MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	**POLICY AND RESOURCES COMMITTEE**		
DATE:	**12 DECEMBER 2024**	**REPORT NO:**	**CFO/69/24**
PRESENTING OFFICER	**DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA**		
RESPONSIBLE OFFICER:	**DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA**	**REPORT AUTHOR:**	**DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA**
OFFICERS CONSULTED:	**STRATEGIC LEADERSHIP TEAM**		
TITLE OF REPORT:	**FINANCIAL REVIEW 2024/25 - JULY TO SEPTEMBER**		

APPENDICES:	**APPENDIX A1:**	**REVENUE BUDGET MOVEMENTS SUMMARY**
	APPENDIX A2:	**FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A3:	**CORPORATE MANAGEMENT REVENUE BUDGET MOVEMENTS**
	APPENDIX A4:	**BUDGET MOVEMENTS ON RESERVES**
	APPENDIX B:	**CAPITAL PROGRAMME 2024/25**
	APPENDIX C:	**APPROVED AUTHORITY CAPITAL PROGRAMME 2024/25 – 2028/29**

Purpose of Report

1. To review the revenue, capital, and reserves financial position for the Authority for 2024/25. 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 2024.

Recommendation

2. It is recommended that Members;

   a. approve the proposed revenue and capital budget alignments;
   b. approve the use of the forecast £0.800m savings to fund capital expenditure and reduce the level of borrowing,
   c. approve the use of the £2.783m Capital Investment Reserve to fund capital expenditure and reduce the level of borrowing, and
   d. instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2024/25 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 29th February 2024. The approved MTFP delivered a balanced budget for 2024/25 based on key budget assumptions around costs, in particular pay. This report updates Members on the 2024/25 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 £74.191m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between July and September 2024.

Capital:
The current 5-year capital programme has a planned total investment of £47.016m over the 2024/25 – 2028/29 period, of which £27.082m relates to 2024/25. During the quarter, the capital programme planned spend has increased by £4.979m in 2024/25, this takes into account an increase of £7.088m relating to Home Office funded National Resilience assets, virements of £0.087m from Revenue Contribution to Capital Outlay (RCCO) / Capital Reserves, less slippage identified at Q2 into future years of £2.196m. The increase in capital spend is fully funded from specific resources. The overall capital borrowing requirement has reduced by £1.1m due to increase in capital receipts. 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 £3.700m. 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 2024/25, (July – September 2024).

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 – 2024/25

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 £95K. £71k drawdown from Capital Investment Reserve for additional security works at the Training & Development Academy (approved by the Policy and Resources Committee meeting in July 2024 – CFO/52/24 Revenue and Capital Outturn 2023/24 Report), £13K drawdown from Capital Investment Reserve for development work on the Community Fire Risk Management Information System and £11K drawdown from IT/Equipment Reserve for an ICT consultancy/research project into ICT outsourcing/insourcing.

    - A £1.045m drawdown from the Contingency/Inflation Provision to cover the Firefighters annual pay award (3% budgeted drawdown)

    - Other self-balancing virements to cover small adjustments within Green Book Staff and non-employee budget lines.

8. **The net budget requirement remains at £74.191m, 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 2024/25 are:

- Annual pay awards of 3%, and
- Price inflation - general price increases of 3% to 4%; outsourced contracts increases of 6.7%.
- No significant unplanned growth pressures beyond those built into the MTFP.

11. **Annual Pay awards:**
As previously reported in the Financial Review 2024/25 (April to June - report CFO/56/24), the 2024/25 budget assumed a Grey book (Firefighters) pay award of 3%. The 2024/25 Firefighters pay award has been agreed at 4% and this is higher than the 3% included as the budget assumption for 2024/25. This exceeded the budget forecast by approximately £340k in 2024/25 and £450k in 2025/26.

The 2024/25 budget assumed a Green/Red book pay award of 3%. The Local Government staff 2024/25 pay offer is currently a £1,290 fixed sum on all National Joint Council (NJC) pay points 2 to 43 inclusive and 2.5% on all pay points above 43. This is the equivalent to 5.7% on point 2 and 2.5% on point 43. For MFRS this would exceed the green/red book employee budget by approximately £40k. 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.

