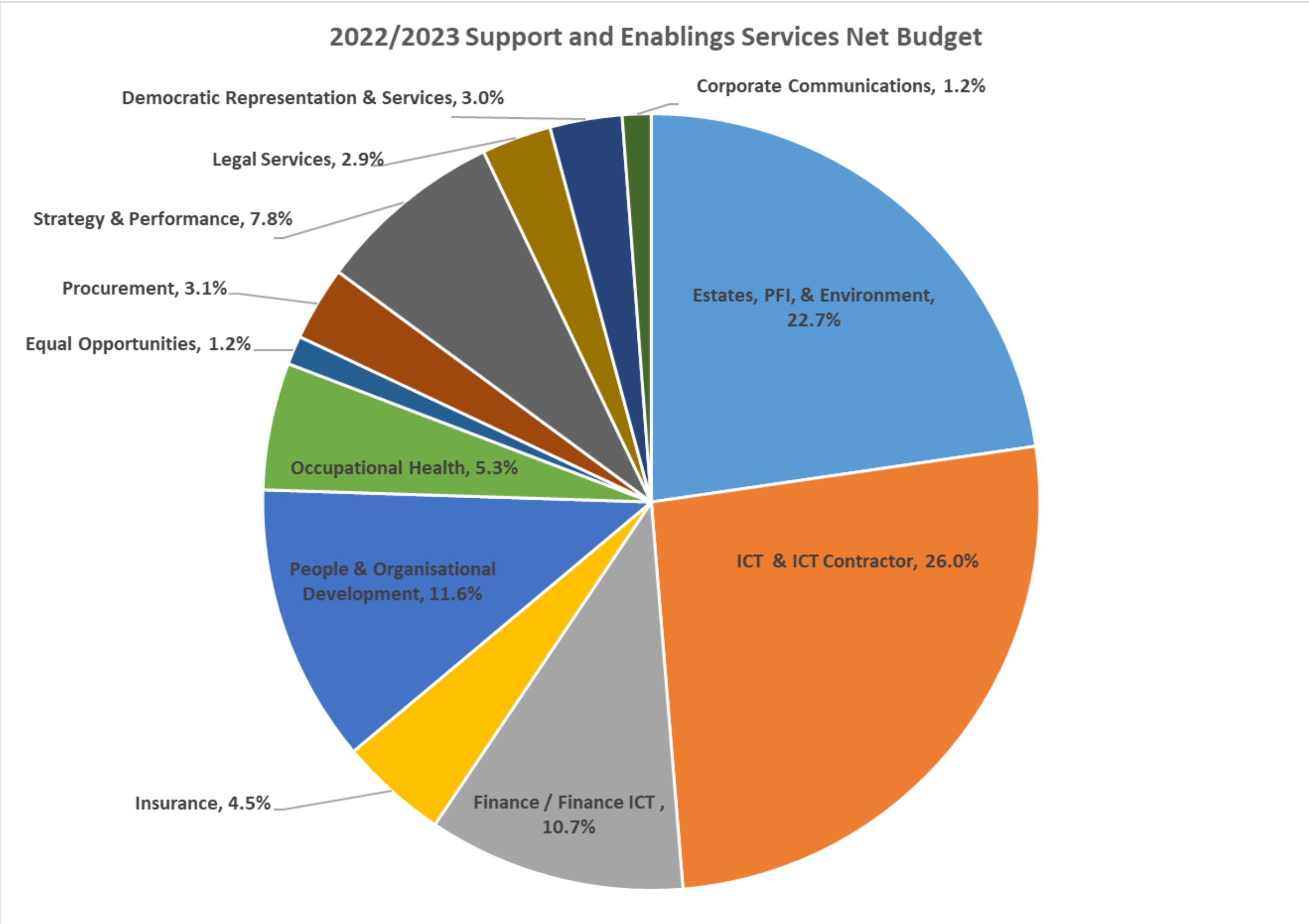
Protection (Total £2.8m)

- Protection Teams; £2.6m
- ICT Information systems £0.1m

Operational Preparedness (Total £6.1m)
The investment of £6.1m 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 £1.8m 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

Support Services & Enabling Services (Total £9.4m)
The investment in support services of £9.4m represents 15.0% of the budget. The pie chart overleaf 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 22 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

68. 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 the 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***.

69. 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.

70. 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.

71. 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.

72. 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.

73. 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).
- Service requirements, in particular investments required to support and deliver the IRMP.
- A planned development of a new TDA and fire station for £35m.
- 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.

74. 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.

75. 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.

76. The proposed £62.380m 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 £37.667m.

Capital Programme 2022/23 to 2026/27

Capital Expenditure	Total Cost £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £
Building/Land	**39,634,200**	32,364,200	5,350,000	360,000	880,000	680,000
Fire Safety	**3,175,000**	635,000	635,000	635,000	635,000	635,000
ICT	**7,036,800**	3,199,360	828,460	1,121,460	762,860	1,124,660
Operational Equip & Hydrants	**2,784,200**	631,200	474,000	1,133,000	316,000	230,000
Vehicles	**9,750,225**	5,775,725	700,650	1,315,850	1,818,000	140,000
Expenditure	**62,380,425**	**42,605,485**	**7,988,110**	**4,565,310**	**4,411,860**	**2,809,660**
Financing Available	**Total £**	**2022/23 £**	**2023/24 £**	**2024/25 £**	**2025/26 £**	**2026/27 £**
Capital Receipts	**2,475,000**	**275,000**	**2,200,000**	**0**	**0**	**0**
RCCO	**2,470,000**	**970,000**	**375,000**	**375,000**	**375,000**	**375,000**
Capital Reserves	**19,768,000**	**19,768,000**	**0**	**0**	**0**	**0**
Total Non Borrowing	**24,713,000**	**21,013,000**	**2,575,000**	**375,000**	**375,000**	**375,000**
Unsupported Borrowing	**37,667,425**	**21,592,485**	**5,413,110**	**4,190,310**	**4,036,860**	**2,434,660**
Total Funding	**62,380,425**	**42,605,485**	**7,988,110**	**4,565,310**	**4,411,860**	**2,809,660**

77. New additions to the capital programme have increased the overall expenditure by £14.102m, the reasons for this are :-

(a) The addition of the "extra year" to the programme 2026/27, £2.810m.

