MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUTHORITY BUDGET MEETING		
DATE:	27 FEBRUARY 2014	REPORT NO:	CFO/011/14
PRESENTING OFFICER	DEPUTY CHIEF EXECUTIVE		
RESPONSIBLE OFFICER:	KIERAN TIMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:			
TITLE OF REPORT:	MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2014/2015 – 2018/2019		

APPENDICES:		
	APPENDIX A(1):	DRAFT SUMMARY REVENUE BUDGET ANALYSIS
	APPENDIX A(2):	DRAFT DETAILED REVENUE BUDGET ANALYSIS
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2014/15 – 2018/19 SUMMARY
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Purpose of Report

1. To present information to allow Members to set a medium term financial plan – both capital and revenue – that allocates resources in line with the Authority's strategic aims and ensures that the Authority delivers an efficient, value for money service. This will also allow the Authority to determine a budget for 2014/2015 and a precept level in line with statutory requirements.

Recommendation

2. That Members; Members consider this report and proposed budget and:-

    a. Note the 2014/15 service budgets set out in the report.

    b. Endorse the Deputy Chief Executive's recommendation on maintaining the current level of general fund balance, £2.894m, and maintaining the reserves as outlined in Paragraph 19 to 22 of this report

c. Endorse the proposal to increase the precept by just below 2%, raising the Band D precept from £68.70 to £70.07 and confirm the strategy for future precepts rises (the plan assumes 2% in each year thereafter).

d. Approve the £6.300m saving plan outlined in Appendix C.

e. Endorse the assumptions in developing the 2014/15 – 2018/19 Financial Plan outlined in the report and approve the Medium Term Financial Plan in Appendix D and the 2014/15 budget estimate of £64.356m

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

g. Approve the Minimum Revenue Payment (MRP) strategy for 2014/15 as outlined in Paragraph 97 of this report

h. Note the prudential indicators relating to the proposed capital programme, paragraph 107 to 111 of this report

i. Approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in paragraph 141 – 148 of this report for:-

- External Debt
- Operational Boundary for Debt
- Upper limits on fixed interest rate exposure
- Upper limits on variable rate exposure
- Limits on the maturity structure of debt
- Limits on investments for more than 364 days

j. Note that recommendations f. to i. above provide an approved framework within which officers undertake the day to day capital and treasury activities.

Introduction and Background

Information

3. The Authority is required to determine its budget and precept level for 2014/2015 by 1st March 2014.

4. 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. *Savings and Growth Options*
   d. *The Treasury Management Strategy*
   e. *The Minimum Revenue Payment Policy for the Authority*

5. 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 planning

6. The following report structure will be adopted:-

A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1st March 2014.

8. The budget and financial plan should allocate resources in line with the Authority's Mission and aims:-

   Our Mission:
   To Achieve; Safer, Stronger Communities - Safe Effective Firefighters

   Our Aims:
   Excellent Operational Preparedness
   Excellent Operational Response
   Excellent Prevention and Protection
   Excellent People

9. As a starting point for this budget and financial plan members will recall that they set a balanced budget and plan for two years (2013/14- 14/15) The key elements of that plan based on the best information at that time were:-

   - The reduction in fire appliances from 42 to 28, achieved by a reduction in Firefighter posts of 90 delivered by national turnover rates saving £3.1m

   - Reduction in support staff numbers by 57 and overall support costs by £2.3m

   - Technical and income savings of £4.7m

10. The Government has now announced the settlement funding for 2014/15 and indicative estimate for 2015/16. The grant settlement cut in 2014/15 is 7.6% (slightly higher than anticipated last year) and the indicative figure for 2015/16 is a cut of 8.5%. This is equivalent to a further £3.5m grant cash cut by 2015/16.

11. A draft 5 year financial plan has been prepared using the latest information and the following key assumptions:

    - Annual increases in council tax of (fractionally below) 2%.
    - A pay bill increase of 1% in 2014/15 and 2% thereafter (in line with the Treasury medium term inflation targets of 2% per annum). The pay bill includes all pay related costs including pension contributions and national insurance.)
    - 2% per annum General Price Inflation
    - Allowances for the costs of funding the proposed capital programme
    - That government funding cuts will continue beyond 2015/16 in a profile broadly similar to that which has been applied over the spending review period since all major political parties have committed to eliminate the national deficit by 2020.

12. The report considers three possible scenarios:-

1) <u>Just 2014/15 Budget</u>
This identifies that (if the Authority set a precept increase at just below 2% no further savings would be required to set a balanced budget for just 2014/15 .

Whilst the Authority might take a view that they only need to set a budget for 2014/15 it seems abundantly clear from the current economic position and the stated intent of all political parties that there will be significant ongoing reductions in public expenditure beyond 2014/15. Indeed the grant cuts and some of the increased pensions cost increases have already been firmly announced. It is therefore recommended that the Authority takes a longer term view and establishes a mid-term financial plan based on, at least, the confirmed financial announcements.

2) <u>Scenario Based on Confirmed Announcements to date</u>
This identifies a two year deficit to the end of 2015/16 of £6.3m.

These known changes significantly impact on the current financial plan and require an additional £6.300m of savings to be identified.

It should be noted that because:-

- **this forecast is based upon confirmed government announcements only**
- **All political parties have committed to honour financial decisions already made and to on-going efforts to reduce the UK deficit**

<u>this is regarded as the minimum position the Authority should reasonably plan for in the mid-term. It is recommended the Authority formulate a plan to deal with at least this level of financial challenge with scalable options to meet even higher deficits if required</u>

3) <u>Forward look based on assumptions about future Grant Cuts</u>
The Government has announced that the current austerity period is now likely to continue beyond 2015/16 and has committed to ongoing cuts in public expenditure until the UK deficit is eliminated by 2020.

Whilst there is a general election in 2015/16 the Labour party have also committed to eliminate the UK deficit by 2020.

A number of bodies have attempted to model what this might mean for local government including the Institute for Fiscal Studies and the LGA, particularly if any future government maintains current arrangements to protect large elements of the public sector from expenditure cuts.

This scenario assumes the recent government funding reduction profile will continue up to 2018/19 and perhaps beyond. After allowing for inflation increases at 2% p.a the Authority might face a deficit of as much as £20m by 2019/20 as shown in the table at the end of this section **(NB table runs only for five years to 2018/19).**

Whilst to a degree any such longer term forecast is necessarily speculative what seems clear is that there are likely to be ongoing budget reductions. In its financial planning the Authority needs to be mindful of longer term pressures and develop a scalable model which can be extended whatever the future financial pressures.

Conclusion

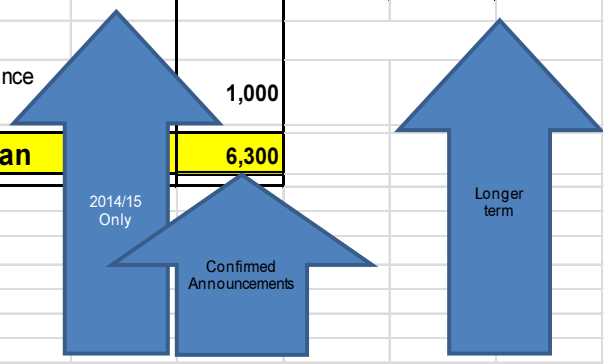
13. **It is recommended that the Authority develops a firm plan to deal with the £6.300m forecast deficit based upon confirmed announcements up to the end of 2015/16**

    Whilst there is considerable uncertainty about the detailed position beyond 2015/16 the Government (and possible successors) has been very clear that there will be ongoing cuts in public spending until possibly 2020. This is likely to result in further government funding cuts requiring savings.

The table overleaf summarises the financial scenarios:-

2014/15 - 2018/19 DRAFT MTFP

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
FORECAST NET EXPENDITURE					
2013/14 Base Budget	66,721	66,721	66,721	66,721	66,721
Approved changes to the base budget:					
Loss of 2013/14 Transitional Grant for LCC Council Tax Support	64	64	64	64	64
Adjustment to take out one-off SMG Reserve contribution (2013/14 only)	-100	-100	-100	-100	-100
Impact of Capital Programme / Funding Changes:	900	1,255	1,565	1,765	1,765
Inflation	800	2,075	3,500	5,000	5,000
2013/14 Saving Options Full Year Impact					
Income PFI Stations	-25	-25	-25	-25	-25
Workshops income	0	-100	-100	-100	-100
Joint Control Room	-200	-200	-200	-200	-200
Phase 2 Proposed Cuts in Support Savings	-582	-632	-632	-632	-632
Phase 2 Proposed Cuts in Front Line Savings	-1,445	-2,795	-2,795	-2,795	-2,795
Use of Smoothing Reserve	-1,783				
2013/2014 Approved Financial Plan	**64,350**	**66,263**	**67,998**	**69,698**	**69,698**
2014/15 Issues					
The end of contracting out -start paying the standard rate of National Insurance contributions. Increase employer costs by 3.4 per cent.	0	0	1,000	1,000	1,000
LGPS Actuarial review, current benefits, employer rate from 11% to 13%, and potential increase in historic deficit payment currently c£0.8m	300	340	381	381	381
2018/19 Inflation Provison					1,500
New Sec 31 Grant to cover 2014/15 restricted NNDR increase	-190	-190	-190	-190	-190
New Sec 31 Grant to cover NNDR adjustments	-194				
Adjust Planned Drawdown from smoothing Reserve (original £1.783m)	90				
2014/15 DRAFT Financial Plan Net Expenditure Forecast	**64,356**	**66,413**	**69,189**	**70,889**	**72,389**
FUNDING					
Government Funding: Settlement Funding Assessment	**-40,693**	**-37,214**	**-34,487**	**-32,340**	**-30,674**
Anticipated Local Business Rate income from Districts	**174**				
Council Tax -					
Base Precept Income	-22,619	-23,430	-23,899	-24,377	-24,865
Council Tax Base (increase) / decrease	-355	0	0	0	0
Assume 2**% rise 2014/15 to 2018/19**	-458	-469	-478	-488	-497
Precept Income yield, rounding adjusmtment	2				
Collection Fund (surplus)/deficit	-407				
Forecast Council Tax Income	**-23,837**	**-23,899**	**-24,377**	**-24,865**	**-25,362**
Updated Income Forecast	**-64,356**	**-61,113**	**-58,864**	**-57,205**	**-56,036**
Forecast Net Position (surplus) / deficit	**0**	**5,300**	**10,325**	**13,684**	**16,353**
Known Government Tax Changes:					
For employers, the end of contracting out -start paying the standard rate of National Insurance contributions. Increase employee costs by 3.4 per cent **01.04.2016 Onwards**		**1,000**			
Recommended Saving Target for 2014/15 - 2018/19 Financial Plan		**6,300**			



14. The revenue position is considered in more detail in section G.

15. Section "H" of this report "Options for Tackling the Financial Challenge" considers how the Authority can deliver savings. Because of the savings and cuts to service already made the room for manoeuvre is small. Officers have identified all possible proposals from the back office and support services that might be available to minimise the impact on the front line. These total £2.900m

16. This means that £3.400m needs to be found from front line firefighting costs in order just to meet the forecast deficit of £6.3m based on announcements to date. This equates to about 100 Firefighter posts. The table below summarises the savings plan:-

	£'m
Technical	
Minimum Revenue Provision (MRP)& Interest Payable on loans	0.900
Non- Employee Inflation	0.125
Non-Employee Budget review	0.275
Staff Related	
Employee Vacancy / Incremental saving	0.200
Assume pay restraint in 2015/16. Currently provision for 2% pay/ Assume 1%?	0.500
Non Uniform Establishment	0.900
	2.900
Firefighter Savings	3.400
	6.300

17. The Chief Fire Officer has examined the options for delivering the operational savings required and mergers of stations are considered to be the "least worst option". This has been supported by initial public consultation.

18. The table overleaf summarises the financial plan that is recommended to the Authority:-

2014/15 - 2018/19 PROPOSED MTFP					
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
2014/15 Net Expenditure Forecast	**64,356**	**66,413**	**69,189**	**70,889**	**72,389**
Updated Income Forecast	**-64,356**	**-61,113**	**-58,864**	**-57,205**	**-56,036**
Forecast Net Position (surplus) / deficit	**0**	**5,300**	**10,325**	**13,684**	**16,353**
New £6.300m Savings Phasing:					
Back Office and Support Services					
Minimum Revenue Provision (MRP) & Interest Payable on loans	-750	-850	-900	-900	-900
Non Employee Inflation	-50	-75	-125	-125	-125
Non Employee Budget review	-150	-275	-275	-275	-275
Assume ay restraint in 2015/16. Currently provision for 2% pay/ Assume 1%	0	-400	-500	-500	-500
Employee Vacancy / Incremental saving	-200	-200	-200	-200	-200
10% saving on Non Uniform Establishment	0	-450	-900	-900	-900
One-Off saving from discount on LGPS deficit payment if Authority pay 2014/15 - 2016/17 in April 2014	0	0	0	0	0
By delivering some of the £6.3m ahead of schedule the amount of reserve drawdown can be reduced by £1.150m	1,150	0	0	0	0
Operational Response	0	-350	-3,000	-3,400	-3,400
Required Smoothing Reserve		-2,700	-400		
Savings Profile:	**0**	**-5,300**	**-6,300**	**-6,300**	**-6,300**
Future Financial Challenge	**0**	**0**	**4,025**	**7,384**	**10,053**

Reserves and Balances

19. In the light of the financial risks facing the Authority the Deputy Chief Executive has worked with Officers and Members to increase reserves in recent years. The latest financial review report CFO/010/14 identifies a 2013/14 forecast revenue underspend which will allow the Authority to increase its reserves by a further £1.5m. The current estimated reserves, before any adjustment for the 2014/15 financial plan, as at 31.03.14 is;

- Ringfenced Reserves (not available for general spend) £1.4m
- Earmarked Reserves (created to fund future projects or as a resource to meet some potential future spend) £19.9m
- General Fund Reserve (required to cover unexpected events) £2.9m

£24.2m

20. Approximately £19.9m of earmarked reserves might be seen as available, however £8.1m of this has already been committed to fund approved future capital or revenue spend that is built into the current financial plan with a further £1.9m being committed from options proposed in this plan. £1.8m is required to cover insurance and catastrophe risks leaving £8.1m of earmarked reserve to consider. Although this would appear relatively high it reflects the level of risk associated with the

current financial plan and the severity of cuts imposed on the Authority for 2014/15 and beyond. The £8.1m earmarked reserves are for;

	£'m
Smoothing Reserve	3.1
Severance Reserve	0.7
Recruitment Reserve	1.0
Capital Investment	0.9
Facing the future Challenge	0.8
Inflation Reserve	1.5
Other	0.1
	8.1

21. Based upon assumptions that;

- the Authority will adopt all the savings identified and their attendant risks, and
- that the Authority needs a buffer to give it time to make changes required, and
- in order to avoid compulsory redundancy if possible,

22. The Deputy Chief Executive recommends the Authority hold the £8.1m identified above in reserves at the start of the financial plan.

23. As previously stated this report identifies a number of potential risks in relation to the key assumptions in the medium term financial plan. If any of these assumptions vary then the forecast balanced budget position will be affected. Any resultant material deficit might result in the Authority having difficulty in maintaining its value for money principles and in particular avoiding compulsory redundancies.

24. Members should bear in mind that reserves and 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 District Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

Council Tax Increase

25. The proposed financial plan assumes a (just below) 2% council tax increase in 2014/15 and each year thereafter.

26. The Authority may choose to use a further precept increase to bridge the gap, however current legislation requires any increase above a threshold set by the Secretary of State must 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. For 2014/15 any proposed increase at or in excess of 2% or more will require such a referendum.

27. Alternatively the Authority might take-up the option of the council tax freeze grant in 2014/15. A (just below) 2% increase in the precept would yield £0.458m and a 1% council tax freeze grant is £0.290m, a variance of £0.168m.

28. The ready reckoners below show the impact of potential Council Tax increases.

Council Tax Increase			
	0%	2%	Change
Band D Tax	68.7	70.07	1.37
District Precept	£m	£m	£m
LIVERPOOL	6.3188	6.4448	0.126
WIRRAL	6.0309	6.1512	0.120
ST.HELENS	3.2093	3.2733	0.064
SEFTON	5.2894	5.3948	0.105
KNOWSLEY	2.1239	2.1663	0.042
	22.9723	23.4304	0.458
Council Tax Freeze Grant			0.290
Additional Income IF precept increased by 2%			0.168

Capital

29. The proposed 5 year capital programme is detailed in section C. The table below summarises the proposed investments which are mainly in the Authority's property, vehicle and ICT assets which total nearly £26.1million across the life of the programme.

