MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	BUDGET AUTHORITY MEETING		
DATE:	23 FEBRUARY 2023	REPORT NO:	CFO/63/22
PRESENTING OFFICER	IAN CUMMINS DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	CHIEF FIRE OFFICER PHIL GARRIGAN	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2023/2024 – 2027/2028		

APPENDICES:	APPENDIX A:	DRAFT SUMMARY REVENUE BUDGET ANALYSIS
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2023/24 – 2027/28
	APPENDIX C:	PROPOSED 2023/24 – 2027/28 FIVE YEAR MTFP
	APPENDIX D:	RESERVES
	APPENDIX E:	DISCRETIONARY SERVICES FEES AND 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 reflective of its budget principles.

2. This will enable the Authority to set a budget for 2023/2024 whilst determining a precept level, which is in line with statutory requirement

Recommendation

It is recommended that Members consider the report and proposed budget and:-

3. Note the 2023/2024 service budget set out in the report.

4. Note the lobbying of government undertaken by the Authority to secure council tax flexibility and an inflation reflective increase in grant for 2023/24.

5. 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 150 to 158 of this report.

6. Endorse the current plan to increase the precept by £5.00 (6%) for 2023/2024, raising the Band D Council Tax from £83.61 to £88.61 and confirm the strategy for future precept rises (the plan assumes further increases of just under 3% in 2024/25 and then just under 2% in each year thereafter).

7. Endorse the assumptions in developing a five-year financial plan outlined in the report and approve the 2023/2024 budget estimate of £67.921m.

8. Approve 2023/2024 – 2027/2028 updated Medium Term Financial Plan (MTFP) outlined in the report and summarised in Appendix C.

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

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

11. Approve the Minimum Revenue Provision (MRP) strategy for 2023/2024 as outlined in paragraph 88 to 97 of this report.

12. Note the prudential indicators relating to the proposed capital programme, outlined in paragraphs 103 to 105 of this report.

13. 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

14. 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

15. The Authority is required to determine its budget and precept level for 2023/2024 by 1st March 2023.

16. 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

17. 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

18. The following report structure will be adopted:-

A) EXECUTIVE SUMMARY

19. The Authority must set a balanced 2023/2024 budget and precept level by 1st March 2023.

20. 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.

21. Members approved a 2022/2023 – 2026/2027 medium term financial plan (MTFP) at the Budget Authority meeting on 24th February 2022. Based on assumptions around the 2023/2024 and future years funding and expenditure, the MTFP identified a neutral position in 2023/2024 with a potential £0.994m financial challenge by 2026/2027. 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.

22. The MTFP has now been updated for the 2023/2024 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 2023 Budget Strategy day. Section G of this report outlines in detail all of the changes in the proposed new MTFP. The changes to the current MTFP are summarised below :-

	2023/24	2024/25	2025/26	2026/27	2027/28
Current 2022/23 MTFP Forecast (Surplus) / Deficit	**0**	**775**	**883**	**994**	**994**
Summary of impact of changes to 2023/24 MTFP	0	-92	-36	-272	46
Forecast (Surplus) / Deficit	**0**	**683**	**847**	**722**	**1,040**

23. Overall, the changes to the assumptions, technical adjustments, and funding amendments have maintained the forecast balanced position for 2023/2024, and the updated MTFP is attached to this report as Appendix C.

24. Although a deficit is forecast from 2024/2025 onwards, uncertainty over Government funding; potential changes to the funding mechanism; and future pay awards, means a substantial level of uncertainty exists over these forecasts. Members are therefore asked to simply note any forecast financial challenge at this time.

25. As with any assumptions those built into the medium term financial plan will be at risk from factors beyond the Authority's control, for example pay awards. If any actual future cost or funding level vary to MTFP assumption 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 2023/2024 budget and MTFP balanced will be considered by Members' as part of this reporting process.

26. The proposed updated MTFP assumes the Authority will increase the 2023/2024 precept by the maximum, £5.00, before the Authority is required to undertake a referendum. If the Authority wished to hold a referendum and increase the precept by more than £5.00, then the Authority would face a risk, if the electorate voted against the increase, of incurring the expense of re-billing all the districts within Merseyside at an estimated cost of +£1m. DLUHC have indicated the offer of a 2023/2024 £5.00 precept limit was for 2023/2024 only. DLUHC have provisionally set a referendum limit of just under 3% for 2024/2025.

27. 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. As a consequence, committed reserves at the start of 2023/2024 are estimated at £17.006m, of which £10m will be utilised by the end of 2024/2025. The overall movement in reserves over the next five years is outlined below :-

Committed Reserves

	Balance C/fwd From 2022/23	Re-align ment	Revised Balance C/fwd from 2022/23	Estimated 2023/24 Use	Estimated 2024/25 Use	Estimated 2025/26 Use	Estimated 2026/27 Use	Estimated 2027/28 Use	Estimated 2028/29 Use	Estimated 2029/30 Use	Estimated 2030/31 Use	Estimated 2031/32 Use	Estimated 2032/33 Use	Held to Cover Risk
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Emergency Related Reserves														
Bellwin / Emergency Planning	222		222											222
Insurance Reserve	499		499											499
Modernisation Challenge			0											
Smoothing Reserve	1,788	-788	1,000											1,000
Pensions Reserve	590		590		-375	-215								0
Recruitment Reserve	1,450	300	1,750		-300	-300	-300	-300	-300	-250				0
Invest to Save / Collaborations	282		282		-282									0
Collection Fund Reserve	1,114	-864	250											250
Capital Investment Reserve			0											
New TDA & Station	6,316		6,316	-6,316										0
Other	785	1,202	1,987	0	-1,890	-150	0							-53
PFI Annuity Reserve	1,373		1,373	-69	-75	-80	-90	-100	-110	-120	-130	-140	-150	309
Specific Projects														
Community Sponsorship	55		55		-55									0
Equipment Reserve	195		195		-195									0
Community Engagement	2		2		-2									0
Training Reserve	50	150	200		-200									0
Health and Wellbeing	0		0											0
Inflation Reserve	1,650		1,650											1,650
Clothing	90		90		-90									0
Ringfenced Reserves														
Community Risk Management	305		305		-155	-150								0
Energy Reserve	201		201	68										269
New Dimensions Reserve	39		39		-39									0
Forecast Use of Reserves	17,006	0	17,006	**-6,317**	**-3,658**	**-895**	**-390**	**-400**	**-410**	**-370**	**-130**	**-140**	**-150**	**4,146**
Earmarked Reserves Bal C/fwd	**17,006**	**0**	**17,006**	**10,689**	**7,031**	**6,136**	**5,746**	**5,346**	**4,936**	**4,566**	**4,436**	**4,296**	**4,146**	**4,199**
General Revenue Reserve	**3,000**	**0**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**	**3,000**
Total Reserves	**20,006**	**0**	**20,006**	**13,689**	**10,031**	**9,136**	**8,746**	**8,346**	**7,936**	**7,566**	**7,436**	**7,296**	**7,146**	**7,199**

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

29. 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.

30. The proposed five-year capital programme is detailed in section C of this report. The table below summarises the proposed £54.952m of investments which are mainly in the Authority's property (including a new TDA/station), vehicles and ICT assets.

Capital Expenditure	Total Cost £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Building/Land	32,991,000	30,026,000	572,500	1,027,500	827,500	537,500
Fire Safety	3,175,000	635,000	635,000	635,000	635,000	635,000
ICT	6,899,840	2,526,960	1,206,460	1,018,860	1,174,660	972,900
NRAT Resilience Assets	0	0	0	0	0	0
Operational Equipment & Hydrants	4,107,300	977,800	1,546,000	462,000	390,500	731,000
Vehicles	7,778,650	2,096,800	1,300,850	2,176,000	200,000	2,005,000
Expenditure	54,951,790	36,262,560	5,260,810	5,319,360	3,227,660	4,881,400

31. The Authority needs to be mindful of the revenue costs of borrowing. The Table below outlines how the £54.952m of investment will be funded;

Financing Available	Total £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Capital Receipts	3,915,000	3,915,000	0	0	0	0
RCCO	1,875,000	375,000	375,000	375,000	375,000	375,000
Capital Reserves	6,315,900	6,315,900	0	0	0	0
Grants	0	0	0	0	0	0
Total Non Borrowing	12,105,900	10,605,900	375,000	375,000	375,000	375,000
Unsupported Borrowing	42,845,890	25,656,660	4,885,810	4,944,360	2,852,660	4,506,400
Total Funding	54,951,790	36,262,560	5,260,810	5,319,360	3,227,660	4,881,400

32. The proposed capital programme has a borrowing requirement of £25.657m in 2023/2024 and £42.846m 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).

33. 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.

34. The proposed strategy is set out in Section F and includes limits for the next three years on :-

    a) Overall Level of 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

35. 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 2023/2024 and future years in section D of this report.

B) BACKGROUND INFORMATION

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

37. 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.

38. 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.

39. In 2010 the Authority;

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

40. The current budget provides for;

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

41. The proposed MTFP looks to;

    a) Respond to the increased 2022/2023 firefighter pay offer of 7%.
    b) Protect the operational establishment at 642 FTE through prudent financial management despite the increased pressure on the budget.
    c) Improve the firefighter training resources at the TDA, and

d) Affirm the number of retained contracts required to underpin the Hybrid/DCWTR Duty system (reflecting the IRMP 2021/24 goal of having 32 fire engines available),
e) Embedding the increase in Control staff into the permanent establishment, 32 to 35 posts including Station Manager.
f) Improving the operational management provision by creating 20 new Crew Manager roles, and
g) Allocate a provision of £0.334m in the MTFP from 2023/2024 to cover these frontline investments, and
h) Include £0.050m budget to deal with the risks posed by contaminants and alternative fuels to firefighters.
i) To tackle the current recruitment and retention challenges around key non-operational posts, the proposed MTFP includes an annual £0.300m provision to enable a review of relevant post grades and the establishment, in order to improve current resilience within key service areas.

42. 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 and 50% from Council Tax (precept income).

Government Funding - Settlement Funding Assessment (SFA):

43. The Government announced a number of measures to assist with the Country's economic recovery post Covid-19 and cost of living crisis. One of the measures was to continue freezing business rates in 2023/2024, rather than apply the September 2022 CPI increase of 10.1%. This had a significant impact on the 2023/2024 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 63% of the Authority's SFA. The Government acknowledged this and announced an increase in the business rates compensation grant of £1.500m. In addition, a revaluation of Business Rates resulted in an increase in the Baseline funding of £0.754m.

44. The other element that makes up the SFA is the 2023/2024 Revenue Support Grant (RSG). The 2023/2024 allocation increased by £1.175m or 10.1%.

45. The overall change in SFA/Business Rates compensation grant funding was 10.8% or £3.429m. This equates to £3.112m above the level of funding assumed in the 2022/2023 MTFP.