(b) New and increased proposals in 2022/2023 – 2025/26 of £11.292m have been included. The key items are for investment in;

- Increase in the new TDA and fire station £9.700m,
- Refurbishment of Bromborough fire station £1.000m.
- Net change to other building works £0.430m.
- New ICT applications and investments £0.077m
- New operational equipment £0.085m

78. The £14.102m of new planned capital spend requires unsupported additional borrowing of £10.150m (the balance is funded by specific resources) and this commitment has been built into the proposed MTFP.

79. **Appendix B** provides a full analysis of the proposed 5-year capital programme. The main areas of capital programme expenditure are summarised below :-

a. Building Investment Strategy (£39.634m);

The estate comprises of 22 fire stations, 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. The Estates team 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 programme assumes a new TDA and fire station (replacing the existing Croxteth and Aintree stations) at a cost of £35.027m. Members will receive a full report on the proposal for consideration and final approval early in 2022/2023 once planning permission has been granted.

Essential work at fire stations and other property makes up most of the balance. This includes a major £1.250m refurbishment of the existing Bromborough fire station.

b. Fire Safety (Community Risk Management) (£3.175m)

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 (£7.037m)

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;

- Planned replacement of PCs, servers, operational equipment and network £3.056m,
- Software licenses £1.918m,
- New emergency services network implementation, £0.770m,
- Proposed new command and control suite at the new TDA site (part of the planned £35.0227m) £0.700m
- Other applications and ICT schemes £0.593m.

d. Operational Equipment & Hydrants (£2.784m)

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 :-

- Hydraulic rescue equipment, £0.770m
- BA and resuscitation equipment, £0.640m
- Bulk foam, £0.143m
- Thermal imaging cameras, £0.175m
- Water delivery hoses, £0.118m
- Operational ladders, £0.126m
- Other specialist equipment, £0.627m
- Installation of new or replacement hydrants in line with our water strategy, £0.185m.

e. Vehicle Replacement Strategy (£9.750m)

The vehicle asset management plan elsewhere on today's agenda has identified the vehicle needs of the Authority and the required replacement and procurement strategy. The proposed capital programme reflects the ask within the asset management plan:-

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.

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 Command Unit (ICU)
- Prime Movers (3)
- Crane Lorry (1)
- BA Support Unit (1)
- Water Bowser Appliance (1)

Officers are looking at purchasing a High Reach Extendable Turret (HRET) appliance rather than the second CPL vehicle stated within this Asset Management Plan and proposed capital programme. This tactical option will still enable the Service to operate with 3 CPL's across the county complete with the added tactical option of a HRET vehicle.

c. Ancillary Vehicles;
Provision is included for the phased renewal of the ancillary vehicle fleet.

80. 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.

81. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £2.475m. 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.

82. 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.

83. 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 £14.102m reflecting the proposed new starts expenditure or increase in scheme costs. 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 £10.150m. The level of prudential "unsupported" borrowing in the proposed 5-year programme is £37.667m and the future revenue servicing cost of this debt has been built into the medium term financial plan as outlined below.

84. 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 2022/2023 – 2026/2027 and the methodology for calculating the MRP. More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (see Section E).

(D) MINIMUM REVENUE PROVISION STATEMENT

85. 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.

86. The regulations guidelines interpret 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).

87. 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.

88. 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.

89. The 2022/2023 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2021/2022. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2021/2022;
    - 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.

90. 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 and Procurement views this to be prudent methodology as it ensures that all of the debt is repaid over a finite timeframe.

91. 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.

92. 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.

93. Interest on loans taken out to fund capital expenditure is estimated at £1.8m.

94. 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

95. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2022/2023, 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.

96. 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 2022/2023.

97. The financial plans prepared in respect of the financial years 2023/2024 and 2024/2025 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 2022/2023 and thereafter.

98. 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 the Authority are provided below.***

99. 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.

100. The prudential indicators for the Authority are:-

- **Capital Expenditure**

  The actual capital expenditure that was incurred in 2020/2021 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£000,s	**£000,s**	**£000,s**	**£000,s**	**£000,s**	**£000,s**	**£000,s**
Capital Expenditure	**7,314**	**10,273**	**42,605**	**7,988**	**4,565**	**4,412**	**2,810**

Members will note that the significant expenditure over the 2020/2021 – 2023/2024 reflects a number of significant investments including;

- The delivery of the new fire station in St Helens, £3.075m {final payment in 2020/21),
- New TDA and fire station, £35.027m, (£1.543m in 2021/2022, £28.256m in 2022/23, and £5.000m in 2023/24),
- New specialist vehicles £3.360m in 2022/2023,
- NRAT Asset refresh (Home Office), £3.286m in 2021/2022.

This explains why the total expenditure in 2020/2021 – 2023/2024 appears to be relatively high. In addition, it is important to remember capital costs are shown as the gross net of any grants or contributions received to contribute towards the cost. More details on the capital programme are given elsewhere in the report (see Section C).

- **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 actual figures for 2020/2021 and the current and future years are:

	Actual 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Ratio of Financing costs to Net Revenue Stream	5.34%	6.31%	6.50%	8.84%	9.49%	10.20%	10.17%

This shows that forecast debt financing costs will increase from around 6% up to 2022/2023 and then increase to approximately 10% by 2026/2027. This reflects the current policy of using internal cash (funds held as reserves, unapplied capital and revenue grants etc.) to temporarily fund capital expenditure to be funded by borrowing. The Authority will need to borrow to fund the planned capital spend as the internal cash is expected to be committed by 2023/2024 (mainly the drawdown from the Capital Reserve). Therefore, from 2023/2024 the ratio returns to the expected levels based on the ongoing capital investment commitments and planned borrowing levels.