Proposed Authority Capital Progamme for 2014/2015 - 2018/2019

Expenditure	Total Cost £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Building/Land	**7,684,500**	4,584,500	1,896,000	455,500	352,000	396,500
Fire Safety	**6,599,000**	1,481,000	1,281,000	1,279,000	1,279,000	1,279,000
ICT	**2,921,000**	656,000	652,000	531,000	556,000	526,000
Operational Equipment & Hydrants	**1,387,000**	844,000	57,000	352,000	67,000	67,000
Vehicles	**7,510,800**	2,472,200	1,383,800	1,543,800	1,212,000	899,000
TOTAL	**26,102,300**	**10,037,700**	**5,269,800**	**4,161,300**	**3,466,000**	**3,167,500**
Financing Available:	**Total**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Capital Receipts						
Toxteth Fire Station (Firefit Hub)	**250,000**	250,000				
Sale of 2 existing N-le-W LLAR properties	**275,000**		275,000			
Sale of LLAR house Cable Street, Formby	**350,000**	350,000				
Sale of Derby Road	**700,000**	700,000				
R.C.C.O./Reserves	**0**					
CFS alarm installation (salaries)	**3,650,000**	730,000	730,000	730,000	730,000	730,000
CFS alarm installation (FSD)	**250,000**	50,000	50,000	50,000	50,000	50,000
Capital Reserve to Museum	**75,000**	75,000				
Fire Risk Management in Residential Blocks (CFO/135/13)	**200,000**	200,000				
IT040 Analytical Tool CFS Work (Capital Reserve)	**50,000**	50,000				
BLD071 Station Refresh (CFO/102/13)	**400,000**	400,000				
Grant	**0**					
CLG General Capital Grant Allocation	**1,243,966**	1,243,966				
Dept. of Culture/Media/Sport (BA Telementary) (CFO/140/13	**133,000**	133,000				
Total Non Borrowing	**7,576,966**	**4,181,966**	**1,055,000**	**780,000**	**780,000**	780,000
Unsupported Borrowing	**18,525,334**	5,855,734	4,214,800	3,381,300	2,686,000	2,387,500
Total Funding	**26,102,300**	**10,037,700**	**5,269,800**	**4,161,300**	**3,466,000**	**3,167,500**

30. This capital programme has a borrowing requirement of £5.856 million in 2014/15 and £18.525 million across the whole life of the plan. The proposed borrowing is unsupported borrowing or prudential as Members will note that the Government no longer allocates any supported borrowing to fire and rescue authorities and therefore no longer builds any revenue grant funding support for new borrowing in the formula grant. This means all borrowing is prudential.

31. The Government has announced that the Authority may bid for transformation funding in 2015/16. It is anticipated that the Authority bid will be based on station mergers (the Authority has already been successful in bidding for capital grant of £1.770m for a new fire station at Prescot). At this stage no costs or funding for any station mergers have been included within the capital programme or financial plan.

32. The Authority needs to be mindful of the revenue costs of borrowing. There has been an increase in Authority debt levels in recent years as the Service needed significant capital infrastructure investment following a long period of restricted capital spend under previous capital control regimes. Current and future debt servicing costs as a consequence of the proposed capital programme have been built into the proposed financial plan. 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 (Section E).

Treasury Management

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 Deputy Chief Executive to manage investments and borrowings within.

34. The proposed strategy is set out in Section F and includes limits for the next three years on:-
    - Overall Level of External Debt
    - Operational Boundary for Debt
    - Upper limits on fixed interest rate exposure
    - Upper limits on variable rate exposure
    - Limits on the maturity structure of debt
    - Limits on investments for more than 364 days

Minimum Revenue Payment (MRP) Statement

35. 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 new 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 authorities to pay debt at a rate which it considers prudent.

36. The Deputy Chief Executive has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2014/15 and future years.

B) BACKGROUND INFORMATION

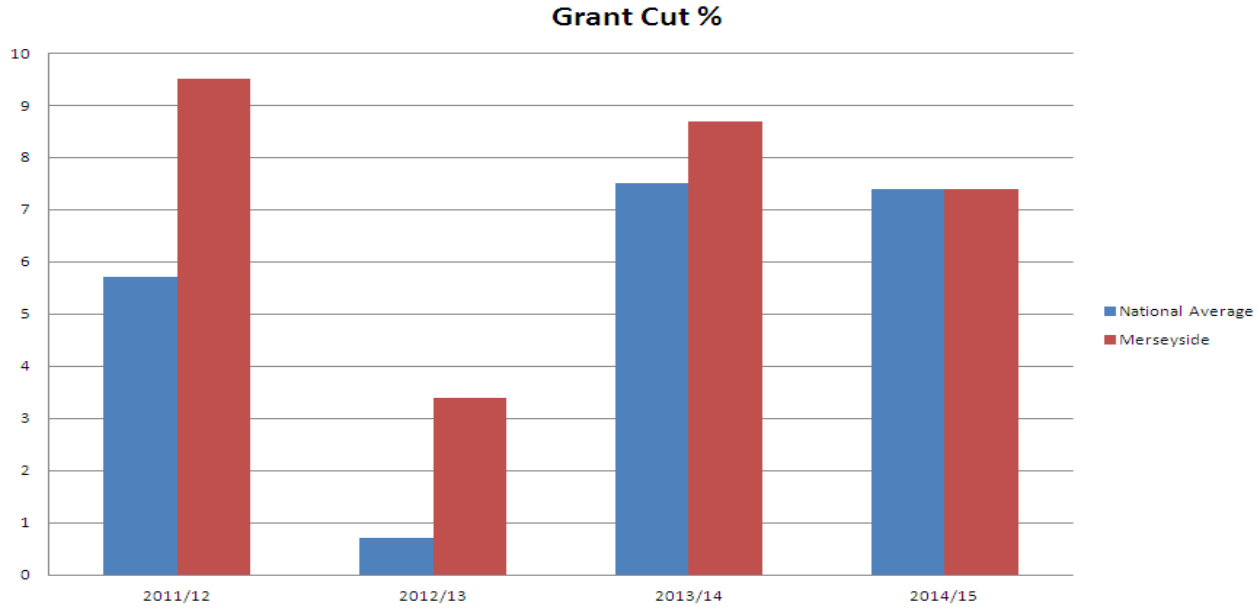
37. This section provides general financial information on the Authority's finances and financial health.

Corporate Strategy

38. 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 resource shortages.

39. For many years now the Authority has maintained a comprehensive five year financial plan and capital programme. In 2010 the new Government announced its spending review targets for 2011/12 – 2014/15, indicating that fire authorities faced a 25% reduction in government funding (equivalent to a cash reduction of 18%) over this period. The Government stated that at a national level the reduction would be back loaded for fire authorities.

40. **The overall grant cut for MFRA between 2011/12 – 2014/15 equates to a 26% reduction, compared to a national average grant cut of 19.9% over the four year period**, as shown in the table below:



41. The Authority has already approved plans to deal with the previously announced cuts up to 2014/15. In its latest announcements the Government has increased the cut to the 2014/15 figure and given indicative figures for 2015/16.

42. 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.

43. The Authority's IRMP states the main strategic themes that the Authority has been progressing and its plans for the future. The 2013/16 IRMP was agreed in June 2013 and remains current for 2014/15.

44. The Authority's key Mission and Aims as set out in the IRMP are repeated out below. Any financial plan should aim to allocate resources to deliver that mission and aims.

Our Mission;

To Achieve; Safer Stronger Communities - Safe Effective Firefighters

Our Aims;

Excellent Operational Preparedness

We will provide our firefighters with the training, information, procedures and equipment to ensure they can safely and effectively resolve all emergency incidents.

Excellent Operational Response

To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

Excellent Prevention and Protection

We will work with our partners and our community to protect the most vulnerable through targeted local risk reduction, health inequality intervention and the robust application of our legal powers.

Excellent People

We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

Is the Overall Strategy Working?

45. The Authority has achieved great success in its aims to make Merseyside a safer community over the last decade. Members receive detail on this excellent performance in a variety of formats but highlights include:-

- Becoming the first Authority in the world to visit 100,000 households in a single year to carry out Home Fire safety Checks (and approximately 700,000 visits in total have been carried out).

- Fitting approximately 800,000 smoke alarms.

- Significantly reducing the impact of antisocial behaviour during the bonfire period through effective joint working with partners. During the 2013 bonfire period Merseyside Fire and Rescue Service attended 213 deliberate secondary fires which makes it the quietest bonfire period on record with a 50% drop from 2012.

- Reducing fire deaths from an average of 20 in 1999 to 5, 5, and 6 respectively over the last 3 full years, (a +70% reduction).

- Reduced the total number of all types of fires and their impacts.

46. The table below summarises performance over the last decade:

Year	Accidental Dwelling Fires	Injuries in Accidental Dwelling Fires	Fatalities in Accidental Dwelling Fires	Anti Social Behaviour Fires
2003-2004	1612	171	9	18984
2004-2005	1470	173	11	12258
2005-2006	1456	155	11	11689
2006-2007	1336	126	8	12721
2007-2008	1286	69	9	10449
2008-2009	1302	107	9	7648
2009-2010	1299	117	8	7394
2010-2011	1199	137	5	6893
2011–2012	1196	131	5	6088
2012-2013	1136	128	6	3903
2013-2014 Q3	901	99	7	4506
Reduction between 2003/04 to 2012/13	-29.53%	-25.15%	-33.33%	-79.44%

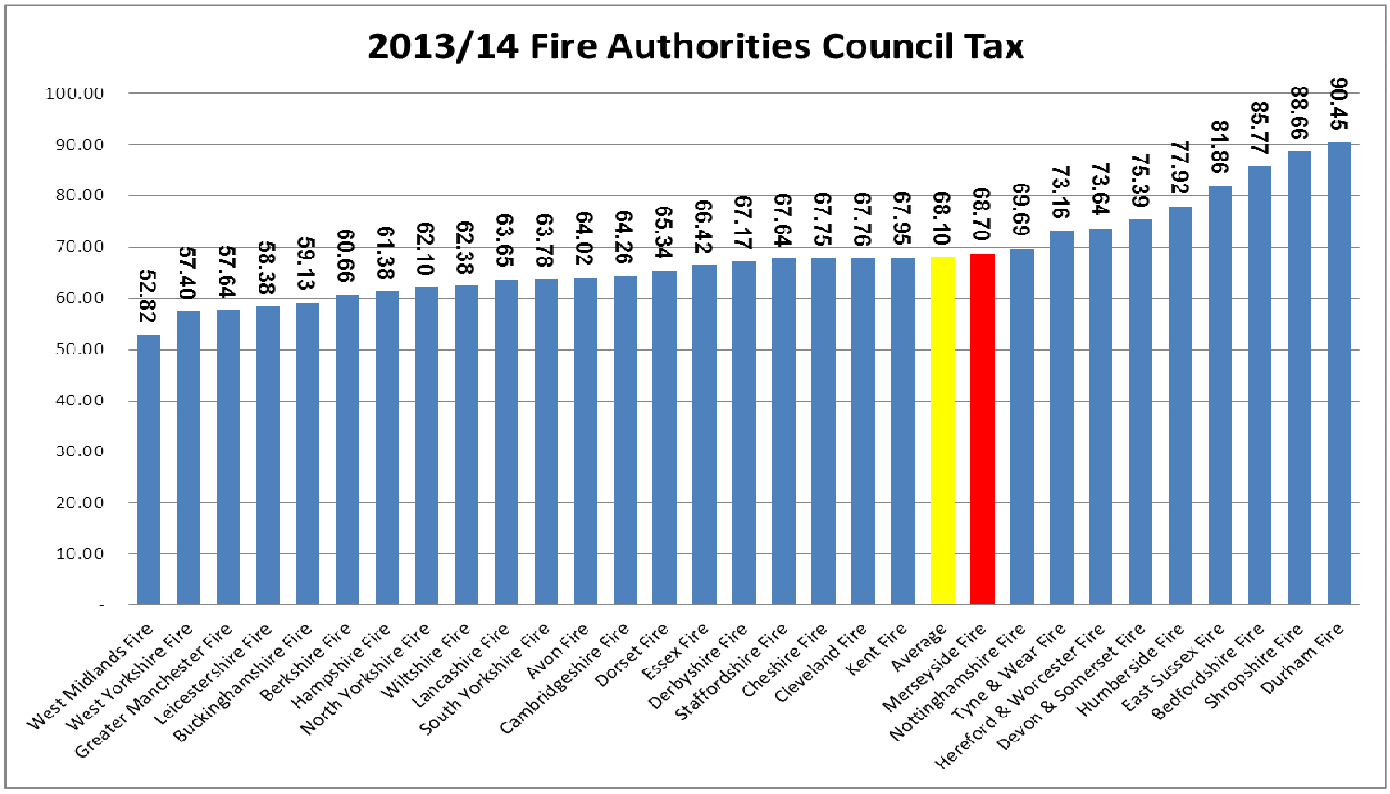
Financial Strategy and where are we now?

47. In recent years the Authority has adopted a financial strategy that:-

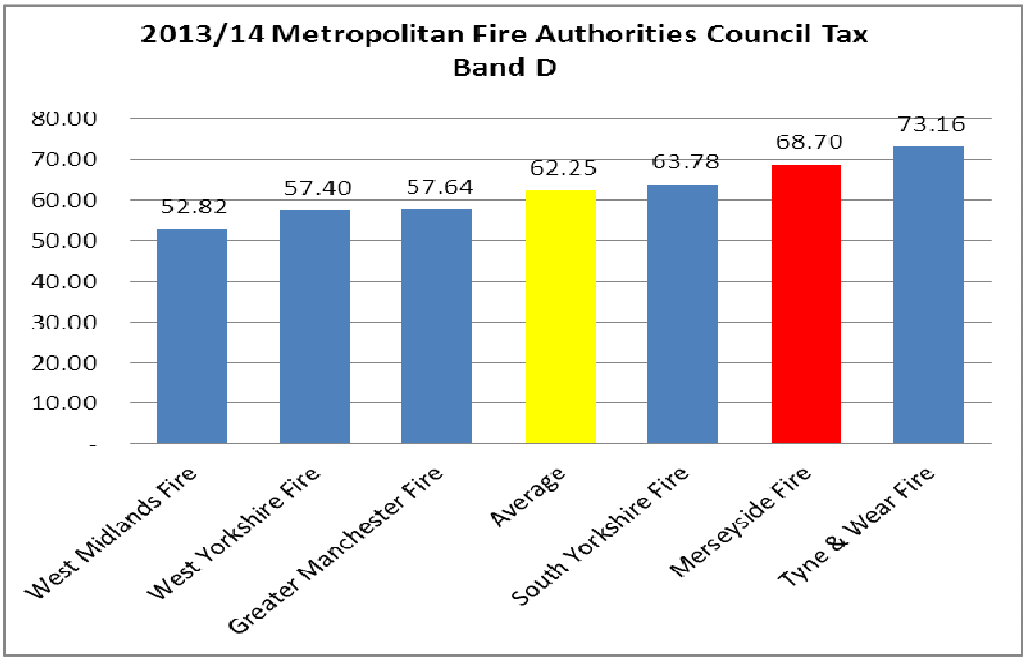
- Sought to control Council Tax increases,
- Planned for pay awards and cost increases in line with HM Treasury inflation forecasts,
- Recruited and trained employees to meet the Authority's high performance standards and budgeted for staff actually in post
- Sought to generate significant savings through staff reductions whilst avoiding compulsory redundancy
- Sought to minimise the impact of cuts on frontline services including prevention
- Made significant investment in IT and computing (including outsourcing)
- Provided further investment in equality and health and safety
- Attempted to plan prudently over the medium term by considering all significant risks to the assumptions in the financial plan and creating specific reserves if deemed necessary
- Maintained a general reserve of at least £2m following assessments of risk
- Because of pressures on revenue budget generally avoided funding capital expenditure from revenue through leasing or RCCO
- Invested in the capital infrastructure of the Authority in line with the Asset Management Plan, vehicle replacement strategies and corporate objectives.

48. These strategies have over recent history allowed the Authority to reduce cost and maintain relatively low levels of Council Tax increase despite very tight grant settlements.

