MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	14 DECEMBER 2023	REPORT NO:	CFO/053/23
PRESENTING OFFICER	MIKE REA, DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2023/24 - JULY TO SEPTEMBER		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A3:	CORPORATE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A4:	BUDGET MOVEMENTS ON RESERVES
	APPENDIX B:	CAPITAL PROGRAMME 2023/24
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2023/24 – 2027/28

Purpose of Report

1. To review the revenue, capital, and reserves financial position for the Authority for 2023/24. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period July to September 2023.

Recommendation

2. That Members;

   a. Approve the proposed revenue and capital budget alignments, and
   b. Approve the use of the forecast £0.500m employee saving to fund capital expenditure and reduce the level of borrowing, and
   c. Instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2023/24, and use any savings to reduce the level of capital borrowing.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 23 February 2023. The approved MTFP delivered a balanced budget for 2023/24 based on key budget assumptions around costs, in particular pay. This report updates members on the 2023/24 budget position and any issues arising in the year that may impact on the future years' financial position.

The total budget requirement remains at the original budget level of £67.921m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between July and September 2023.

Capital:
The current 5-year capital programme has a planned total investment of £60.464m over the 2023/24 – 2027/28 period, of which £41.922m relates to 2023/24. During the quarter the capital programme planned spend has increased by £3.129m in 2023/24, of which £1.930m relates to Home Office funded National Resilience assets. The increase in capital spend is fully funded from specific resources and therefore the overall capital borrowing requirement remains unchanged. The report outlines all the scheme adjustments in the year and the revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £3.000m. The report outlines all the movement in reserves in the quarter and considers the current adequacy of the available reserves. All movements in committed reserves are outlined in Appendix A4.

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

Introduction and Background

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

4. This report reviews the Authority's financial position up to the end of the second quarter of 2023/24, (July – September 2023).

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

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

(A) Current Financial Year – 2023/24

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

Revenue Position:

7. Budget Movements: there have been a number of budget adjustments in the quarter, but as they are either self-balancing virements within department budgets or budget increases financed by reserves (in line with previously agreed Authority decisions), they have not changed the overall net revenue budget requirement. The budget adjustments in quarter 2 included:-

- A contribution from reserves of £1.458m;
  - Members' approved, CFO/032/23, an increase in the new TDA / station budget of £1.000m to fund a number of new additions to the scheme. The increase was funded from the capital reserve. In addition, the final £0.060m of capital reserve funding for the new TDA/station was drawn-down in the quarter.

  - Members' approved a scheme to introduce new technology and refurbish the SHQ Control Room (CFO/039/23). The scheme required a net increase to the current capital programme of £0.089m funded from the capital reserve.

  - A further £0.097m was drawn-down from the capital reserve to fund previously agreed projects, the Learning Management System, £0.090m, and, Hydra Water Software, £0.007m.

  - The current IRMP and appraisal training commitments required a £0.132m draw-down from the training reserve.

    - Ongoing support for community projects, £0.069m, and energy conservation schemes, £0.011m, meant a further £0.080m draw-down from reserves.

- A number of grant and externally funded initiatives are only built into the budget during the year once the level of 2023/24 funding is known. External grant income of £0.164m to cover End Point Assessments training costs funded by the apprenticeship levy, £0.100m, protection costs funded from the protection uplift grant, £0.044m, other small increases in expenditure lines funded by small grant increases, £0.020m.

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

8. **The net budget requirement remains at £67.921m, which is consistent with the original budget**. Appendix A1 – A3 outline the budget movements in the quarter.

9. Update on Budget Assumptions and forecast actual expenditure.

10. The key budget assumptions for 2023/24 are:

    - Annual pay awards of 5%, and
    - Price inflation - general price increases of 4% to 5%; outsourced contracts increases of 10%, and energy and utility costs remaining at the 2022/23 rates, and
    - No significant unplanned growth pressures beyond those built into the MTFP.

11. **Annual Pay awards of 5%;**
    The Local Government staff 2023/24 pay offer is currently a £1,925 fixed sum or 3.88% (whichever is the highest), this would equate to a +**6% increase** on the green/red book staff employee budget. This would exceed the budget forecast by approximately £0.140m. The trade unions are currently consulting with their members on the offer. The impact of the pay award will only be known once the pay award has been accepted by the employees, and it will then be reported back to Members in a future financial review report. If the settlement cannot be contained within the overall employee and inflation provision, then officers would draw-down funds from the inflation reserve to cover the 2023/24 impact. The ongoing financial implications will be considered as part of the 2024/25 budget process.

    The 2023/24 firefighters pay award has been agreed and is consistent with the 5% budget assumption.