Government Funding - Services Grant 2023/2024

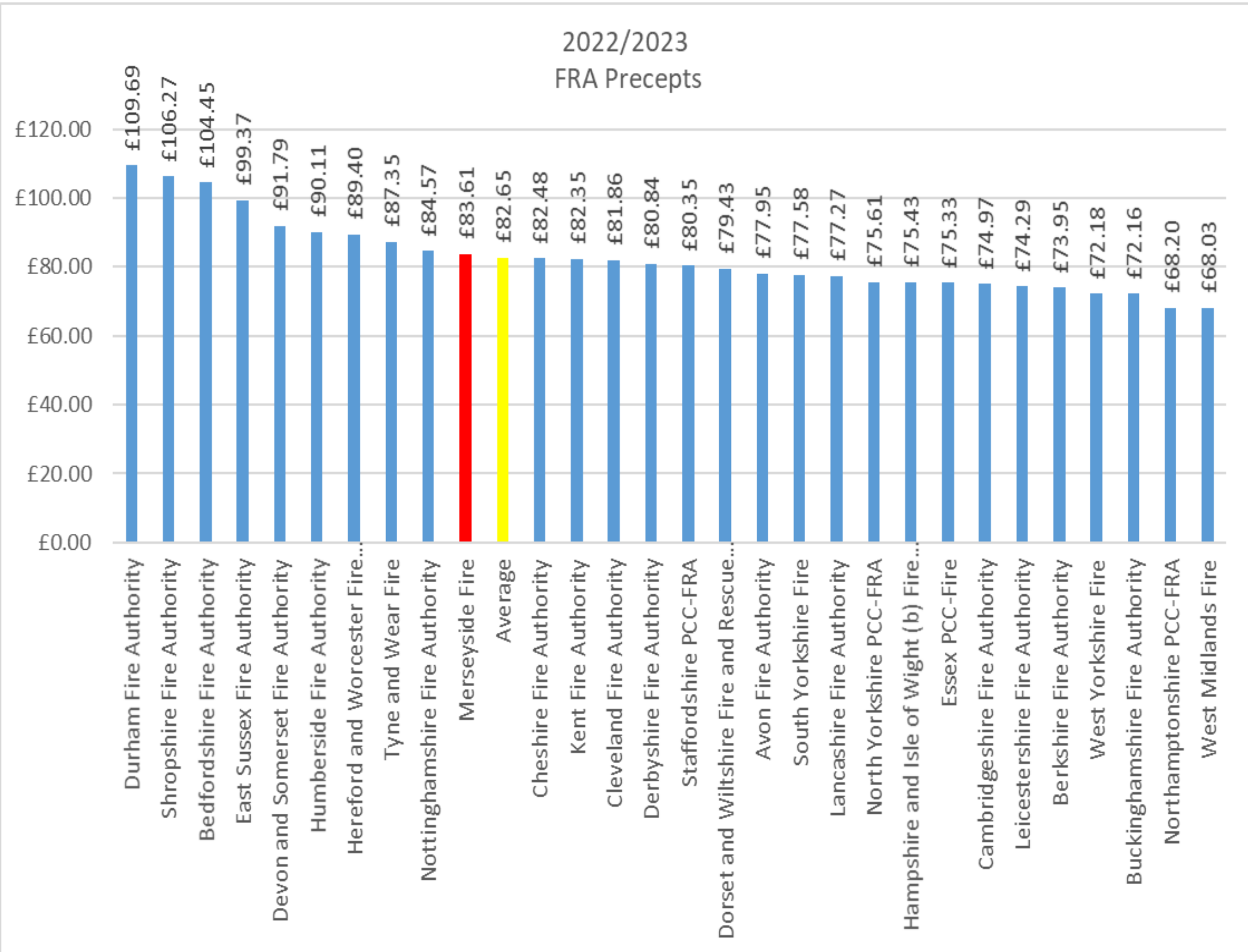
46. The Government announced a new £822m unringfenced "one-off" Services Grant for 2022/2023, the Authority's grant allocation was £1.388m. The grant included funding to offset the planned increase of 1.25% in employer National Insurance Contributions from April 2022. The Government stated that this new grant was a one-off, but the intention was that the Government would work closely with local government on how to best distribute this funding from 2023/2024 onwards. The proposed MTFP assumed an ongoing Services Grant of £1.388m p.a. The Authority has received a Services Grant of £0.814m in 2023/2024, a reduction of £0.574m,

however £0.336m of this is due to the reversal of the proposed NI increase. The proposed MFTP assumes a Services Grant of £0.814 in future years.

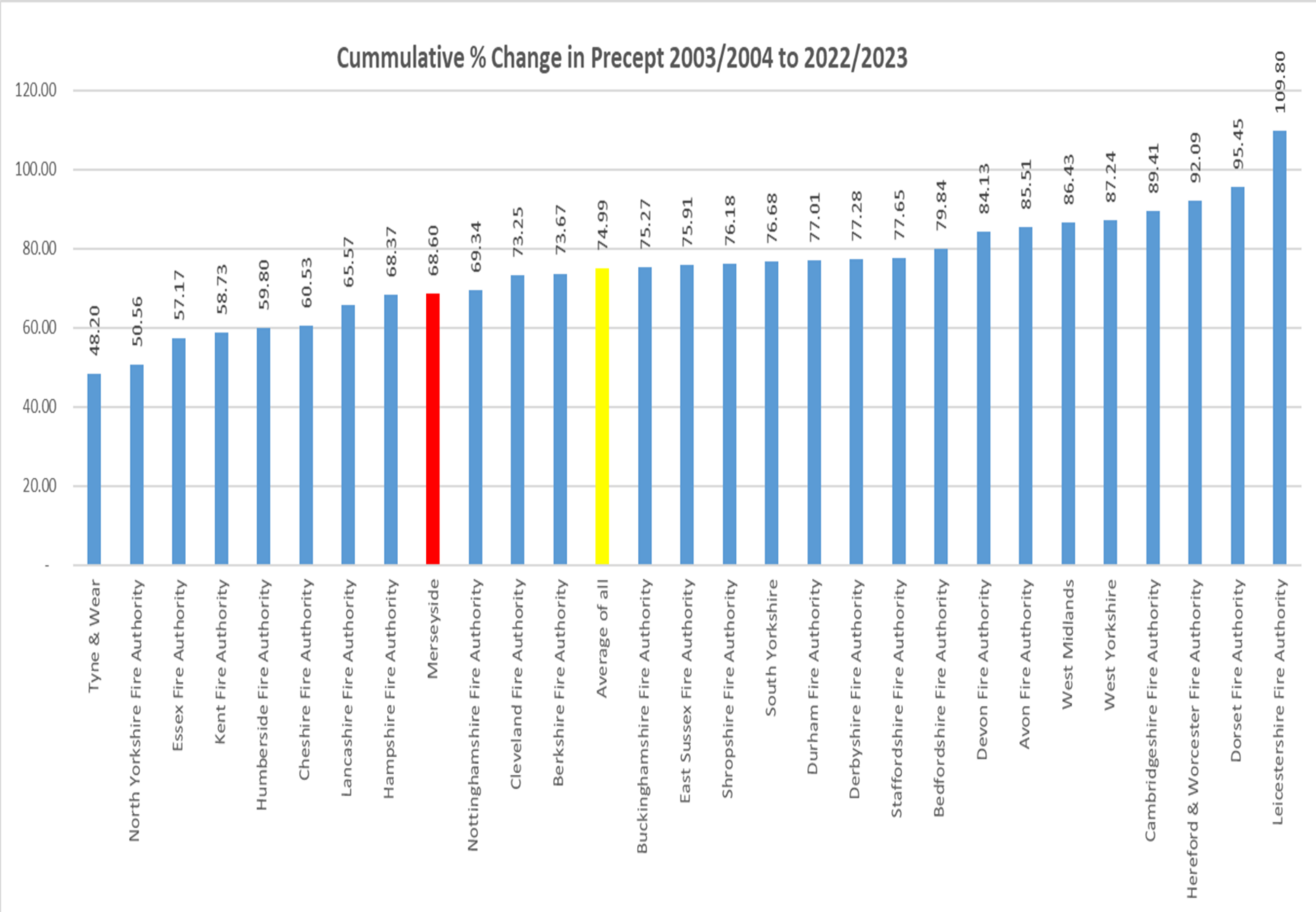
Council Tax:

47. 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 that the billing authority must pay the Authority.

48. The Authority's current, 2022/2023 Band D Council Tax (£83.61), is slightly above the FRS national average of £82.65, as shown in the bar chart below. The proposed £5.00 increase to £88.61 in 2023/2024, is unlikely to change this position as the £5.00 flexibility has been offered to all stand-alone FRAs.

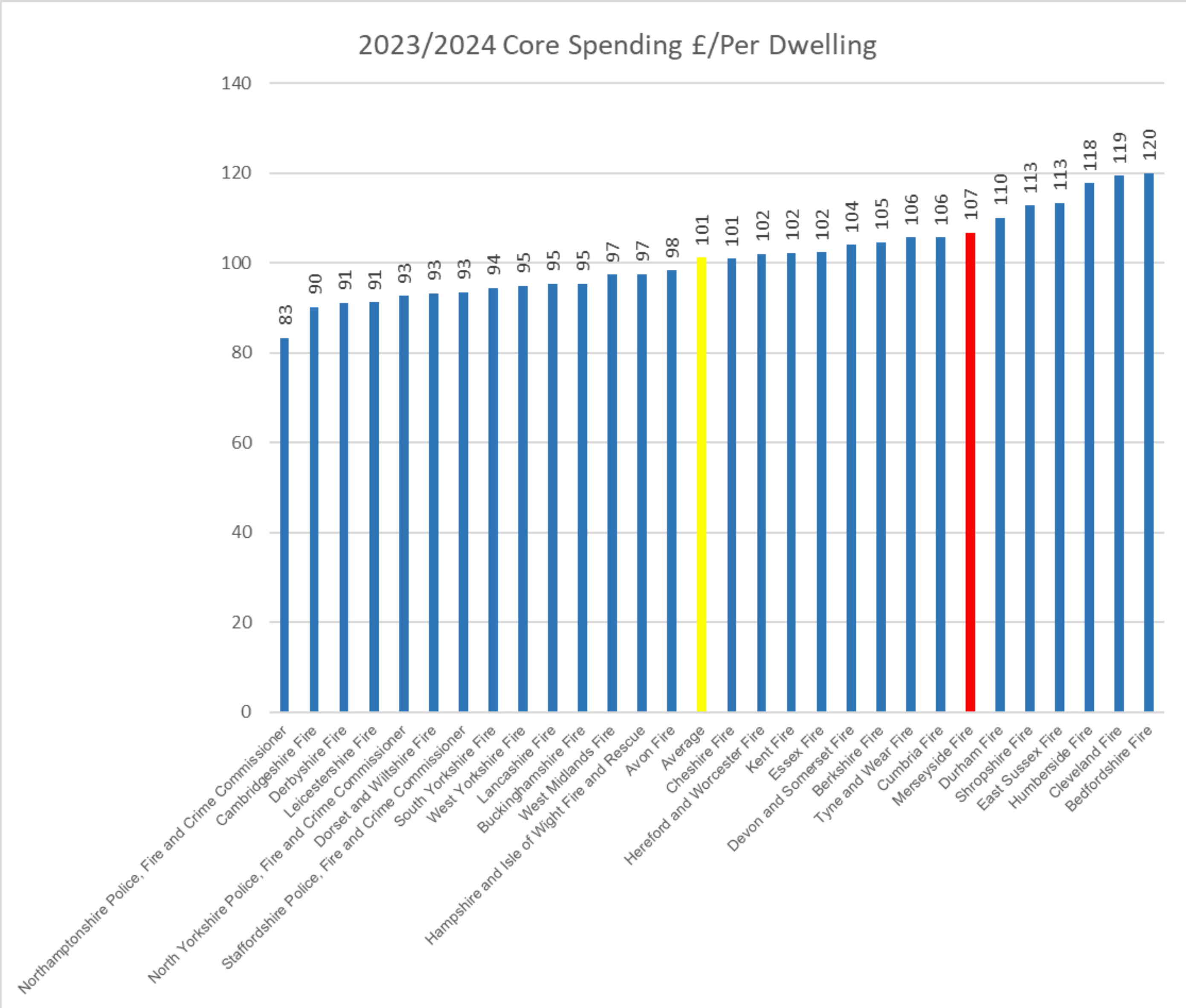


49. Over the past 19 years when compared to the other FRA's Merseyside has had one of the lowest cumulative council tax increases:



50. 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.