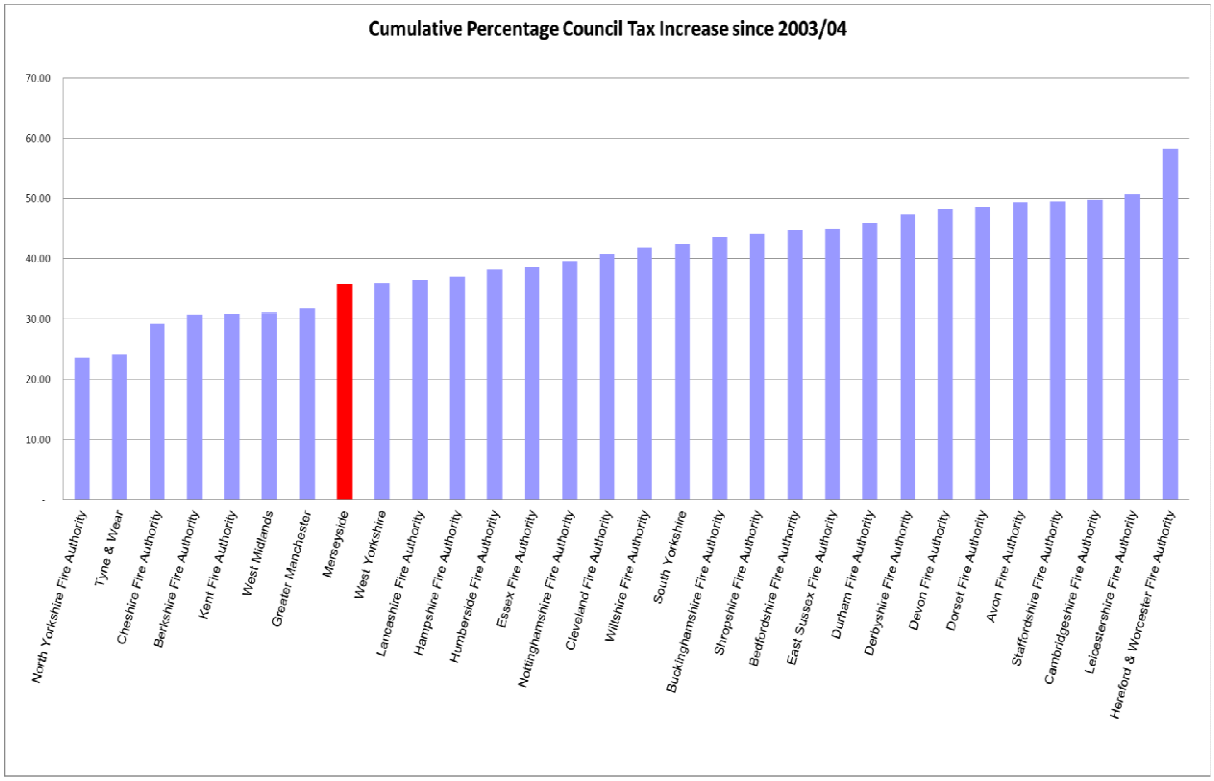
The Authority's 2013/14 (Band D) Council Tax is £68.70. This is slightly above the fire and rescue services national average (£68.10);



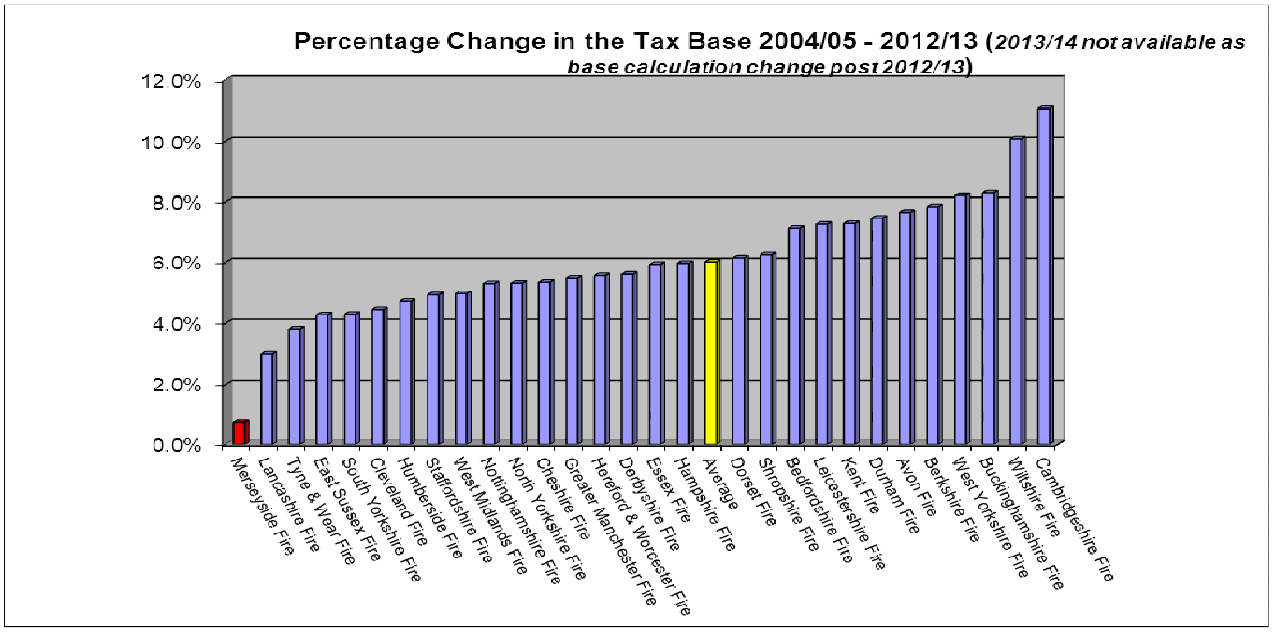
49. In 1996/97 Merseyside's Council Tax was more than 50% above the average of Metropolitan Fire Authorities. Now it is only 10.4% above the average of that group:



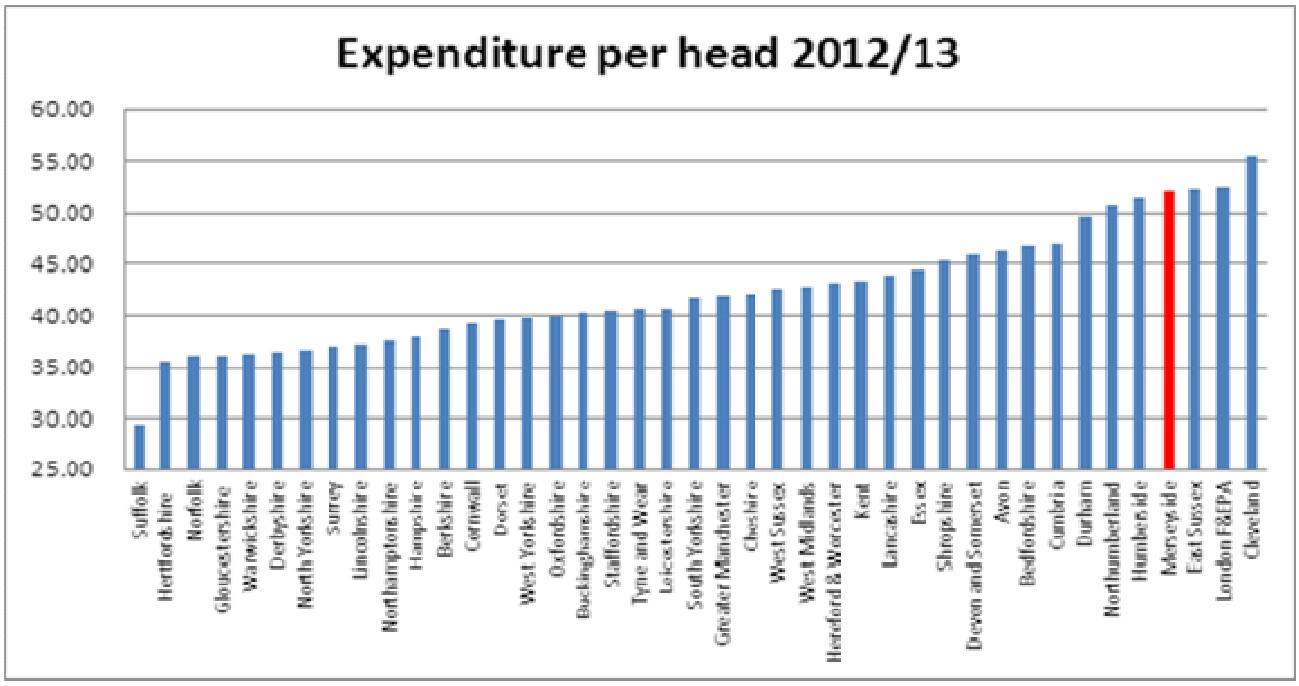
50. Over the past 10 years when compared to the other fire and rescue authorities Merseyside has had one of the lowest cumulative council tax increases:



51. 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 increased by only +0.7% against a national average of +6%. (n.b. *the criteria for the tax base was redefined from 2013/14 so equivalent figures post 2012/13 are not available*). The tax base reflects how much income is generated by £1 of "Band D" equivalent council tax. So if the tax base increases so does income increase, even if the council tax charge remains unchanged.



52. However, despite recent improvements it should be noted that we remain, in comparison to our peers, a relatively high spending authority on a direct expenditure per head basis.



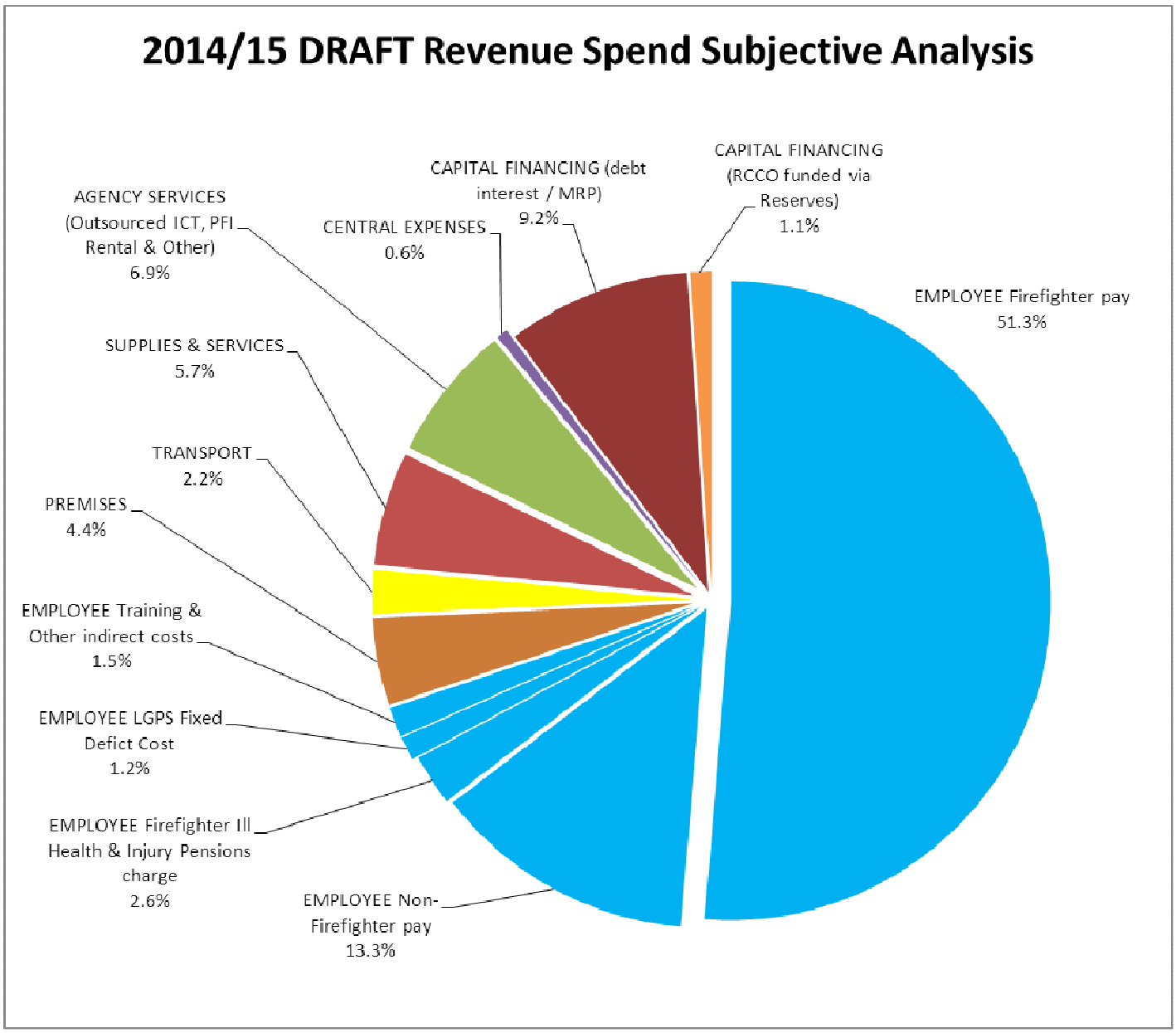
Overall Financial Health

53. The Authority has a proven track record for meeting significant financial challenges in the past. The Authority, as part of a risk based strategy, has built up reserves in recent years to provide a short term buffer whilst the Authority implements the business re-engineering to deliver the required savings on a permanent basis. The unprecedented reductions in Government funding will require difficult decisions but the Authority has a proven track record in managing its financial affairs well as can be seen in the following indicators:-

- Authority accounts 2012/13 audited without qualification once again.
- Annual Audit Letter highlighted general satisfaction with financial corporate governance and reporting arrangements.
- IRMP recognised as innovative.
- The Authority has maintained a general revenue reserve of at least £2.9m in recent years.
- Cost centre budgeting now well established along with a culture of financial management.
- Maintained a five year financial plan and capital programme and most importantly a consistent medium term strategy.
- Successfully delivered large-scale changes and savings

Current Allocation of Resources

54. Members will be aware that Fire and Rescue Service expenditure is predominantly employee related (approximately 70%) as is shown in the pie chart below. (The blue sections relate to employee costs)



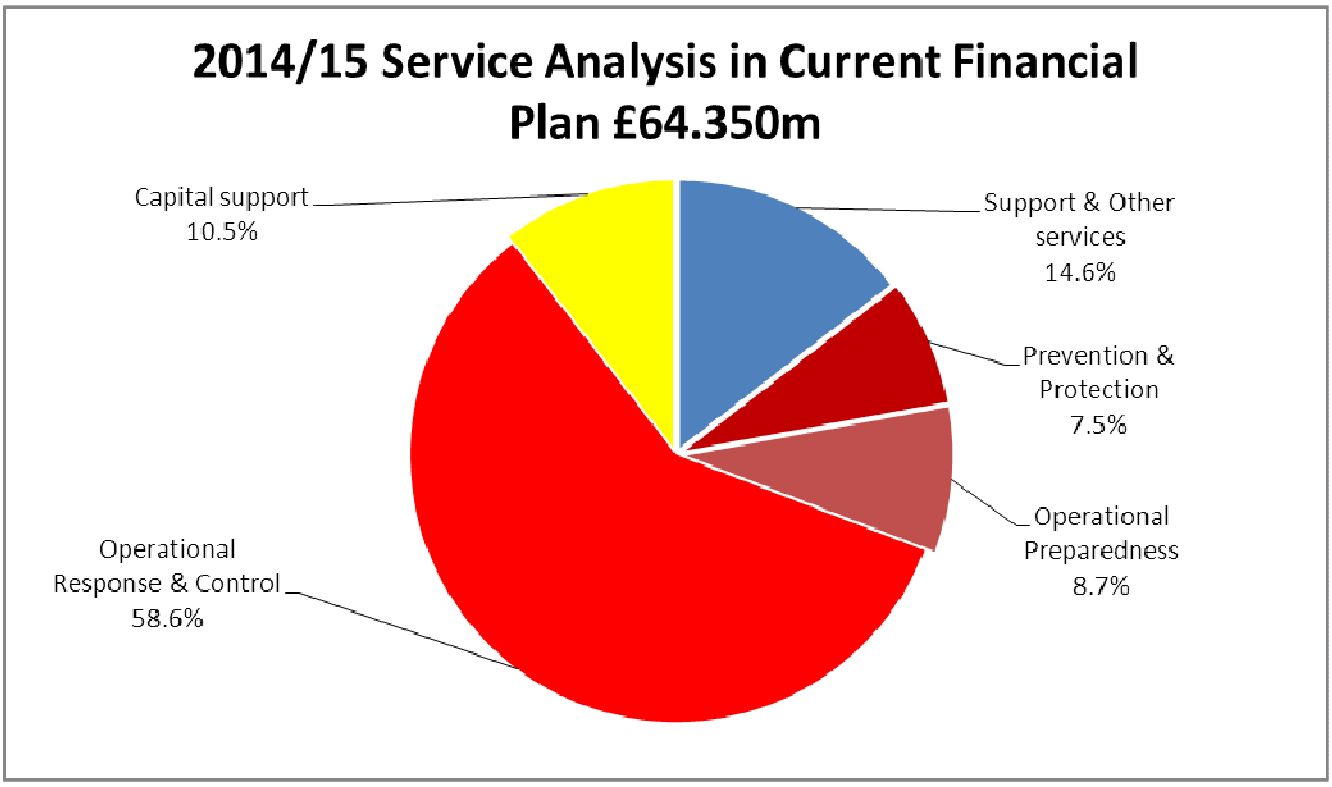
A full subjective analysis of the base budget for 2014/15 is set out in **Appendix A**

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 overleaf and is based upon the service's strategic objectives:

Allocation of Resources in line with Corporate Objectives

55. The Authority has an excellent track record of investing in line with its corporate priorities. It can be seen from the pie chart below that most expenditure 58.6% goes on emergency and specialist response. In addition 8.7% goes on Operational Preparedness and 7.5% on Prevention & Protection, and therefore over 74.9% of

expenditure is on the "front line" services. In addition the 10.5% on capital costs relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 14.6% is on support services.