- **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 previously been taken by the Authority, are:

	Actual 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
Incremental Impact of Capital Investment Decisions	-£1.55	-£1.36	£3.90	£1.91	£0.01	£0.04	£0.92

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 2021/2022 into 2022/2023 approved during the year, the inclusion of a significant investment in the new TDA and station, and, the new starts in 2022/2023 – 2026/2027 explains the movement in the figures over this period.

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

102. Based on current commitments for 2021/2022 and the latest estimates of capital investment decisions in future years, the capital financing requirement forecast as at 31st March 2022 and future years is as follows:

	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	31.3.20	31.3.21	31.3.22	31.3.23	31.3.24	31.3.25	31.3.26	31.3.27
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement (excluding the PFI)	32,940	34,871	37,566	56,801	58,364	58,318	57,712	55,480

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.

103. 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."

104. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach a maximum of £58.364m over the next 5-years and the expected maximum debt position is £45.700m. 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.

105. The Treasury Management Code now recommends including a "liability benchmark" as a measure of how the existing loans portfolio matches the Authority's planned borrowing needs. The table overleaf outline how the

Authority is currently utilising internal cash over the short term and under-borrowing over the medium term. As the Authority utilises its available committed reserves and grants paid in advance of expenditure it will need to seek additional borrowing. The Director of Finance and Procurement is reviewing the situation with Liverpool City Council's Treasury Management team to determine when it is best to seek new loans based on future interest rate forecasts. Currently using internal cash benefits the Authority as it saves on interest payments it would have to make.

	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	31.3.21	31.3.22	31.3.23	31.3.24	31.3.25	31.3.26	31.3.27
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement (excluding PFI)	**34,871**	**37,566**	**56,801**	**58,364**	**58,318**	**57,712**	**55,480**
PWLB Loans B/Fwd	37,335	36,885	33,885	33,720	37,720	41,720	45,720
PWLB Loans Repaid	-450	-3,000	-165	0	0	0	0
New Loans				4,000	4,000	4,000	0
PWLD C/fwd	36,885	33,885	33,720	37,720	41,720	45,720	45,720
(Under)/Over Borrowed	**2,014**	**-3,681**	**-23,081**	**-20,644**	**-16,598**	**-11,992**	**-9,760**

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2022/2023

INTRODUCTION

106. 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 Department for Levelling Up, Housing and Communities (DLUHC) 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

107. 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 2022/2023.
    - The External Debt and Treasury Management Prudential Indicators and Limits for 2022/2023 to 2024/2025.
    - The Investment Strategy 2022/2023.
    - The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

108. The suggested strategy for 2022/2023 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 post COVID global economy has entered a higher inflationary phase. While some indicators suggest supply bottlenecks in goods markets are easing, oil and gas prices have risen significantly and threaten a more sustained level of uncomfortably high inflation than previously expected. In the UK, Ofgem has confirmed a significant rise in retail energy prices, which will maintain relatively high CPI rates throughout 2022.

Supply constraints are also evident in the labour market. Underlying wage growth is running above pre-COVID levels despite employment being lower now than in early 2020. Evidence suggests that labour pools have diminished. Higher wage growth will be a contributory factor to sustained above-target inflation this year.

The lower severity of Omicron means that the economic impact should be limited. The UK economy had a weak Q4 2021 due to the virus, but growth is likely to bounce back in Q1 2022. However, higher inflation will dampen demand. In the UK, households face a difficult outlook. Fiscal and monetary headwinds alongside a sharp reduction in real income growth will weigh on disposable income, ultimately leading to slower growth.

Having raised interest rates to 0.25% in December 2021 and again to 0.50% in February 2022, the Bank of England will tighten policy further over the next few months to dampen aggregate demand and reduce the risk of sustained higher inflation. We therefore expect Bank Rate to rise to 0.75% in March and 1.0% in May. Despite this expectation, risks to the forecast remain weighted to the upside for 2022, becoming more balanced overtime.

Gilt yields will remain broadly flat from current levels, which have risen sharply since mid-December 2021. Significant volatility is, however, likely. The risks around the gilt yield forecasts are broadly balanced. While gilt yields may face downward pressure as Bank Rate expectations ease from current levels, the run-off of the Bank's corporate bond portfolio, and later the gilt portfolio, as it reverses QE, could impact some upward pressure on yields.

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 2022/2023. 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 2022/23 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 in the event the bank is re-privatised it 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 and Procurement, Head of Finance or Treasury Manager.

Non-Specified Investments: - Non-specified investments do not, by definition, meet the requirements of a specified investment. The Department for Levelling Up, Housing and Communities (DLUHC) 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 cashflow 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 DLUHC 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 Sterling Overnight Index Average (SONIA) 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:

a. Authorised limit for external debt
b. 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, (CFR), 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 and Procurement, 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		**2022/23**	**2023/24**	**2024/25**
		£'000	**£'000**	**£'000**
Gross Borrowing		57,000	58,000	58,000
Other Long Term Liabilities		16,000	16,000	16,000
TOTAL		**73,000**	**74,000**	**74,000**

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 and Procurement, 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		**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
External Borrowing		40,000	40,000	45,000
Other Long Term Liabilities		16,000	16,000	16,000
TOTAL		**56,000**	**56,000**	**61,000**

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 £33.9 million at 31st March 2022.

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.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Capital Financing Requirement	54.4	73.2	74.2	73.5	72.3	69.3
Less: PFI	(16.8)	(16.4)	(15.8)	(15.2)	(14.6)	(13.8)
Less:MRD	(0.2)	(0.1)	(0.1)	-	-	-
Borrowing CFR	**37.4**	**56.7**	**58.3**	**58.3**	**57.7**	**55.5**
Existing Debt Portfolio	33.9	33.7	37.7	41.7	45.7	45.7
Over(-)/Under borrowing	**3.5**	**23.0**	**20.6**	**16.6**	**12.0**	**9.8**
Borrowing as a % of CFR	**90.6%**	**59.4%**	**64.7%**	**71.5%**	**79.2%**	**82.3%**

(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 365 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		2022/23	2023/24	2024/25
		%	**%**	**%**
Fixed		100	100	100
Variable		50	50	50

This means that the Director of Finance and Procurement will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2022/2023.