51. 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 overleaf outlines the core spending power / per dwelling as outlined in the 2023/2024 finance settlement data produced by the Government ;-



52. The proposed updated MTFP assumes the Authority will increase the 2023/2024 precept by £5.00 to £88.61, which is within the limit that if exceeded requires the Authority to hold a referendum. The updated MTFP continues to assume future years' precept increases will be at just under the anticipated referendum limit of 3% in 2024/2025 and 2% thereafter. In addition, based on the tax base information for 2023/2024 the tax base increase is 2.35%, 1.35% higher than anticipated in the current MTFP. This has meant an increase in Council Tax yield of £0.743m above that anticipated. The proposed MTFP assumes a 0.5% p.a. increase in the future years' tax base, as a significant proportion of the 2023/2024 increase was due to an adjustment in the local council tax support scheme and therefore the underlying increase was significantly below 2.35%.

53. The Authority may choose to increase the 2023/2024 precept by more than £5.00, however this 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

54. Any variation between the estimated yield of council tax and locally retained business rates income and the actual collected by the billing authorities is adjusted for in the following year. Any deficit is re-paid to the billing authority and any surplus is paid to the Authority.

55. In 2020/2021 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. The Government announced grant funding to offset most of the business rates deficit and also allowed eligible deficits on the Business Rates and Council Tax 2020/21 Collection funds to be spread over three years, with 2023/2024 being the final year.

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

Council Tax Collection Fund			
District	deficit/ (surplus)	deficit/ (surplus)	deficit/ (surplus)
	2020/21	2022/23	Total
	£	£	£
LIVERPOOL	234,327	-356,751	-122,424
WIRRAL	56,000	8,000	64,000
ST.HELENS	17,746	58,668	76,414
SEFTON	70,105	-147,864	-77,759
KNOWSLEY	0	-44,000	-44,000
Net MFRA Impact	**378,178**	**-481,947**	**-103,769**

57. The Council Tax Collection Fund forecasts an over surplus of £103,769.

Business Rates Collection Fund			
District	deficit/ (surplus)	deficit/ (surplus)	deficit/ (surplus)
	2020/21	2022/23	Total
	£	£	£
LIVERPOOL	33,439	-145,460	-112,021
WIRRAL	24,130	42,143	66,273
ST.HELENS	6,733	-21,024	-14,291
SEFTON	16,492	-144,855	-128,363
KNOWSLEY	18,133	-26,701	-8,568
Net MFRA Impact	98,927	-295,897	-196,970

58. The Business Rates Collection Fund forecasts a 2023/2024 surplus of £196,970.

59. Overall, the Collection Fund has a surplus of £300,739, a change to that forecast in the current MTFP (a forecast deficit of £475,927), of £776,666.

Pay:

60. The current MTFP assumption was for a 2.5% annual pay award increase in 2022/2023 and future years. The proposed 2023/2024 MTFP includes the impact of the 2022/2023 non-operational pay settlement of a flat £1,925 per full time post, increasing the pay bill by 6.5%, and the 2022/2023 firefighter pay offer of 7% on all grades. In addition, the pay award assumption for 2023/2024 has been increased to 5% due to the ongoing significant inflation increases.

Amendments to the current MTFP Assumptions;

61. 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 2023/2024 – 2027/2028 MTFP:

62. This report provides the Authority with an updated MTFP covering a five-year period, 2023/2024 – 2027/2028. The proposed MTFP takes into account the Government's 2023/2024 financial settlement; updated council tax funding; and other budget assumptions discussed at the Budget Strategy day. The proposed updated MTFP is attached to this report as Appendix C, and are summarised below;

Current 2022/23 MTFP Forecast (Surplus) / Deficit	0	775	883	994	994
2023/24 MTFP Issues to build in future MTFP:-					
Impact of **2022/23 Pay Awards** (assuming 7% for firefighters) above the 2.5% assumption	2,171	2,171	2,171	2,171	2,171
Assume **5% Pay Awards in 23/24** (increase of 2.5%)	1,039	1,282	1,282	1,282	1,282
Reduction In Employers NI (1.25%)	-336	-336	-336	-336	-336
Impact of Higher Energy / Price inflation 22/23;	1,332	1,332	1,332	882	882
2027/28 Inflation provision					1,600
MRP/Interest - inflationary impact on cost of capital goods	0	100	100	150	150
Loss of Firelink Grant over 2023/24 - 2025/26	110	161	216	270	270
Provision for increasing Control and Operational establishment to improve resilience, training and response	334	334	334	334	334
Provision for review of Establishment to meet recruitment/retention challenges	300	300	300	300	300
Innovation Budget based on Firefighter Safety needs	50	50	50	50	50
Efficency Target (Procurement, Interest Payments, Inflation, other)	-380	-380	-380	-380	-380
Copyright Licensing Fee; Agile Working and ICT license fees	77	57	57	57	57
Reduction in Services Grant £1.388m to £0.782m	574	574	574	574	574
Reverse 2023/24 planned Collection Fund Reserve use	89				
Increase in Bus Rates Multiplier s31 compensation grant **(10.1%)**	-1,500	-1,500	-1,500	-1,500	-1,500
Increase in SFA Funding in 2023/24 above current MTFP Assumption	-1,612	-2,133	-2,154	-2,176	-2,527
Increase in Precept yield if £5 (23/24) and 3% in 24/25 implemented / Tax Base changes	-1,731	-1,954	-1,832	-1,700	-2,631
Collection Fund Change	-777				
Additional Bus Rates compensation grants	-140	-250	-250	-250	-250
SFA Local Business Rates estimate adjustment	400	100			
Summary of impact of changes to 2023/24 MTFP	**0**	**-92**	**-36**	**-272**	**46**
Forecast (Surplus) / Deficit	**0**	**683**	**847**	**722**	**1,040**

63. The MTFP delivers a balanced financial position in 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;

64. 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.

65. 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 2023/2024 MTFP includes budget (revenue and capital) to deliver the proposals in the IRMP, including a new TDA and fire station.

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

Our Vision:

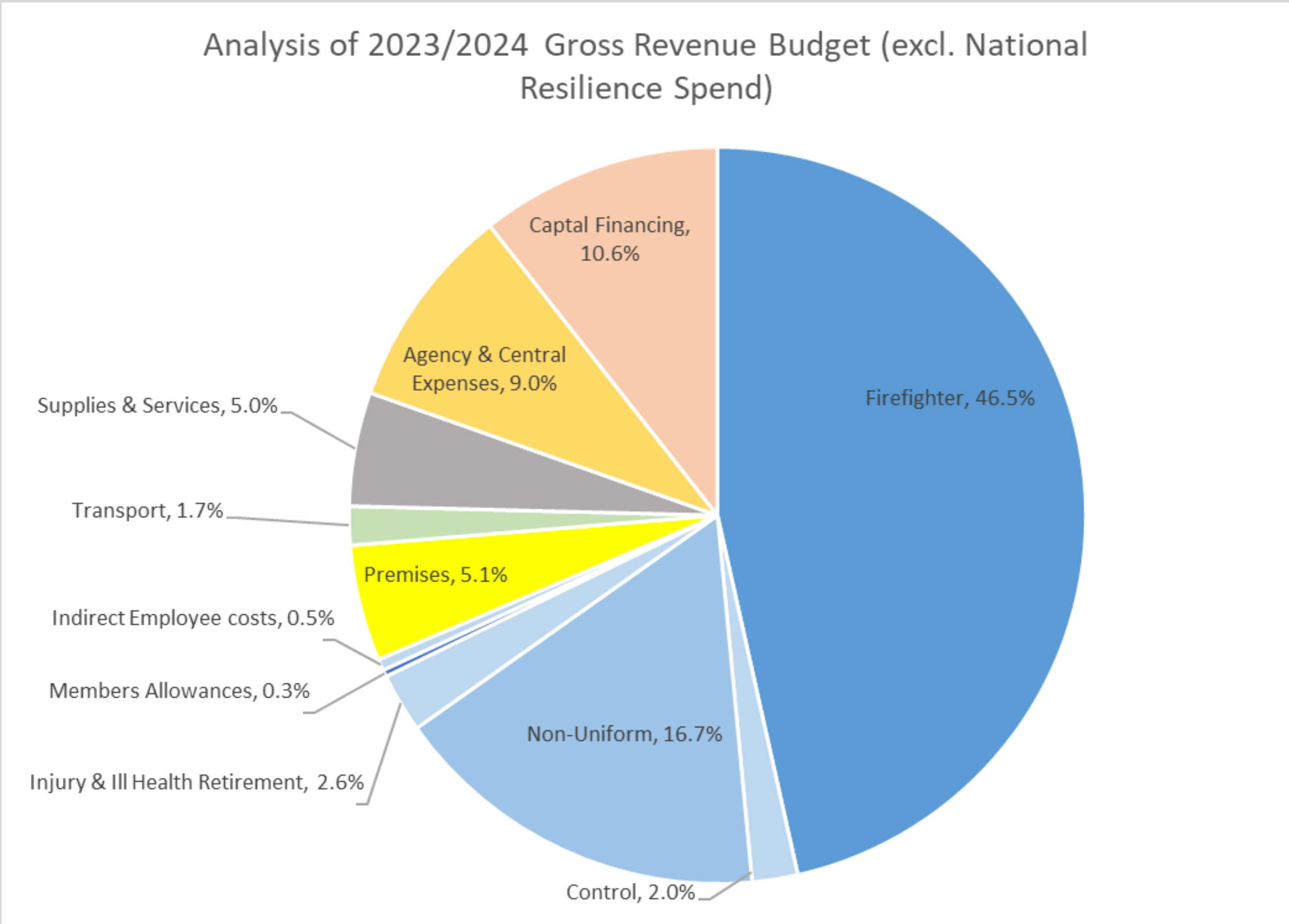
To be the best Fire and Rescue Service in the UK.
One team, putting its communities first.

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

67. The updated 2023/2024 MTFP will support the delivery of the IRMP proposals and the Authority's key strategic aims and priorities.