It is anticipated that the settlement will be contained within the overall employee budget. The ongoing financial implications will be considered as part of the 2025/26 budget process.

12. **Non-pay inflation;**
The latest forecasts indicate 2024/25 non-pay inflation can be contained within the inflation provision.

13. **Unforeseen Growth;**
Other than the annual pay awards referenced in section 11, no 2024/25 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 Firefighter employee forecast indicates a small potential **underspend of £0.150m** due to a number of roles being paid out of grant income and a number of personnel not being at the top of the grade.

The non-uniform establishment forecast indicates a **£0.350m favourable variance** due to staff recruitment and retention issues and a number of staff not being at the top of the grade.

II. **Non-Employee Costs and Income;**
It is anticipated that the contributions from the Merseyside Pension Fund - Local Government Pension Scheme (LGPS) relating to non-uniformed and fire control roles, is expected to result in a higher refund rate when compared to the current budget. The forecast indicated a **£0.300m favourable variance**.

15. Overall, the latest forecast has identified a favourable net revenue variance of £0.800m. The Director of Finance and Procurement would recommend that Members approve that the £0.800m favourable variance be used to fund an increase in the revenue contribution to capital outlay, and this will lower the required level of capital borrowing in 2024/25. The table below summarises the year-end forecast position based on spend to the end of September 2024:

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

	TOTAL BUDGET	ACTUAL as at 30.09.24	FORECAST	VARIANCE
	£'000	**£'000**	**£'000**	**£'000**
Expenditure				
Employee Costs	63,267	31,412	62,467	-800
Premises Costs	4,104	1,540	4,104	0
Transport Costs	1,456	741	1,456	0
Supplies and Services	3,596	1,299	3,596	0
Agency Services	7,278	3,208	7,278	0
Central Support Services	701	285	701	0
Capital Financing	7,988	0	7,988	0
Income	-15,177	-9,812	-15,177	0
Net Expenditure	73,213	28,673	72,413	-800
Contingency Pay&Prices	953	0	953	0
Cost of Services	74,166	28,673	73,366	-800
Interest on Balances	-300	-693	-300	0
Movement on Reserves	325	0	325	0
Total Operating Cost	74,191	27,980	73,391	**-800**

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. No debtor accounts were written off in the quarter.

Capital Programme Position:

18. The last financial review report (CFO/56/24) approved a 5-year capital programme worth £47.016m. This has now been updated for scheme additions and changes during quarter 2 of £7.174m, 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 a total of £7.088m of planned asset refresh has been identified. £6.963m is to fund the Urban Search and Rescue asset refresh.

    b. The additions also include new ICT hardware, £0.015m, operational drone £0.001m and an additional £0.071m, as agreed by the Authority to fund additional security measures at the new Training and Development Academy (Revenue and Capital Outturn 2023/24 Report (CFO/52/24). Schemes will be funded from RCCO and the capital investment reserve.

    c. Two ICT schemes have been rephased into 2025/26. The ICT Hardware scheme and ICT Network schemes have been rephased into 2025/26 (£0.1m and £0.040m) respectively.

    d. Operational equipment purchases (£0.281m) have been rephrased into 2025/26 due to procurement processes expected to take place in the 2025/26 financial year.

    e. Several vehicle schemes have (£1.775m) have been rephased into future years.
        - Fire appliances – £1.160m. 4 fire appliances have been rephased from 2024/25 into future years and 1 fire appliance has been brought forward from 2027/28 to 2026/27. Therefore, 6 Fire appliances are expected in 2025/26, 3 are expected in 2026/27 and 3 are expected in 2027/28. The Electric fire appliance has been rephased from 2025/26 to 2026/27.
        - Special vehicles – £0.300m. Breathing apparatus POD (£250k) has been rephased from 2024/25 into 2025/26 and the initial expenditure on the Incident Command Unit (£50k) has been slipped into 2025/26.
        - Ancillary vehicles - £0.315m. A number of cars and mini-buses have been rephased from 2024/25 to 2025/26 to allow for an exercise to be completed on future requirements.