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	100%	0%

Total Principal Sums Invested for Periods Longer than 365 Days: It is recommended that the limit for investments of longer than 365 days be set at £2 million for each of the years 2022/2023, 2023/24 and 2024/2025.

(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 Sterling Overnight Index Average (SONIA) 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 and Procurement to ensure that all members with responsibility for treasury management receive appropriate training relevant to their needs and understand their roles and responsibilities.

(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 2022/2023 – 2026/2027

109. The Authority has in recent years maintained a robust Medium Term Financial Plan, (MTFP). The plan is fully reviewed on an annual basis, monitored throughout the year, and reported on a quarterly basis through the financial review reports to Members.

110. 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.

111. 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 up to 2020 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 :-

112. In 2010 the Authority;

- employed approximately 1,000 Full Time Equivalents (FTE) firefighters,
- employed 42 FTE fire control staff,
- employed 425 FTE support and technical staff,
- had 42 wholetime fire appliances immediately available and 1 retained - 43 appliances in total,
- had 26 full time fire stations.

113. The current budget provides for;

- 642 FTE firefighter, (36% lower),
- 32 FTE staff in fire control, (21% lower)
- 290 FTE support and technical staff, (32% lower),
- Appliances;
  - Days: 27 immediately available plus 4 on a 30 minute recall
  - Night: 21 immediately available plus 10 on a 30 minute recall
- 22 fire stations maintained by a variety of demand led duty cover systems.

114. The 2021/2022 MTFP approved at the Budget Authority meeting on 25th February 2021 delivered, based on the information at that time, a balanced financial position in 2021/2022 and 2022/2023. All the structural changes required to sustain the approved saving within that plan have all been actioned. The current MTFP forecast a £0.901m challenge in 2023/2024 rising to £2.164m by 2025/2026. As significant uncertainty existed over future Government funding and future cost increases from 2022/2023, Members were simply asked

to note any financial challenges in future years, and deal with any challenge once the future funding became clearer.

115. The current MTFP has been updated for the 2022/2023 Government funding settlement (another one-year settlement), and the Merseyside local authorities 2022/2023 Council Tax Base, Collection Fund and Business Rate forecasts.

116. Members at the January 2022 budget strategy day considered the key budget assumptions that should be included within the updated MTFP. The following paragraphs summarise the proposed key assumptions to be included within the plan:-

117. **Inflation - Pay & Prices Changes**:-

The 2021/2022 MTFP had, based on the Government's statement about a public sector pay freeze, assumed no pay award. The firefighters' received a 1.5% increase and other employees have been offered 1.75% in 2021/2022. The proposed MTFP has included a permanent provision to cover **the 2021/2022 pay awards of £0.751m p.a.**

In addition the proposed MTFP has included a provision for the **increase in Employers National Insurance of 1.25% from April 2022 of £0.336m**.

The current plan includes a provision for future pay awards of 2.5% p.a. Higher utility costs, tax rises from April 2022, and interest rate increase are putting pressure on wage inflation. Although the Government expect inflation over the medium term to fall back closer to their 2% target, it is likely to be around 4% to 7% for a significant part of 2022. At the strategy day, the view was that over the 5-year MTFP period pay inflation may average 2.5%, but the Authority may face higher awards in year 1 or 2. If this is the case then the inflation reserve would be used to smooth out the pay award impact to 2.5% over the life of the MTFP. If it appears pay increases are likely to exceed the 2.5% average assumption, then Members' would need to consider the funding of higher pay awards in the following year's budget process. **The proposed MTFP proposes to keep the pay assumption at 2.5% for 2022/2023 and future years.**

Authority Members' have been committed to reducing their own costs and following thirteen years of a freeze to allowances', this has delivered an annual saving of £24,000. Given the inflationary pressures already mentioned above the reality is the freeze in allowances must end. The inflation provision now includes funding for an inflation indexation for members' allowances from 2022/2023 based on the previous year's firefighter pay award. Future years would follow the NJC grey book recomendation. Members will consider the scheme of allowances for 2022/2023 at the AGM meeting in July 2022.

The proposed plan has built in a **price inflation** provision to cover expected significant rises in utility costs (40% on energy use), and a general increase of 2% for other non-employee costs.

Inflation of £1.476 is included in the MTFP to cover the new-year 2026/2027.

118. **Pensions:-**

- **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. The employer rate 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 over £3.210m. The Home Office announced a "one-off" grant of £3.025m in 2019/2020 to contribute to the increase, and again in each year up to 2021/2022. The Home Office have again indicated the funding will continue as a grant in 2022/2023 and possibly within the SFA from 2023/2024, but have yet to announce the Authority's allocation. The MTFP assumes this grant will continue at the current level, £3.025m. **The proposed MTFP will continue to assume grant funding of £3.025m will continue at the current level either as a grant or within the SFA for the MTFP period.**

- **McCloud** - The FBU made a legal challenge in relation to the way the Government implemented the 2015 FPS. These arrangements were deemed unlawful and discriminatory on grounds of age. The Government have announced a remedy to resolve the discrimination but it requires primary legislation before it can be implemented, the expected implementation date is October 2023. The remedy will see all eligible FPS members having the option to access their legacy scheme up to 31 March 2022, after which all active members will transfer to the new 2015 FPS. The FBU have requested that eligible retired and current FPS members be allowed to have immediate access to their legacy benefits. The Authority is looking to support this request, but it will need to fund various **compensation and administration costs**. **A £0.575m reserve has been established to cover these costs**. The current MTFP had assumed a small number of 1992 FPS members would have ongoing full protection to remain in this scheme. However, as all members will now move to the 2015 FPS this will deliver a **small saving on the FPS employer contributions of £0.200m from 2022/2023**. This has been built into the new MTFP.

  The 2020 FPS actuarial review is currently being undertaken and will consider the cost of the McCloud outcome. The Home Office has advised that the impact of the actuarial review will be taken into account in the FPS employer rates from 2024/2025. **A provision of £1.020m or +3% was built into the current MTFP from 2024/2025, and this remains the case in the updated MTFP.**

The Authority accepted a LGPS employer rate from 2019/2020 that included an estimated provision for McCloud and therefore no further increase in the employer rate is expected.