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

Operational Response & Control (Total £38m)

- Service delivery and emergency response through its 26 fire stations.
- Specialist teams like Search and Rescue Team, Targeted Response Group, Hazmats Team and Search Dogs.
- Invested in staff safety – procured effective fire kit, helmets, boots and appliances.
- Invests £1.6m operating a training and development academy
- Invests £0.4m on the Incident Management Team.
- Deliver HFSC programme.
- Investing in new community fire stations.

Prevention & Protection (Total £5m)

- Protection Teams; £2.5m
- Prevention teams and youth engagement; £1.2m
- Purchase of £0.5m worth of smoke alarms per annum
- Fire Service Direct; £0.2m
- Employment of specialist Advocates continuation of the Princes Trust and other programmes; £0.2m
- Other specialist teams; Fireworks; Arson; Crime Prevention; £0.2m
- Invested in volunteers with the Fire Support Network; £0.2m
- Working with the private sector to deliver speedier restoration of property

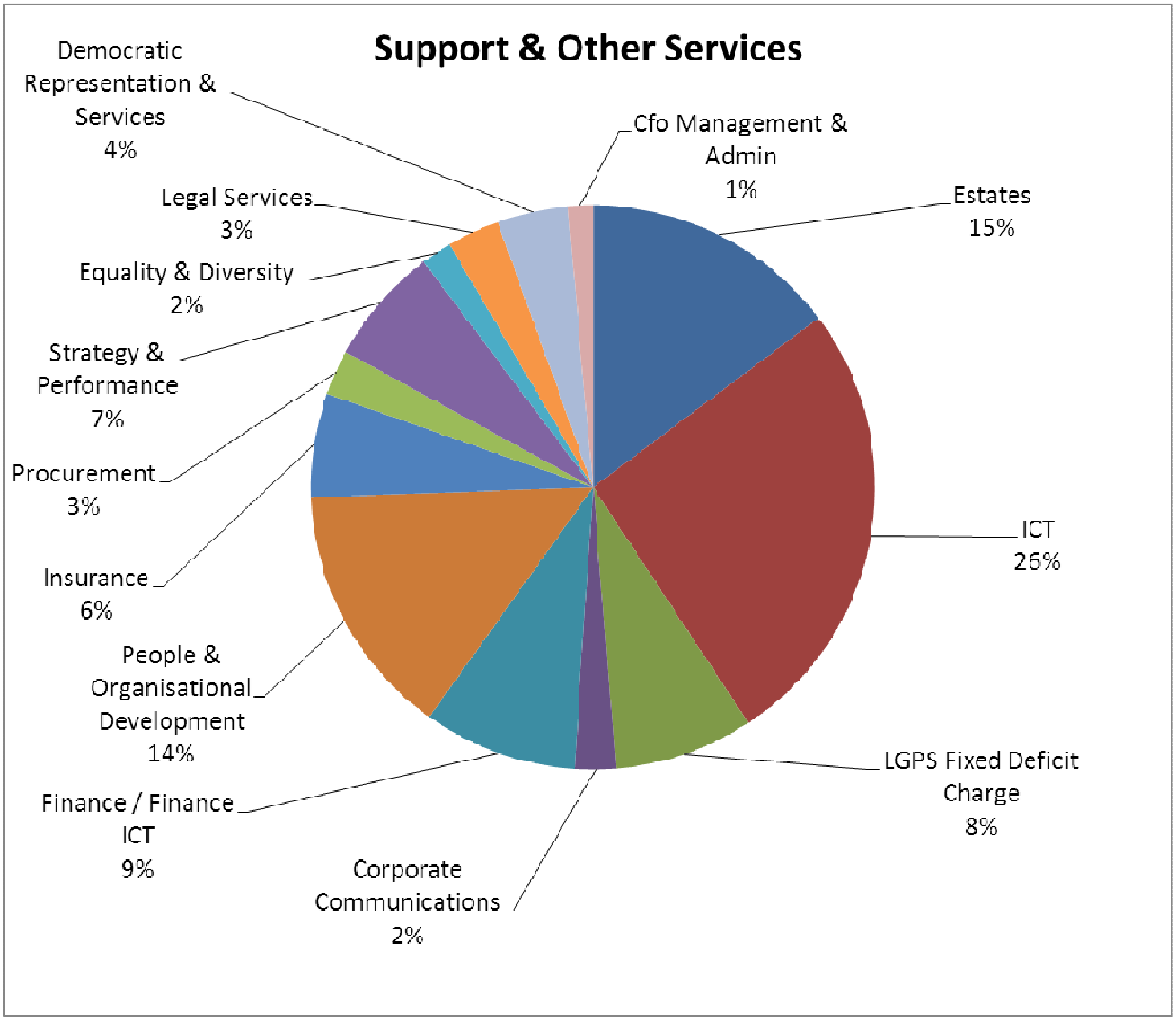
Operational Preparedness (Total £6m)

The investment of over £6m delivers a variety of services which helps prepare for a full range of possible incidents in Merseyside and ensure Firefighter safety.

- Operational Planning and Policy
- Contingency Planning
- New Dimensions (National Resilience) to cope with major disasters and terrorist threats
- Operational Equipment Team
- Water Section
- Health and Safety Department
- Transport/Fleet Management – to keep vehicles operating effectively
- Workshops
- Marine Rescue Unit to support the airport and safety on the river
- Standard Operating Procedure Review Team

Support Services & Other (Total £9m)

The investment in support services of £9m (14.6% of the budget) :



It should be noted that many of the services are key “front line” parts of a modern fire and rescue service. For example:-

- Estates – includes the running costs of buildings including 26 Community Fire Stations;
- ICT – includes the cost of the Mobilising Communications Centre;
- Occupational Health – to support staff and manage sickness

In addition some costs are unavoidable for any organisation;

- Insurance- to cover 3 party, vehicle and employer liabilities;
- Legal, Payroll, Accounting; Human Resources; Procurement etc. to support the organisation in paying its staff, suppliers, carrying out activities within the law and preparing statutory returns.

Also the cost of governance in relation to elected members is also contained within support and other costs.

C) CAPITAL PROGRAMME

56. 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 revenue budget and council tax considerations. ***The following sections C) to F) anticipate the Authority agreeing the proposed capital programme and financing review undertaken by the Deputy Chief Executive***.

Introduction

57. 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.

Prudential Code

58. 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.

59. 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.

60. 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.

61. 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.

62. 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.

Capital Investment Strategy .

63. Each financial year the Authority produces a 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.

64. 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 in the light of:-

- service requirements, and 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.

65. This has produced a five-year future capital programme proposal of £26.102m which is set out in the summary table below. This table also identifies funding of the programme and a resultant borrowing requirement of £18.525m. The full programme is set out in **Appendix B** (Appendix B (1) is the updated programme and Appendix B (2) the new additions to previously agreed programmes).

Proposed Authority Capital Progamme for 2014/2015 - 2018/2019

Expenditure	Total Cost £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Building/Land	**7,684,500**	4,584,500	1,896,000	455,500	352,000	396,500
Fire Safety	**6,599,000**	1,481,000	1,281,000	1,279,000	1,279,000	1,279,000
ICT	**2,921,000**	656,000	652,000	531,000	556,000	526,000
Operational Equipment & Hydrants	**1,387,000**	844,000	57,000	352,000	67,000	67,000
Vehicles	**7,510,800**	2,472,200	1,383,800	1,543,800	1,212,000	899,000
TOTAL	**26,102,300**	**10,037,700**	**5,269,800**	**4,161,300**	**3,466,000**	**3,167,500**
Financing Available:	**Total**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Capital Receipts						
Toxteth Fire Station (Firefit Hub)	**250,000**	250,000				
Sale of 2 existing N-le-W LLAR properties	**275,000**		275,000			
Sale of LLAR house Cable Street, Formby	**350,000**	350,000				
Sale of Derby Road	**700,000**	700,000				
R.C.C.O./Reserves	**0**					
CFS alarm installation (salaries)	**3,650,000**	730,000	730,000	730,000	730,000	730,000
CFS alarm installation (FSD)	**250,000**	50,000	50,000	50,000	50,000	50,000
Capital Reserve to Museum	**75,000**	75,000				
Fire Risk Management in Residential Blocks (CFO/135/13)	**200,000**	200,000				
Analytical Tool CFS Work (Capital Reserve)	**50,000**	50,000				
Station Refresh (CFO/102/13)	**400,000**	400,000				
Grant	**0**					
CLG Capital Grant	**1,243,966**	1,243,966				
Dept. of Culture/Media/Sport (BA Telementary) (CFO/140/13	**133,000**	133,000				
Total Non Borrowing	**7,576,966**	**4,181,966**	**1,055,000**	**780,000**	**780,000**	780,000
Unsupported Borrowing Required	**18,525,334**	5,855,734	4,214,800	3,381,300	2,686,000	2,387,500
Total Funding	**26,102,300**	**10,037,700**	**5,269,800**	**4,161,300**	**3,466,000**	**3,167,500**

66. The additions to the capital programme has increased the overall expenditure by £3.818m, (Appendix B(2)), the reasons for this are :-

(a) The addition of the "extra year" to the programme 2018/19, £3.168m
(b) Re-phasing of the fire appliance replacement programme £0.650m. Because of the reductions in appliances the CFO believes a 10 year replacement programme is more appropriate given the increased wear and tear on vehicles. This has been reflected in the programme.

67. Details of the new starts can be found in Appendix B(2) attached to this report. The main capital programme items are presented below. Appendix B(2) provides a full analysis of the updated approved 5 year capital programme and also the current financial review (CFO/010/14), elsewhere on the agenda, details the movements on the approved capital plan during the financial year .

68. The key areas of investment (2014/15 -2018/19) are:-

Building Investment Strategy (£7.685m)

69. The estate comprises of 26 fire stations, a Training and Development Academy (TDA), a Mobilising & Communication Centre (MACC), Service Headquarters, Marine 1, 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 (PFI) or specific contributions (capital receipts, capital reserves) to reduce the level of borrowing requirement. Estates maintain and revise a 5 year property asset management plan and the proposed capital programme is consistent with the priority areas that are contained within the plan.

70. Investment is proposed in line with the current Asset Management Plan. Nearly all the planned work is around the refurbishment and essential work at fire stations, £6.9m. The proposed capital programme does not take into account any station mergers or closures.

71. The Authority was awarded a specific capital grant of £1.770m for the new fire station proposal at Prescot. This scheme and associated grant have not been built into the capital programme at this stage as the project is still being finalised.

72. The construction of the new Joint Control room at SHQ with Merseyside Police has been built into the 2013/14 programme. Any re-phasing of expenditure will be reported to members.

Fire Safety (£6.599m)

73. 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) ODPM 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 £3.65m over the period, however this expenditure is not funded through borrowing but financed in the year by a revenue contribution to capital.

ICT – Investing in line with the ICT Strategy (£2.921m)

74. 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 in line with a planned replacement policy of 5 years for PCs, Servers and Network £1.8m, and software licenses £0.5m.

75. The other main investment is in the continued development of the portal, £0.2m.

Operational Equipment & Hydrants (£1.387m)

76. 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 :-
    - BA Sets and Telemetry Breathing Units, £0.4m
    - Specialist emergency & rescue equipment, £0.8m
    - Installation of new or replacement hydrants in line with our water strategy, £0.2m.

Vehicle Replacement Strategy (£7.511m)

77. The Fleet Manager has identified needs as follows:-

Fire Appliances

78. 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 (reduced from 12 years due to anticipated increase in use following the reduction from 42 pumps to 28) on the front line followed by 2 years as a reserve appliance. The plan provides for 17 new appliances.

A Need for Specialist Vehicles

79. There is a need to make provision for the purchase of specialist vehicles to support the IRMP and to support the wider range of roles for the fire service including rescue:
    - Combined Pump Platform appliances (2 refurbished and 1 new vehicle)
    - IMU - Prime Movers (4)
    - Special Vehicles (Water Rescue, BA Support unit)

Ancillary Vehicles

80. Provision is included for the phased renewal of the ancillary vehicle fleet.

Officers have commenced a review of the specialist vehicle and ancillary fleet and this will not be completed until after the budget. Any amendments to the proposed capital programme will be brought back to members for approval during 2014/15.

Funding The Programme

Capital Receipts

81. 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.

82. 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. However, under the new regime the Authority needs to consider if a proportion of any future receipts should be used for debt repayment as part of its overall strategy.

83. The proposed capital programme anticipates capital receipts from the following site sales: -

Toxteth Fire Station	£0.250m	(2014/15)
Derby Road	£0.700m	(2014/15)
LLAR House Formby	£0.350m	(2014/15)
Existing LLAR Houses Newton-le-Willows	£0.275m	(2015/16)

84. 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.

Capital Grants

85. As part of the 2010 spending review the Government also made the decision that there will be no supported borrowing allocations for the Fire and Rescue Service in the spending review period. Government capital support will be given in the form of capital grant only. The Government has announced that the Authority will receive a £1.244m general capital grant in 2014/15 and this grant has been taken into account in the current capital programme. In addition the Authority has received a specific capital grant of £1.770m for a new joint blue light station at Prescot in line with its bid, this scheme and associated grant have not been built into the capital programme at this stage as the project is still being finalised.

Alternative to Operating Leasing

86. Under the previous system of capital controls, investment that was funded by operating leases did not count as either capital expenditure or the financing as a credit arrangement. Therefore, in common with most other local authorities, operating leasing has been a source of funding for some limited eligible assets (e.g. vehicles, plant and machinery, and computer equipment) although the Authority generally avoided this because of the impact on the revenue account. However, whilst operating leasing as a source of funding remains outside of the Prudential Capital System, no leasing is assumed in this programme. The Deputy Chief Executive will monitor the suitability of alternative methods of finance.

Borrowing

87. 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.

88. In the past Government provided support for the Authority's capital spending through supported capital expenditure. The revenue costs associated with supported borrowing was funded through the revenue formula grant. As part of the CSR2010, the Government made the decision that no new supported borrowing

allocations will be made to the Fire and Rescue Service in the Spending Review period. This will impact on revenue support grant allocations. Whilst there will be no new allocations after 2010/11, the level of assumed outstanding historic debt still forms part of the Formula Grant calculation and hence the Authority still receives some grant funding. All borrowing from 2011/12 is therefore effectively now unsupported or prudential borrowing.

89. The proposed capital programme represents an overall expenditure increase of £3.818m reflecting the proposed "new starts" expenditure, of which £3.168m relates to the addition of 2018/19. Appendix 2B sets out these changes in more detail.

90. The impact of these net additions to the programme on the Authority's borrowing is a net increase of £3.038m:

	£m
Increase in expenditure	3.8
Change in Non Borrowing Funding Sources:	
RCCO (HFSC installation costs)	0.8
Required Increase in Borrowing	3.0

The level of prudential "unsupported" borrowing therefore will increase by £3.038m to £18.525m.

Impacts on Revenue Budget and Financial Plan

91. 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 2014/15 – 2018/19 and the methodology for calculating the MRP. The additional borrowing and proposed MRP policy require an increase to the 2013/14 base figure for MRP and Interest of:-

	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
	£'m	£'m	£'m	£'m	£'m
Cumulative increase in MRP / Interest	0.900	1.255	1.565	1.765	1.965

92. A significant factor in the large increase in the budget requirement is down to the Government's decision to factor in no new supported borrowing in the 2011/12 or future years grant settlement and the capital regulations requiring all non-supported borrowing to be repaid over the relevant asset life. This has meant a four or five fold increase in MRP calculations for assets with a short asset life that previously had MRP calculated over a twenty-five year period.

