MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	**COMMUNITY SAFETY AND PROTECTION COMMITTEE**		
DATE:	**30 JANUARY 2025**	**REPORT NO:**	**CFO/80/24**
PRESENTING OFFICER	**DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA**		
RESPONSIBLE OFFICER:	**DIRECTOR OF FINANCE AND PROCUREMENT MIKE REA**	**REPORT AUTHOR:**	**DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA**
OFFICERS CONSULTED:	**STRATEGIC LEADERSHIP TEAM**		
TITLE OF REPORT:	**FINANCIAL REVIEW 2024/25 - OCTOBER TO DECEMBER**		

APPENDICES:	**APPENDIX A1:**	**REVENUE BUDGET MOVEMENTS SUMMARY**
	APPENDIX A2:	**FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A3:	**CORPORATE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A4:	**BUDGET MOVEMENTS ON RESERVES**
	APPENDIX B:	**CAPITAL PROGRAMME 2024/25**
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Purpose of Report

1. To review the revenue, capital, and reserves financial position for the Authority for 2024/25. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period October to December 2024.

Recommendation

2. It is recommended that Members;

   a. approve the proposed revenue and capital budget alignments;

   b. approve the use of the forecast £0.800m savings to fund an increase in the Capital Investment Reserve and reduce the level of future borrowing, and;

   c. instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2024/25 and use any savings to reduce the level of capital borrowing.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 29th February 2024. The approved MTFP delivered a balanced budget for 2024/25 based on key budget assumptions around costs, in particular pay. This report updates Members on the 2024/25 budget position and any issues arising in the year that may impact on the future years' financial position.

The total budget requirement remains at the original budget level of £74.191m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between October and December 2024.

Capital:
The current 5-year capital programme has a planned total investment of £54.546m over the 2024/25 – 2028/29 period, of which £24.628m relates to 2024/25. During the quarter, the capital programme planned spend has reduced by £2.454m in 2024/25. This takes into account an increase of £0.070m, relating to Home Office funded National Resilience assets, virements of £0.285m from Revenue Contribution to Capital Outlay (RCCO) / Capital Reserves, less slippage identified at Q3 into future years of £2.809m. The £0.355m increase in capital spend is fully funded from specific resources. The report outlines all the scheme adjustments in the year and the revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £3.700m. The report outlines all the movement in reserves in the quarter and considers the current adequacy of the available reserves. All movements in committed reserves are outlined in Appendix A4.

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

Introduction and Background

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

4. This report reviews the Authority's financial position up to the end of the third quarter of 2024/25, (October – December 2024).

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

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

(A) Current Financial Year – 2024/25

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

Revenue Position:

7. Budget Movements: there have been a number of budget adjustments in the quarter, but as they are either self-balancing virements within department budgets or budget increases financed by reserves (in line with previously agreed Authority decisions), they have not changed the overall net revenue budget requirement. The budget adjustments in quarter 3 included:-

    - **A contribution from reserves of £0.331m**. Consisting of £0.032m drawdown from the Energy Reserve, £0.023m drawdown Health and Wellbeing Reserve – Contribution towards British Fire Fighter Challenge (approved by the Authority on 18th May 2023 – CFO/012/23) and £0.276m drawdown from the Capital Investment Reserve (approved by the Authority on the 17 October 2024 - CFO/59/24 Project Completion Report on the New Aintree Fire Station, Training and Development Academy/National Resilience Centre of Excellence) for additional requirements that arose during the end of the project.

    - A £0.641m drawdown from the Contingency/Inflation Provision to cover the Green and Red Book annual pay award and non-pay inflation and third-party contracts.

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

8. **The net budget requirement remains at £74.191m, which is consistent with the original budget**. Appendix A1 – A3 outline the budget movements in the quarter.

9. <u>Update on Budget Assumptions and forecast actual expenditure.</u>

10. The key budget assumptions for 2024/25 are:

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

11. **Annual Pay awards:**
As previously reported in the Financial Reviews 2024/25 (April to June - report CFO/56/24 and July to September report CFO/69/24), the 2024/25 budget assumed a Grey book (Firefighters) pay award of 3%. The 2024/25 Firefighters pay award has been agreed at 4% and this is higher than the 3% included as the budget assumption for 2024/25. This exceeded the budget forecast by approximately £0.340m in 2024/25 and £0.450m in 2025/26.