- **Future LGPS Employer Rate** - Following a meeting with the Merseyside Pension Fund and its actuary, a potential surplus position in the fund has been identified and this will be confirmed when the next actuarial review has concluded at the end of 2022. This will also establish the employer rates from 2023/2024. **Based on the current indicative figures a saving of £0.200m from 2023/2024 has been assumed in the MTFP.**

119. **Review of Approved Saving Options**
All savings have been delivered.

120. Members have agreed a strategy that any one-off uncommitted resources will be used to increase the New TDA and station reserve. The 2022/2023 MTFP review has identified a one-off "surplus" of £1.156m in 2022/2023 only, mainly arising from new or increasing grants. An assumption has been made that this will be used towards the cost of the new TDA and station build, and used to increase the capital reserve. **The proposed MTFP has utilised this one-off £1.156m saving to increase in the TDA and station reserve**.

121. **Revenue Growth**
The current plan assumed no future unavoidable growth requirements beyond those approved in the 2021/2022 plan. The CFO and SLT have identified a number of unavoidable growth issues that need to be built into the new MTFP;

- The **new facilities management contract** agreed by Members' at the Community Safety Committee on 1st February 2022, requires additional funding of **£0.084m in 2022/2023 rising to £0.112m in a full year**. Provision for this increase has been included in the new MTFP.

- **Job evaluation and Establishment Growth, £0.300m.**
SLT have co-ordinated a review of the current non-operational establishment and have identified a number of posts that require a job evaluation that are likely to result in a small increase in the current grade. In addition, SLT have identified the need to invest in some service areas to meet the increased work demands. **A provision of £0.300m has been built into the new MTFP to cover the outcome of these reviews**.

- The increase in the **new TDA and fire station cost** from £25m to £35m and the loss of NWAS's contribution to the day to day running costs, requires an increase in the revenue associated costs from £0.500m to £0.950m from 2023/2024. This **increase of £0.0450m has now been built into the MTFP from 2023/2024**.

122. **Cost of Capital Borrowing**
The **plan also takes into account the proposed 5-year capital programme and MRP policy discussed previously in sections C and D**. This includes

the revised cost for the new TDA and fire station and other investments required to deliver the proposed draft 2021-2024 IRMP.

In order to increase the TDA/Capital reserve the MRP policy in this report assumes that only the required level of MRP will be paid in 2022/2023, and **£1.621m of the current earmarked for MRP in 2022/2023 will now be used to contribute towards the new Capital/TDA Reserve**.

123. Firefighter Recruitment

The Authority established a firefighter recruitment reserve to fund firefighter recruitment ahead of expected retirements to ensure sufficient competent firefighters were available to staff appliances. The proposed MTFP doesn't include any drawdown from the reserve at this point, as funds will only be drawndown as and when required.

Resources Available

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

125. Government Funding

In 2013/2014 the Government reformed the Fire and Local Government funding system and introduced the 50% Business Rates Retention scheme. The new system determines the Authority's funding allocation based on a Settlement Funding Assessment, (SFA), and this support can be broken down into two parts;

- **Baseline** – estimated value of **retained local business rates** plus a **Top-Up grant**, and
- **A Revenue Support Grant**.

The Government have announced another one-year local government finance settlement, and, that business rates will be frozen in 2022/23 plus additional business rate discounts for some businesses.

The Authority's SFA for 2022/2023 is slightly higher than that assumed in the current MTP**. The current MTFP assumed a 1.0% increase and the actual was 1.1%, (+£0.029m).** Although the Baseline funding (business rates and top-up grant) was frozen at the 2021/2022 level, the RSG element was uplifted by the September 2021 CPI inflation factor of 3.1%, resulting in a 1.1% increase in the SFA.

To compensate the Authority for the **business rates freeze a £1.000m increase** in the business rates multiplier grant was announced as part of the financial settlement. **The MTFP assumes this increase will permanent**.

In addition to the 2022/2023 Business Rates freeze grant, the Government also compensate the Authority for any loss in business rates for approved ongoing discounts or new discounts in 2022/2023. Based on the Merseyside Authorities NNDR1 local business rate forecasts for 2022/2023, the Authority will receive **an additional £0.220m in s31 grants. The MTFP assumes this increase will permanent.**

Within the SFA is a forecast of the local retained business rates assumed for the Authority of £4.297m. New business rate discounts announced for 2022/2023 have reduced the billing authorities forecast for local business rates yield in 2022/2023 for the Authority **below that in the SFA by £0.469m.** The Government have compensated the Authority via the s31 grants mentioned above, for this loss. **The proposed MTFP includes the £0.469m reduction in local business rates for 2022/2023**.

The proposed plan attempts to forecast future Government support beyond 2022/2023, however it is very challenging to forecast with any certainty the likely levels of support in future years. This is especially true post 2022/2023, as the Government has announced that as part of the levelling-up agenda it plans to complete and implement the outcome of the Fair Funding review. This review will consider how the current funding system assesses local authority needs and resources. This future review may impact on the Authority's share of Government funding. In order to produce a 5-year MTFP the **assumption is that the SFA will increase by 1.0% p.a. from 2023/2024.** This appears reasonable as the baseline element of the SFA, (business rates), will increase as business rates would go up by the previous year's September CPI. It is likely that the September CPI will be at least 1% over the medium term. By assuming a 1% increase, which may be on the low side of future inflation forecasts, it creates some robustness within the forecast to absorb any adverse impact of the fair funding review. **The 1% annual increase in annual SFA is consistent with the current MTFP**.

Hopefully, future Government spending reviews will announce multi-year SFA settlements and this would provide more certainty and aid effective financial planning.