93. Anticipated increase in MRP and Interest had already been built into the previously agreed financial plan for 2014/15 – 2018/19. To give Members an indication of the impact of the proposals, for each £1M reduction in borrowing it would reduce the associated revenue cost by potentially £0.050m - £0.100m (depends on the

relevant asset life), the council tax equivalent reduction would be 0.4% - 0.7% or £0.27 to £0.48.

More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (Section E).

(D) MINIMUM REVENUE PROVISION STATEMENT

94. 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 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 have been updated in 2008 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.

95. The new regulations guidance interprets MRP may be deemed to be prudent if it is either:

- Based over a period that is reasonably commensurate with that over which the capital expenditure / asset provides benefits (asset life), or
- 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 the current 4% MRP methodology).

96. 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 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 1 April 2008.

- **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.

- **Asset Life Method** – MRP is determined by reference to the life of the asset and the amount is either based on;
    - equal instalments method. This generates a series of equal annual amounts over the life of each asset that is financed from borrowing; or
    - 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.

These options are available to both supported and unsupported borrowing in determining the MRP requirement.

Finance Leases and PFI

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.

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

2014/15 MRP:

97. The 2014/15 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2013/14. It is recommend that the Authority adopt a similar strategy for MRP determination as that in 2013/14;
    - For all capital expenditure incurred before 1 April 2008 and for all capital expenditure funded via **supported borrowing**; MRP to be calculated using the Regulatory Method.
    - For all capital expenditure incurred after 1 April 2008 financed by **unsupported (prudential) borrowing**; MRP to be calculated using the Asset Life Method – equal instalments method.
    - 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.
    - For **on balance sheet PFI contracts**; the MRP charge will be equal to the principal element of the annual rental

98. The above options 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 reflects the proposed Authority's policy on prudential MRP.

99. By adopting the recommendations above the MRP charge for 2014/15 would be £3.601m, consisting of £1.726m for prudential borrowing schemes incurred after 1st April 2008, £1.875m for all other capital schemes (these figures exclude PFI and Finance lease as the MRP charge is a notional figure and contained within the rental budget). This amount has been included within the budget estimate for 2014/15.

100. In addition it is proposed that if any approved MRP/Interest budget becomes available due to; capital schemes being re-phased; additional specific non-borrowing funding becoming available; or a reduction on the approved capital programme/ required borrowing, then the Service may choose to make additional MRP payments if the overall financial position of the Authority in that year remains consistent with the approved financial plan.

101. 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 service.

(E) PRUDENTIAL INDICATOR REPORT

102. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2014/15, 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.

103. It should be noted, however, that in order to provide those Indicators, both Capital and Revenue financial plans need to be prepared for each of the next 3 financial years, commencing with 2014/15.

104. The financial plans prepared in respect of the financial years 2015/16 and 2016/17 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 2% in 2014/15 and 2015/16 and then 4% thereafter has been made.

Prudential Indicators

105. 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 this Authority are provided below.***

106. 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:-
    - Estimates of the ratio of capital financing charges to the net revenue budget
    - Estimates of the precept that would result from the three-year capital plan.
    - Estimates of the capital financing requirement.

107. The prudential indicators for Merseyside are:-

a) Capital Expenditure

The actual capital expenditure that was incurred in 2012/13 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2012/13	Estimate 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Expenditure	8,010	16,490	10,038	5,270	4,161	3,466	3,168

Members will note that the increase in expenditure in 2012/13 to 2013/14 reflects the year-end re-phasing of £3.5m of planned expenditure into 2013/14 at the end of 2012/13. In addition in 2013/14 the inclusion of the major building project for the new Joint Control Room, (£9.7m), explains why the total expenditure in this year

appears relatively high. More details on the capital programme are given elsewhere in the report (Section C).

(b) Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream (amounts met from government grants and local taxpayers) for the current and future years, and the actual figures for 2012/13 are:

	Actual 2012/13	Estimate 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
Ratio of Financing costs to Net Revenue Stream	**7.61%**	**7.94%**	**8.89%**	**10.31%**	**10.64%**	**11.33%**	**12.05%**

This shows that forecast debt financing costs will increase from 7.94% in 2013/14 (based on the actual forecast capital spend in 2013/14) to 12.05% by 2018/19. As stated previously the impact of the Government's decision to issue no new supported borrowing for CSR10 has meant all MRP calculations are now based on asset life. This has resulted in a significant rise in MRP over the medium term, but eventually the ratio will fall as historic debt is repaid and all other debt is paid off over the life of the asset. This is also affected by the fact that whilst the Authority's debt is increasing its overall budget is reducing because of forecast Government funding cuts.

(c) 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:

	Actual 2012/13	Estimate 2013/14	Estimate 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
Incremental Impact of Capital Investment Decisions.	-£1.24	£0.55	£2.39	-£0.02	-£0.12	-£0.00	£1.12

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 2012/13 into 2013/14, and the relatively lower capital spend in 2015/16 to 2017/18 compared to 2013/14 and 2014/15 have resulted in a negative or reduced incremental increases over that period. The new start programme in 2018/19 has resulted in the increase in 2018/19.

Capital Financing Requirement

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

109. Based on current commitments for 2013/14 and the latest estimates of capital investment decisions in future years, the capital financing requirement at the 31st March is as follows:

	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	31.3.13	31.3.14	31.3.15	31.3.16	31.3.17	31.3.18	31.3.19
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement (Excluding PFI)	54,381	56,038	58,260	58,367	57,795	56,355	54,372

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 a capital investment purposes.

Net Borrowing and the Capital Financing Requirement

110. 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 net borrowing 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."

111. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach £57.795m by the end of 2016/17 and the expected maximum debt position, (the "operational boundary" – see Treasury Management Strategy) for 2016/17 is £43.000m. 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.

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15

INTRODUCTION

112. This report sets out the expected treasury operations for this period, linked to the Authority's Budget, Medium Term Financial Plan, and Capital Programme. It is inextricably linked to delivering the Authority's mission and aims. 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 Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010. 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.

RECOMMENDATIONS; PROPOSED STRATEGY

113. 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:-

(e) The Treasury Management Strategy 2014/15.
(f) The External Debt and Treasury Management Prudential Indicators and Limits for 2014/15 to 2016/17.
(g) The Investment Strategy 2014/15.
(h) The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

114. The suggested strategy for 2014/15 in respect of Treasury Management is based upon treasury officers' views on interest rates supplemented by leading market forecasts. The strategy covers:-
(i) prospects for interest rates;
(j) capital borrowing and debt rescheduling;
(k) annual investment strategy;
(l) external debt prudential indicators;

(m) treasury management prudential indicators;
(n) performance indicators;
(o) treasury management advisers.

PROSPECTS FOR INTEREST RATES

115. Short term rates are expected to remain on hold for a considerable time. There are signs that the economic recovery has begun. Growth forecasts have been raised and unemployment has fallen. However, this is not expected to translate into rising inflation which could trigger an increase in bank rate. The Monetary Policy Committee (MPC) has indicated in its forward guidance that the economy is still relatively weak and that the recovery will be a modest one. US fiscal tightening and continuing Euro zone problems could also depress UK growth. The MPC is expected to hold bank rate at 0.5% throughout 2014 but with the possibility of an increase in early 2015 should the recovery prove stronger than expected.

116. Longer term fixed interest borrowing rates are based on central government borrowing costs i.e. UK gilt yields. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities. Whilst very difficult to predict, the effect would be upward pressure on long term rates and longer-term Public Works Loans Board (PWLB) rates could rise by around 0.25% – 0.50% in 2014/15.

117. The overall structure of interest rates is expected to remain the same and short term rates will continue to be lower than long term rates and are likely to remain so throughout 2014/15. In this scenario, the strategy will be to reduce investments and borrow for short periods and possibly at variable rates when required.

CAPITAL BORROWING AND DEBT RESCHEDULING

118. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2014/15. Given the likely structure of interest rates described above, it is envisaged that any borrowing to meet short term cash flow shortages will be for very short periods. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

119. 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.

120. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, 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.

ANNUAL INVESTMENT STRATEGY

121. 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.

122. 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.

123. 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

124. 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.
    - UK Banks.
    - Foreign banks registered in the UK.
    - Building Societies.

Credit Rating Criteria

125. 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.

126. 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

127. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2014/15 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
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 part nationalized banks is unlikely to change for at least 5 and probably 10 years but there is an element of uncertainty about their status. 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 para 30 below and so these institutions have the lowest limit.

128. 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 a change in 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 bailout of a failed bank.

129. 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 Deputy Chief Executive or Treasury Manager.

Non-Specified Investments

130. Non-specified investments do not, by definition, meet the requirements of a specified investment. The Department for Communities & Local Government (CLG) 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

131. 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.

132. 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

133. 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

134. The CIPFA Codes and the DCLG 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 are new requirements although 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.

135. 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 a counterparty with an "A-" long term rating is 0.09% 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.

136. Liquidity: - The Authority seeks to maintain liquid short term deposits of at least £1 million available daily.

137. Yield: - The Authority's benchmark for investment returns is the 7 day LIBID rate.

Reporting Arrangements

138. The Investments Strategy forms part of the Treasury Management Strategy which is referred to Audit and Value For Money Scrutiny Panel 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.

EXTERNAL DEBT PRUDENTIAL INDICATORS:

139. The Prudential Code requires the following external debt indicators of prudence:
    - Authorised limit for external debt
    - Operational boundary for external debt

Authorised Limit

140. 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.

141. 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 Deputy Chief Executive, 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		**2014/15**	**2015/16**	**2016/17**
		£'000	**£'000**	**£'000**
Borrowing		80,000	77,000	75,000
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**82,000**	**79,000**	**77,000**

Operational Boundary

142. 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 Deputy Chief Executive, 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		**2014/15**	**2015/16**	**2016/17**
		£'000	**£'000**	**£'000**
Borrowing		44,000	43,000	41,000
Other Long Term Liabilities		2,000	2,000	2,000
TOTAL		**46,000**	**45,000**	**43,000**

Actual External Debt

143. 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 £43.6 million at 31st March 2014.

TREASURY MANAGEMENT INDICATORS:

144. 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 364 days.

Interest Rate Exposures

145. 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		**2014/15**	**2015/16**	**2016/17**
		%	**%**	**%**
Fixed		100	100	100
Variable		50	50	50

146. This means that the Deputy Chief Executive will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2014/15.

Maturity Structure of Borrowing

147. 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 Limits on Interest Rate Exposures		**2014/15**	**2015/16**	**2016/17**
		%	**%**	**%**
Fixed		100	100	100
Variable		50	50	50

Total Principal Sums Invested For Periods Longer Than 364 Days

148. It is recommended that the limit for investments of longer than 364 days be set at £2 million for each of the years 2014/15, 2015/16 and 2016/17.

PERFORMANCE INDICATORS

149. 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.

150. The Authority will maintain performance indicators for both borrowing and investment though 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 7 day LIBID rate.

The results of these indicators will be reported in the Treasury Management Monitoring and Annual Reports.

TREASURY MANAGEMENT ADVISORS

151. 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, 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.

152. 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

153. The Authority has in recent years maintained robust medium term financial plans.

154. This plan is fully reviewed on an annual basis and monitored quarterly. This section of the report will develop a financial forecast for the Authority based upon the latest information. It will:-

    - Outline any movement since the 2013/14 – 2017/18 previously approved financial plan,
    - Outline the underlying assumptions to support the forecast,
    - Discuss the key pressures that contribute to forecast deficits.

    Members will recall that in the past few years the Authority's budget forecasts have dealt with significant financial challenges because of government decisions about the funding of Firefighters pensions and the poor outcomes of the Comprehensive Spending Review 2007 and 2010 (CSR2007 & CSR2010).

155. The Authority has faced significant financial pressures over the last decade as in general terms, funding for fire was moved slowly towards a more standard level of expenditure.

156. Between 2000 and 2010, the Fire Authority reduced the number of Firefighters, amongst other savings, from 1400 to 1000.

157. Following the financial crisis of 2008, the Government set its spending review for 2010 to reflect major reductions in public expenditure. The spending review dealt with funding for 2011/12 to 2015/16. For the first two years of that period, the Fire Authority suffered cuts at double the national average for fire.

158. Following a successful lobby, when a new system for fire service funding was introduced for 2013/14, Merseyside subsequently received cuts at the same level as all other fire and rescue services in percentage terms (albeit the absolute impact is higher because Merseyside is more reliant on grant than most other fire and rescue authorities).

159. The Authority has already developed and implemented plans to cope with the spending review cuts to date. It approved last year a financial plan that dealt with the 2013/14 budget, and planned to deal with the indicative grant cuts for 2014/15 in a prudent pre-planned way.

    The key elements of that plan were:-

    - The reduction in fire appliances from 42 to 28. (Achieved by a reduction in Firefighter posts of 90 delivered by national turnover rates), saving £3.1m,

    - Reduction in support staff numbers by 57 and overall support costs by £2.3m

    - Technical and income savings of £4.7m

The section below summarises the good progress in delivering these targets.

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
Options formally Implented	-4,950	-9,655	-9,497	-9,572
Options awaiting some business re-engineering but being delivered in cash terms	-175	-405	-505	-505
	-5,125	-10,060	-10,002	-10,077

Plans are well advanced to deliver the remaining savings. Therefore the Authority's current financial plan has remained on track.

160. In order to develop a financial forecast the starting point will be the balanced budget plan the Authority agreed last year for 2013/14 and 2014/15 based on the information available last February. This report will examine changes from that position. Three potential scenarios will be examined:-

A. 2014/15 forecast alone
B. Forecast based upon those government announcements that have already been confirmed (to 2015/16)
C. Longer term prospects post 2015/16

A) Changes to 2014/15 Balanced Position:

1)Government "Grant":

Increased Grant Cuts: Government Grant funds approximately 65% of the Authority's budget requirement. The Government has announced the settlement funding for 2014/15. The Chancellor has assumed ongoing public sector pay restraint and reduced grant funding accordingly. This means a slightly increased cut in government funding which now totals 7.6% which worsens the position by £0.585m.

Variation in Business rates: Since 2013/14 part of the Government settlement is in the form of an assumed level of local business rate income. The Authority receives 1% of the Merseyside districts gross business rates. There has been a net reduction in the anticipated proportion of local business rates because the total to be collected locally is less than originally anticipated by Government. This has an adverse impact of £0.174m. This is partially as a consequence of Government business rates relief initiatives reducing.

The Authority is at risk from future business rating appeals and business closures giving rise to deficits in the anticipated business fund. Any shortfall in business rate income will be charged to the Authority in the following year, in the same way any deficit on the Council Tax collection fund is passed on.

Other Grant Changes:

- **Small Firms Business Rates Exemption:**

The Government has given some exemptions/discounts to small firm's which affects the amount of funding which the Authority receives from the new scheme for localised business rates. The government has recently announced it will be issuing a (Section 31) grant to compensate the authority for that loss which totals £0.384m for the Authority.

- **New Dimensions Grant:**
  The Authority receives a grant of £1.2m in each year for crewing New Dimensions Vehicles from CLG. The financial plan assumes this grant will continue in 2014/15 – 2018/19.

2) Council Tax Base & Collection Fund changes:

Council Tax Base; The Districts of Merseyside have set their tax bases 2014/15 and they are shown in the table below:-

District	2013/14 Council Tax Taxbase	2014/15 Council Tax Taxbase	Variance	
	£	£	£	%
LIVERPOOL	88,777.98	91,976.50	3,198.52	3.60%
WIRRAL	87,116.40	87,786.20	669.80	0.77%
ST.HELENS	46,240.00	46,715.00	475.00	1.03%
SEFTON	76,516.20	76,992.00	475.80	0.62%
KNOWSLEY	30,573.00	30,916.00	343.00	1.12%
	329,223.58	334,385.70	5,162.12	1.57%
2013/14 Band D Tax Level	68.70	68.70		
Total Income £	22,617,660	22,972,298	354,637.64	1.57%

The total tax base for the Authority has increased by 1.57%, this means that each £1 of Council Tax the level of income will be greater than that generated in 2013/14 by £5,162. The result of this is that the income from the current level of Council Tax is anticipated to higher by £354,638 without any precept increase being applied (this is assumed to be a permanent increase).

This means that the additional income forecast from a just below **2% increase in Council Tax** in 2014/15 is now £0.458m.

The Districts of Merseyside have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The results are set out in the table below and show a net surplus of £406,951. This impact is a one-off.