The 2024/25 budget assumed a Green/Red book pay award of 3%. The Local Government staff 2024/25 pay offer of a £1,290 fixed sum on all NJC pay points 2 to 43 inclusive and 2.5% on all pay points above 43 was agreed with representative bodies on the 23rd of October 2024. This is equivalent to 5.7% on point 2 and 2.5% on point 43. For MFRS this would exceed the green/red book employee budget by approximately £0.040m.

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

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

13. **Unforeseen Growth;**
Other than the annual pay awards referenced in section 11, no 2024/25 unavoidable growth has been identified in the quarter.

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

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

The non-uniform establishment forecast indicates a **£0.450m favourable variance** due to staff recruitment and retention issues and a number of staff not being at the top of the grade.

II. **Non-Employee Costs and Income;**
Forecasts have indicated a favourable variance in utility costs. The budget has a favourable variance of **£0.100m** following a budget re-alignment of utilities and business rates.

III. **Interest on Balances & Contingency for Pay & Prices**
Forecast investment income is expected to exceed the budget by **£0.150m** because of higher rates of interest and forecasts indicate a one-off saving on the contingency for pay and prices **£0.100m**

15. Overall, the latest forecast has identified a favourable net revenue variance of £0.800m. The Director of Finance and Procurement would recommend that Members approve that the £0.800m favourable variance be used to fund an increase in the Capital Investment Reserve and reduce the level of future borrowing. The table below summarises the year-end forecast position based on spend to the end of December 2024:

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

	TOTAL BUDGET	ACTUAL as at 31.12.24	FORECAST	VARIANCE
	£'000	**£'000**	**£'000**	**£'000**
Expenditure				
Employee Costs	63,784	47,252	63,334	-450
Premises Costs	4,148	2,549	4,048	-100
Transport Costs	1,442	1,019	1,442	0
Supplies and Services	3,749	2,344	3,749	0
Agency Services	7,477	5,028	7,477	0
Central Support Services	718	483	718	0
Capital Financing	11,855	0	11,855	0
Income	-16,205	-13,526	-16,205	0
Net Expenditure	76,968	45,149	76,418	-550
Contingency Pay & Prices	312	0	212	-100
Cost of Services	77,280	45,149	76,630	-650
Interest on Balances	-300	-1,003	-450	-150
Movement on Reserves	-2,789	0	-2,789	0
Total Operating Cost	74,191	44,146	73,391	**-800**

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

17. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. No debtor accounts were written off in the quarter.

Capital Programme Position:

18. The last financial review report (CFO/69/24) approved a 5-year capital programme worth £54.191m. This has now been updated for scheme additions and changes during quarter 3 of £0.355m, as outlined below:-

a. The Authority manages the national resilience asset refresh on behalf of the Home Office and receives 100% funding for the scheme. During the quarter, a total of £0.070m of planned asset refresh has been identified.

b. The additions also include new ICT hardware, £0.010m funded from revenue contribution to capital outlay and a £0.275m drawdown from the Capital Investment Reserve for additional requirements that arose during the end of the new Aintree Fire Station, Training and Development Academy/National Resilience Centre of Excellence building project (approved by the Authority on the 17 October 2024 - CFO/59/24 Project Completion Report on the New Aintree Fire Station, Training and Development Academy/National Resilience Centre of Excellence). The additional requirements included transportation and offloading of the donated train carriages, additional power to the rail tunnel, improved security measures, additional external water supplies for firefighting, additional access control measures and additional upgrades to the uninterruptible power supply, to ensure critical ICT infrastructure stays operational.

c. Several self-balancing virements have taken place within the quarter, these include an increase in the Bromborough Fire Station refurbishment budget by £80k to assist with a number of build issues such as the water main supply, electrical main supply and gym flooring.