New Government Grant in 2022 Settlement Funding Assessment

126. The Government announced a new £822m unringfenced one-off Services Grant for 2022/2023, but stated that this grant is a one-off. The grant provides funding to all tiers of local government in recognition of the vital services delivered at every level of local government. This Government announced an increase in employer and employee national insurance (NI) rates of 1.25% from April 2022, but stated it would offset the cost to public bodies. The Services grant includes fulfils that obligation, at least for 2022/2023. The Authority's Services grant allocation was £1.388m. Although the Government has stated that this grant is a one-off, the intention is that the Government will work closely with local government on how to best distribute this funding from 2023/2024 onwards. It seems prudent to expect any future allocation to cover at least the impact of the NI increase. Furthermore, it would be reasonable to assume the balance of the £822m would be allocated on a needs-based methodology. It seems prudent therefore to assume the Authority would receive no less than its £1.388m

2022/2023 allocation in future years. **The proposed MTFP assumes an ongoing Services Grant of £1.388m p.a.**

127. Council Tax income

The current plan assumed a Council Tax Base increase of 1% for 2022/2023 and future years. The actual increase in 2022/2023 was +1.58%, 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 2022/2023 Tax Base increases were:--

District	2021/22 Council Tax Taxbase	2022/23 Council Tax Taxbase	Variance	
LIVERPOOL	106,968.64	108,460.97	1,492.33	1.40%
WIRRAL	94,198.60	95,172.39	973.79	1.03%
ST.HELENS	52,080.00	53,290.00	1,210.00	2.32%
SEFTON	82,722.10	84,170.40	1,448.30	1.75%
KNOWSLEY	37,130.00	37,907.00	777.00	2.09%
	373,099.34	379,000.76	5,901.42	1.58%
2021/22 Band D Tax Level	82.00	82.00		
Total Income £	30,594,146	31,078,062	483,916	1.58%

128. This means that for each £1 of Council Tax the level of income will be higher than that generated in 2021/2022 by £5,901.42. **The result of this is that the income from the current level of Council Tax is anticipated to be higher by £0.484m.**

129. The Government has announced that for 2022/2023 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 2022/2023 and each year after that. A just under 2% (1.96%) increase for 2022/2023 will see the Band D precept increase from £82.00 to £83.61, an increase of £1.61**. The precept increase will raise an additional £0.610m in 2022/2023**.

Council Tax Increase			
	0%	**1.96%**	**Change**
Band D Tax	82.00	83.61	1.61
	£	£	£
LIVERPOOL	8,893,800	9,068,422	174,622
WIRRAL	7,804,136	7,957,363	153,227
ST.HELENS	4,369,780	4,455,577	85,797
SEFTON	6,901,973	7,037,487	135,514
KNOWSLEY	3,108,374	3,169,404	61,030
	31,078,063	31,688,253	610,190

Council Tax and Business Rates Collection Fund

130. 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. In 2021/2022 the Government announced measures to assist local authorities for dealing with forecast collection fund deficits that had arisen as a result of measures announced to deal with Covid-19. For eligible 2020/2021 deficits they could be charged to the general fund over a 3-year period (2021/2022 – 2023/2024). The current MTFP spread impact as;

Collection Fund Forecast Spread for 2020/21 Deficits		
District	deficit/ (surplus) 2022/23	deficit/ (surplus) 2023/24
	£	£
Council Tax	377,020	377,000
Business Rates	98,927	98,927
	475,947	475,927

131. The Merseyside authorities have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The forecast position for 2022/2023 takes into account the 2020/2021 “spread figure” for 2022/2023 and the impact of the current year, 2021/2022, position to be recovered in 2022/2023.

132. The table below summarises the overall position and allowable spread over a three year period :-

Council Tax Collection Fund			
District	deficit/ (surplus) 2022/23	deficit/ (surplus) 2023/24	deficit/ (surplus) Total
	£	£	£
LIVERPOOL	172,883	234,327	407,210
WIRRAL	-260,000	56,000	-204,000
ST.HELENS	17,744	17,746	35,490
SEFTON	-78,569	70,105	-8,464
KNOWSLEY	-11,000	0	-11,000
Net MFRA Impact	**-158,942**	**378,178**	**219,236**

133. The council tax collection fund has a surplus of £158,942 for 2022/2023. This is a reversal of the £377,020 deficit forecast in the current MTFP and reflects the surplus expected in the 2021/2022 council tax collection. The spread deficit earmarked for 2023/2024, £378,178, remains unchanged at this point, but it will be assessed based on the income collected to date in next year’s review.

Business Rates Collection Fund			
District	deficit/ (surplus)	deficit/ (surplus)	deficit/ (surplus)
	2022/23	2023/24	Total
	£	£	£
LIVERPOOL	736,314	33,439	769,753
WIRRAL	214,519	24,130	238,649
ST.HELENS	84,332	6,733	91,065
SEFTON	187,022	16,492	203,514
KNOWSLEY	84,282	18,133	102,415
Net MFRA Impact	1,306,469	98,927	1,405,396

134. The business rates collection fund has a deficit of £1,306,469, which is an increase of £1,207,542 on the 2020/2021 spread figure of £98,927. The Government announced after the 2021/2022 forecast of business rates had been agreed, the extension of Covid-19 reliefs into 2021/2022, resulting in the increase in the collection fund deficit. The Government has announced additional 2021/2022 compensation grants to offset this increase. The new grant will be accounted for in 2021/2022, and used to increase the collection fund deficit reserve. £1.306m will be drawndown from the collection fund reserve in 2022/2023 to cover the deficit.

135. The current MTFP had assumed a 2022/23 total collection fund deficit of £0.476m. The updated position (£1.306m and -£0.159m) is a £1.147m deficit, an increase of £0.671m. The deficit spread planned for 2023/2024 remains unchanged from the current MTFP.

Discretionary service Charges

136. Members approved an overarching charging policy for special and discretionary services at the Policy and Resources Committee on 25th March 2021. The income raised is included within the budget, approximately £0.025m for special services charges. The report approved by members' included a recommendation that the charges will be uplifted annually as outlined below, and details about the charges will be included with each annual budget report for consideration.
Proposed increase in charges based on;

a. Except Automatic Fire Alarms and Reinforcing Moves, all fees and charges have increased by 1.5%, in line with the 2021/2022 firefighter pay award.
b. Automatic Fire Alarms have gone up with the CPI rate for December 2021, which was 4.8%.
c. Reinforcing Moves (section 13 & 16 charges) are to remain the same.

