<table>
<tr><th colspan="5">MERSEYSIDE FIRE AND RESCUE AUTHORITY</th></tr>
<tr><td>MEETING OF THE:</td><td colspan="4">BUDGET AUTHORITY</td></tr>
<tr><td>DATE:</td><td colspan="2">27 FEBRUARY 2025</td><td>REPORT NO:</td><td>(CFO/85/25)</td></tr>
<tr><td>PRESENTING OFFICER</td><td colspan="4">DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA</td></tr>
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STRATEGIC LEADERSHIP TEAM</td></tr>
<tr><td>TITLE OF REPORT:</td><td colspan="4">BUDGET & FINANCIAL PLAN 2025/26 - 2029/30</td></tr>
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APPENDICES:	APPENDIX A:	DRAFT SUMMARY REVENUE BUDGET ANALYSIS
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2025/26 – 2029/30
	APPENDIX C:	PROPOSED 2025/26 – 2029/30 FIVE YEAR MTFP
	APPENDIX D:	RESERVES
	APPENDIX E:	DISCRETIONARY SERVICES FEES AND CHARGES

Purpose of Report

1. To present information to allow Members to set a medium-term capital and revenue financial plan that allocates resources in line with the Authority’s strategic aims and ensures that the Authority delivers an efficient and effective value for money service aligned with its budget principles.

2. This will enable the Authority to set a budget for 2025/2026 while determining a precept level in line with statutory requirements.

Recommendation

It is recommended that Members

(a) note the report and proposed budget;

(b) approve the 2025/2026 Merseyside Fire and Rescue Authority budget as detailed in this report.

(c) approve the Director of Finance and Procurement's recommendation on maintaining the current general fund balance at £3.700m and maintaining the reserves as outlined in paragraphs 148 to 158 of this report.

(d) approve the proposal to increase the precept by £5.00 for Band D properties in 2025/2026, raising the Band D Council Tax from £91.25 to £96.25 and confirm the strategy for future precept rises (the plan assumes further increases of 2% in each year after that).

(e) note the assumptions in developing a five-year financial plan outlined in the report and approve the 2025/2026 budget estimate of £77.934m.

(f) approve the Capital Programme as summarised in Appendix B.

(g) approve the 2025/2026 – 2029/2030 updated Medium Term Financial Plan (MTFP) outlined in the report and summarised in Appendix C.

(h) approve the discretionary fees and charges uplift outlined in the report and summarised in Appendix E.

(i) approve the Minimum Revenue Provision (MRP) strategy for 2025/2026, as this report outlines in paragraphs 87 to 96.

(l) note the prudential indicators relating to the proposed capital programme, outlined in paragraphs 97 to 106 of this report.

(m) approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in the section for:

- External Debt Prudential Indicators
- Operational Boundary for Debt
- Upper limits on fixed interest rate exposure
- Upper limits on variable rate exposure
- Upper and lower on the maturity structure of debt
- Total principal sums invested for periods longer than 365 days

(n) note that the recommendations above provide an approved framework within which officers undertake the day-to-day capital and treasury management activities.

Introduction and Background

14. The Authority is required to determine its budget and precept level for 2025/2026 by 1st March 2025.

15. This report will present all the necessary financial information in a single report.

This report considers:

a. Forecast Revenue Estimates
b. The Proposed Capital Programme
c. Any Revenue Savings and Growth Options
d. The Treasury Management Strategy
e. The Minimum Revenue Payment Policy for the Authority

16. Considering all the financial issues to be taken into account in a single report ensures that the Authority can:

a. Consider the borrowing freedoms available under the prudential code
b. Reflect best practice
c. Provide value for money
d. Focus on the link between capital investment decisions and revenue budgets
e. Continue developing their strategic financial plan

17. The following report structure will be adopted:

Section	Focus	Paragraph
A	Executive Summary	18 - 34
B	Background Information	35 – 67
C	Capital Programme Strategy	68 – 86
D	Minimum Revenue Provision Statement	87 - 96
E	Prudential Indicator Report	97 - 106
F	Treasury Management Strategy Statement	107 - 109
G	Revenue Forecasts 2025/2026 – 2029/2030	110 – 138
H	Adequacy of Reserves and Balances	139 – 160
I	Budget Timetable & Resolution	161 - 164

A) EXECUTIVE SUMMARY

18. The Authority must set a balanced 2025/2026 budget and precept level by 1st March 2025.

19. The budget and financial plan should allocate resources in line with the Authority's Vision and Purpose:

Our Vision:

To be the best Fire and Rescue Service in the UK.