d. Officers have reviewed the current 2024/25 programme to identify likely scheme start and completion dates and as a result identified £2.809m rephasing into 2025/26 and future years. The most significant rephasing is due to:

i. A number of planned building schemes £1.519m have been rephased into 2025/26. These include Roofs and Canopy replacements £0.175m has been rephased into 2025/26, whilst the roof survey is being completed. Appliance Room Doors & Lighting Replacement Upgrades & SHQ Joint Control Room and White Goods & Catering Equipment £0.073m, rescheduling of works in line with major refits and door conditions. Tower Improvements £0.050m structural survey has been completed with works due to start in 2025. L.E.V System in Appliance Rooms £0.042m working with Health & Safety to determine future requirements. Crosby Fire Station refurbishment £0.092m, Equality Act/Access compliance work £0.200m, Lighting Replacement Surge Protectors £0.040m and Emergency Lighting £0.040m works being planned in line with major refurbishment work. Electric Vehicle Infrastructure works £0.050m on-going project to identify the best solution and locations. Newton-le-Willows £0.015m retention payment for LLAR accommodation. A further £0.742m has been rephased due to planned workload.

ii. A number of ICT schemes £0.352m have been rephased into 2025/26. ICT Hardware £0.050m, new devices to replace old devices plus 14 new devices for the TDA plus support for Windows 11. ICT Servers (SAN) £0.060m reviewing 2 tier storage solution as part of SAN refresh due in 2025/26. Planning Intelligence & Performance System £0.090m. Emergency Services Mobile Communication programme control room integration £0.066m. A further £0.086m has been rephased including wi-fi network, emergency safety network and health & safety application.

iii. Operational Equipment purchases £0.414m have been rephased into 2025/26. Hydraulic Rescue Equipment £0.200m, the SRT will be having new cutting equipment bought before the financial year end. Water Rescue Equipment £0.050m, new suits will now be procured in the next financial year. BA Equipment £0.010m due to recent incident resulting in large amounts of items that may need to be purchased. Marine Rescue Launch £0.012m this has been put on hold until the new flood van has been delivered. A further £0.142m has been rephased due to further research being carried out.

iv. Vehicle capital schemes £0.524m have been rephased into 2025/26 and future years. Special vehicle – POD Long Term Capability Management £0.211m the Authority has placed the order in 2024/25 but due to delivery lead times they won't be delivered until after April 2025. Two wildfire 4*4 vehicles £0.150m, a water rescue unit £0.070m and a panel van £0.037m have been rephased into 2025/26 along with £0.056m worth of smaller virements.

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

Movement in the 5 Year Capital Programme						
	Total	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amendments to Approved Schemes;						
Scheme re-phasing	0.0	-2,809.1	2,988.9	-194.9	15.1	
NRAT Asset Refresh	70.0	70.0				
ICT Hardware/Drones	10.2	10.2				
TDA Build Capital Investment Reserve	275.0	275.0				
	355.2	**-2,453.9**	**2,988.9**	**-194.9**	**15.1**	**0.0**
Funding						
Unsupported Borrowing						
Scheme Re-phasing	0.0	-2,809.1	2,988.9	-194.9	15.1	
Grant						
Home Office - NRAT	70.0	70.0				
Revenue Contribution to Capital Outlay (RCCO)						
IT003 - ICT Hardware	10.2	10.2				
Capital Reserve						
BLD019 TDA Build - CFO/52/24 Cap Inv Res	275.0	275.0				
	355.2	**-2,453.9**	**2,988.9**	**-194.9**	**15.1**	**0.0**

Use of Reserves:

20. The analysis in Appendix A4 outlines the reserve movements in the quarter. A £0.331m draw-down adjustment was required in the quarter as outlined in paragraph 7 of this report.

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

(B) Treasury Management

22. The Authority continues to “buy in” Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period October to December 2024/25.

23. **Prospects for Interest Rates;**

At its meeting on 18th December 2024, the Bank of England’s Monetary Policy Committee (MPC) voted 6 to 3 to maintain the bank rate at 4.75%. Three members of the committee preferred to reduce the bank rate by 0.25% to 4.5%. Since the MPC’s previous meeting the 12-month CPI inflation measure had increased to 2.6% in November from 1.7% in September. This was slightly higher than previous expectations, owing in large part to stronger inflation in core goods and food.