District	2014/2015 Coll fund deficit/(surplus)
	£
LIVERPOOL	-344.968
WIRRAL	0
ST.HELENS	-733
SEFTON	-52.250
KNOWSLEY	-9.000
	-406.951

3) Local Government Pension Scheme Costs:
The pension fund has actuarially reviewed the costs of the pension scheme and costs have increased by £0.300m p.a.

The overall impact of these issues is a net surplus of £0.090m for 2014/15 compared to what members expected to be a balanced position.

	£'m	£'m
• 2014/15 Original Forecast overall position (after £1.783m drawdown from the smoothing reserve)		0.000
• Unavoidable Changes to the plan:		
Higher Government Grant reduction	0.585	
Increase in LGPS payment	0.300	
Sec31 Grant to cover NNDR discounts	-0.384	
Increase in CTax Base & 2% increase yield	-0.358	
Reduction in local NNDR estimate	0.174	
One-off collection fund surplus	-0.407	
• Reduction in 2014/15 Forecast		-0.090
• Reduce Smoothing reserve in light of above		0.090

Whilst the Authority might take a view that they only need to set a budget for 2014/15 it seems abundantly clear from the current economic position and the stated intent of all political parties that there will be significant ongoing reductions in public expenditure beyond 2014/15. Indeed the grant cuts and some of the increased pensions cost increases have already been firmly announced. It is therefore recommended that the Authority takes a longer term view and establishes a mid-term financial plan based on, at least, the confirmed financial announcements.

B) Forecast Based Upon Confirmed Government Announcements

It should be noted that the issues mentioned below are in addition to the 2014/15 considerations above and reflect changes to the estimates in the current financial plan.

1)2015/16 Government Grant:

The Government has now provided information on the indicative grant settlement for 2015/16. This sets out a further reduction of £3.473m (-8.5%). This is £2.387m above the estimate in the current financial plan.

2)Ongoing Council Tax restraint:

The original plan had assumed Council Tax would increase by 4% from 2015/16 however; it became clear during the year that the Government had an aspiration to freeze council tax for the life of parliament. Therefore it expected to set in place arrangements to restrict rises in 2014/15 and 2015/16 to 2% or even lower unless a referendum was held, the plan has now been amended to reflect this. The plan has been amended to assume permanent council tax increases in line with RPI inflation forecasts of 2%.

3)Inflation & Pay Changes:

The forecast plan currently includes a contingency for pay awards and price increases in each year. This has been prepared using the following assumptions:-

- Pay bill; In 2014/15 an increase in the pay bill of 1%, and then an annual increase of 2% thereafter as It is assumed that long term pay awards will fall in line with HMT expectations of inflation.
- All Other Price Inflation 2% p.a.

As an indicator to Members and a guide in assessing the volatility of inflation estimates - a movement of 1% in pay bill inflation equates to approximately £0.5m in a full year

4)Cost of Capital Borrowing:

The revenue impacts of capital investment decisions and the agreed 2014/15 – 2018/19 capital programme are included within forecasts. This includes additional new start schemes of net +£3.568m. The plan also takes into account the proposed MRP policy discussed previously in section D.

5) Pensions – SERPS Opt OUT:

State Earnings Related Pension Scheme (SERPS) was a UK Government pension arrangement, to which employees and employers contributed. Members of occupational pension schemes could be "contracted out" of SERPS by their employer, in which case they and the employer would pay reduced National Insurance (NI) contributions. The Government has announced the reduction in employer and employee NI payments will cease from April 2016 increasing Authority's NI payments by £1.000m.

6)Pensions- Scheme Changes:

The Government is concerned about the cost of public pensions and is in the process of finalising proposals on changes to firefighter pensions- members will be well aware that this is a matter of ongoing dispute with the Fire Brigades Union. At this time the assumption is that the pension changes will have no impact on the employer's pension costs. However, it should be noted that the last valuation in 2007, which was not enacted, suggested employer contribution rates of 3% but this was never implemented. In addition in the short term the net deficit on firefighters pension (which is paid through Government Annually Managed Expenditure) continues to grow significantly in the short term whilst the government has set a cash limit on AME expenditure in total as part of its financial plans. At this stage the financial plan assumes that the firefighter employer's pension contribution rate will continue at current rates

The forecast deficit therefore based upon Government announcements to date and reasonable assumptions about the growth in pay and pensions is set out in the table below.

	£'m	£'m
• 2015/16 Original Forecast overall position- deficit		2.667
• Unavoidable Changes to the plan:		
○ Increase in LGPS payment	0.340	
○ Sec31 Grant to cover capped NNDR increase	-0.190	
○ Higher Government Grant reduction	2.387	
○ Net change to forecast Council Tax Yield (after increase in tax base)	0.096	
○ SERPS - Employer's NI **	1,000	
• Increase in Forecast Deficit		3.633
• Financial Challenge Based on Known changes		6.300

***This will only actually impact on the Authority from April 2016*

These known changes significantly impact on the current financial plan and require an additional £6.300m of savings to be identified.

It should be noted that because :-

- **this forecast is based upon confirmed government announcements only**
- **All political parties have committed to honour financial decision already made and to on-going efforts to reduce the uk deficit**

This is regarded as the minimum position the Authority should reasonably plan for in the mid-term. It is recommended the Authority formulate a plan to deal with at least this level of financial challenge with scalable options to meet even higher deficits if required.

C) Longer Term Prospects Post 2015/16

1)Government "Grant":

The current Government has announced that the current austerity period is now likely to continue beyond 2015/16 and has committed to ongoing cuts in public expenditure until the UK deficit is eliminated by 2020.

Whilst there is a general election in 2016/17 the Labour party have also committed to eliminate the UK deficit by 2020.

A number of bodies have attempted to model what this might mean for local government including the Institute for Fiscal Studies and the LGA, particularly if any future government maintains current arrangements to protect large chunks of the public sector from expenditure cuts.

This scenario assumes the recent government funding reduction profile will continue for the next few years up to 2018/19 and perhaps beyond. After allowing for inflation increases at 2% p.a the Authority might face a deficit of as much as £20m by 2019/20 as shown in the table at the end of this section (NB table below runs only for five years to 2018/19).

Whilst to a degree any such longer term forecast is necessarily speculative what seems clear is that there are likely to be ongoing budget reductions. In its financial planning the Authority needs to be mindful of longer term pressures and develop a scalable model which can be extended whatever the future financial pressures.

The baseline financial forecast is based upon historic assumptions. The Deputy Chief Executive has reviewed the underlying inflation assumptions in order to identify savings, this is considered in Section (H).

Conclusion

161. **It is recommended that the Authority develops a firm plan to, at least deal, with the £6.300m forecast deficit based upon confirmed announcements up to the end of 2015/16**

Whilst there is considerable uncertainty about the detailed position beyond 2015/16 the Government (and possible successors) has been very clear that there will be ongoing cuts in public spending until possibly 2020. This is likely to result in further government funding cuts requiring savings.

162. The overall forecast of the deficit based upon these assumptions is shown in the table overleaf:

2014/15 - 2018/19 DRAFT MTFP

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
FORECAST NET EXPENDITURE					
2013/14 Base Budget	66,721	66,721	66,721	66,721	66,721
Approved changes to the base budget:					
Loss of 2013/14 Transitional Grant for LCC Council Tax Support	64	64	64	64	64
Adjustment to take out one-off SMG Reserve contribution (2013/14 only)	-100	-100	-100	-100	-100
Impact of Capital Programme / Funding Changes:	900	1,255	1,565	1,765	1,765
Inflation	800	2,075	3,500	5,000	5,000
2013/14 Saving Options Full Year Impact					
Income PFI Stations	-25	-25	-25	-25	-25
Workshops income	0	-100	-100	-100	-100
Joint Control Room	-200	-200	-200	-200	-200
Phase 2 Proposed Cuts in Support Savings	-582	-632	-632	-632	-632
Phase 2 Proposed Cuts in Front Line Savings	-1,445	-2,795	-2,795	-2,795	-2,795
Use of Smoothing Reserve	-1,783				
2013/2014 Approved Financial Plan	**64,350**	**66,263**	**67,998**	**69,698**	**69,698**
2014/15 Issues					
The end of contracting out -start paying the standard rate of National Insurance contributions. Increase employer costs by 3.4 per cent.	0	0	1,000	1,000	1,000
LGPS Actuarial review, current benefits, employer rate from 11% to 13%, and potential increase in historic deficit payment currently c£0.8m	300	340	381	381	381
2018/19 Inflation Provison					1,500
New Sec 31 Grant to cover 2014/15 restricted NNDR increase	-190	-190	-190	-190	-190
New Sec 31 Grant to cover NNDR adjustments	-194				
Adjust Planned Drawdown from smoothing Reserve (original £1.783m)	90				
2014/15 DRAFT Financial Plan Net Expenditure Forecast	**64,356**	**66,413**	**69,189**	**70,889**	**72,389**
FUNDING					
Government Funding: Settlement Funding Assessment	**-40,693**	**-37,214**	**-34,487**	**-32,340**	**-30,674**
Anticipated Local Business Rate income from Districts	**174**				
Council Tax -					
Base Precept Income	-22,619	-23,430	-23,899	-24,377	-24,865
Council Tax Base (increase) / decrease	-355	0	0	0	0
Assume 2**% rise 2014/15 to 2018/19**	-458	-469	-478	-488	-497
Precept Income yield, rounding adjusmtment	2				
Collection Fund (surplus)/deficit	-407				
Forecast Council Tax Income	**-23,837**	**-23,899**	**-24,377**	**-24,865**	**-25,362**
Updated Income Forecast	**-64,356**	**-61,113**	**-58,864**	**-57,205**	**-56,036**
Forecast Net Position (surplus) / deficit	**0**	**5,300**	**10,325**	**13,684**	**16,353**
Known Government Tax Changes:					
For employers, the end of contracting out -start paying the standard rate of National Insurance contributions. Increase employee costs by 3.4 per cent **01.04.2016 Onwards**		**1,000**			
Recommended Saving Target for 2014/15 - 2018/19 Financial Plan		**6,300**			

Scenario **A**

Scenario **B**

Scenario **C**

(H) Options for Tackling the Financial Challenge

163. The Authority has agreed a number of Value For Money Principles that have underpinned its approach to budgets and financial plans in recent years. During 2012/13 the principles were reviewed and updated to better reflect the challenges facing the Authority now and in the future. They are:-

Budget Principles

Principle 1 – Allocate resources in a way that contributes towards the achievement of MFRA's Mission, Aims and Values

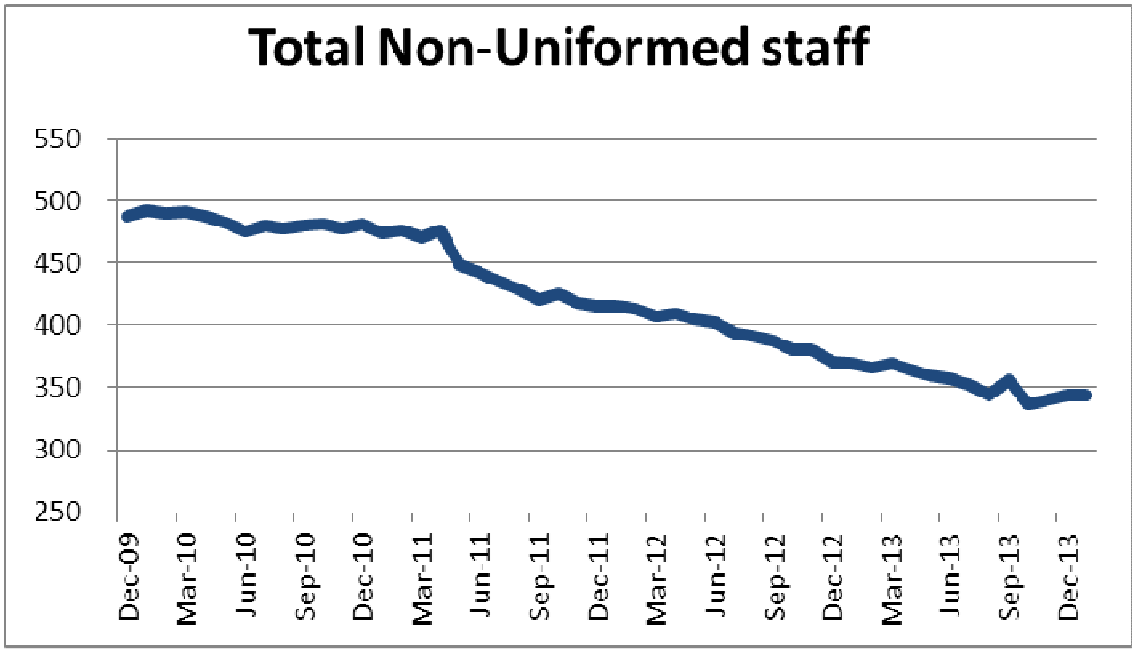
Principle 2 – To continue to seek to avoid compulsory redundancy (if possible given the difficult financial circumstances)

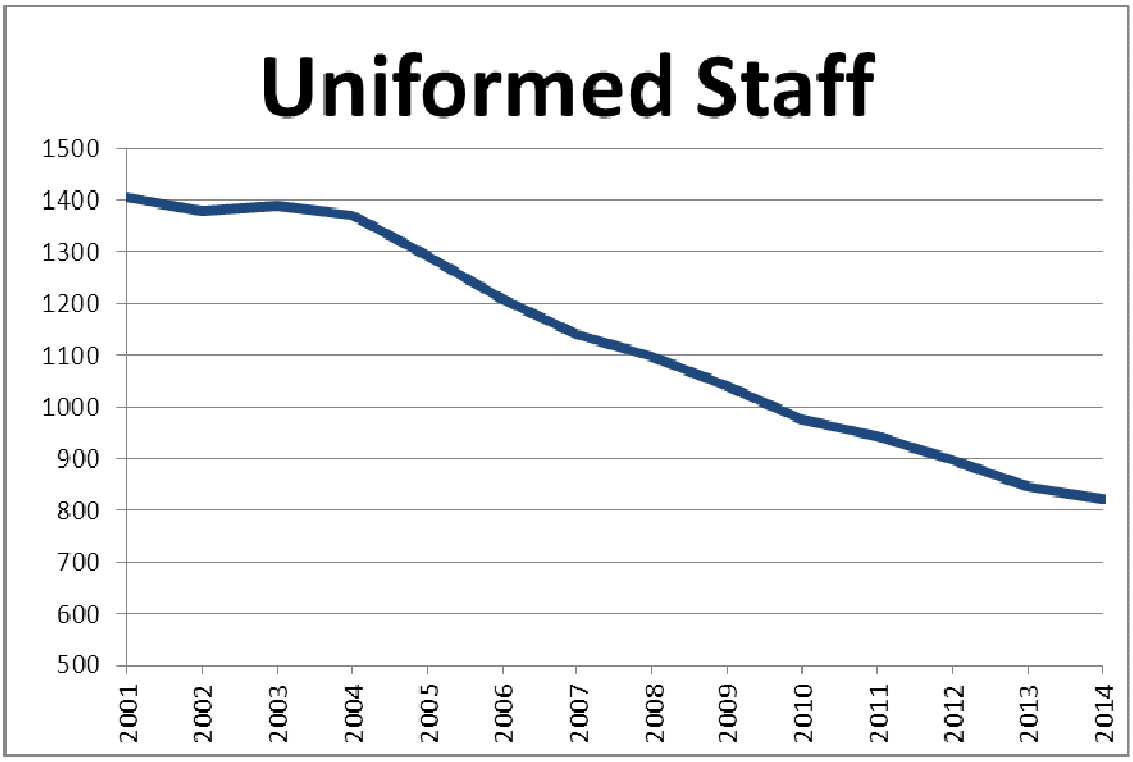
Principle 3 – To choose budget options which minimises negative impact on the front line services or on firefighter safety

Principle 4 – To consider budget approaches which ensure the right balance between local and national funding levels and considers the views of local people on the right level of council tax balanced against aspirations for service levels

Principle 5 – To allocate resources having considered the impact on our diverse communities and our employees.

164. In applying these principles the Authority has already made large scale budgetary changes and savings. As it faces up to its biggest ever financial challenge the Authority has very limited room for manoeuvre and these principles have proved difficult to maintain. The graphs below show how staff numbers have been reduced already.





165. The Authority has already approved saving of £19.2m over the current spending review period and some of these saving will not deliver the required full saving until 2015/16. In addition it should be noted that the current plan for 2013/14 -2014/15 assumes a £1.783m use of the smoothing reserve in 2014/15.