One team, putting its communities first.

Our Purpose:

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

20. Members approved a 2024/2025 – 2028/2029 medium term financial plan (MTFP) at the Budget Authority meeting on 29th February 2024. Based on assumptions around the 2025/2026 and future years funding and expenditure, the MTFP identified a financial challenge in 2025/2026 of £0.931m, rising to £1.695m by 2028/2029. Due to the uncertainty over future funding and expenditure, the Authority agreed to deal with any financial challenge once its future Government funding had been confirmed.

21. The MTFP has now been updated for the 2025/2026 Government Settlement Funding Assessment (SFA) and takes account of the changes to the MTFP's assumptions and technical adjustments that Members approved at the January 2025 Budget Strategy Day. Section G of this report outlines the changes in the proposed new MTFP in detail. The changes to the current MTFP are summarised below:-

	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000
Current 2025/26 MTFP Forecast	931	832	1,099	1,695	1,695
Summary of impact changes to 2024/25 MTFP	-931	-182	-140	-556	-253
Forecast (Surplus) / Deficit	0	650	959	1,139	1,442

22. Overall, the changes to the assumptions, technical adjustments, and funding amendments have resulted in the forecast balanced position for 2025/2026, and the updated MTFP is attached to this report as Appendix C.

23. Although a deficit is forecast from 2026/2027 onwards, uncertainty over government funding, potential changes to the funding mechanism, and future pay awards mean substantial uncertainty exists over these forecasts. Members are, therefore, asked to note any forecast financial challenge at this time.

24. As with any assumptions, those built into the medium-term financial plan will be at risk from factors beyond the Authority's control, for example, pay awards. If any

actual future cost or funding level varies from the MTFP assumption, then the forecast budget position will be affected. The Authority receives regular financial review reports throughout the year, and any corrective action to keep the 2025/2026 budget and MTFP balanced will be considered by Members as part of this reporting process.

25. The proposed updated MTFP assumes the Authority will increase the 2025/2026 precept by £5.00 for Band D properties. If the Authority wished to hold a referendum and increase the precept by more than £5.00, then the Authority would face a risk, if the electorate voted against the increase, of incurring the expense of re-billing all the districts within Merseyside at an estimated cost of +£1m.

26. The Authority has created reserves in recent years to meet the cost of future projects and initiatives or as a contingency against specific risks. Section H of this report considers the current reserves and planned use. Consequently, committed reserves at the start of 2025/2026 are estimated at £10.067m, of which £2.7m will be utilised by the end of 2026/2027. The overall movement in reserves over the next 10+ years is outlined below and in Appendix D:

Committed Reserves															
	Balance C/fwd From 2024/25	Proposed Increase	Revised Balance C/fwd for 2025/26	Estimated 2025/26 Use	Estimated 2026/27 Use	Estimated 2027/28 Use	Estimated 2028/29 Use	Estimated 2029/30 Use	Estimated 2030/31 Use	Estimated 2031/32 Use	Estimated 2032/33 Use	Estimated 2033/34 Use	Estimated 2034/35 Use	Estimated 2035/36 Use	Held to Cover Risk
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Emergency Related Reserves															
Bellwin / Emergency Planning Res	222		222												222
Insurance Reserve	534		534												534
Modernisation Challenge															
Smoothing Reserve	1,400		1,400												1,400
Pensions Reserve	300		300		-200	-100									0
Recruitment Reserve	1,814		1,814		-314	-300	-300	-300	-300	-300					0
Collection Fund Reserve	100		100		-100										0
Capital Investment Reserve															
Capital Investment Reserve	1,830	234	2,064		-1,064	-500	-500								0
PFI Annuity Reserve	1,235		1,235	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	476
Specific Projects															
Community Sponsorship Reserve	55		55		-55										0
Equipment Reserve	342		342		-342										0
Training Reserve	270		270		-100	-100	-70								0
Health and Wellbeing Reserve	7		7		-7										0
Inflation Reserve	1,200		1,200												1,200
Clothing	90		90		-90										0
Ringfenced Reserves															
Community Risk Management Res	246		246		-121	-125									0
Energy Reserve	111		111		-111										0
New Dimensions Reserve	77		77		-77										0
Forecast Use of Reserves in the year	9,833	234	10,067	-69	-2,650	-1,194	-939	-369	-369	-369	-69	-69	-69	-69	3,832
Total Earmarked Reserves Bal C/fwd	9,833	234	10,067	-69	-2,650	-1,194	-939	-369	-369	-369	-69	-69	-69	-69	3,832
General Revenue Reserve	3,700	0	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700
Total Reserves	13,533	0	13,767	3,631	1,050	2,506	2,761	3,331	3,331	3,331	3,631	3,631	3,631	3,631	7,532

27. The Director of Finance and Procurement recommends that the Authority maintains the current General Fund Reserve of £3.700m.

28. Members should be mindful that reserves, balances, and one-off savings should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would face the same deficit in the next and future years but without reserves available to finance it. This is underlined by the Auditor's 'Golden Rule' - that "one-off" revenue reserves should not be used to support 'ongoing' revenue expenditure.

29. Section C of this report details the proposed five-year capital programme. The table below summarises the proposed £43.291m of investments:

Capital Expenditure	Total Cost £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
Buildings & Land	**9,393,600**	3,631,800	2,592,500	1,073,300	993,500	1,102,500
Fire Safety	**3,175,000**	635,000	635,000	635,000	635,000	635,000
ICT	**10,147,820**	2,796,960	1,187,660	818,900	2,008,900	3,335,400
NRAT Resilience Assets	**0**	0	0	0	0	0
Operational Equipment & Hydrants	**8,228,800**	1,722,800	3,350,000	843,000	1,252,000	1,061,000
Vehicles	**12,345,850**	4,370,850	2,021,100	2,623,900	690,000	2,640,000
Expenditure	**43,291,070**	**13,157,410**	**9,786,260**	**5,994,100**	**5,579,400**	**8,773,900**

30. The Authority needs to be mindful of the revenue costs of borrowing. The Table below outlines how the £43.291m of investment will be funded:

Financing Available	Total £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
Capital Receipts	**1,715,000**	**1,715,000**	**0**	**0**	**0**	**0**
RCCO	**1,875,000**	**375,000**	**375,000**	**375,000**	**375,000**	**375,000**
Total Non Borrowing	**3,590,000**	**2,090,000**	**375,000**	**375,000**	**375,000**	**375,000**
Unsupported Borrowing	**39,701,070**	**11,067,410**	**9,411,260**	**5,619,100**	**5,204,400**	**8,398,900**
Total Funding	**43,291,070**	**13,157,410**	**9,786,260**	**5,994,100**	**5,579,400**	**8,773,900**

31. The proposed capital programme has a borrowing requirement of £11.067m in 2025/2026 and £39.701m across the whole life of the plan. These commitments have been built into the proposed financial plan, and this report provides members with several prudential indicators so they can ensure that this commitment is considered affordable, prudent, and sustainable in light of these prudential indicators (see Section E of the report).

32. The Prudential Code requires the Authority to set a Treasury Management Strategy that includes several indicators and limits. It sets a framework for managing investments and borrowing for the Director of Finance and Procurement.