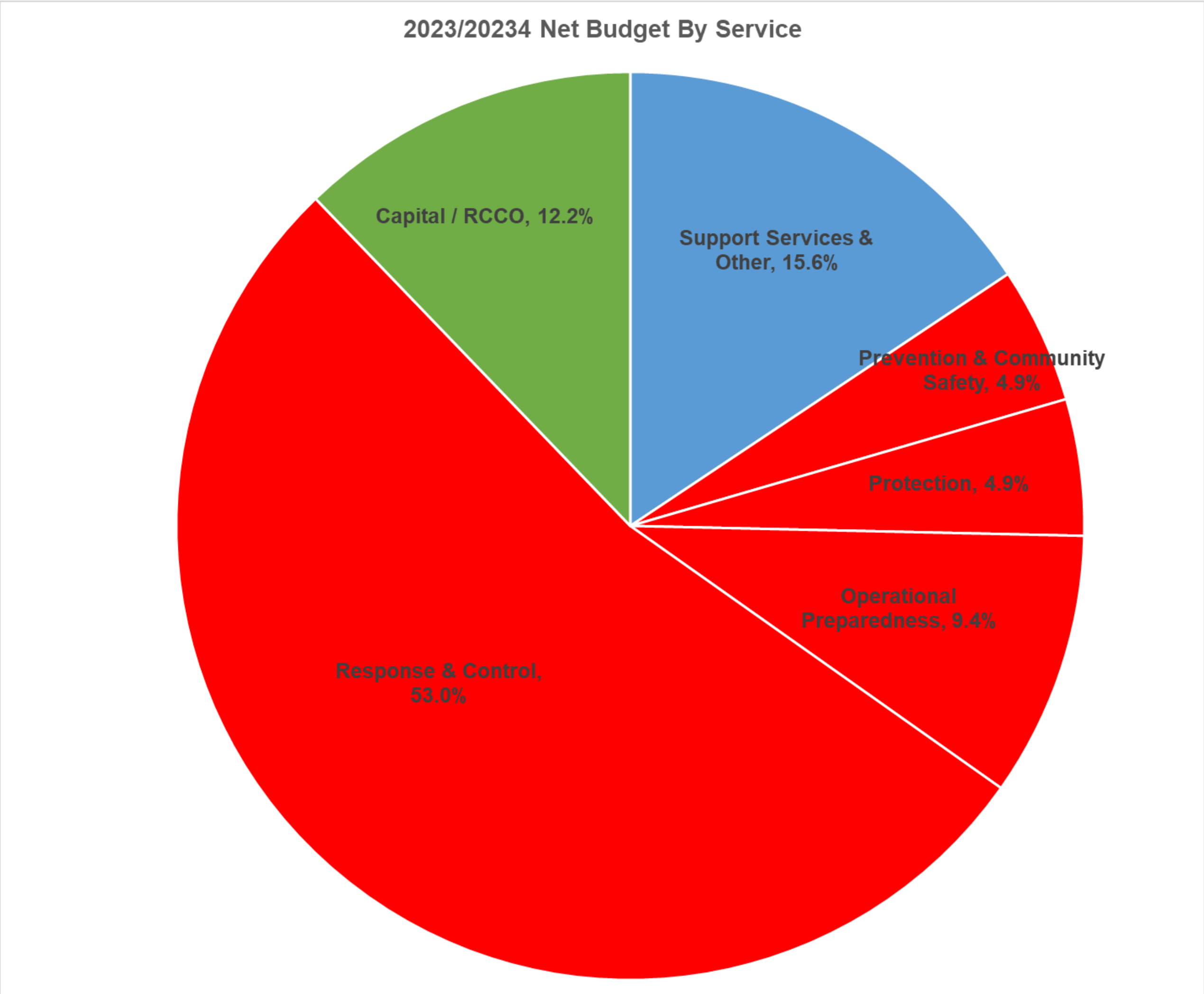
Analysis of the Budget Allocation by Service and Spend type;

68. An analysis of the planned revenue expenditure outlines that it is predominantly employee related (69%). 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 2023/2024 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.

69. The Authority has an excellent track record of investing in line with its corporate priorities. The pie chart overleaf outlines that most expenditure, 53.0%, goes on emergency and specialist response. In addition, 9.4% goes on Operational Preparedness and 9.8% on Protection, Prevention & Community Safety. Therefore 72.2% of expenditure is on the “front line” services. The 12.2% on capital costs relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 15.6% is on support and operational enabling services.



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

<u>Operational Response & Control (Total £36.1m)</u>

- 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 £3.3m)

- Community Prevention work and youth engagement; £2.8m
- Employment of specialist Advocates and continuation of the Princes Trust and other programmes.
- Fire Service Direct; £0.2m.
- Purchase and installation of £0.3m of smoke alarms per annum (**capital expenditure**)

Protection (Total £3.3m)

- Protection Teams; £3.2m
- ICT Information systems £0.1m

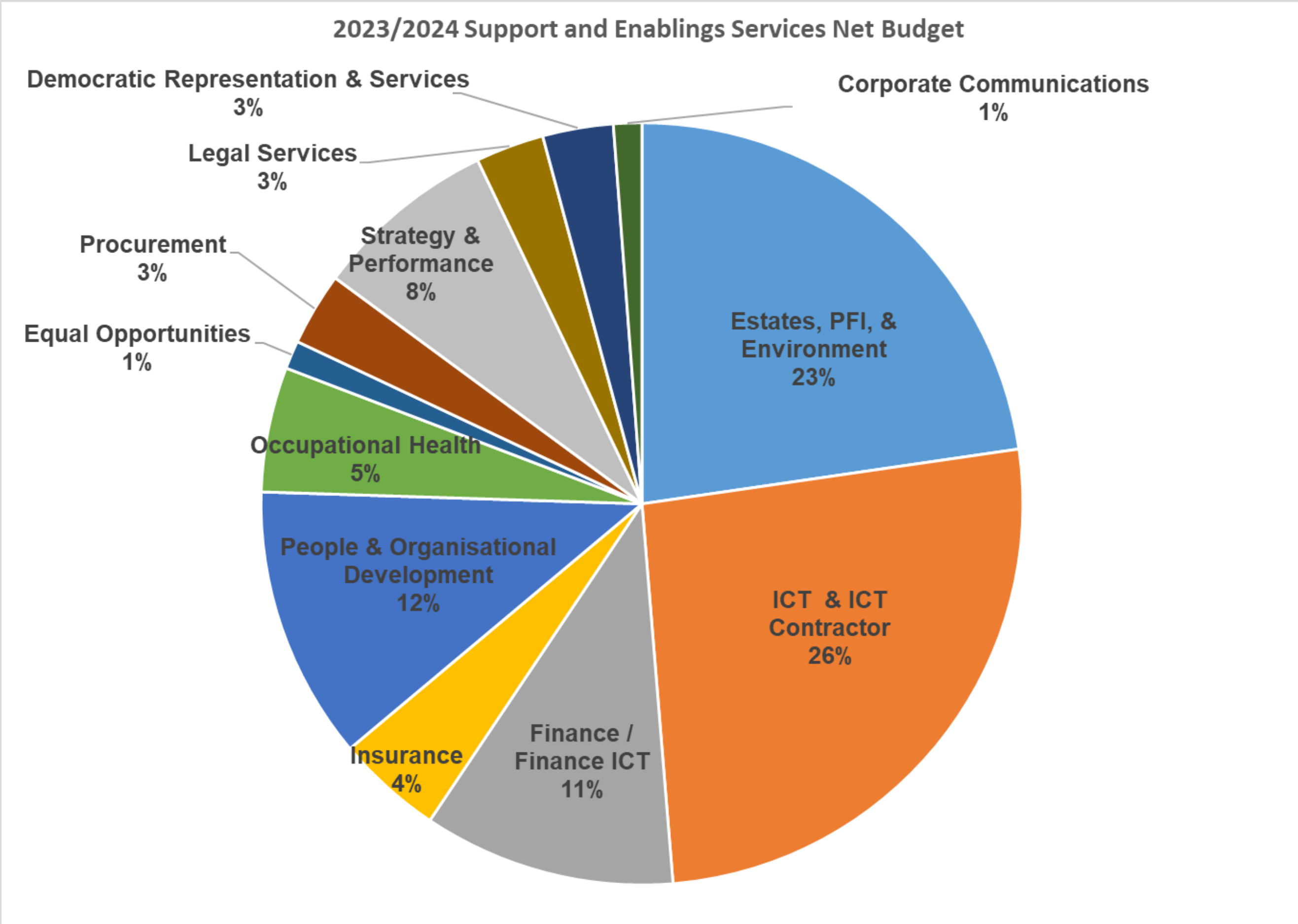
Operational Preparedness (Total £6.4m)

The investment of £6.4m 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 £1.9m 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 £10.6m)

The investment in support services of £10.6m represents 15.6% of the budget.
The pie chart below 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 and a Marine Unit
- ICT – includes the cost of the ICT for Fire Control and stations,
- 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

70. 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 the financing as set out in the report***.

71. 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.

72. 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.

73. 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.

74. 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.

75. 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 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.

- 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.

76. 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.

77. 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.

78. The proposed £54.952m five-year programme set out in Appendix B is summarised in the table overleaf. This table also identifies funding of the programme and a resultant borrowing requirement of £42.846m.

Capital Programme 2023/2024 to 2027/2028

Capital Expenditure	Total Cost £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Building/Land	**32,991,000**	30,026,000	572,500	1,027,500	827,500	537,500
Fire Safety	**3,175,000**	635,000	635,000	635,000	635,000	635,000
ICT	**6,899,840**	2,526,960	1,206,460	1,018,860	1,174,660	972,900
NRAT Resilience Assets	**0**	0	0	0	0	0
Operational Equipment & Hydrants	**4,107,300**	977,800	1,546,000	462,000	390,500	731,000
Vehicles	**7,778,650**	2,096,800	1,300,850	2,176,000	200,000	2,005,000
Expenditure	**54,951,790**	**36,262,560**	**5,260,810**	**5,319,360**	**3,227,660**	**4,881,400**
Financing Available	**Total £**	**2023/24 £**	**2024/25 £**	**2025/26 £**	**2026/27 £**	**2027/28 £**
Capital Receipts	**3,915,000**	**3,915,000**	**0**	**0**	**0**	**0**
RCCO	**1,875,000**	**375,000**	**375,000**	**375,000**	**375,000**	**375,000**
Capital Reserves	**6,315,900**	**6,315,900**	**0**	**0**	**0**	**0**
Grants	**0**	**0**	**0**	**0**	**0**	**0**
Total Non Borrowing	**12,105,900**	**10,605,900**	**375,000**	**375,000**	**375,000**	**375,000**
Unsupported Borrowing	**42,845,890**	**25,656,660**	**4,885,810**	**4,944,360**	**2,852,660**	**4,506,400**
Total Funding	**54,951,790**	**36,262,560**	**5,260,810**	**5,319,360**	**3,227,660**	**4,881,400**

79. New additions to the capital programme and the impact of inflation on planned spend have increased the overall expenditure by £9.336m. The table below summarises the proposed changes;