166. The previous section of the report considered three potential scenarios. It recommended that the Authority should develop a financial plan to at least cope with the minimum of those confirmed announcements already made – recognising that savings options should be scalable to meet the likelihood of further cuts moving forward.

167. In the past the Authority has been presented with a range of options to choose between when setting a budget process. Because of the options already taken the room for manoeuvre going forward is limited. To address a £6.3m deficit could not be realistically achieved without impacting on the front line services to Merseyside. The Approach has therefore been taken to:-

2) Identify all the savings from back office, support services and technical areas that are available
3) Assume that all these savings will be taken to minimise the impact on the front line.
4) Identify the least worst options for cuts in frontline services

Council Tax:

168. The Financial Plan assumes a just below 2% council tax increase for 2014/15 and 2015/16 and future years which is in line with inflation forecasts. For 2014/15 and

2015/16 this is expected to be the maximum level of increase before holding a referendum. The Authority has three potential options it might consider:-

- **A higher (above 2%) Council Tax increase and holding a referendum**;
  Members may choose to increase the precept by more than 2% to tackle any deficit. This would require the Authority to hold a referendum (local vote on its proposals). The advantages of this approach would be:-

  - Permanently increased income
  - Reduced reliance on grant funding in the mid term
  - Potentially avoids cuts in service, although the increase would need to be large (35% approx.)

  Future council tax increases would be cumulative on this base

  There are a number of practical issues relating to a potential referendum that would make it a risky proposition;
  - The Authority has to meet the costs of the referenda – it would need to hold one in each district and get a positive vote in each (Estimate £1m-2m),
  - The Authority would have to meet the cost of rebilling if it were not successful (potentially as high as £2m) and would still have to find the required savings to balance the budget,
  - There are administrative limitations on the process and campaigning around any referendum which would limit the ability to present a comprehensive argument
  - There would be a substantial impact on the taxpayer

  Each additional 1% increase would generate approximately £0.229m for the service.

- **Freezing the Council Tax;**
  The Government have announced the availability of a 2014/15 Council Tax freeze grant if authorities agree to freeze their Council Tax for 2014/15 at 2013/14 levels. The grant will be equivalent to 1% of the basic amount of council tax set for 2013/14 multiplied by the amount calculated as the authority's council tax base for 2014/15 not taking into account the reduction in the tax base due to the council tax reduction scheme. For Merseyside this would be equivalent to a 2014/15 Council Tax freeze grant, £0.290m. In practice what this means the 1% is calculated on a higher tax base. This has the effect that the 1% freeze grant is equivalent to a 1.26% rise in the precept.

  Ministers have agreed that the funding for 2014/15 freeze grant should be built into the spending review baseline in the future. This gives as much certainty as possible at this stage that the extra funding for freezing council tax in 2014/15 will remain available in future years. (A 2% increase in the precept would yield £0.458m and the 1% council tax freeze grant is £0.290m, a difference of £0.168m.)

  However:-
  - Future council tax increases would not be cumulative on this total

- Once included in base grant the freeze grant is likely to be subject to reduction in future years if public spending is cut as expected.
- This approach would not reduce reliance on grant funding (but rather increase it)

- **Freezing the Council Tax;**
  Increase at Just below the limit before a Referendum ie 2%

  The financial plan assumes the precept will increase by 2% in 2014/15 and future years. A 2% increase in the precept would yield £0.458m. If, however, the Authority decided to freeze the council tax and accept the grant it would make the financial scenarios worse than that set out in this report by £0.168m. The main advantages of this approach are:-

  - Permanently increased income
  - Reduced reliance on grant funding in the mid term
  - Maximises income (albeit difference with freeze is small)
  - Avoids referendum costs and risks
  - Future council tax increases would be cumulative on this base

  However:-
  - Central Government has clear expectations that local government should, in their opinion, freeze the council tax
  - There would be an impact on the local tax payer although this is relatively small in absolute terms. The current band d council tax is £68.70 and this would increase by £1.27pa to £70.07

Budget Proposals to Minimise the Impact on the Front Line:

169. The table below summarises the maximum identifiable total permanent savings of £2.9m from back office, support and technical areas. It is assumed these will all be adopted.

Back Office and Support Services

170. The table below summarises total savings of £2.9m.

No	Option	£'m
1	**Minimum Revenue Provision (MRP) & Interest Payable on loans** The MRP is calculated based on the amount of historic and planned capital expenditure that is funded through borrowing and represents the repayment of those loans. Borrowing in turn leads to interest charges on the loans taken out. The MRP & Interest budget by 2018/19 will be £7.8m (£4.9m MRP, £2.9m Interest). The Authority currently has a strategy of building up reserves to maximise flexibility in light of the financial challenges and risks ahead; it has created a specific capital investment reserve to meet any unforeseen capital spend; and has a treasury management strategy to avoid long term borrowing while investment returns are low. It therefore uses surplus cash to defer borrowing. After taking account of these issues and the long term borrowing profile it has allowed the DCE to identify a manageable saving in the MRP & loan interest budget of £0.900m in the mid-term.	0.900

2	**Non- Employee Inflation** The financial plan includes a provision for non-pay inflation of 2%. In the 2013/14 budget a significant saving option was approved reducing the accumulated inflation provision down by £1.500m by 2016/17. After reviewing the remaining provision and by managing inflation pressures from within the relevant departmental base budgets, a further saving of £0.125m is considered to be deliverable.	0.125
3	**Non-Employee Budget review** The plan includes approximately £8m on non-employee expenditure lines (after excluding PFI rentals and Rates and Utility costs). After taking into account saving option 2, that now requires these budgets to cover any inflationary pressures, it is considered reasonable to set a saving target of £0.275m from non-employee budgets.	0.275
4	**Pay Bill Assumptions** The forecast contains an assumption that the total pay bill increase will be 1% in 2014/15 and then 2% per annum. Members may take a view that it is likely that there will be further pay restraint for staff for the next two years (up to and including 2015/16) in light of Government assumptions and comments from Treasury Ministers. Assuming a further two years of pay restraint for all staff and reducing the provision for pay bill increase to 1%- saving £0.5million. There are significant risks associated with this approach (even at a 2% level) and the DCE recommends holding specific reserves for the short term to cover any pay increases higher than this recognising that in the medium term yet more savings will be required if this is the case. Pay bill includes employer pension contributions and national insurance contributions that may also vary as discussed in the report.	0.500
5	**Employee Vacancy / Incremental saving** The financial plan assumes all posts will be filled throughout the year and at the top of the relevant grade. Each year a number of posts remain vacant for short periods of time and any new employees can take 3 to 4 years to reach the top of the grade. A saving of £0.200m is reasonable to assume from vacancy management.	0.200
6.	**Review of Support Services** A fundamental review of all support services was carried out as part of the 2013/14 budget, delivering approximately £3m savings. Whilst no further detailed review has been carried out a rough assessment of the capability for further reductions has indicated that it may be possible for the Authority to assume to save a further 10% (approximately 40 posts) from non-uniformed operational staff. It should be noted that • This will impact on the services delivered to Merseyside. Many of the "support service" areas and posts affected in fact provide front line services to the community of Merseyside notably prevention and protection • This will put a number of non-uniform staff at risk of redundancy..	0.900

	• In addition many of these staff are required to deliver the business re-engineering, at least initially, to deliver some of the £6.3m saving target so the timing of savings will need to be carefully planned.	
Other Proposed One-Off Savings		
7	**LGPS Deficit One-Off Saving** The Authority has been offered a £0.198m saving on its total 3 year payment, 2014/15 – 2016/17 if it pays the contribution in full in 2014/15, £2.818m. This can be accommodated by using £1.853m from the smoothing reserve in 2014/15 and repaying the reserve back from the LGPS budget in 2015/16 – 2016/17.	
8	**Use of Any Savings Delivered in Advance of need:** The current plan required the use of £1.721m of the smoothing reserve to balance 2014/15. Because the Authority is slightly ahead of schedule in delivering savings the use of reserves will be reduced.	

171. Due to the nature of some of the savings being proposed they will require time to either re-engineer the service or require more than one year to deliver the full savings expected. The table below reflects the anticipated phasing:

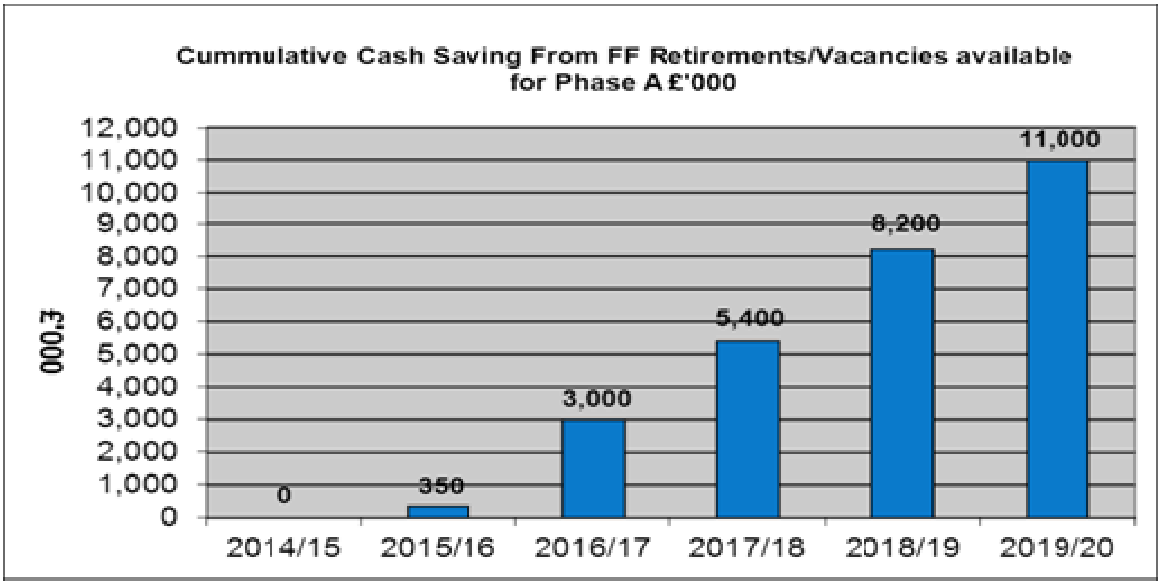
2014/15 - 2018/19 DRAFT MTFP

Ref.	Description	Risk H / M / L	2014/15	2015/16	2016/17	2017/18	2018/19
			£'m	£'m	£'m	£'m	£'m
1	Minimum Revenue Provision (MRP)& Interest Payable on loans	Low - Medium	-0.750	-0.850	-0.900	-0.900	-0.900
2	Non- Employee Inflation	Low - Medium	-0.050	-0.075	-0.125	-0.125	-0.125
3	Non-Employee Budget review	Low - Medium	-0.150	-0.275	-0.275	-0.275	-0.275
4	Assume ay restraint in 2015/16. Currently provision for 2% pay/ Assume 1%	Medium - high	0.000	-0.400	-0.500	-0.500	-0.500
5	Employee Vacancy / Incremental saving	Low - Medium	-0.200	-0.200	-0.200	-0.200	-0.200
6	10% saving on Non Uniform Establishment	Medium	0.000	-0.450	-0.900	-0.900	-0.900
7	One-Off saving from discount on LGPS deficit payment if Authority pay 2014/15 - 2016/17 in April 2014	N/A	0.000	-0.078	-0.120	0.000	0.000
8	In the current plan £1.7m is required to balance 2014/15. By delivering some of the £6.3m ahead of schedule the amount of reserve drawdown can be reduced by £1.150m	N/A	1.150				
	TOTAL		0.000	-2.328	-3.020	-2.900	-2.900

Operational Response

172. Since the maximum possible saving is £2.9m from the back office this means inevitably that £3.4 would need to come from the front–line. A cut of £3.4m is equivalent to about 100 firefighter posts.

173. Based on the current firefighter retirement profile and taking into account the required savings in operational response to deliver that scale of saving will take until 2017 to deliver without compulsory redundancy. The table below highlights the phasing of the saving based on firefighter retirements over the next few years. Reserves would be required in the meantime.



174. In response to previous cuts the service has recently reduced the number of fire appliances from 42 to 28. This has reduced most of its 26 fire stations from two pump to one.

175. As of 9th October 2013 the Authority has 28 fire appliances operating from 26 stations. Of the 28 appliances, 24 are crewed wholetime and 4 are crewed on the Low Level of Activity and Risk (LLAR) duty system (wholetime 12 hour day shifts and retained 12 hour night shifts on a 1.9 minute recall). The CFO is in the process of establishing an additional 2 wholetime retained appliances to provide operational resilience. These appliances will be crewed by wholetime firefighters providing retained cover on rota days. The methodology supporting the operational response model was approved by members at the Authority meeting on 26th February 2013 following a fundamental review of operational response by the CFO (Authority report CFO/027/13 Operational Response Review) and further endorsed when Integrated Risk Management Plan (IRMP) 2013-16 was approved on 27th June 2013 (CFO/074/13).

176. The operational priority of the CFO is to maintain the availability of wholetime appliances in order to sustain as far as possible the existing standards of speed and weight of attack. The CFO recognises however that with a further inevitable reduction in Firefighter numbers as a result of the 2015/16 budget cuts it will not be

possible to maintain the existing numbers of wholetime appliances. Given the existing ratio of appliances to stations this will necessitate either station mergers, days only crewing, station closures or changing duty systems to, for example, retained.

177. The Authority operational response model is predicated on a pan Merseyside 10 minute response standard. In order to achieve the 10 minute response standard Officers have designated 10 strategic locations (key stations) which, if always covered, will ensure that the 10 minute response is maintained. The aspiration is however to attend incidents well within the 10 minute standard. This is best achieved by maintaining as many wholetime appliances as possible from as many stations as possible (CFO/027/13 refers). When faced with an inevitable reduction in appliances it is essential that the appliances that remain are sited at the most optimal deployment locations.

Strategic review – Identifying least worst options

178. In the light of the challenging financial position the Authority commissioned a strategic review of its estate (CFO/101/13 Appendix A) in order to identify potential saving options. The key conclusions of that review are reproduced below:-

- Given the financial pressures on the Authority further large-scale savings will be required from operational response up to 2016/17
- Encouraging partners to share buildings helps generate some income to offset the cost of stations
- Borrowing costs will form an increasing proportion of the Authority's expenditure unless the number of assets is reduce
- As the size of the organisation continues to reduce in line with budget pressures, savings from corporate overheads cannot be made unless the number of stations reduce
- As all but 2 fire stations are now single pump, significant savings can only be delivered by:-
  - Changing crewing systems from wholetime to Low Level of Activity and Risk (LLAR) or retained
  - By strategic mergers that reduce the number of stations
  - Reducing the number of hours that stations are open i.e. open of a day only between 10am – 10pm
  - Closing stations

179. The operational implications of these are

Changing crewing systems from wholetime to Low Level of Activity and Risk (LLAR) or retained

180. Changing the crewing at a station from wholetime to LLAR would deliver a saving of 8 WTE posts. In order to deliver the same savings as for a station merger 3 wholetime stations would need to convert to LLAR resulting in a disproportionate distribution of LLAR to wholetime stations. Whilst this option would maintain an immediate emergency response it is less resilient than wholetime crewing and is therefore not considered to be a viable option by the CFO.

181. Changing the crewing at a station from wholetime to retained would deliver a net saving of 22 WTE posts. Pursuing this option would require the Authority to either seek volunteers from existing Firefighters who would be required to live within a 5 minute response time of the station (wholetime retained) or for the Authority to recruit members of the public who live or work within 5 minutes of the station. Whilst it is not beyond the realms of possibility that this would be achievable there are three substantive issues for the Authority to consider.

182. **Firstly,** given the distribution of where Merseyside Firefighters live at present, there are insufficient numbers residing within 5 minutes of the stations that the CFO would recommend for retained crewing at this time, to recruit a full crew. That being so the Authority would need to recruit almost a full crew of retained Firefighters. It is the view of the CFO that a retained Firefighter does not have sufficient contact time within the Grey Book retained contract to acquire and maintain the skills of an existing Merseyside wholetime Firefighter (the Merseyside Trainee Firefighter course is 40 weeks duration and the wholetime work routine allocates in excess of 20 hours per week to training against the 2/3 hours per week contact time in the Grey Book retained contract). If the Authority were minded to still pursue this option they would have to accept that the retained Firefighters would not be trained to the same level as their wholetime counterparts and it would take a long period of time to train the crew to a position whereby they were deemed fit to ride. Additionally to maintain retained appliance availability a minimum of 4 members of the crew including a driver and an officer in charge would have to be permanently available within 5 minutes of the station.