33. 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
- Upper and lower limits on the maturity structure of debt
- Total principal sums invested for periods longer than 365 days

34. Minimum Revenue Provision (MRP) is the amount of money set aside in the revenue budget by the Authority each year to reduce its overall level of debt. The Authority is required under the Local Authorities (Capital Finance and Accounting, England, Amendment) Regulations 2008 to prepare a statement on its policy for MRP for the forthcoming year. Regulations require the Authority to pay the debt at a rate that it

considers prudent. The Director of Finance and Procurement has reviewed the MRP policy in line with the legislation, and the report outlines the proposed MRP policy for 2025/2026 and future years in section D of this report.

B) BACKGROUND INFORMATION

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

36. If any organisation wants to be successful, its budget setting and MTFP must allocate resources to support its key strategic aims and priorities. This is a vital consideration when organisations face periods of severe financial challenges. For many years, the Authority has maintained a comprehensive rolling five-year MTFP and capital programme.

37. From 2010 to 2020, the Government implemented an austerity plan to reduce the national debt. A significant element of the plan was to reduce Government funding for local government (this includes fire and rescue authorities). As the Authority had a relatively low council tax base, it relied more on Government grant funding to support its revenue budget and, therefore, suffered a more proportionate financial loss than almost every other fire and rescue authority in the country. The cumulative percentage reduction in Government revenue support for the Authority between 2010/11 (£46.3m) and 2019/20 (£30.8m) equated to a 33% cash reduction or approximately 50% in real terms. That resulted in unavoidable decreases in the front-line operational services over this period.

38. In 2010, the Authority;

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

39. The current budget provides for;

- 642 FTE firefighters (36% lower),
- 35 FTE staff in fire control (17% lower)
- 295 FTE support and technical staff (31% lower),
- Appliances;
  - Days: 27 immediately available plus 5 on a 30-minute recall
  - Night: 21 immediately available plus 11 on a 30-minute recall
- 21 fire stations maintained by various demand-led duty cover systems.

40. The proposed MTFP looks to:

- Increase in fire engine/appliance availability from 32 to 34, enhancing the Authority's resilience and response to foreseeable risk (specialist response),

- Increase in investment in training and assurance (competency) given the Grenfell Tower Phase 2 report, Personal Protective clothing, bespoke equipment and consumables,

- Improved ICT facilities,

- Increased investment in properties, including further station refurbishments to ensure they are welcoming and well managed (contaminants risk)

41. The Authority's revenue budget requirement (gross day-to-day revenue spending less fees, specific grants, and other income) is funded approximately 50% from the Government and 50% from Council Tax (precept income).

Government Funding - Settlement Funding Assessment (SFA):

42. The SFA is made up of a couple of elements, the first element is the Baseline Funding Level (which includes the estimated share of Local Business Rates and a top up grant from government). The second element is the Revenue Support Grant.

43. On the 28th November 2024, Minister of State (Minister for Local Government and English Devolution) Jim McMahon announced the publication of the government's 2025-26 Local Government Finance Policy Statement. The Statement announced that Local Authorities will see an increase in baseline funding levels to reflect the increase in the standard multiplier and that local authorities will be compensated in the usual way for the freeze in the small business rates multiplier via an increase in the under-indexation compensation. The Statement also announced the Revenue Support Grant will also continue to increase in line with September CPI (1.7%) and fire and rescue authorities will have the flexibility to raise council tax by up to £5.00.

44. The Authority will receive £22.093m in Baseline Funding in 2025/26 (estimate share of local business rates £4.691 plus top up grant £17.401), this is an increase of £252k or 1.14% on the 2024/25 finance settlement. The 2025/2026 Revenue Support Grant will increase by £285k or 1.7% to £16.914 in 2025/26.

45. The Authority will continue to receive compensation for under indexation, this will increase by £187k or 4.47% to £4.364m in 2025/26. The combination of baseline funding and the compensation for under indexation will increase by a total of £0.439m or 1.7% to £26.457m for 2025/26.

