MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**POLICY AND RESOURCES COMMITTEE**		
DATE:	**15 DECEMBER 2022**	**REPORT NO:**	**CFO/48/22**
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 - JULY TO SEPTEMBER 2022**		

APPENDICES:	**APPENDIX A1:**	**REVENUE BUDGET MOVEMENT SUMMARY**
	APPENDIX A2:	**FIRE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A3:	**CORPORATE MANAGEMENT & NRAT REVENUE BUDGET MOVEMENTS**
	APPENDIX A4:	**BUDGET MOVEMENT ON RESERVES**
	APPENDIX B:	**CAPITAL PROGRAMME 2022/23**
	APPENDIX C:	**CAPITAL PROGRAMME 2022/23 – 2026/27**

Purpose of Report

1. To review the revenue, capital, and reserves financial position for the 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 July to September 2022.

Recommendation

2. It is recommended that Members;

   a) note the contents of the report,
   b) approve the proposed revenue and capital budget alignments,
   c) approve the use of the £0.200m forecast favourable revenue variance to fund an increase in the smoothing reserve that can then be used to allow time to identify and implement any future saving options, if required, 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 local government staff have accepted an offer of a £1,925 fixed sum for all grades. This equates to approximately a 6.5% increase on the green/red book staff employee budget, and is 4% or £0.465m above the budget assumption. The current firefighters pay offer is 5%, and the FBU is currently seeking its members' views on the offer. A 5% settlement would exceed the budget provision by £0.695m in 2022/23 rising to £0.926m in a full year. 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. After taking into account the Government initiative for reducing business energy costs, (October 2022 to March 2023), energy costs are now expected to exceed the current budget by £0.5m.

Any pay award or energy costs that cannot be contained within the budget will be funded from the £3m inflation reserve in 2022/23. The Authority will need to consider the impact of higher inflationary increases in 2022/23, and potentially future years', 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 July and September 2022.

Capital:
The capital programme planned spend has increased by £0.039m in the quarter. New drones and additional ICT hardware have been included within the current programme. Re-phasing of schemes has resulted in £14.413m planned spend being slipped from 2022/23 to 2023/24 and this report outlines why the re-phasing is required. 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 September of the financial year 2022/23 (July – September 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 2 included:-

- A net contribution from reserves of £0.145m to fund approved projects; £0.062m firefighter pension administration ICT upgrade (funded from a Home Office grant/pension reserve); £0.050m from the training reserve to fund the new leadership message training; and other approved projects £0.033m. A full breakdown of the reserve movements is outlined in Appendix A4.

- Increases in one-off grants and contributions of £0.250m (Merseyside Resilience Forum, Fire Protection Grant and other Grants) funded a one-off increase in operational supplies (£0.064m); training (£0.103m); and other costs (0.083m).

- The National Resilience Assurance budget has been realigned to reflect agreed Home Office spending plans, overall the adjustment nets to £0m.

- 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:

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

    I. **Annual Pay awards assumption**, a 2.5% pay award for 2022/23;

    Local government staff have accepted a £1,925 fixed sum for all grades, and this would equate to a **6.5% increase** on the green/red book staff employee budget, **4.0% or £0.465m above the budget assumption**.

    The initial firefighters pay offer was 2% and this has now **been increased to 5%.** If accepted **this would exceed the budget by £0.695m in 2022/23 rising to £0.926m in a full year** (pay award is from 1st July). At the time of writing this report the FBU has recommended rejection of the offer and is balloting its members on industrial action

    II. **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 was expected to be in the order of £1m above the budget. Following the Government's decision to offer some financial support to businesses from October 2022 to March 2023, the overspend is expected to be closer to £0.5m.

    As a result of the higher pay and energy inflation a potential £2m overspend against the current budget may materialise 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 that cannot be contained within the available budget.

    The Authority will need to consider the impact of higher 2022/23 and potentially future years' inflation as part of the 2023/24 budget process.

III. **The new TDA / Station can be built within the approved budget;** Building work commenced in October and currently the planned scheme is expected to be built within the approved budget.

IV. **No significant unplanned growth pressures would materialise in the year -** The budget assumes all spending requirements can be met from the approved budget.