Capital Expenditure	Total Cost £	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Building/Land;						
Inflation	**1,900,000**	1,727,500	57,500	57,500	57,500	
New Schemes	**1,027,500**	155,000	155,000	90,000	90,000	537,500
	2,927,500	1,882,500	212,500	147,500	147,500	537,500
Fire Safety						
New Schemes	**635,000**	0	0	0	0	635,000
	635,000	0	0	0	0	635,000
ICT						
Inflation	**248,000**	73,000	50,000	75,000	50,000	
New Schemes	**1,288,400**	99,500	60,000	156,000	0	972,900
	1,536,400	172,500	110,000	231,000	50,000	972,900
Operational Equipment & Hydrants						
New Schemes	**1,661,500**	211,000	413,000	146,000	160,500	731,000
	1,661,500	211,000	413,000	146,000	160,500	731,000
Vehicles						
Inflation	**570,450**	139,450	13,000	358,000	60,000	
New Schemes	**2,005,000**					2,005,000
	2,575,450	139,450	13,000	358,000	60,000	2,005,000
Expenditure						
Inflation	**2,718,450**	**1,939,950**	**120,500**	**490,500**	**167,500**	**0**
New Schemes	**6,617,400**	**465,500**	**628,000**	**392,000**	**250,500**	**4,881,400**
Total	**9,335,850**	**2,405,450**	**748,500**	**882,500**	**418,000**	**4,881,400**
Financing Available	**Total £**	**2023/24 £**	**2024/25 £**	**2025/26 £**	**2026/27 £**	**2026/27 £**
Capital Receipts	**240,000**	**240,000**	**0**	**0**	**0**	**0**
RCCO	**375,000**					**375,000**
Total Non Borrowing	**615,000**	**240,000**	**0**	**0**	**0**	**375,000**
Unsupported Borrowing	**8,720,850**	**2,165,450**	**748,500**	**882,500**	**418,000**	**4,506,400**
Total Funding	**9,335,850**	**2,405,450**	**748,500**	**882,500**	**418,000**	**4,881,400**

80. Of the £9.336m planned increase :-

a) The addition of the “extra year” to the programme, 2027/2028, adds £4.881m.

b) New proposals in 2023/2024 – 2026/2027 add £1.736m. The key items are for investment in;

- New operational equipment / BA apparatus £0.931m
- New audio / AV equipment at SHQ, additional wireless access points £0.160m
- Revised anti-virus licences period (5 to 3 years), £0.150m
- Disability Discrimination Access work for MFRA properties, £0.160m
- Net change to other building works £0.335m.

c) Issues with supply chains, energy charges, and labour shortages have resulted in significant price increase in tender prices for building work; vehicles; and, equipment. This has resulted in an increase in planned spend of £2.719m.

81. The £9.336m of new planned capital spend requires unsupported additional borrowing of £8.721m (the balance is funded by specific resources) and this commitment has been built into the proposed MTFP.

82. **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 (£32.991m);

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 includes a new £39.9m TDA and fire station (including a new workshop and garages, £0.7m). The scheme commenced in 2022/23 with a phased build programme over 2022 – 2024. The phased spend in the proposed 2023/24 – 2027/28 programme is £24.538m (the balance was incurred in 2022/2023) and a planned opening in April 2024. Note the required new ICT development for the scheme £0.501m is contained within the ICT programme.

Major refurbishment work of £4.856m at fire stations and other property is planned over the programme period, and this includes a major £1.200m refurbishment of the existing Bromborough fire station.
General station upgrade work, £1.980m, is planned over the programme period and this includes investment in station roofs, disabled access, appliance floor repairs and sanitary accommodation refurbishments.

The balance, £1.617m relates to other property work on schemes such as energy conservation and furniture replacement.

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 (£6.900m)

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 £2.793m,
- Software licenses £2.167m,
- New command and control suite at the new TDA site £0.501m
- Operational ICT Equipment £0.780m,
- Other applications and ICT schemes £0.659m.

d. Operational Equipment & Hydrants (£4.107m)

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, £0.865m
- BA and communication equipment, £1.047m
- Search and Rescue equipment, £0.195m
- Water delivery hoses and equipment, £0.151m
- Operational ladders, £0.117m
- Other specialist equipment, £1.547m
- Installation of new or replacement hydrants in line with our water strategy, £0.185m.

e. Vehicle Replacement Strategy (£7.779m)

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 11 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:

- Incident Command Unit (ICU)
- Prime Movers (4)
- Crane Lorry (1)
- Wildfire Appliance (2)
- Curtain sided truck (1)

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

d. Marine Rescue Boats

e. Workshop Equipment

Funding;

83. The proposed capital spend will be funded by a mixture of specific funding sources and borrowing;

84. **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.

85. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £3.915m. 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.

86. **Revenue Contribution to Capital Outlay (RCCO).** Capital spend can be funded from a contribution from the approved revenue budget. The proposed capital programme includes an annual RCCO of £0.375m, and this comes from the "freed-up" employee budget following the capitalisation of smoke alarm installation costs (salary costs).

87. **A Capital Reserve** has been established to contribute towards the approved capital investment within the programme. The new TDA and fire station spend in 2023/2024 will be partially funded, £6.316m, from the capital reserve.

88. **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, after taking into account any specific funding, requires prudential "unsupported" borrowing of £42.846m. The revenue budget and MTFP includes adequate provision for the future revenue servicing cost of this debt.

89. 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 2023/2024 – 2027/2028 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

90. 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.

91. The regulations guidelines interpret that MRP may be deemed to be prudent if it is either:
    a) Based over a period that is reasonably commensurate with that over which the capital expenditure / asset provides benefits (asset life), or
    b) 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).

92. 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;
        i. equal instalments method. This generates a series of equal annual amounts over the life of each asset that is financed from borrowing; or
        ii. 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.

93. 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.

94. The 2023/2024 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2022/2023. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2022/2023;

    a) 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.

    b) 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.

    c) For **on balance sheet PFI contracts**; the MRP charge will be equal to the principal element of the annual rental.

95. 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.

96. 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.

97. 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.

98. Interest on loans taken out to fund capital expenditure is estimated at £2.1m.

99. 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

100. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2023/2024, 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.

101. 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 2023/2024.

102. The financial plans prepared in respect of the financial years 2024/2025 and 2025/2026 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 £5.00 in 2023/2024, just under 3% in 2024/25 and just under 2% thereafter.

103. 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.***

104. 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:-

    a) Estimates of the ratio of capital financing charges to the net revenue budget.
    b) Estimates of the precept that would result from the three-year capital plan.
    c) Estimates of the capital financing requirement.

105. The prudential indicators for the Authority are:-

- **Capital Expenditure**
  The actual capital expenditure that was incurred in 2021/2022 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
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Expenditure	6,975	25,237	36,263	5,261	5,319	3,228	4,881

Members will note that the significant estimated expenditure over the 2022/2023 – 2024/2025 period covers the planned £39.9m investment in a new TDA and station, and £2.2m on national resilience assets.

This explains why the total expenditure in 2022/2023 – 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 2021/2022 and the current and future years are:

	Actual 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
Ratio of Financing costs to Net Revenue Stream	**6.31%**	**8.33%**	**7.80%**	**10.21%**	**11.00%**	**11.10%**	**11.41%**

This shows that forecast debt financing costs will increase from around 6% up and then increase to approximately 11% by 2027/2028. 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 2024/2025 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 been previously been taken by the Authority, are:

	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
Incremental Impact of Capital Investment Decisions.	-£4.98	£7.53	£0.26	£0.34	£0.16	£1.68

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 2022/2023 into 2023/2024 approved during the year, the inclusion of a significant investment in the new TDA and station, and, the new starts in 2023/2024 – 2027/2028 explains the movement in the figures over this period.

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

107. Based on current commitments for 2022/2023 and the latest estimates of capital investment decisions in future years, the capital financing requirement forecast as at 31st March 2023 and future years is as follows:

		Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
		31.3.22	31.3.23	31.3.24	31.3.25	31.3.26	31.3.27	31.3.28
		£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement		35,269	40,090	62,805	63,417	63,617	61,558	60,945
(Excluding PFI & MRD)								

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.

108. 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."

109. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach a maximum of £63.617m over the next 5-years and the expected maximum debt position is £53.720m. 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.

110. 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
	31.3.22	31.3.23	31.3.24	31.3.25	31.3.26	31.3.27	31.3.28
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement (excluding PFI and DRD)	**35,269**	**40,090**	**62,805**	**63,417**	**63,617**	**61,558**	**60,945**
Existing PWLB Loans	33,885	33,720	33,720	45,720	49,720	53,720	53,720
Planned New Loans			12,000	4,000	4,000		
PWLB c/fwd	**33,885**	**33,720**	**45,720**	**49,720**	**53,720**	**53,720**	**53,720**
Under / (Over) Borrowing	**1,384**	**6,370**	**29,085**	**17,697**	**13,897**	**7,838**	**7,225**

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2023/2024

INTRODUCTION

111. 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

112. 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 2023/2024.
- The External Debt and Treasury Management Prudential Indicators and Limits for 2023/2024 to 2025/2026.
- The Investment Strategy 2023/2024.
- The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

113. The suggested strategy for 2023/2024 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;
- 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 ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

Political uncertainty in the UK improved in the later part of 2022 following a change in government to what financial markets perceived as being more fiscally prudent. The economic backdrop continues to be characterised by high energy and commodity prices, high inflation and the associated impact on consumers' cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon. Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank have all increased interest rates and are committed to fighting inflation, even in the face of potential recessions in those regions. UK inflation remains high, but there are tentative signs it may have peaked.

The Bank of England (BoE) increased Bank Rate by 0.50% to 4.0% in February 2023, with rates now possibly nearing their peak. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with two members voting to maintain rates at 3.50%. The cost of both long and short term borrowing has risen dramatically over the April – December period, with rates around 2% - 3% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini-budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.24% at the end of January 2023.

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 envisages that new long term borrowing of £12 million will be required in 2023/2024. In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required the Authority may initially choose to benefit from lower short term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-authority market. 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. Recent rises in long term interest rates may provide more favourable debt rescheduling opportunities. 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 2023/2024 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 cash flow 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.

ESG Policy

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business Models

Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

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, 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		**2023/24**	**2024/25**	**2025/26**
		£'000	**£'000**	**£'000**
Gross Borrowing		63,000	63,000	63,000
Other Long Term Liabilities		16,000	16,000	15,000
TOTAL		**79,000**	**79,000**	**78,000**

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		**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
External Borrowing		50,000	50,000	55,000
Other Long Term Liabilities		16,000	16,000	15,000
TOTAL		**66,000**	**66,000**	**70,000**

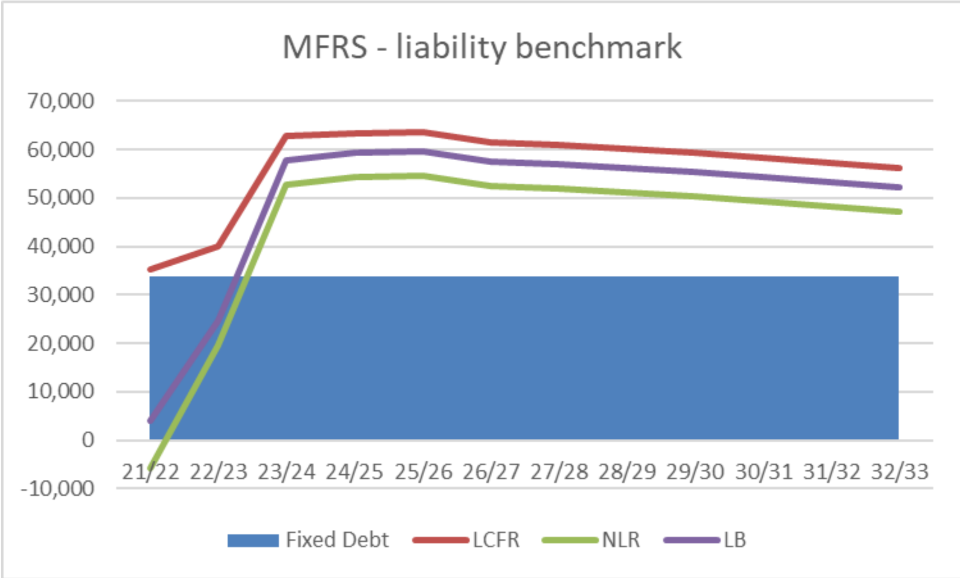
Actual External Debt: The prudential indicator for actual external debt considers a single point in time and hence is only directly comparable to the authorised limit and operational boundary at that point in time. Actual external debt is monitored during the year against the limits. It is forecast to be £33.7 million at 31st March 2023.