46. The overall change in SFA/Business Rates compensation for under indexation grant funding was an increase of £0.724m or 1.7%. The 2024/25 MTFP assumed a 2% increase in SFA/Business Rates compensation.

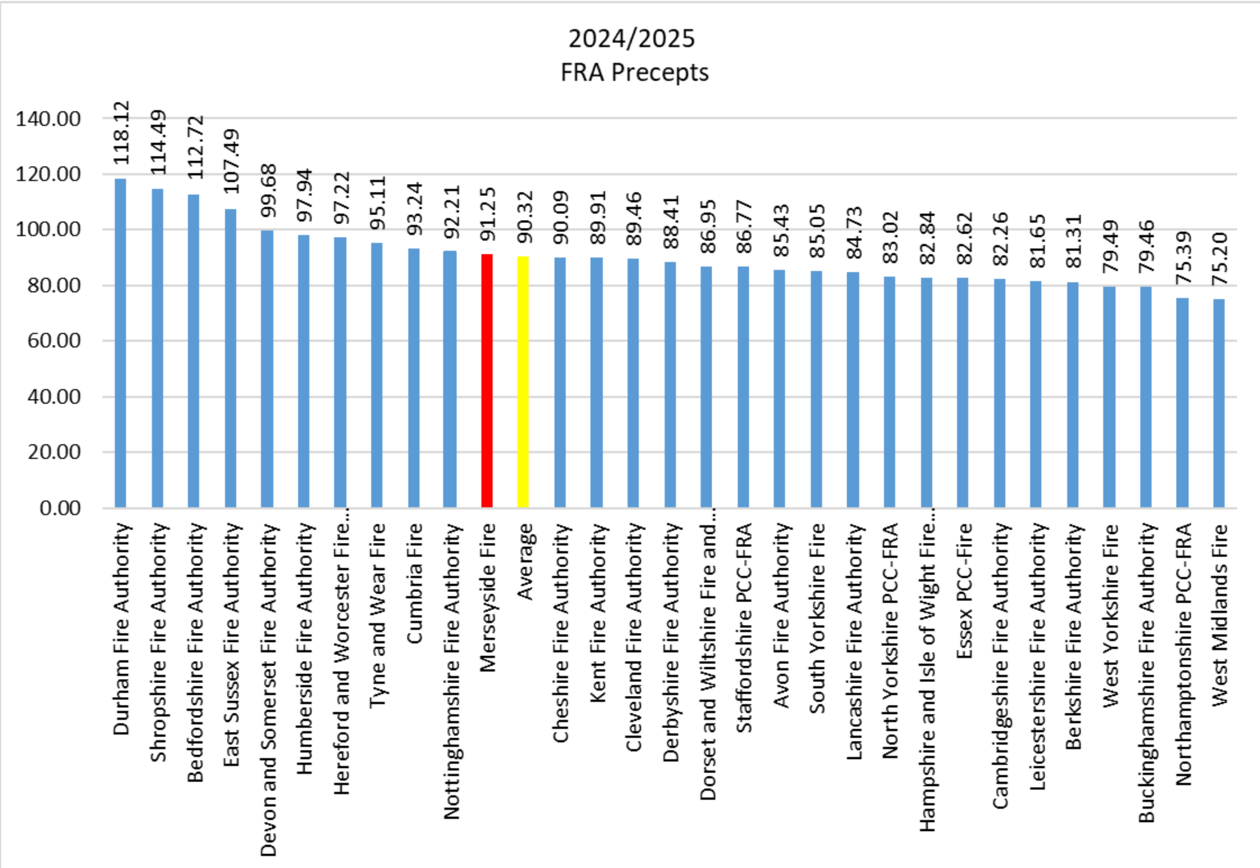
Government Funding - Services Grant 2025/2026

47. The Government announced in the Local Government Finance Policy Statement that this grant will be removed entirely. The Authority received a Services Grant of £0.141m in 2024/2025 and assumed this would continue in future years in the MTFP. The proposed MFTP has removed this entirely.