12. **Non-pay inflation;**
    The latest forecasts indicate 2023/24 non-pay inflation can be contained within the inflation provision.

13. **Unforeseen Growth;**
No 2023/24 unavoidable growth has been identified in the quarter.

14. The following paragraphs consider the September forecast revenue outturn position and potential variances;

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

The latest uniform employee forecast indicates a small potential **underspend of £0.250m** against the budget due in part to the current FBU ban on overtime. Depending on the current dispute being settled and future retirements the level of underspend may rise during the year.

The non-uniform establishment forecast indicates a **£0.250m favourable variance** due to staff recruitment and retention problems.

II. **Non-Employee Costs and Income;**
All other spend and income is expected to be consistent with the approved budget.

15. Overall, the latest forecast has identified a favourable net revenue variance of £0.500m. The Director of Finance and Procurement would recommend that Members' approve that the £0.500m favourable variance be used to fund an increase in the revenue contribution to capital outlay, and this will marginally lower the required level of capital borrowing in 2023/24. The table below summarises the year-end forecast position based on spend to the end of September 2023:

Anticipated Year End Revenue Position (excl. National Resilience)

	TOTAL BUDGET	ACTUAL as at 30.09.23	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	57,372	27,788	56,872	-500
Premises Costs	3,380	1,681	3,380	0
Transport Costs	1,333	710	1,333	0
Supplies and Services	3,554	1,600	3,554	0
Agency Services	6,765	3,300	6,765	0
Central Support Services	640	385	640	0
Capital Financing	18,890	0	18,890	0
Income	-14,508	-10,168	-14,508	0
Net Expenditure	77,426	25,296	76,926	-500
Contingency Pay&Prices	1,796	0	1,796	0
Cost of Services	79,222	25,296	78,722	-500
Interest on Balances	-450	-328	-450	0
Movement on Reserves	-10,851	0	-10,851	0
Total Operating Cost	67,921	24,968	67,421	**-500**

16. The Director of Finance and Procurement will continue to monitor the position during the year to look to deliver savings to fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.

17. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. Two debtor accounts were written off in the quarter totalling £788.68 plus VAT as the service was likely to incur more costs than the value of the debt, in an attempt to recover the debt.

Capital Programme Position:

18. The last financial review report (CFO/038/23) approved a 5-year capital programme worth £60.464m. This has now been updated for scheme additions and changes during quarter 2 of £3.129m, as outlined below:-

    a. The Authority manages the national resilience asset refresh on behalf of the Home Office and receives 100% funding for the scheme. During the quarter £1.930m of planned asset refresh has been identified and built into the programme.

    b. At the September 2023 Community Safety and Protection Committee, Members' approved a scheme to introduce new technology and refurbish the SHQ Control Room (CFO/039/23). The scheme required a net increase to the current capital programme of £0.089m funded from the capital reserve.

    c. At the July Policy and Resources Committee, Members' approved an increase in the new TDA / station budget of £1.000m to fund a number of new additions to the scheme. The increase was funded from the capital reserve. In addition, the final planned capital reserve funding of £0.060m has been drawn-down in the quarter.

    d. New ICT hardware, £0.015m, and, replacement inflatable boats, £0.034m, both schemes will be funded from revenue budget contributions.

19. As the £3.129m increase is funded from specific resources (reserves, grant and revenue) the level of required capital borrowing remains unchanged at £43.732m.

20. The capital programme changes actioned in the quarter are summarised in Table below. The revised detailed capital programme is attached as Appendix B (Capital Programme 2023/24) and Appendix C (Capital Programme 2023/24 to 2027/28) to this report.

Movement in the 5 Year Capital Programme						
	Total	2023/24	2024/25	2025/26	2026/27	2027/28
Expenditure	£'000	£'000	£'000	£'000	£'000	£'000
Amendments to Approved Schemes;						
NRAT Asset Refresh	1,930.4	1,930.4				
Increase in New TDA / Station	1,060.0	1,060.0				
Fire Control refurbishment / ICT	89.0	89.0				
New ICT equipment & Replacement Boats	49.2	49.2				
	3,128.6	**3,128.6**	**0.0**	**0.0**	**0.0**	**0.0**
Funding						
Revenue Contribution to Capital Outlay (RCCO)						
New ICT equipment & Replacement Boats	49.2	49.2				
Capital Reserve						
Increase in New TDA / Station & Fire Control	1,149.0	1,149.0				
Grant						
Home Office - NRAT	1,930.4	1,930.4				
	3,128.6	**3,128.6**	**0.0**	**0.0**	**0.0**	**0.0**

Use of Reserves:

21. The analysis in Appendix A4 outlines the reserve movements in the quarter. A £1.458m draw-down adjustment was required in the quarter as outlined in paragraph 7 of this report.