19. The capital programme changes actioned in the quarter are summarised in Table below. The revised detailed capital programme is attached as Appendix B (2024/25 Capital Programme) and Appendix C (2024/25–2028/29 Capital Programme) to this report.

Movement in the 5 Year Capital Programme						
	Total	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amendments to Approved Schemes;						
Scheme re-phasing	0.0	-2,196.4	710.4	1,806.0	-320.0	
NRAT Asset Refresh	7,088.4	7,088.4				
ICT Hardware/Drones	15.5	15.5				
TDA Build Capital Investment Reserve	71.0	71.0				
	7,174.9	**4,978.5**	**710.4**	**1,806.0**	**-320.0**	**0.0**
Funding						
Unsupported Borrowing						
Scheme Re-phasing	0.0	-2,196.4	710.4	1,806.0	-320.0	
Grant						
Home Office - NRAT	7,088.4	7,088.4				
Revenue Contribution to Capital Outlay (RCCO)						
IT003 - ICT Hardware	14.7	14.7				
OPS058 - Drones 0295	0.8	0.8				
Capital Reserve						
BLD019 TDA Build - CFO/52/24 Cap Inv Res	71.0	71.0				
	7,174.9	**4,978.5**	**710.4**	**1,806.0**	**-320.0**	**0.0**

Use of Reserves:

20. The analysis in Appendix A4 outlines the reserve movements in the quarter. A £95k draw-down adjustment was required in the quarter as outlined in paragraph 7 of this report.

21. The general revenue reserve has remained unchanged at £3.700m.

22. As previously advised, £0.974m was identified during the 2024/25 budget setting process as a contribution to the Capital Investment Reserve, to fund the Capital Programme inflationary pressures (CFO/13/24 MFRA Budget and Financial Plan 2024/25-2028/29). In addition, £1.809m was identified during the 2023/24 outturn process to offset capital cost pressures and reduce planned borrowing to free up revenue budget associated with debt servicing costs. (CFO/52/24 Revenue and Capital Outturn 2023/24). It is recommended the total of £2.783m is used to fund capital expenditure and reduce the level of borrowing.

(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 2024/25.

24. **Prospects for Interest Rates;**

The Bank of England (BoE) voted on the 1st August 2024 to cut the bank rate by 0.25% to 5%. This was the first cut in interest rates from the Bank of England after rates had been held at a 16-year high level of 5.25% for 12 months. The current anticipation is that the bank will continue to cut rates over the course of the next year, but perhaps with not the same regularity as was seen when interest rates increased.

The prospect of falling interest rates might provide some stimulus to the economy, however, with inflationary pressures remaining and considerable uncertainty in the global economy there remains risk to the economic outlook. The subsequent meeting of the Monetary Policy Committee was held 19th September and rates were maintained at 5% 2024. The next meeting is scheduled for 7th November 2024.

The Consumer Price Index (CPI) measure of inflation rose by 2.2% in the 12 months to August 2024, unchanged from July. While the current CPI measure remains slightly above the Bank of England's CPI target, the inflationary spike of recent times continues to be felt across the economy, with those increases factored into the base of the current CPI measure. The CPI measure had been anticipated to fall below target in the second half of 2024/25, however, with the recent increase in the energy price cap the latest forecast is for CPI to remain above target.

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.

The Public Works Loan Board (PWLB) certainty rate for borrowing is linked to Gilt yield plus a margin of 0.80%. Gilt yields and PWLB rates were on a generally declining trend throughout the first half of 2024/25 reaching a low point in mid-September. A reversal of this trend was seen in the final two weeks of September demonstrating that despite the general outlook for declining interest rates, markets never move in straight lines.