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.

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Capital Financing Requirement	56.6	78.7	78.6	78.2	75.4	74.0
Less: PFI	(16.4)	(15.8)	(15.2)	(14.6)	(13.8)	(13.1)
Less: MRD	(0.1)	(0.1)	-	-	-	-
Borrowing CFR	**40.1**	**62.8**	**63.4**	**63.6**	**61.6**	**60.9**
Existing Debt Portfolio	33.7	45.7	49.7	53.7	53.7	53.7
Over(-)/Under borrowing	**6.4**	**17.1**	**13.7**	**9.9**	**7.8**	**7.2**
Borrowing as a % of CFR	**84.1%**	**72.8%**	**78.4%**	**84.4%**	**87.3%**	**88.1%**

The Treasury Management Code now includes a requirement for authorities to produce a liability benchmark. This is a risk management tool which compares the authority's actual borrowing against its theoretical net borrowing requirement (which will include an allowance for liquidity). When actual borrowing is below the liability benchmark, then this indicates a future borrowing requirement and thus identifying where an authority is exposed to interest rate, liquidity and refinancing risks. Conversely, where actual borrowing exceeds the liability benchmark then this will highlight an over-borrowed position which will result in excess cash in the organisation requiring investment and thus exposing the authority to credit and reinvestment risks and a potential cost of carry. The optimum borrowing position would be to hold a position that sits near to or on the liability benchmark thus maximising the use of internal borrowing and minimising risk.

The authority's liability benchmark is set out in the graph overleaf. The benchmark assumes that cash and investment balances are kept to a minimum level of £5m at each year-end. The benchmark is currently £24.6m for 2022/23 and is forecast to increase to £57.8m in 2023/2024 based on the combination of the borrowing requirement arising from the capital programme and the anticipated reduction of internal resources that will be available to off-set the need to borrow. The below graph covers an extended period of ten years.



The shaded arears of the graph represent the maturity profile of the authority's actual borrowing portfolio and the lines represent the notional borrowing requirement (red line), the net loans requirement which offsets available balance sheet resources against the borrowing requirement (green line) and finally the liability benchmark (blue line), which factors in a liquidity allowance.

The graph does highlight the extent to which the fire authority borrowing levels has exceeded the liability benchmark in recent years based on the historic borrowing portfolio that is predominately long dated. However, this position is expected to reverse in 2023/2024 with an anticipated requirement for new borrowing. The significant movement in interest rates during 2022/2023 has increased the cost of new borrowing and the consideration at this point is whether further risk is reduced by borrowing with longer term borrowing for durations that would reduce the gap between the existing debt portfolio and the estimated liability benchmark or borrowing for shorter periods. To inform these decisions treasury officers are mindful of the interest rate forecasts from appointed specialist treasury advisors. The steepening of rates during 2022/2023 in response to high inflation has exceeded many forecasts made 12 months ago, the question is now whether the lagging impact from tightening monetary policy puts a sufficient brake on economic activity, that monetary policy is required to be loosened in the near term as a response. Officers will continue to review the position and look for opportunities to reduce the exposure to interest rate risk.

(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	2023/24	2024/25	2025/26
	%	%	%
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 2023/24.

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 2023/24, 2024/25 and 2025/26.

(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 2023/2024 – 2027/2028

114. 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.

115. 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.

116. 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 :-

117. In 2010 the Authority;

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

118. The current budget provides for;

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

119. The 2022/2023 MTFP approved at the Budget Authority meeting on 24th February 2022 delivered, based on the information at that time, a balanced financial position in 2022/2023 and 2023/2024. The current MTFP forecast a £0.775m challenge in 2024/2025 rising to £0.994m by 2026/2027. As significant uncertainty existed over future Government funding and future cost increases from 2023/2024, Members were simply asked to note any financial challenges in future years, and deal with any challenge once the future funding became clearer.

120. The current MTFP has been updated for the 2023/2024 Government funding settlement (another one-year settlement), and the Merseyside local authorities 2023/2024 Council Tax Base, Collection Fund and Business Rate forecasts. All known pay and price inflation increases have been built into the MTFP, and a review of the key assumptions around future funding and cost pressures reviewed.

121. Members at the January 2023 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:-

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

PAY;
The 2022/2023 MTFP had, based on the Government's assessment that inflation would increase slightly above their 2% target and then fall back, assumed a 2.5% p.a. pay award over the MTFP period. In 2022/2023 the non-firefighter pay increase was a flat rate uplift of £1,925 for all grades, and this increased the pay bill by 6.5% or 4% / £0.465m above the MTFP assumption. The current 2022/2023 firefighters' annual pay offer is 7% and is currently being considered by firefighters. The proposed MTFP now includes a provision to fund the 2022/2023 non-firefighter flat rate increase of £1,925 and a provision for a 2022/2023 7% firefighter pay award. Any increase above the 7% firefighter pay assumption will be funded initially from the inflation reserve, but Members would need to consider how it will be funded on a permanent basis during the 2024/2025 budget process.

Inflation remains high, around 10%, but is predicted to fall sharply towards the end of the year and then in the longer term fall back further to the Government's 2% target. Members at the strategy day agreed to increase the 2023/2024 pay award assumption from 2.5% to 5% in light of the current inflation forecast, but keep future pay award assumptions at 2.5%. A 5% assumption for 2023/2024 pay awards requires an increase in the pay provision within the current MTFP of £1.282m in a full year.

During the year the Government reversed the proposed increase of 1.25% in employers / employees National Insurance (NI) rates from 2022/2023. The proposed MTFP reflects this decision and a saving of £0.336m has been built into the MTFP.

Authority Members' had committed to reduce their own costs for thirteen years by freezing member allowances delivering an annual saving of £24,000. In 2022/2023, given the inflationary pressures already mentioned above, the reality was that the freeze in allowances had to end. The inflation provision now includes funding for an inflation indexation for members' allowances each year based on the previous year's firefighter pay award, however, any increase would take account of any NJC grey book recommendation. Members will consider the scheme of allowances for 2023/2024 at the AGM meeting in June 2023.

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 impact on the Firefighter Pension Scheme to MFRA was an overall increase in the employer cost of over £3.210m. The Home Office announced a fixed grant of £3.025m from 2019/2020 to contribute to the increase. The Home Office have again indicated that the grant will be rolled up into the SFA, but in 2023/2024 it will continue as a grant but they have yet to announce the Authority's allocation. The MTFP assumes this grant will continue at the current level, £3.025m.

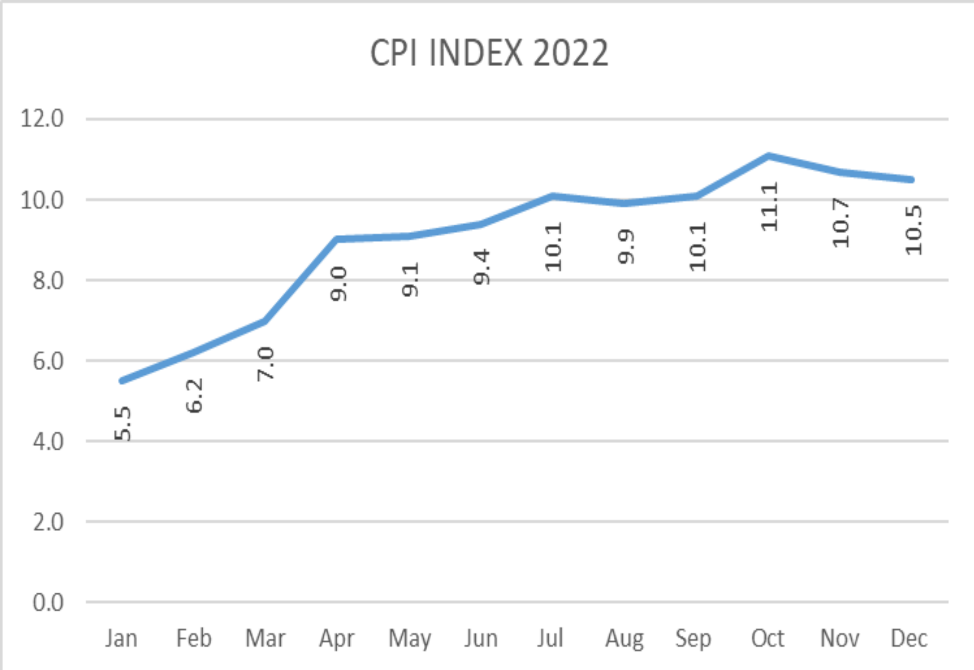
The 2020 FPS actuarial review is currently being undertaken and the Home Office has advised that the impact of the actuarial review will be taken into account in the next Comprehensive Spending Review. Therefore, the impact of the review may be in 2024/2025 or 2025/2026. The current MTFP assumes a 3% or £1m increase in the employer rate from 2024/2025 as the pension fund is facing a number of significant cost pressures such are the implementation of the age discrimination (McCloud) remedy. The proposed MTFP makes no change to this assumption that the increase in the employer rate will be with effect from 2024/2025.

Future LGPS Employer Rate – The 2020 actuarial review increased the current employer rate from 17.5% to 17.9% from April 2023. However, the review also identified that the fund has a past service costs surplus that will be repaid to the Authority, the net impact has resulted in an annual saving of £0.200m from 2023/2024 onwards. The current MTFP had assumed this saving so no changes are required to be made to the proposed MTFP.

PRICES

The current MTFP included a provision for general price increases of 2% and around 12% for energy increases based on inflation forecasts in January 2022. The forecast was consistent with the Government's view at the time that although inflation was anticipated to go above their 2% target this was assumed to a short-term challenge before inflation fell back to 2%.

Supply issues caused by Covid and other factors; workforce shortages; and an energy crisis as a consequence of the war in Ukraine, has meant the UK (and most of the World) experienced a significant increase in inflation. Over 2022 the CPI index rose from 5.5% to 10.5% peaking at 11.1%in October:-



The Government expect CPI inflation to continue to fall slowly in the early part of 2023/2024 but then towards the end of the financial year drop to 4% - 5%, and then closer to 2% in 2024/2025.

The proposed MTFP has built in an increase of £0.232m to uplift the base non-pay budget for the impact of the inflationary pressures in 2022/2023 and the expected 2023/2024 inflationary impact. In addition a £0.250m provision has been included on the MTFP inflation increase has been included in the proposed MTFP to cover the increase in outsourced contracts as the annual uplift is directly linked to the increase in CPI and employee costs.

Members received a number of reports on the impact of the new 2022 electricity contract and the impact of the significant inflationary pressures within the energy market. The actual energy spend in 2022/2023 against the budget is forecast to overspend by approximately £0.850m. For 2023/2024 the current view is that the energy costs will remain close to those in 2022/2023. Any additional budget requirement will be dependent not just on the energy charges but actual consumption and any Government support for the market. At some future point, particularly if the war in Ukraine ends and new supply markets open, the cost of energy may fall from the current exceptional high price. The proposed MTFP has built in a £0.850m increase in the annual energy budget up to 2025/2026, but assumed from 2026/2027 the required increase will fall to £0.400m as hopefully supply markets improve.

