MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	27 SEPTEMBER 2022	REPORT NO:	CFO/045/22
PRESENTING OFFICER	IAN CUMMINS DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2022/23 - APRIL TO JUNE		

APPENDICES:		
	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
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Purpose of Report

1. To review the revenue, capital, and reserves financial position for Merseyside Fire and Rescue Authority (‘Authority’) for 2022/23. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority’s finances. This report covers the period April to June 2022.

Recommendation

2. It is recommended that Members;
    a. note the contents of the report, and
    b. approve the proposed revenue and capital budget alignments,
    c. approve the use of the £3m inflation reserve to cover 2022/23 pay awards above the 2.5% MTFP assumption and higher energy costs, and
    d. instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2022/23.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 24 February 2022. The approved MTFP delivered a balanced budget for 2022/23 based on key budget assumptions around costs, in particular pay. This report updates members on the 2022/23 budget position and any issues arising in the year that may impact on the future years' financial position.

The MTFP assumed a 2.5% pay award for 2022/23, but recent 2022/23 public sector pay awards have been around 5%. Local government staff have had an initial offer of a £1,925 fixed sum for all grades, and this would equate to a 6% increase on the green/red book staff employee budget, 3.5% or £0.430m above the budget assumption. The initial firefighters pay offer was 2%, but this is unlikely to be accepted. Each 1% above the 2.5% firefighter pay assumption would add approximately £0.400m to the budget challenge. Members have received a number of reports on the impact of the current high energy prices and a potential increase in energy costs of +200% or £1m above the budget for 2022/23. As a result of the expected higher pay and energy inflation a potential £2m to £3m overspend against the current budget is forecast in 2022/23.

This report proposes to use the £3m inflation reserve to fund any pay awards and energy costs above those assumed in the 2022/23 budget. The Authority will need to consider the ongoing impact of higher pay and energy costs as part of the 2023/24 budget process.

The total budget requirement remains at the original budget level of £61.792m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2022.

Capital:
The MTFP includes a five-year capital programme. The original programme included a total investment of £61.604m over the 2022/23 – 2026/27 period, of which £41.829m related to 2022/23. The capital programme planned spend has increased by £9.207m, of which £4.013m relates to the re-phasing of schemes from 2021/22 into 2022/23; £4.171m for the new TDA/Station (CFO/031/022); and £1.023m for Home Office funded schemes. The revised Capital Programme is outlined in Appendix B and C.

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

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

Introduction and Background

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

4. This report is the review of the Authority's position up to the end of June of the financial year 2022/23 (April – June 2022).

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

Financial Review Structure

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

(A) Current Financial Year – 2022/23

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

Revenue Position:

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

- A net contribution from reserves of £0.394m.
  - The Authority approved the new TDA/Station report CFO/031/022 at the June AGM meeting, and this included an increase in the TDA reserve of +£0.200m funded from a drawdown from the New Dimensions reserve of -£0.200m.
  - A £0.333m drawdown from the TDA reserve to fund planned work on the new TDA.

- Further development work on the Prevention and Protection ICT application, CFRMIS, has been funded by a planned £0.061m drawdown from the Capital reserve.
- A full breakdown of the reserve movements is outlined in Appendix A4.

- Increase in temporary staff and other costs funded from £0.962m of one-off grants and income (Protection, ESN, Apprentice Levy and other external funding).

- Other self-balancing virements to cover small adjustments within non-employee budget lines.

8. **The net budget requirement remains at £61.792m, which is consistent with the original budget**.

9. Update on Budget Assumptions and forecast actual expenditure:

10. The key budget assumptions for 2022/23 are:

    - Annual pay awards of 2.5%, and
    - General price inflation of 2% and Energy inflation of 12%,
    - The new TDA / Station can be built within the approved budget,
    - No significant unplanned growth pressures would materialise in the year,

11. **Annual Pay awards;**
    The MTFP **assumed a 2.5% pay award for 2022/23**, but recent 2022/23 public sector pay awards have been around 5%.

    Local government staff have had an initial offer of a £1,925 fixed sum for all grades, and this would equate to a **6% increase** on the green/red book staff employee budget, 3.5% or £0.430m above the budget assumption.

    The initial firefighters pay offer was 2%, but this is unlikely to be accepted. For **each 1%** above the 2.5% firefighter pay increase assumption, would add **approximately £0.400m** to the budget challenge.