11. The following paragraphs consider the September forecast outturn position and the identified variances;

I. **Employee Costs**;
Employee costs make-up nearly 80% of the Authority's revenue expenditure budget (*net of revenue costs associated with capital spend*) and is the most risk critical area of the financial plan. As a result, these costs are monitored extremely closely.

In order to maintain the current firefighter establishment the Service has for a number of years now recruited in advance of the expected retirements. This may mean that for short periods the actual number of firefighters is slightly above the budgeted establishment. The latest September uniform employee forecast indicates a net overspend of £0.200m against the budget. However, this may reduce if retirements continue throughout the next six months and the retirements exceed the number of new recruits expected in the January 2023 in-take. The Authority has established a £1.450m recruitment reserve to cover any costs associated with recruiting in advance of retirements. In addition, as mentioned in the pay award assumption section, any settlement above 2.5% will be funded from the inflation reserve.

The non-uniform establishment forecast indicates a £0.700m favourable variance due to staff recruitment and retention problems. The favourable variance will be used to cover the cost of the 2022/23 pay award in 2022/23, **leaving a net favourable variance of £0.200m**.

II. **Non-Employee Costs;**
Excluding energy costs, see budget assumption section, all other spend and income is expected to be consistent with the approved budget.

12. Overall the latest forecast has identified a favourable net revenue variance of £0.200m. Given the uncertainty over the 2023/24 Local Government Financial Settlement and future pay awards, the Director of Finance and Procurement would recommend that Members' approve that the £0.200m favourable variance be used to increase the Smoothing Reserve, which would then be available if required to allow time to develop and implement any required saving options in 2023/24. The table overleaf summarises the year-end forecast position based on spend to the end of September 2022:

Anticipated Year-End Revenue Position (excl. National Resilience)

	TOTAL BUDGET	ACTUAL as at 31.09.22	FORE-CAST	VARI-ANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	53,269	25,910	53,069	-200
Premises Costs	3,051	2,156	3,051	0
Transport Costs	1,270	764	1,270	0
Supplies and Services	3,404	1,415	3,404	0
Agency Services	6,680	3,123	6,680	0
Central Support Services	637	270	637	0
Capital Financing	26,269	0	26,269	0
Income	-14,685	-8,623	-14,685	0
Net Expenditure	79,895	25,015	79,695	-200
Contingency Pay&Prices	899	0	899	0
Cost of Services	80,794	25,015	80,594	-200
Interest on Balances	-172	0	-172	0
Movement on Reserves	-18,830	0	-18,830	0
Total Operating Cost	61,792	25,015	61,592	**-200**

13. 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.

14. 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:

15. The last financial review report (CFO/045/22) approved a 5-year capital programme worth £70.826m. This has now been updated for scheme additions and changes during quarter 2 of £0.039m, as outlined below:-

    a) Officers have reviewed the current 2022/23 programme to identify likely scheme start and completion dates and as a result identified £14.413m re-phasing into 2023/24;

        i. After receiving the final planning permission, officers submitted responses to the Planning Department on how the conditions imposed on the build would be satisfied. Unfortunately the contract and build was delayed by approximately a month while the Service waited for the Planning Department to confirm they were satisfied with the approach put forward. Based on the actually build start date of October 2022, the scheme has now be re-phased and £10.000m slipped into 2023/24.

        ii. Delays in finalising other build projects and getting contracts signed-off has meant a further £2.846m of building work has been re-phased into 2023/24.

iii. Delays in finalising vehicle specifications and supply delays has resulted in a £1.314m re-phasing of vehicle spend into 2023/24.

iv. ICT projects of £0.254m have been re-phased to reflect the likely start date for these schemes as proposed developments to some applications is not required this year.

b) The existing drones require replacing this year at an estimated cost of £0.032m. Revenue budget earmarked for the replacement will be used to cover the borrowing costs associated with the capital spend.

c) New ICT hardware of £0.007m has been approved and will be funded from a revenue contribution.