An inflation provision of £1.600m is included in the proposed MTFP to cover the new-year, 2027/2028, based on general inflation of 2% and pay uplifts of 2.5%.

123. **Revenue Growth**

The current plan assumed no future unavoidable growth requirements beyond those approved in the 2022/2023 plan. The CFO and SLT have identified a number of unavoidable growth issues that need to be built into the new MTFP;

- After reviewing the current operational and control establishment the CFO and SLT have identified the need to permanently amend the operational arrangements by;

    - Improving the operational management provision by creating 20 new Crew Manager roles, and
    - Improving the firefighter training resources at the TDA, and
    - The number of retained contracts being established to underpin the Hybrid/DCWTR Duty system (reflecting the IRMP 2021/24 goal of having 32 fire engines available),
    - Embedding the increase in Control staff into the permanent establishment, 32 to 35 posts including Station Manager.
    - Including a provision of £0.334m in the MTFP from 2023/2024 to cover these frontline investments, and
    - Despite the financial challenge to fund the increased 2022/2023 firefighter pay award of 7%, the Authority through prudent financial management will maintain the operational establishment at 642 FTE.

- In order to tackle recruitment and retention challenges around key non-operational posts, the proposed MTFP includes a £0.300m provision to enable a review of relevant post grades and the establishment, in order to improve current resilience within key service areas.

- Officers have identified a number of small growth demands that have been built into the MTFP;

    - The need to pay a copyright licence fee for use of certain material by the Service, £0.006m
    - New ICT Operational Preparedness and POD applicants, ongoing license fees, £0.031m
    - Agile working set-up costs and ongoing purchases, £0.040m 2023/2024, then £0.020m ongoing refresh costs.

- In order to access developments in PPE; fire safety equipment; and operating procedures, aimed at managing emerging risks (lithium battery incidents, contamination of fire kit etc.) and improving firefighter safety, a permanent £0.050m innovation budget has been included in the proposed MTFP.

- A number of unavoidable / technical adjustments have been made in the proposed MTFP;

    - The Home Office have announced that the Firelink grant will be reduced by 20 percent in each of over the 2022/2023 – 2025/2026 period. The proposed MTFP reflects this loss of grant, and the net cost of the current Airwaves emergency services communication contract will increase by £0.270m by 2026/2027.

- The current MTFP included a drawdown of £0.089m from the Collection Fund reserve. After receiving the latest information from the billing authorities this drawdown is no longer required and has been reversed in the proposed MTFP.

124. **Cost of Capital Borrowing**
The proposed MTFP takes into account the 5-year capital programme and MRP policy, discussed previously in sections C and D, and the debt servicing budget has been increased by £0.100m in 2024/2025 rising to £0.150m in 2026/2027.

125. **Non-Pay Budget - "2% Efficiency Target"**
The NFCC as part of the discussions with the HO and Treasury over the 2023/2024 financial settlement, identified that the fire sector could deliver a 2% efficiency saving on the non-pay budgets. For MFRA this would equate to £0.335m. In order to achieve a balanced budget the actual efficiency target has been set at £0.380m.

The Fire Minister has written to FRAs following the announcement of the 2023/2024 provisional local government financial settlement and referenced the 2% efficiency target, and his expectation this saving is delivered and included within any 2023/2024 financial plan.

The Director of Finance & Procurement is confident a £0.380m efficiency saving can be offered up from non-pay budgets;

- Savings on new loans interest payments via effective treasury management (delaying / reducing external borrowing via use of internal cash), and

- Managing inflation on controllable non-pay budget lines combined with effective procurement in order to deliver a saving on the inflation provision.

A £0.380m efficiency saving has been built into the proposed MTFP.

126. **Resources Available:** The Authority has two main sources **Government Funding** and **Council Tax**.

127. **Government Funding;**

Settlement Funding Assessment (SFA);
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
- **Revenue Support Grant**.

The Government have announced another one-year local government finance settlement, and, that business rates will be frozen again in 2023/2024. However, as business rates can be increased by a factor equal to the previous year’s September Consumer Price Index (CPI) (10.1%), the Government announced it would continue to compensate authorities for the loss of income through a specific grant.

Following a business rates re-set in 2023/2024, any impact this has on the relevant Baseline funding estimate has been reflected in the 2023/2024 funding support, an increase of £0.754m.

The Authority’s SFA for 2023/2024;

- Increase in Baseline Funding of +3.7% or £0.754m, and
- Increase in Revenue Support Grant of 10.1% or £1.175m.

The settlement resulted in an overall increase of 6.1% or £1.929m. This is £1.612m above the amount in the current MTFP.

Business Rates Multiplier Compensation Grant;
To compensate the Authority for the business rates freeze a £1.500m increase in the business rates multiplier grant was announced as part of the financial settlement. The MTFP assumes this increase will permanent.

Taking the business rates multiplier compensation grant increase and the SFA settlement together the overall increase compared to 2022/2023 is £3.429m or 10.8%. As the current MTFP assumed a 1% or £0.317m increase in 2023/2024, the settlement is £3.112m above the current MTFP assumption.

In addition to the 2023/2024 Business Rates freeze grant, the Government also compensate the Authority for any loss in business rates for approved ongoing discounts or new discounts in 2023/2024. Based on the Merseyside Authorities NNDR1 local business rate forecasts for 2023/2024, the Authority will receive **an additional £0.140m in s31 grants, rising to £0.250m from 2024/2025.** The MTFP assumes this increase will be permanent.

Within the SFA is a forecast of the local retained business rates assumed for the Authority of £4.462m. However, the business rate freeze and other discounts may impact on the local business rates yield. Based on the billing authorities forecast for local business rates yield in 2023/2024, the Authority’s local share **is estimated at £4.062m, a shortfall of £0.400m against the SFA estimate.** The proposed MTFP includes the £0.400m reduction in local business rates for 2023/2024, and a potential ongoing impact of £0.100m in 2024/2025.

The proposed MTFP attempts to forecast future Government support beyond 2023/2024, however it is very challenging to forecast with any certainty the likely levels of support in future years. The Government issued a “Local Government finance policy statement 2023/2024 to 2024/2025” in December 2022, that set out the Government’s intentions for 2024/2025 funding. The Policy statement indicated that the SFA uplift would be linked with the previous year's September Consumer Price Index (CPI), and any freeze in business rates would be compensated for via the payment of a compensation grant. **For 2024/2025 the proposed MTFP has assumed an uplift in the SFA of 2.5%**. The reasons for this is to ensure a consistency between the 2024/2025 pay award assumption and the increase in Government funding, as both will be driven by the relevant inflation at that time.

Beyond 2024/2025 is especially difficult to forecast as the Government 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. The next Government Comprehensive Spending Review, CSR, is also likely to be after the next General Election, and any change in Government is likely to impact on the total funding available for Local Government. In order to produce a 5-year MTFP the **assumption is that the SFA will increase by 1.0% p.a. from 2025/2026.** 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.

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

Services Grant;
The Government announced a new £822m un-ringfenced "one-off" **Services Grant** for 2022/2023, but stated that this grant is a one-off, as it wanted to review how the grant would be allocated in future years. The grant was to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government and cover the increase in employer national insurance rates of 1.25% from April 2022. The Authority's Services grant allocation in 2022/2023 was £1.388m, and the current MTFP assumed this would continue in future years. The Authority has received a 2023/2024 grant allocation of £0.814m, a reduction of £0.574m although £0.336m of this is down to the reversal of the proposed NI increase. The proposed MTFP assumes the Authority will receive a £0.814m Services Grant in future years.

128. **Council Tax income**;
The current plan assumed a Council Tax Base increase of 1% for 2023/2024 and future years. The actual increase in 2023/2024 was +2.35%, and the proposed plan now incorporates this increase. An element of the increase is due to a review by some authorities of their local council tax support schemes. The proposed MTFP reduces future tax base increases to +0.5% p.a. as the cost of living crisis may supress collection rates. The 2023/2024 Tax Base increases were:-

129. The 2023/2024 Tax Base increases were:-

District	2022/23 Council Tax Taxbase	2023/24 Council Tax Taxbase	Variance	
LIVERPOOL	108,460.97	114,506.34	6,045.37	5.57%
WIRRAL	95,172.39	95,585.07	412.68	0.43%
ST.HELENS	53,290.00	53,317.00	27.00	0.05%
SEFTON	84,170.40	85,663.60	1,493.20	1.77%
KNOWSLEY	37,907.00	38,820.00	913.00	2.41%
	379,000.76	387,892.01	8,891.25	2.35%
2022/23 Band D Tax Level	83.61	83.61		
Total Income £	31,688,254	32,431,651	743,397	2.35%

130. This means that for each £1 of Council Tax the level of income will be higher than that generated in 2022/2023 by £8,891.25. **The result of this is that the income from the current level of Council Tax is anticipated to be higher by £0.743m.**

131. The Government has announced that for 2023/2024 the maximum level of increase in Council Tax before holding a referendum will be £5.00. This appears to be a one-off offer as the December 2022 local government finance policy paper indicated the precept increase referendum limit would be just under 3% in 2024/2025. The current and proposed MTFP assumes that Members will uplift the Precept by the referendum limit of £5.00 in 2023/2024, and just under 3% in 2024/2025, and just under 2% in each year after that. A £5.00 (6%) increase for 2023/2024 will see the Band D precept increase from £83.61 to £88.61**. The precept increase will raise an additional £1.939m in 2023/2024**.

Council Tax Increase			
	Change In Band D Tax		
	0%	£5.00	Change
District	£83.61	£88.61	£5.00
	£	£	£
LIVERPOOL	9,573,875	10,146,407	572,532
WIRRAL	7,991,868	8,469,793	477,925
ST.HELENS	4,457,834	4,724,419	266,585
SEFTON	7,162,334	7,590,652	428,318
KNOWSLEY	3,245,740	3,439,840	194,100
	32,431,651	34,371,111	1,939,460

Council Tax and Business Rates Collection Fund

132. 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. The Merseyside authorities have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The tables below summarises the collection fund position for Council Tax and Business Rates :-

Council Tax Collection Fund			
District	deficit/ (surplus)	deficit/ (surplus)	deficit/ (surplus)
	2020/21	2022/23	Total
	£	£	£
LIVERPOOL	234,327	-356,751	-122,424
WIRRAL	56,000	8,000	64,000
ST.HELENS	17,746	58,668	76,414
SEFTON	70,105	-147,864	-77,759
KNOWSLEY	0	-44,000	-44,000
Net MFRA Impact	**378,178**	**-481,947**	**-103,769**

133. The council tax collection fund has a surplus of £103,769, and this will be taken into account in the 2023/2024 MTFP.