183. **Secondly,** with 3 hours contact time each week retained Firefighters would only be able to undertake very limited amounts of community safety work.

184. **Thirdly**, assuming the 5 minute delay in responding in to the station and given the geography of Merseyside, it is likely that the nearest wholetime appliances would attend an incident in at least the same time as the retained crew if not quicker.

185. For these reasons this option is not considered viable by the CFO.

<u>Strategic mergers that reduce the number of stations</u>

186. Merging two stations would deliver a net saving of 24 WTE posts. There are a number of advantages to mergers when compared to the options detailed previously;
    - Mergers allow the maintenance of the best possible speed and weight of attack by the identifying the optimum deployment location to cover the two former station areas
    - Mergers would allow a rationalisation of the asset base to reduce capital and support costs
    - Mergers would allow the delivery of a much improved community asset with high quality purpose built firefighter facilities and training arrangements
    - Mergers allow better consideration of shared buildings with partners
    - Mergers and shared facilities with partners are likely to be suitable for bids for funding resources

187. The significant disadvantage of a merger is the potential loss of one fire appliance. This can be offset by maintaining one wholetime pump and one pump crewed wholetime retained, albeit on a 30 minute recall. The wholetime retained appliance would be utilised for resilience rather than for immediate response to incidents (hence the 30 minute recall). In practical terms the appliance would be recalled in to service when the overall number of available appliances across Merseyside dropped below a pre-determined trigger point (currently 17 appliances). This option would deliver a net saving of 22 WTE posts but has the significant advantage of maintaining a second wholetime pump at the station, albeit on a 30 minute delay, thus negating all of the issues detailed at paragraphs – 185 to 189 above.

Reducing the number of hours that stations are open i.e. - Days Only Crewing

188. Days only crewing would deliver a saving of 12 WTE posts per station. In these circumstances the appliance would be crewed for 12 hours each day on the wholetime duty system but would be unavailable for the 12 hours of the night shift. In practical terms the appliance would be used during the day shift for strategic standby moves to one of the 10 key stations to facilitate crew based training etc. in addition to providing emergency response cover for its own station area.

189. There are a number of disadvantages with this option:
    - There would be no reduction in the asset base and associated debt servicing and support costs
    - Assets would be significantly underutilised and the Authority would still have a number of older stations (some in poor condition) with limited firefighter training and community facilities
    - It is unlikely to be possible to bid for funding resources to support this option

Closing stations

190. Closing a station would deliver a saving of 24 WTE posts per station along with the additional savings from station overheads. In this option however the appliance from the station is permanently taken out of service.

191. From a community perspective this would be a loss of a community asset with no offsetting improvements. It would also be unlikely to be possible to bid for funding resources to support this option.

192. In order to offset the loss of the appliance but still deliver the substantive savings required, the appliance could be relocated to another station to be crewed on a wholetime retained basis.

Consultation

193. Elsewhere on the agenda is report CFO/020/14 which considers the outcomes of the public engagement to date on these options. There is clear public support for mergers as the least worst option.

Conclusion

194. In order to maintain the best possible speed and weight of attack from the remaining appliances it is the professional view of the CFO that merging stations where the opportunity arises to secure the optimum deployment location is

preferable to days-only crewing, closing stations or changing duty systems. Members should note however that the merger option would still involve the closure of stations.

195. Members should also note that having previously assessed the disposition and suitability of its stations and the operational response needs of the Service the CFO has identified that strategic mergers can be realistically pursued in the Wirral, St Helens and in Knowsley given the age and location of the stations in these areas.

196. Work is underway developing the options presented for station mergers on Wirral (West Kirby to merge with Upton at a site within Greasby), in St Helens (Eccleston to merge with St Helens at a site in the St Helens town centre ward) and in Knowsley (the merger of Huyton and Whiston at Prescot). These mergers would reduce the Authority asset base down from 26 stations to 23 and deliver additional savings from premises overheads.

197. To maintain resilience and offset the loss of a wholetime pump the CFO recommends that each merged station would have 2 pumps (1 pump wholetime, 1 pump wholetime retained). The wholetime retained pump would be utilised for resilience and therefore could be made available within 30 minutes. Analysis of Firefighters home addresses that would allow for a 30 minute recall to the stations in question suggests sufficient numbers of personnel to achieve full wholetime retained availability of the second appliance.

198. These three specific mergers would deliver a reduction of 72 WTE posts gross and 66 net (the 6 post differential to pay for the retained contracts), which would deliver a saving of £2.4m.

199. Members will recognise however that, that this saving alone, is not enough and the CFO is also considering options for either
    - Further merger in Liverpool
    - incremental closure of a station(s) in Liverpool or Sefton

    for the balance of savings required as a result of the Government cuts.

200. One station closure would deliver a reduction of 24 posts gross and 22 net which is a saving of £814,000 for salary costs.

201. The Authority might then apply this broad methodology to manage further cuts as necessary recognising that savings would be also delivered from support budgets in no small part due to a much reduced asset base.

202. The service has already commenced consultations with the Merseyside community and this will continue in 2014. The mergers plan will not be without risks; relevant stations will need to be identified; suitable land identified; planning permission sought; and capital funding will be required. In the interim the CFO will therefore need to manage staff dynamically to ensure in cash terms the firefighter savings are being delivered. Throughout the 2014/15 the Authority will receive reports back as the proposal options are developed and approval is sought on implementing the required changes.

Use of Smoothing Reserve:

203. The VFM principle 2; "To continue to seek to avoid compulsory redundancy (if possible given the difficult financial circumstances)", particularly in relation to the operational response saving, would require using the smoothing reserve to compensate for the timing profile of the likely delivery timing of the £6.300m saving options. The smoothing reserve was set-up to reflect the fact that it takes time to re-engineer the service, especially for any station merger options, and in the Section (I) identifies that sufficient reserve exists to allow for the phasing of the £6.300m saving options.

204. The table below summarises the proposed saving options for the 2014/15 financial plan;

2014/15 - 2018/19 PROPOSED MTFP					
	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Forecast Net Position (surplus) / deficit	**0**	**5,300**	**10,325**	**13,684**	**16,353**
New £6.300m Savings Phasing:					
Back Office and Support Services					
Minimum Revenue Provision (MRP) & Interest Payable on loans	-750	-850	-900	-900	-900
Non Employee Inflation	-50	-75	-125	-125	-125
Non Employee Budget review	-150	-275	-275	-275	-275
Assume ay restraint in 2015/16. Currently provision for 2% pay/ Assume 1%	0	-400	-500	-500	-500
Employee Vacancy / Incremental saving	-200	-200	-200	-200	-200
10% saving on Non Uniform Establishment	0	-450	-900	-900	-900
One-Off saving from discount on LGPS deficit payment if Authority pay 2014/15 - 2016/17 in April 2014	0	0	0	0	0
By delivering some of the £6.3m ahead of schedule the amount of reserve drawdown can be reduced by £1.150m	1,150	0	0	0	0
Operational Response	0	-350	-3,000	-3,400	-3,400
Required Smoothing Reserve		-2,700	-400		
Savings Profile:	**0**	**-5,300**	**-6,300**	**-6,300**	**-6,300**
Future Financial Challenge	**0**	**0**	**4,025**	**7,384**	**10,053**

(I) ADEQUACY OF RESERVES AND BALANCES

205. Responsibilities of Chief Finance Officers

206. 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.

207. 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.

208. In the Fire Authority the Chief Finance Officer is the Deputy Chief Executive – Kieran Timmins. For the purposes of the Act the "financial reserves" of the Authority would incorporate Earmarked Reserves and Working Balances.

209. 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

210. 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 earmarked 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.

<u>Adequacy of proposed Financial Reserves</u>

211. 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.

212. 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:
    - the reasons for that situation
    - the actions, if any, considered appropriate to prevent the situation arising.

213. There is then a requirement for the Authority to respond to the report when making decisions on its future financial reserves.

214. In recent years the Authority has maintained a general revenue reserve of, in excess, of £2m and also maintained a number of earmarked reserves.

215. A pilot Comprehensive Performance Assessment (CPA) performance indicator relating to the level of general fund reserves indicated that;

    - an appropriate level of was 5% of the forecast Net Operating Expenditure…. Or;

    - that the organisation had a financial risk management process operating which justified a lower level of reserves….".

    This is for 'normal' rule for multi-service local authorities.

216. For this Authority a 5% forecast Net Operating Expenditure equates to approximately £3million. The Authority's general revenue reserve is currently £2.894m, however:-

    - The Authority's risk management arrangements have improved. As part of this budget process the Deputy Chief Executive has prepared a financial risk management matrix and also assessed the year on year variation in risk facing the Authority. This takes account of the corporate risk register.
    - The Authority has previously maintained a number of specific earmarked reserves against risk.
    - The Authority is single purpose and does not face as full a range of risks to manage as a multi-purpose authority.
    - The Authority is unlikely to face significant increases in cost because of uncontrollable demand issues (unlike for example Social Services care for the elderly).
    - Members will note that the Authority's revenue reserves have not generally been consumed during the year by overspendings but have been maintained throughout the year.

    Therefore as the significant risks are known and are being managed or have a specific reserve, the Deputy Chief Executive recommends maintaining the general reserve at its current £2.894m level.

Current Reserves

217. Based on the latest financial review and known planned future use the Authority's forecast reserves are outlined in the table below:

Forecast Movement on Reserves 2014/15 - Future Years

	"31.03.14 Closing Balance	EXPECTED USE					
		2014/15	2015/16	2016/17	2017/18	Future Years	To cover specific / general risks
Earmarked Reserves	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Spate/Emergency Related Reserves							
Bellwin Reserve	147					-147	0
Insurance Reserve	620					-620	0
Emergency planning Reserve	75					-75	0
Catastrophe Reserve	1,000					-1,000	0
Smoothing Reserve	6,750	-2,396	-1,773	526	0	0	3,107
Severance Reserve	737						737
Ill Health Penalty Reserve	248	-248					0
Recruitment Reserve	1,000						1,000
SMG Reserve	100						100
Capital Investment	2,975	-539	-1,526				910
PFI Rental Annuity Reserve	2,269	-19	-100	-100	-100	-1,950	0
Equality / DDA Investment Res	510		-510				0
Firefighter Safety Investment Res	1,000	-200	-800				0
Facing the Future Challenge Res	800						800
Specific Projects							
Community Sponsorship Res	19					-19	0
Equipment Reserve	56					-56	0
Contestable Research Fund Res	25					-25	0
FSD Reserve	53					-53	0
Healthy Living / Olympic Legacy	59					-59	0
Water Rescue Reserve	9					-9	0
Inflation Reserve	1,500						1,500
Ringfenced Reserves							
F.R.E.E. Reserve	37					-37	0
Princes Trust Reserve	319					-319	0
Community Youth Team Reserve	54					-54	0
Beacon Peer Project Reserve	53					-53	0
Innovation Fund Reserve	168					-168	0
Concept Knowsley	0					0	0
Regional Control Reserve	18					-18	0
Energy Reseve	85	74				-159	0
St Helens District Reserve	0					0	0
New Dimensions Reserve	668					-668	0
Total Earmarked Reserves	**21,354**	-3,328	-4,709	426	-100	-5,489	8,154
General revenue Reserve	**2,894**	0	0	0	0	0	2,894
Total Reserves	**24,248**	-3,328	-4,709	426	-100	-5,489	11,048

218. In total the estimated value of all reserves as at 31.03.14 is £24.248m. Of this figure £1.842m is to cover potential future catastrophe, insurance or emergency planning costs. 6.5million relates to grant related or contractually committed projects.

£1.476m is to cover project costs associated with grants or external monies given to deliver specific outcomes and is deemed "ring-fenced". £11.386m is committed to meet future spend such as the PFI future rentals or capital schemes funded from the capital reserve. The £11.386m also includes the planned drawdown from the smoothing reserve to cover £3.100m to reflect the profile of the £6.300m Phase A savings and the revised 2014/15 budget requirement of £0.571m.

219. Although the balance of earmarked reserves, £8.1m, may appear relatively high it reflects the level of risk associated with the current financial plan and the severity of cuts imposed on the Authority for 2014/15 and beyond. The £8.1m earmarked reserves are for;

	£'m
Smoothing Reserve	3.1
Severance Reserve	0.7
Recruitment Reserve	1.0
Capital Investment	0.9
Facing the future Challenge	0.8
Inflation Reserve	1.5
Other	0.1
	8.1

220. Based upon assumptions that; the Authority will adopt all the savings identified and their attendant risks; that the Authority needs a buffer to give it time to make changes required; and, in order to avoid compulsory redundancy if possible the Deputy Chief Executive recommends the Authority hold the £8.1m identified above in reserves at the start of the financial plan.

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 District Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

Review of Reserves and Balances

221. Members need to consider their strategy on reserves and balances in the light of the guidance from the Deputy Chief Executive.

(I) BUDGET TIMETABLE & RESOLUTION

222. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2014. The Authority meeting is now invited to:

- approve the financial plan set out in Appendix D and associated £6.300m saving proposals.
- approve the budget requirement of £64.356m for 2014/15 as outlined in Appendix D.
- note that the Authority's council tax base for 2014/15 is 334,385.70, being the aggregate of the tax bases calculated by the Districts
- 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 (Updated in the Localism Act 2011)					
			Gross Ependiture 2014/15	**Gross Income 2014/15**	**Estimate 2014/15**
			£'000	**£'000**	**£'000**
(A)	sec 42 (2) (a)	Service Budget	71,548		71,548
(B)	sec 42 (3) (a)	Income		-5,965	-5,965
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	74		74
(B)	sec 42A (3) (a)	Contribution from reserves		-1,301	-1,301
		Budget Requirement	71,622	-7,266	64,356
(B)	sec 42A (3) (a)	Spending Funding Assessment		-40,693	-40,693
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		174	174
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-407	-407
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	**Precept Requirement**			**23,430**
		Tax Base			**334,385.70**
		Basic Tax Amount At Band 'D'			**£70.07**

223. 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 categories of dwellings listed in different valuation bands:

2014/15	Property Band		Increase	
£			£	%
£46.71	For properties in Band	A	0.91	1.99
£54.50	For properties in Band	B	1.07	2.00
£62.28	For properties in Band	C	1.21	1.98
£70.07	For properties in Band	D	1.37	1.99
£85.64	For properties in Band	E	1.67	1.99
£101.21	For properties in Band	F	1.98	2.00
£116.78	For properties in Band	G	2.28	1.99
£140.14	For properties in Band	H	2.74	1.99

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

PRECEPT		AUTHORITY
£		
6,444,793	Payable by	LIVERPOOL
6,151,179	Payable by	WIRRAL
3,273,320	Payable by	ST.HELENS
5,394,829	Payable by	SEFTON
2,166,284	Payable by	KNOWSLEY
23,430,405		

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

17th April 2014
29th May 2014
4th July 2014
11th August 2014
17th September 2014
23rd October 2014
28th November 2014
8th January 2015
13th February 2015
17th March 2015

Equality and Diversity Implications

226. Future reports on individual aspects of the savings required to balance the budget will be accompanied by EIAs.

227. The financial plan makes provision for the required 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

228. The relevant consultation will take place as and when the plans are drawn up to deliver the required staffing change to deliver the reduction in support staff, -10%, and firefighters, estimated at -96.

Legal Implications

229. The Authority must set a balanced budget and decide its level of precept before 1st March 2014.

Financial Implications & Value for Money

230. See Executive Summary

Risk Management, Health & Safety, and Environmental Implications

231. The budget and capital investment programme make large-scale investments in staff Health and Safety.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

232. To Achieve; Safer Stronger Communities - Safe Effective Firefighters. The proposed financial plan considers how best to allocate resources and deliver a balanced budget in light of the approved mission of the service and service priorities.

BACKGROUND PAPERS

CFO/025/13 "MERSEYSIDE FIRE & RESCUE AUTHORITY BUDGET & FINANCIAL PLAN 2013/2014 – 2017/2018" AUTHORITY 26 FEBRUARY 2013.

CFO/010/14 "FINANCIAL REVIEW REPORT 2013/14 APRIL TO DECEMBER REVIEW" AUTHORITY 27 FEBRUARY 2014

GLOSSARY OF TERMS

MFRA **M**erseyside **F**ire and **R**escue **A**uthority

MFRS **M**erseyside **F**ire and **R**escue **S**ervice

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).
CSR07, 10, 13	Government comprehensive spending review to identify support for the public sector over 2 to 3 year period
MRP	MINIMUM REVENUE PROVISION - An amount set aside from revenue towards the repayment of loan debt.
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.
UNSUPPORTED BORROWING	No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.