Appendix E attached to this report outlines the proposed 2022/2023 charges.

OVERALL IMPACT

137. The overall impact of all these changes to the 2021/2022 MTFP is outlined below :-

	2022/23	2023/24	2024/25	2025/26	2026/27
Forecast (Surplus) / Deficit	**0**	**901**	**2,050**	**2,164**	**2,164**
Collection Fund Res Adjustment:					
Remove original estimate	513	459			
2022/23 updated Coll Fund Reserve Use	-1,306	-89			
Collection Fund Net Deficit change	671	0			
2020/21 Pay Awards					
Uniform 1.5%	551	551	551	551	551
Non-Uniform 1.75%	200	200	200	200	200
Increase in Employers NI rate, +1.25%	336	336	336	336	336
New Services Grant 2022/23	-1,388				
New Services Grant Allocation from 2023/24?		-1,388	-1,388	-1,388	-1,388
2026/27 Inflation provision					1,476
Increase in Borrowing / Costs for New TDA		450	450	450	450
Increase Bus Rates multiplier for 22/23 freeze	-1,000	-1,000	-1,000	-1,000	-1,000
Increase in "other" NNDR1 business relief compensation grants	-220	-220	-220	-220	-220
Impact of 2022/23 Bus Reliefs to rate income yield in 2022/23	469				
FM Contract	84	112	112	112	112
Job Evaluation / Establishment Growth	300	300	300	300	300
Removal of fully protect 1992 FPS Members	-200	-200	-200	-200	-200
One-off MRP Saving	-1,582				
New TDA Reseve increase	2,777				
LGPS Estimated Employer rate saving		-200	-200	-200	-200
2022/23 Increase in SFA above 21/22 MTFP Estimate	-29	-29	-29	-30	-30
Increase in Council Tax Base +1.58% / Yield above that assumed in current Plan	-176	-183	-187	-192	-196
2026/27 SFA/Council Tax Income increase					-1,361
Forecast (Surplus) / Deficit	**0**	**0**	**775**	**883**	**994**

138. The proposed MTFP as a result of the changes identified in this section of the report, forecasts a balanced position in 2022/2023 and 2023/2024 but indicates a potential financial challenge in future years rising to £0.994m by 2026/2027.

139. As the updated MTFP results in a balanced financial position for 2022/2023 Members do not need to consider options for additional savings in 2022/2023. This is subject to the key assumptions, particularly around a 2022/2023 annual pay increase, remaining robust.

140. The updated MTFP is attached to this report as Appendix C.

(H) ADEQUACY OF RESERVES AND BALANCES

141. 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.

142. 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.

143. In the Authority, the Chief Finance Officer is the Director of Finance and Procurement. For the purposes of the Act the "financial reserves" of the Authority would incorporate Committed Reserves and Working Balances.

144. 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

145. 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

146. 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.

147. 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.

148. 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

149. 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)

150. 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%.

151. For this Authority, a 5% forecast Net Operating Expenditure equates to approximately £3.1m. Given the level of specific reserves held by the Authority to cover those issues deemed to be high risk, such as annual pay inflation, the current General Revenue Reserve is deemed prudent. The Director of Finance and Procurement (Chief Finance Officer) recommends **maintaining the general reserve at its current £3.0m level**.

Committed (Earmarked) Reserves

152. The Authority has created these reserves for specific purposes and involves funds being set aside to meet known or predicted future liabilities or risks. The Director of Finance and Procurement 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 2022/2023 and future years are outlined below and the planned use over the MTFP is in the table at the end of this section and attached as Appendix D.

153. **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, £0.5m** - 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.

154. **Modernisation Challenge Reserves**:

- **Smoothing Reserve, £1.6m** - This reserve was created to allow the Authority the time to re-engineer the Service and deliver future saving options if the future Government funding or Pension (McCloud –future 2024/25 FPS employer rate) assumptions in the proposed plan do not reflect the actual future change. This level of uncertainty means the Authority may face significant future funding cuts but with little time to manage any required budget reductions. By having this 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.
- **Pensions Reserve, £0.6m**
  The Authority has signed-up to the LGA/FBU immediate detriment framework. This framework may be used to allow eligible members of the FPS to access their legacy scheme benefits in advance of the required legislation and regulation changes. The implementing the framework will involve significant administration costs as well as possible compensation payments. This reserve has been established to contribute towards such costs.
- **Recruitment Reserve, £1.9m** - 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, £0.3m** - This reserve was established to pump prime efficiency initiatives required to deliver longer term savings. The reserve will be used by the Applications team up to 2022/2023, in order to facilitate the development of in-house and other applications that will reduce staff administration support costs in the future.
- **Collection Fund Reserve, £2.3m** – Section G of this report outlines the council tax and business rates collection fund deficits for 2022/2023 –

2023/2024. The Government has agreed to fund the majority of the deficit for 2020/2021 and 2021/2022 that has resulted from Covid-19 measures, in particular business rates reliefs. As the grants are received in advance of the recovery by the billing authorities of the deficits, the funds will be carried forward via this reserve.

155. **Capital Reserve, £20.3m**
- The reserve is committed to contribute towards the new TDA and fire station site, £19.8m, in order to reduce any significant borrowing costs. The balance will fund planned projects on the prevention and protection application and other systems.

156. **PFI Annuity Reserve, £1.8m**
- PFI schemes have an affordability gap (existing budget plus grant never covers the proposed total cost of the scheme). As the grant was paid in advance of the full PFI scheme being completed, PFI authorities therefore received "excess" grant relative to the unitary charge payments at the beginning of the scheme. This available grant was 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.

157. **Specific Reserves**
- **Inflation Reserve, £0.5m** - This reserve provides some resilience if the pay and price inflation assumptions in the MTFP are insufficient and the actual inflation increase is higher than expected. 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.
- **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 2022/2023 and look to improve prevention and wellbeing within the Merseyside community.

158. **Ringfenced Reserves, £0.6m** - External grants / contributions have been received to fund specific projects such as; Local Authorities funds for community initiatives; energy efficiency schemes; and new dimensions related activities.