Business Rates Collection Fund			
District	deficit/ (surplus)	deficit/ (surplus)	deficit/ (surplus)
	2020/21	2022/23	Total
	£	£	£
LIVERPOOL	33,439	-145,460	-112,021
WIRRAL	24,130	42,143	66,273
ST.HELENS	6,733	-21,024	-14,291
SEFTON	16,492	-144,855	-128,363
KNOWSLEY	18,133	-26,701	-8,568
Net MFRA Impact	98,927	-295,897	-196,970

134. The business rates collection fund has a surplus of £196,970.

135. The current MTFP had assumed a 2023/2024 total collection fund deficit of £0.476m, (£0.377m Council Tax and £0.099m on the Business Rates), arising from the 2020/2021 deficits that the Government allowed billing authorities to spread over 2021/2022 – 2023/2024. The identified surpluses in the 2021/2022 – 2022/2023 collections have off-set the 2020/2021 deficits and delivered a net surplus of £0.301m, (a £0.777m favourable adjustment in the proposed MTFP) that will be built into the 2023/2024 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 7%, in line with the current 2022/2023 firefighter pay offer.

b. Automatic Fire Alarms have gone up with the CPI rate for December 2022, which was 10.5%.

c. Reinforcing Moves (section 13 & 16 charges) are to remain the same.

Appendix E attached to this report outlines the proposed 2023/2024 charges.

OVERALL IMPACT

137. The overall impact of all these changes to the 2022/2023 MTFP is outlined below :-

	2023/24	2024/25	2025/26	2026/27	2027/28
Current 2022/23 MTFP Forecast (Surplus) / Deficit	**0**	**775**	**883**	**994**	**994**
2023/24 MTFP Issues to build in future MTFP:-					
Impact of **2022/23 Pay Awards** (assuming 7% for firefighters) above the 2.5% assumption	2,171	2,171	2,171	2,171	2,171
Assume **5% Pay Awards in 23/24** (increase of 2.5%)	1,039	1,282	1,282	1,282	1,282
Reduction In Employers NI (1.25%)	-336	-336	-336	-336	-336
Impact of Higher Energy / Price inflation 22/23;	1,332	1,332	1,332	882	882
2027/28 Inflation provision					1,600
MRP/Interest - inflationary impact on cost of capital goods	0	100	100	150	150
Loss of Firelink Grant over 2023/24 - 2025/26	110	161	216	270	270
Provision for increasing Control and Operational establishment to improve resilience, training and response	334	334	334	334	334
Provision for review of Establishment to meet recruitment/retention challenges	300	300	300	300	300
Innovation Budget based on Firefighter Safety needs	50	50	50	50	50
Efficency Target (Procurement, Interest Payments, Inflation, other)	-380	-380	-380	-380	-380
Copyright Licensing Fee; Agile Working and ICT license fees	77	57	57	57	57
Reduction in Services Grant £1.388m to £0.782m	574	574	574	574	574
Reverse 2023/24 planned Collection Fund Reserve use	89				
Increase in Bus Rates Multiplier s31 compensation grant **(10.1%)**	-1,500	-1,500	-1,500	-1,500	-1,500
Increase in SFA Funding in 2023/24 above current MTFP Assumption	-1,612	-2,133	-2,154	-2,176	-2,527
Increase in Precept yield if £5 (23/24) and 3% in 24/25 implemented / Tax Base changes	-1,731	-1,954	-1,832	-1,700	-2,631
Collection Fund Change	-777				
Additional Bus Rates compensation grants	-140	-250	-250	-250	-250
SFA Local Business Rates estimate adjustment	400	100			
Summary of impact of changes to 2023/24 MTFP	**0**	**-92**	**-36**	**-272**	**46**
Forecast (Surplus) / Deficit	**0**	**683**	**847**	**722**	**1,040**

138. The proposed MTFP as a result of the changes identified in this section of the report, forecasts a balanced position in 2023/2024 but indicates a potential financial challenge in future years rising to £1.040m by 2027/2028.

139. As the updated MTFP results in a balanced financial position for 2023/2024 Members do not need to consider options for additional savings in 2023/2024. This is subject to the key assumptions, particularly around the 2022/2023 firefighter (7%) and all staff (5%) 2023/2024 annual pay increases, 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:

a) the reasons for that situation

b) 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 £3.4m. 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; know financial risks; and, the planned future use of the Authority's forecast reserves. Some reserves have been slightly realigned based on an assessment of risk, and the adjustments have been outlined in the Appendix D and summarised in the following paragraphs. The proposed reserves for 2023/2024 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;**

a) **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.

b) **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**;

a) **Smoothing Reserve, £1.0m** - This reserve was created to allow the Authority time to re-engineer the Service and deliver future saving options if the future Government funding assumptions in the proposed MTFP 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. As the December 2022 local government finance policy paper has provided some guide to the 2024/2025 settlement the reserve and reduced some of the uncertainty around the 2024/2025 SFA, the reserve has been reduced from £1.8m to £1.0m.

b) Pensions Reserve, £0.6m

The Government directed all public bodies and in particular fire and rescue authorities to pause any proposals to action any immediate detriment proposals and allow eligible pension members access to legacy scheme benefits following the outcome of the McCloud case. The required legislative and regulation changes are expected to be announced in the summer (2023) with a requirement to commence processing all eligible members from October 2023. The implementation of the remedy may result in significant administration costs as well as possible compensation payments. This reserve has been established to contribute towards such costs, although it is hoped the Government will fund all such costs as the changes to public pension schemes came about due to Government legislation changes.

c) **Recruitment Reserve, £1.8m** – As significant numbers of firefighters will retire over the next few 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 +£0.3m p.a. This reserve will cover any costs that can’t be contained within the establishment budget. The reserve has been increased by £0.3m from £1.5m to £1.8m to meet this commitment up to 2029/2030, after which retirement numbers are expected to be lower.

d) **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 in order to facilitate the development of in-house and other applications that will reduce staff administration support costs in the future.

e) **Collection Fund Reserve, £0.2m** – Section G of this report outlines the council tax and business rates collection fund positions for 2023/2024. The improvement in the Collection Fund position over the last 12 months has meant the potential call on the reserve has significantly reduced. Therefore, the reserve has been reduced by £0.9m. Given the fluctuation over the last year or so, it is felt prudent to keep a small reserve.

155. **Capital Reserve, £8.3m**
The reserve is committed to contribute towards capital investments and reduce the required level of borrowing. The new TDA and fire station site has a planned £6.3 drawdown in 2023/2024. The general capital reserve has been increased by £1.2m to £2.0m, in order to reduce borrowing costs in the future given the impact of inflation on capital scheme costs.

156. **PFI Annuity Reserve, £1.4m**
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;**

a **Inflation Reserve, £1.7m** - 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 +£0.5m 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.

b **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. The reserve has been increased by £0.1m as part of the reserves review in light of the numbers of firefighter recruits expected to join the Service in the coming years.

c **Equipment, £0.2m** – 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 – 18 months.

d **Other, £0.1m** – this reserve is to fund community-based initiatives and additional PPE as a result of recruiting firefighters in advance of retirements.

158. **Ringfenced Reserves, £0.5m** - 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:-

Committed Reserves														
	Balance to be C/fwd From 2022/23	Proposed Re-alignment	Revised Balance to be C/fwd from 2022/23	Estimated 2023/24 Use	Estimated 2024/25 Use	Estimated 2025/26 Use	Estimated 2026/27 Use	Estimated 2027/28 Use	Estimated 2028/29 Use	Estimated 2029/30 Use	Estimated 2030/31 Use	Estimated 2031/32 Use	Estimated 2032/33 Use	Held to Cover Risk
	£'000	£'000	£'000	£'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			0											
Smoothing Reserve	1,788	-788	1,000											1,000
Pensions Reserve	590		590		-375	-215								0
Recruitment Reserve	1,450	300	1,750		-300	-300	-300	-300	-300	-250				0
Invest to Save / Collaboration Res	282		282		-282									0
Collection Fund Reserve	1,114	-864	250											250
Capital Investment Reserve			0											
New TDA & Station	6,316		6,316	-6,316										0
Other	785	1,202	1,987	0	-1,890	-150	0							-53
PFI Annuity Reserve	1,373		1,373	-69	-75	-80	-90	-100	-110	-120	-130	-140	-150	309
Specific Projects														
Community Sponsorship Reserve	55		55		-55									0
Equipment Reserve	195		195		-195									0
Community Engagement Reserve	2		2		-2									0
Training Reserve	50	150	200		-200									0
Health and Wellbeing Reserve	0		0											0
Inflation Reserve	1,650		1,650											1,650
Clothing	90		90		-90									0
Ringfenced Reserves														
Community Risk Management Res	305		305		-155	-150								0
Energy Reserve	201		201	68										269
New Dimensions Reserve	39		39		-39									0
Forecast Use of Reserves in the year	17,006	0	17,006	-6,317	-3,658	-895	-390	-400	-410	-370	-130	-140	-150	4,146
Total Earmarked Reserves Bal C/fwd	17,006	0	17,006	10,689	7,031	6,136	5,746	5,346	4,936	4,566	4,436	4,296	4,146	4,199
General Revenue Reserve	3,000	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total Reserves	20,006	0	20,006	13,689	10,031	9,136	8,746	8,346	7,936	7,566	7,436	7,296	7,146	7,199

160. The Director of Finance and Procurement recommends that the Authority approve the maintenance of the £17.006m 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 2023. The Authority meeting is now invited to:

a) Confirm the financial plan set out in Appendix C, approve the budget requirement of £67.921m for 2023/2024 as outlined in Appendix C.

b) note that the Authority's council tax base for 2023/2024 is 387,892.01, being the aggregate of the tax bases calculated by the Districts.

c) 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					
			Gross Expenditure 2023/2024	**Gross Income 2023/2024**	**Estimate 2023/2024**
			£'000	**£'000**	**£'000**
(A)	sec 42 (2) (a)	Service Budget	88,186		88,186
(B)	sec 42 (3) (a)	Income		-13,948	-13,948
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	68		68
(B)	sec 42A (3) (a)	Contribution from reserves		-6,385	-6,385
		Budget Requirement	88,254	-20,333	67,921
(B)	sec 42A (3) (a)	Spending Funding Assessment		-33,649	-33,649
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		400	400
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-301	-301
		Non-Precept Income		-33,550	-33,550
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	**Precept Requirement**			**34,371**
		Tax Base			**387,892.01**
		Precept Requirement / Tax Base:			**£88.61**
		Basic Tax Amount At Band 'D'			**£88.61**

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:

2023/24	Property Band		Increase	
£			£	%
£59.07	For properties in Band	A	3.33	5.97
£68.92	For properties in Band	B	3.89	5.98
£78.76	For properties in Band	C	4.44	5.97
£88.61	**For properties in Band**	**D**	**5.00**	**5.98**
£108.30	For properties in Band	E	6.11	5.98
£127.99	For properties in Band	F	7.22	5.98
£147.68	For properties in Band	G	8.33	5.98
£177.22	For properties in Band	H	10.00	5.98

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

PRECEPT		AUTHORITY
£		
10,146,407	Payable by	LIVERPOOL
8,469,793	Payable by	WIRRAL
4,724,419	Payable by	ST.HELENS
7,590,652	Payable by	SEFTON
3,439,840	Payable by	KNOWSLEY
34,371,111		

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

Friday	21/04/2023
Thursday	01/06/2023
Friday	07/07/2023
Monday	14/08/2023
Wednesday	20/09/2023
Thursday	26/10/2023
Friday	01/12/2023
Friday	12/01/2024
Monday	19/02/2024
Friday	15/03/2024

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 2023.

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/007/22	"MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2022/2023 – 2026/2027" Budget Authority 24th February 2022

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.