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

(B) Treasury Management

23. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period July to Sept 2023/24.

24. **Prospects for Interest Rates;**
The Bank of England (BoE) increased the Bank Rate from 5.00% in June to 5.25% in August, possibly reaching a peak in the tightening cycle.

In its latest monetary policy meeting on 20 September 2023, the Bank of England left interest rates unchanged at 5.25%. The August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the bank that it has already raised rates by far enough.

The growing drag from higher interest rates will intensify over the next six months, and the economy will most likely continue to lose momentum falling into mild recession.

The most recent forecasts now expect the Bank Rate to remain at the probable peak of 5.25% until the second half of 2024.

Rates are forecast to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and 50-year PWLB rates are currently forecast to stand at 3.90% by the end of September 2025.

PWLB rates for both long and short term borrowing have risen over the first half of the financial year, especially at the shorter end of the market where they remain volatile. The 1-year PWLB rate rose from a low of 4.65% on 6 April to a peak of 6.36% on 6 July. Longer term PWLB 50 year rates have risen from a low of 4.27% on 5 April to a peak of 5.43% on 22 August.

With current elevated borrowing rates, it may be advisable not to borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

25. **Capital Borrowings and the Portfolio Strategy;**
The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisages that new-long term borrowing of £12 million will be required in 2023/24. 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.

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Recent rises in longer term interest rates may provide more favourable debt rescheduling opportunities. Any rescheduling that takes place will be reported to members in monitoring reports.

26. **Annual Investment Strategy;**
The investment strategy for 2023/24 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DLUHC Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or part-nationalised banks and AAA rated money market funds has enabled reasonable returns in the current interest rate environment which has improved dramatically in the first half of 2023/24. In the period 1st July to 30 Sept 2023 the average rate of return achieved on average principal available was 5.14%. This compares with an average SONIA rate (Sterling Overnight Rate) of 4.73%.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2023/24 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
Ultra-Short Duration Bond Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

No limits on investments with the UK Government and Local Authorities have been set because they are considered to be of the highest credit quality and are essentially risk free. The limits placed on other categories reflect some uncertainty and marginally higher risk profile of the institutions within those categories.

The Authority had investments of £48.000m as at 30th September 2023, (this included a £30.5m firefighters' pension grant received on 26th July 2022 that will be utilised in the year):

ANALYSIS OF INVESTMENTS END OF QUARTER 2 2023/24

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Aberdeen Liquidity	AAA	3,000,000					4.85
Federated Investors UK (Overnight)	AAA	1,200,000					4.90
Legal & General	A+	2,700,000					4.80
Morgan Stanley	A+	2,100,000					5.01
HSBC (MFRS Deposit Account)	A			500,000			1.67
Newcastle BS					1,000,000		5.90
Birmingham CC						3,000,000	4.45
Central Bedfordshire Council						3,000,000	5.37
Cheshire East Council						3,000,000	5.38
Cornwall Council						3,000,000	5.40
Derby City Council						3,000,000	5.40
Eastleigh Borough Council						3,000,000	5.40
Lancashire CC						2,000,000	2.10
London Borough of Barking & Dagenham						3,000,000	5.20
North Lanarkshire						2,000,000	3.90
Rushmoor Borough Council						3,000,000	4.00
Suffolk County Council						3,000,000	5.33
Uttlesford District Council						1,500,000	5.40
Wakefield Council						3,000,000	5.21
Wyre Forest DC						2,000,000	2.00
Totals		**9,000,000**	**0**	**500,000**	**1,000,000**	**37,500,000**	**4.58**
Total Current Investments						**48,000,000**	

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

27. **External Debt Prudential Indicators;**

The external debt indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £79 million

Operational boundary for external debt: £66 million

Against these limits, the maximum amount of debt reached at any time in the period 1 July to 30 Sept 2023 was £33.7 million.

28. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the period 1 July to 30 Sept 2023 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1st July to 30 Sept 2023 was as follows: -

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

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

The limit for investments of longer than 365 days was set at £2 million for 2023/24. One investment of £2m has been placed during 2023/24.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

32. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

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

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

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

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

BACKGROUND PAPERS

CFO/063/22 "MFRA Budget and Financial Plan 2023/2024-2027/2028" Authority 23rd February 2023.

CFO/038/23 "Financial Review 2023/24 – April to June" Community and Safety Committee 6th September 2023.

GLOSSARY OF TERMS

MTFP Medium Term Financial Plan

TDA Training & Development Academy

PWLB Public Works Loans Board