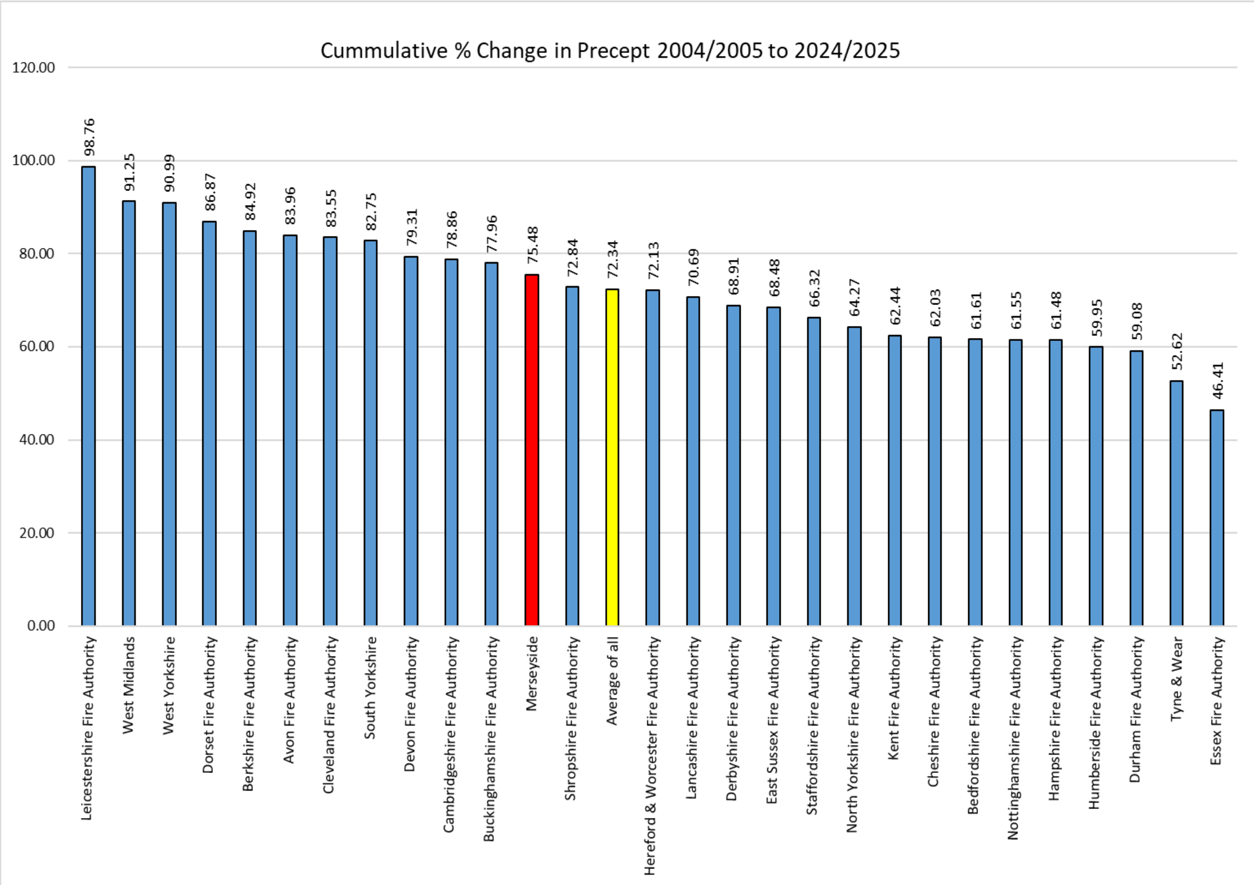
Council Tax:

48. The level of council tax yield is dictated by the number of properties and the charge level on each. Each year, the billing authorities provide the Authority with the estimated Band "D" equivalent tax base, which is then used to calculate the expected council tax income based on a Band D Precept charge. The Authority then notifies each billing authority of the Precept to charge each property band and the forecast income yield that the billing authority must pay the Authority.