16. The capital programme changes are summarised in Table below. 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;						
Quarter 2 re-phasing of schemes into 22/23.	0.0	-14,413.2	14,413.2			
Operational Drones	32.0	32.0				
New ICT Hardware	7.2	7.2				
	39.2	**-14,374.0**	**14,413.2**	**0.0**	**0.0**	**0.0**
Funding						
Capital Reserve						
Re-phasing of new TDA	0.0	-1,315.9	1,315.9			
Capital Receipts						
Sale of Newton LLAR houses due to re-phasing	0.0	-275.0	275.0			
RCCO						
New ICT hardware	7.2	7.2				
Borrowing						
Re-phasing of 22/23 Schemes into 23/24	0.0	-12,822.3	12,822.3			
Operational Drones	32.0	32.0				
	39.2	**-14,374.0**	**14,413.2**	**0.0**	**0.0**	**0.0**

Use of Reserves:

17. The analysis in Appendix A4 outlines a £0.145m drawdown from reserves in quarter 2, and paragraph 7 of the report outlines the use of these funds to support approved projects in 2022/23.

18. As outlined in this report any pay award settlements or energy costs that cause spend to exceed the available budget will be funded by a drawdown from the £3m inflation reserve during the year.

19. This report recommends that Members' approve the use of the £0.200m favourable variance identified in quarter 2, to fund an increase in the smoothing reserve, currently £1.588m. The smoothing reserve would be available if required to allow the Authority time to develop and implement any saving options if needed to balance the 2023/24 budget.

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

(B) Treasury Management

21. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period July to Sept 2022/23.

22. 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 July-September 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 remains elevated. There has been considerable volatility following the Government's "mini-budget" delivered 23rd September. While the package did include a price guarantee for energy prices set for a period of two years. Financial markets reacted negatively to the extent of the fiscal package with gilt yields rising steeply. This sharp move in gilts and concerns over the financial stability of various UK pension funds resulted in the Bank of England announcing on the 28th September it would be suspending the start of its quantitative tightening programme (the process by which it will reduce it's holding of bonds) and was introducing a temporary programme to purchase long dated UK Government bonds. Subsequent to the "mini-budget", the UK Government has appointed a new chancellor and announced the reversal of a number of measures previously included within the "mini-budget".

Having increased interest rates to 1.25% in June, the Bank of England's Monetary Policy Committee on the 8th of Aug 2022 voted to increase the official Bank Rate by 0.5% to 1.75% and subsequently increased the Bank Rate further by 0.5% to 2.25% on the 22nd September. With no immediate sign of falling

inflation the Bank of England is therefore likely to continue on the current path of monetary tightening, so further rate rises look likely in the near term.

PWLB rates and gilt yields have been volatile throughout the second 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 3.47% at the start of the quarter to 4.39% by the end of the second quarter, reaching a high point of 5.71% on 28 September before falling back following the Bank of England's intervention in the gilt market.

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.

23. 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.

24. 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 July to 30 Sept 2022 the average rate of return achieved on average principal available was 1.83%. This compares with an average SONIA rate (Sterling Overnight Rate) of 1.24%.

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 £61.350m as at 30th September 2022, see table below:

ANALYSIS OF INVESTMENTS END OF QUARTER 2 2022/23

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Aberdeen Liquidity	AAA	2,800,000					1.26
Blackrock	AAA	2,500,000					1.27
Federated Investors UK (Overnight)	AAA	3,000,000					1.12
Legal & General	A+	2,600,000					1.28
Morgan Stanley	A+	1,900,000					1.78
Debt Management Account Deposit Facility			27,000,000				1.95
HSBC (MFRS Deposit Account)	A			550,000			1.20
Santander	A			2,000,000			0.80
Sumitomo	A			2,000,000			1.32
Nationwide BS					2,000,000		1.53
Newcastle BS					1,000,000		1.00
Principality BS					1,000,000		1.55
Bradford Metropolitan DC						3,000,000	2.75
Medway Council						2,000,000	1.30
South Cambridgeshire DC						3,000,000	1.95
Thurrock Council						3,000,000	1.88
Wyre Forest DC						2,000,000	2.00
Totals		**12,800,000**	**27,000,000**	**4,550,000**	**4,000,000**	**13,000,000**	**1.53**
Total Current Investments						**61,350,000**	

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

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

25. 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 July to 30 September 2022 was £33.9 million.

26. 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 July to 30 September 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 July to 30 Sept 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. One investment of £2m has been placed during the second quarter of 2022/23.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

30. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

31. 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.

32. 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.

CFO/045/22 "Financial Review 2022/23 – April to June" Audit Committee 27th September 2022.

GLOSSARY OF TERMS

MTFP Medium Term Financial Plan

TDA Training & Development Academy

GDP Gross Domestic Product

PWLB Public Works Loans Board