The table below shows the spread of interest rates during the first six months of the year:

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.78%	4.31%	4.52%	5.08%	4.87%
Date	17/09/24	17/09/24	17/09/24	17/09/24	17/09/24
High	5.61%	5.14%	5.18%	5.61%	5.40%
Date	29/05/24	01/05/24	01/05/24	30/05/24	30/05/24
30/9/24	4.95%	4.55%	4.79%	5.33%	5.12%
Average	5.24%	4.76%	4.88%	5.35%	5.13%

(figures include 20bps certainty rate discount)

Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase ‘investment assets primarily for yield’ in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.

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

The borrowing requirement comprises of the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisaged that new long-term borrowing of £8m would be required in 2024/25.

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. Any rescheduling that takes place will be reported to members in monitoring reports.

26. **Annual Investment Strategy;**

The investment strategy for 2024/25 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and a limit of £2m for investments with duration more than one year.

Investments have been made with various counterparties including UK and foreign banks with higher credit ratings, the larger building societies, “nationalised” banks and AAA rated money market funds. This diversity has enabled reasonable returns in the current interest rate environment in the first half of 2024/25. In the period 1st April to 30th September 2024 the average rate of return achieved on average principal available was 5.13%. This compares with an overnight SONIA (Sterling Overnight Rate) rate of 5.12%.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2024/25 are as follow:

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
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

The Authority had investments of £54.2m at 30th September 2024 (this included a £36.342m firefighters' pension grant received in July that will be utilised in the year):

ANALYSIS OF INVESTMENTS END OF QUARTER 2 2024/25

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Blackrock-HERITAGE	AAA	3,000,000				5.07
CCLA Investment Management	AAA	3,000,000				5.13
Federated Investors UK (Overnight)	AAA	3,000,000				5.17
Goldman Sachs	A	200,000				4.98
Legal & General	A+	3,000,000				5.17
Morgan Stanley	A+	900,000				5.06
Goldman Sachs International Bank	A		2,000,000			5.22
HSBC (MFRS Deposit Account)	A		100,000			1.97
Lloyds Call Account	A		400,000			5.04
Lloyds Bank of Scotland	A		1,600,000			5.18
Blackpool Council					3,000,000	5.30
Bournemouth, Christchurch & Poole Council					3,000,000	4.87
Bradford Metropolitan District Council					3,000,000	5.25
Central Bedfordshire Council					3,000,000	4.90
London Borough of Haringey					3,000,000	5.20
London Borough of Waltham Forest					3,000,000	5.00
Medway Council					3,000,000	5.30
Mid Suffolk DC					3,000,000	5.00
Peterborough City Council					3,000,000	4.75
Reading Borough Council					2,000,000	4.75
Telford & Wrekin Council					3,000,000	5.20
Uttlesford District Council					3,000,000	4.95
West Berkshire District Council					2,000,000	5.15
Totals		**13,100,000**	**4,100,000**	**0**	**37,000,000**	**4.94**
Total Current Investments					**54,200,000**	

27. **External Debt Prudential Indicators;**

The external debt indicators of prudence for 2024/25 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £71 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 2024 was £33.7 million.

28. **Treasury Management Prudential Indicators;**

The treasury management indicators of prudence for 2024/25 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 2024 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 2024 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 2024/25. No such investments were made in the first half of 2024/25.

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 and Health & Safety Implications

33. There are no risk management and health & safety implications directly related to this report.

Environmental Implications

34. There are no 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.

35. 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 Vision.

BACKGROUND PAPERS

CFO/13/24 "MFRA Budget and Financial Plan 2024/25-2028/29" Authority 29th February 2024.

CFO/52/24 "Revenue & Capital Outturn Report 2023/24" Policy & Resources Committee 25th July 2024.

CFO/56/24 "Financial Review 2024/25 – April to June" Community and Safety Committee 5th September 2024.

GLOSSARY OF TERMS

BOE Bank of England

CIPFA Chartered Institute of Public Finance and Accountancy

CPI Consumer Price Index

LGPS Local Government Pension Scheme

MHCLG Ministry of Housing, Communities and Local Government

MTFP	Medium Term Financial Plan
NJC	National Joint Council
NRAT	National Resilience Assurance Team
TDA	Training & Development Academy
PWLB	Public Works Loans Board
RCCO	Revenue Contribution to Capital Outlay