    The impact of the 2022/23 pay award will only be known once the pay award has been accepted by the employees, and will be reported back to Members in a future financial review report.

12. **Non-pay inflation – energy;**
    Members have received a number of reports on the impact of the current high energy costs on the budget. The estimated increase in energy costs in 2022/23 is currently +200% or £1m above the budget, but this may change depending on future tariffs and usage particularly over the winter period.

13. As a result of the higher pay and energy inflation a potential £2m to £3m overspend against the current budget is expected in 2022/23. In order to ensure the revenue budget remains in a balanced position throughout 2022/23, the

Director of Finance and Procurement recommends that members approve the use of the £3m inflation reserve to fund the expected higher pay awards and energy costs in 2022/23.

14. The Authority will need to consider the ongoing impact of higher pay and energy costs as part of the 2023/24 budget process.

15. Further to the issues outlined above and after reviewing expenditure and income up to the end of June 2022 the expectation is that all other costs and income will be consistent with the approved budget.

16. The Director of Finance and Procurement will continue to monitor the position during the year to look to deliver savings to contribute towards the funding of the 2022/23 pay awards and increased energy costs.

17. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. No account was written-off under delegated powers in the first quarter.

Capital Programme Position:

18. Members approved a 5-year capital programme worth £61.604m over the 2022/23 – 2026/27 period, of which £41.829m related to 2022/23 at the Authority Budget meeting on 24th February 2022, (CFO/007/22). The programme has increased by £9.207m, due to:

    a. the 2021/22 approved year-end re-phasing of projects into 2022/23 of £4.012m, as reported to the Policy and Resources Committee on 28th July 2022, CFO/036/22, and

    b. Report CFO/031/22 (AGM 9th June 2022) approved the new TDA/station project and increase in budget of £4.171m.

    c. An increase in the National Resilience Assurance Team asset refresh programme of £1.000m, funded from Home Office grant, and

    d. An increase in the Emergency Services Communication scheme of £0.048m. However, as £0.025m of this has been vired from the current ICT capital hardware budget, the net impact is an increase of £0.023m. The Home Office has allocated funding to cover the net increase of £0.023m.

19. The capital programme changes are summarised in the table overleaf. The revised detailed capital programme is attached as Appendix B (2022/23 Capital Programme) and Appendix C (2022/23–2026/27 Capital Programme) to this report.

Movement in the 5 Year Capital Programme						
	Total Cost	2022/23	2023/24	2024/25	2025/26	2026/27
Expenditure	£'000	£'000	£'000	£'000	£'000	£'000
Amendments to Approved Schemes;						
Year-end re-phasing of schemes 21/22.	4,012.5	4,012.5				
New TDA/Station scheme	4,171.0	333.0	3,838.0			
NRAT asset refresh	1,000.0	1,000.0				
Reduction in ICT Hardware	-25.0	-25.0				
ESN	48.0	48.0				
	9,206.5	**5,368.5**	**3,838.0**	**0.0**	**0.0**	**0.0**
Funding						
Grant						
Home Office - NRAT	1,000.0	1,000.0				
Home Office - ESN	23.0	23.0				
Capital Reserve (New TDA/Station scheme)	333.0	333.0				
Capital Receipts (Sale of part of Vesty/Richie Ave -New TDA/Station scheme)	1,200.0	1,200.0				
Borrowing						
Re-phasing of 21/22 Schemes from 21/22	4,012.5	4,012.5				
New TDA/Station scheme	2,638.0		2,638.0			
	9,206.5	**6,568.5**	**2,638.0**	**0.0**	**0.0**	**0.0**

Use of Reserves:

20. The analysis in Appendix A4 outlines a £0.394m drawdown from reserves in quarter 1, as a result of: -

- Contribution to the TDA reserve of +£0.200m funded from a drawdown from the New Dimensions reserve of -£0.200m (CFO/031/022).

- A £0.333m drawdown from the TDA has been made in quarter 1 to fund planned work on the new TDA.

- Continued development of the Prevention and Protection ICT application CFRMIS requires a planned £0.061m drawdown from the Capital reserve to fund this work.

21. As outlined in paragraph 13, and subject to Members' approval, the intention is to drawdown from the £3m inflation reserve during the year to meet the cost of the expected higher pay and energy costs once they are known.

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

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

23. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to June 2022.

24. **Prospects for Interest Rates;**

Following Russia's invasion of Ukraine in February 2022, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth.