The Committee continues to monitor closely the risks of inflation persistence and will assess the extent to which the evolving evidence is consistent with more constrained supply, which could sustain inflationary pressures, or with weaker demand, which could lead to the emergence of spare capacity in the economy and push down inflation. Monetary policy will need to continue to remain restrictive for sufficiently longer, until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee will decide the appropriate degree of monetary policy restrictiveness at each meeting.

In November 2024, the American election saw the victory of Donald Trump, with the inauguration set for January 2025. The run up to the election saw elevated government borrowing costs in America given the general uncertainty, coupled with concerns over the inflationary impact of protectionist trade polices put forward by the Trump Campaign. In the UK the cost of borrowing has also risen since hitting a recent low in September 2024. The budget delivered by the Chancellor in October 2024 saw a significant increase in the levels of public spending and taxation. While the Chancellor described the budget as necessary to promote growth in the UK economy, the market reaction has seen elevated government borrowing costs given the anticipated higher levels of debt issuance that will be required over the coming years.

PWLB rates for both long and short-term borrowing dipped to a recent low in September before increasing back up during the third quarter of the financial year. The 1-year PWLB started the quarter at 4.95%, before reaching a peak of 5.28% in late November, then subsequently fell back to finish the quarter at 5.19%. Longer term PWLB 50-year rates started the quarter at 5.09%, rose to a peak of 5.68% in late December, finishing the quarter at 5.65%.

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

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

The borrowing requirement comprises of the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisages that new long-term borrowing of £8 million may be required in 2024/25. In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required, the Authority may initially choose to benefit from lower short-term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-authority market. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

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

25. **Annual Investment Strategy;**

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

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or part-nationalised banks and AAA rated money market funds has enabled reasonable returns in the current interest rate environment which has remained high in the third quarter of 2024/25. With the speculation that interest rates might start to fall in 2025/26, opportunities to add more duration to the investment balance will be explored in the coming months. In the period 1st Oct to 31 Dec 2024 the average rate of return achieved on average principal available was 4.96%. This compares with an average SONIA rate (Sterling Overnight Rate) of 4.81%.

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

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m

Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

The Authority had investments of £46.100m at the 31st December 2024 (this included a £36.342m firefighters' pension top-up grant received in July that will be utilised in the year)

26. **External Debt Prudential Indicators;**

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

Authorised limit for external debt:	£71 million
Operational boundary for external debt:	£66 million

Against these limits, the maximum amount of debt reached at any time in the period 1 October to 31 December 2024 was £33.7 million.

27. **Treasury Management Prudential Indicators;**

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

a) Interest Rate Exposures

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

The maximum that was reached in the period 1 October to 31 December 2024 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1 October to 31 December 2024 was as follows: -

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

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

The limit for investments of longer than 365 days was set at £2 million for 2024/25. Nil investments over 1 year have been placed so in the first three quarters of 2024/25.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

31. See Executive Summary.

Risk Management and Health & Safety Implications

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

Environmental Implications

33. There are no environmental implications directly related to this report.

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

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

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

BACKGROUND PAPERS

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

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

CFO/69/24 "Financial Review 2024/25 – July to September" Policy and Resources Committee 12th December 2024.

GLOSSARY OF TERMS

BOE	**B**ank **o**f **E**ngland
CIPFA	**C**hartered **I**nstitute of **P**ublic **F**inance and **A**ccountancy
CPI	**C**onsumer **P**rice **I**ndex
LGPS	**L**ocal **G**overnment **P**ension **S**cheme
MHCLG	**M**inistry of **H**ousing, **C**ommunities and **L**ocal **G**overnment
MPC	**M**onetary **P**olicy **C**ommittee
MTFP	**M**edium **T**erm **F**inancial **P**lan
NJC	**N**ational **J**oint **C**ouncil
NRAT	**N**ational **R**esilience **A**ssurance **T**eam
PWLB	**P**ublic **W**orks **L**oan **B**oard
TDA	**T**raining & **D**evelopment **A**cademy
RCCO	**R**evenue **C**ontribution to **C**apital **O**utlay