This reserve ensures the funds are brought forward until they have been fully spent.

159. The anticipated planned use of these reserves over the MTFP is outlined in the table below:-

Commmitted Reserves											
	Estimated Balance to be C/fwd From 2021/22	Increase Approved As part of 22/23 Budget	Estimated 2022/23 Opening Balance	Estimated 2022/23 Use		Estimated 2023/24 Use	Estimated 2024/25 Use	Estimated 2025/26 Use	Estimated 2026/27 Use	Estimated Future Years Use	Held to Cover Risk
				22/23 Planned Budget Use	Potential Further Use in 22/23						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Emergency Related Reserves											
Bellwin / Emergency Planning Res	222		222								222
Insurance Reserve	499		499								499
Modernisation Challenge											
Smoothing Reserve	1,588		1,588								1,588
Pensions Reserve	575		575		-200	-375					0
Recruitment Reserve	1,850		1,850		-300	-300	-300	-300	-300	-350	0
Invest to Save / Collaboration Res	282		282		-282						0
Collection Fund Reserve	2,311		2,311	-1,306	-877	-128					0
Capital Investment Reserve											
New TDA & Station	16,991	2777	19,768	-19,768							0
Other	504		504	0	-154	-150	-200	0	0	0	0
PFI Annuity Reserve	1,775		1,775	-91	-120	-140	-160	-180	-200	-1,004	-120
Specific Projects											
Community Sponsorship Reserve	55		55		-55						0
Equipment Reserve	137		137		-137						0
Community Engagement Reserve	8		8		-8						0
Training Reserve	150		150		-150						0
Health and Wellbeing Reserve	5		5		-5						0
Inflation Reserve	526		526								526
Ringfenced Reserves											
Community Risk Management Res	303		303								303
Energy Reserve	153	75	228		0	0	0	0	0	0	228
New Dimensions Reserve	164		164		-164						0
Forecast Use of Reserves in the year				-21,165	-2,452	-1,093	-660	-480	-500	-1,354	
Total Earmarked Reserves Bal C/fwd	**28,098**	**2,852**	**30,950**	**9,785**	**7,333**	**6,240**	**5,580**	**5,100**	**4,600**	**3,246**	**3,246**
General Revenue Reserve	**3,000**	**0**	**3,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,000**
Total Reserves	**31,098**	**2,852**	**33,950**	**9,785**	**7,333**	**6,240**	**5,580**	**5,100**	**4,600**	**3,246**	**6,246**

160. The Director of Finance and Procurement recommends that the Authority approve the maintenance of the £30.950m identified above in committed reserves to cover the risks and projects identified in this section of the report, and a general reserve of £3.000m.

161. **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.**

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

(I) BUDGET TIMETABLE & RESOLUTION

163. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2022. The Authority meeting is now invited to:

- Confirm the financial plan set out in Appendix C, approve the budget requirement of £61.792m for 2022/2023 as outlined in Appendix C.
- note that the Authority's council tax base for 2022/2023 is 379,000.76, 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 (Updated					
			Gross Expenditure 2022/2023	**Gross Income 2022/2023**	**Estimate 2022/2023**
			£'000	**£'000**	**£'000**
(A)	sec 42 (2) (a)	Service Budget	104,988		104,988
(B)	sec 42 (3) (a)	Income		-24,883	-24,883
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	2,852		2,852
(B)	sec 42A (3) (a)	Contribution from reserves		-21,165	-21,165
		Budget Requirement	107,840	-46,048	61,792
(B)	sec 42A (3) (a)	Spending Funding Assessment		-31,720	-31,720
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		469	469
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		1,147	1,147
		Non-Precept Income		-30,104	-30,104
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	**Precept Requirement**			**31,688**
		Tax Base			**379,000.76**
		Precept Requirement / Tax Base:			**£83.61**
		Basic Tax Amount At Band 'D'			**£83.61**

164. 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:

2022/23	Property Band		Increase	
£			£	%
£55.74	For properties in Band	A	1.07	1.96
£65.03	For properties in Band	B	1.25	1.96
£74.32	For properties in Band	C	1.43	1.96
£83.61	**For properties in Band**	**D**	**1.61**	**1.96**
£102.19	For properties in Band	E	1.97	1.97
£120.77	For properties in Band	F	2.33	1.97
£139.35	For properties in Band	G	2.68	1.96
£167.22	For properties in Band	H	3.22	1.96

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

PRECEPT		AUTHORITY
£		
9,068,422	Payable by	LIVERPOOL
7,957,363	Payable by	WIRRAL
4,455,577	Payable by	ST.HELENS
7,037,487	Payable by	SEFTON
3,169,404	Payable by	KNOWSLEY
31,688,253		

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

Thursday	21/04/2022
Monday	30/05/2022
Friday	08/07/2022
Monday	15/08/2022
Wednesday	21/09/2022
Thursday	27/10/2022
Monday	05/12/2022
Friday	13/01/2023
Monday	20/02/2023
Friday	17/03/2023

Equality and Diversity Implications

167. 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

168. The proposed MTFP underpins the authorities ambition to be the best fire and rescue service in the country - our plan ensure that our people are afforded the

relevant training, work equipment and personal protective equipment the job requires.

Legal Implications

169. 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 2022.

Financial Implications & Value for Money

170. See executive summary.

Risk Management, Health & Safety, and Environmental Implications

171. The budget and capital investment programme make large-scale investments in staff Health and Safety.

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.*

172. The proposed financial plan considers how best to allocate resources and deliver a balanced budget aligned to the Authority's vision and purpose of the service and service priorities.

BACKGROUND PAPERS

CFO/010/21	"MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2021/2022 – 2025/2026" Budget Authority 25th February 2021

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
CPI	Consumer Price Index

DLUHC	Department for Levelling Up, Housing and Communities
FPS	Firefighters’ Pension Scheme
FTE	Full Time Equivalent employee number
IRMP	Integrated Risk Management Plan
LGPS	Local Government Pension Scheme
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
PFI	Private Finance Initiative
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.
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.