The economic backdrop in the April-June quarter was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China.

Added to this was tough rhetoric and action by central bankers globally on fighting inflation through higher interest rates and quantitative tightening even as financial conditions became increasingly difficult for consumers, more so for those whose wages have not kept pace with inflation.

In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April 2022, equivalent to around £700 for a household with average energy consumption (the cap had already increased 12% back in October 2021). May 2022 data showed CPI edging higher to 9.1% while the core CPI rate, which removes energy, fuel and food was 5.9%. RPI rose to 11.7%.

Unsurprisingly, with disposable income squeezed and another energy cap increase due in October 2022, consumer confidence plummeted to the level last seen during the 2008/09 financial crisis. Quarterly GDP growth was 0.8% in the January-March quarter and the Bank of England now expects a decline of 0.3% in Q2 2022.

Having increased interest rates by 0.25% in April 2022, the Bank of England's Monetary Policy Committee on the 15th of June 2022 voted 6-3 to increase the official Bank Rate by 0.25% to 1.25%. Those members in the minority preferred to increase Bank Rate by 0.5%. Rises in the input and output producer price measures suggest further inflationary pressure is in the pipeline. The Bank of England is therefore unlikely to become complacent, so further rate rises look likely in the near term.

PWLB rates and gilt yields have been volatile throughout the first quarter of 2022/23 and this is likely to remain the case throughout this financial year. PWLB rates have risen for longer term loans, from 2.62% at the start of the financial year to 3.47% by the end of the first quarter, reaching a high point of 3.68% on 21 June 2022 before falling back in response to the weak economic outlook.

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

25. **Capital Borrowings and the Portfolio Strategy;**

The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2022/23. Current market conditions continue to be unfavourable for any debt rescheduling.

26. **Annual Investment Strategy;**

The investment strategy for 2022/23 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DLUHC Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or part-nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. Recent increases to Bank of England base rates have also improved the prospects for investment returns. In the period 1st April to 30 June 2022, the average rate of return achieved on average principal available was 1.48%. This compares with an average SONIA rate (Sterling Overnight Rate) of 0.89%.

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 Authority had investments of £43.250m as at 30th June 2022, see table overleaf:

ANALYSIS OF INVESTMENTS END OF QUARTER 1 2022/23

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Blackrock		3,000,000					0.90
DGLS		1,700,000					0.78
Federated Investors UK (Overnight)		2,200,000					1.12
Fidelity ICF		3,000,000					0.95
Goldman Sachs		900,000					0.95
Legal & General		3,000,000					0.94
HSBC	A			1,000,000			0.30
HSBC (MFRS Deposit Account)	A			4,450,000			0.11
Santander	A			2,000,000			0.76
Sumitomo	A			2,000,000			0.50
Leeds B Soc					2,000,000		0.90
Nationwide BS					2,000,000		0.30
Newcastle BS					2,000,000		0.18
Principality BS					1,000,000		1.55
Blackpool Council						2,000,000	0.61
City of Kingston upon Hull						3,000,000	0.36
Medway Council						2,000,000	0.60
North Lanarkshire						2,000,000	0.60
PCC Merseyside						2,000,000	0.60
Wyre Forest DC						2,000,000	2.00
Totals		**13,800,000**	**0**	**9,450,000**	**7,000,000**	**13,000,000**	**0.75**
Total Current Investments						**43,250,000**	

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

27. **External Debt Prudential Indicators;**

The external debt indicators of prudence for 2022/23 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £73 million
Operational boundary for external debt: £56 million

Against these limits, the maximum amount of debt reached at any time in the period 1 April to 30 June 2022 was £33.9 million.

28. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2022/23 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the period 1 April to 30 June 2022 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1st April to 30 June 2022 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	1%	1%
12 months and within 24 months	50%	0%	0%	0%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	100%	0%	99%	99%

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

The limit for investments of longer than 365 days was set at £2 million for 2022/23. No such investments have been placed during 2022/23.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

32. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

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

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

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

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

BACKGROUND PAPERS

CFO/007/22 "MFRA Budget and Financial Plan 2022/2023-2026/2027" Authority 24th February 2022.

GLOSSARY OF TERMS

MTFP	Medium Term Financial Plan
TDA	Training & Development Academy
CFRMIS	Community Fire Risk Management Information System
GDP	Gross Domestic Product
PWLB	Public Works Loans Board