49. The Authority's current 2024/2025 Band D Council Tax of £91.25 is slightly above the FRS national average of £90.32, as shown in the bar chart below. The proposed increase of £5.00 to £96.25 in 2025/2026 is unlikely to change this position:

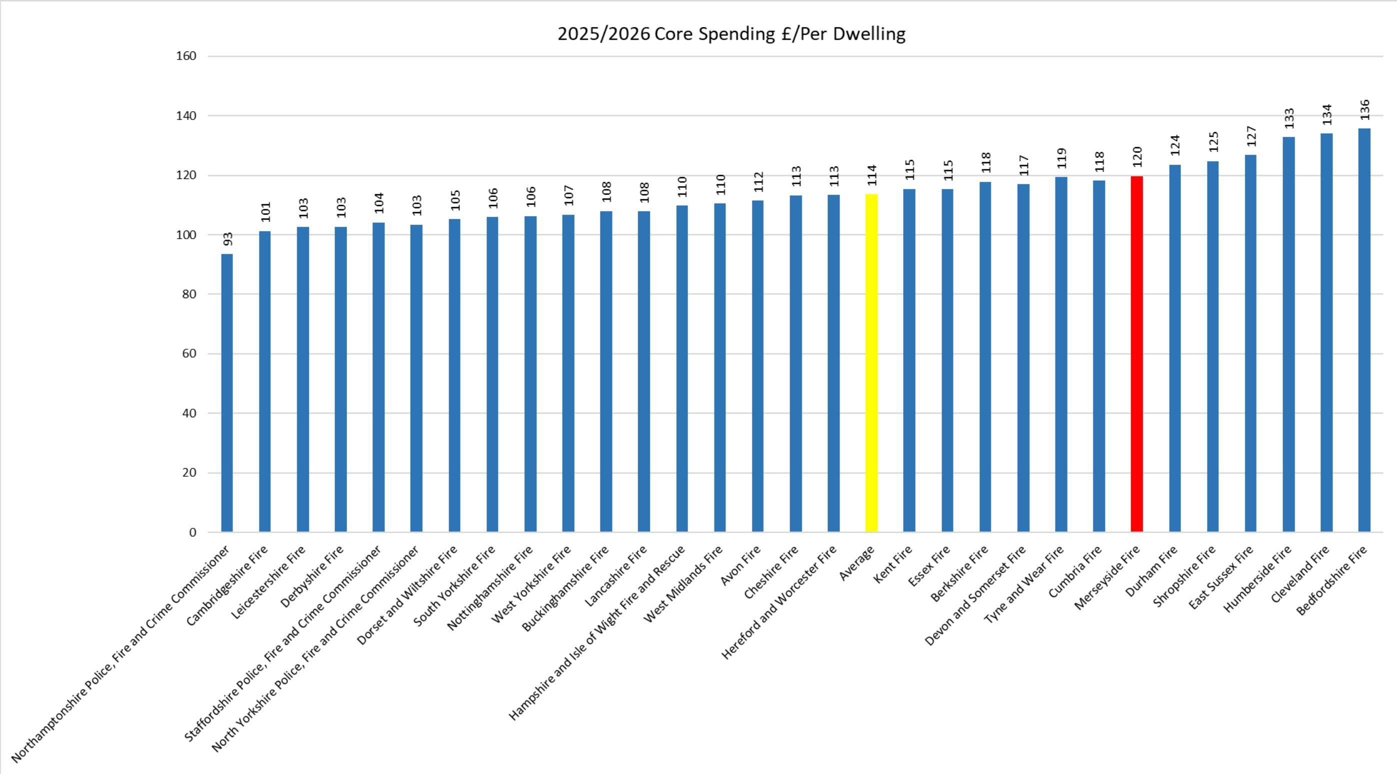


50. Over the past 20 years, when compared to the other FRA's, Merseyside is again slightly above the national average for cumulative council tax increases:



51. The Authority's control of council tax should be considered in light of the fact that Merseyside's council tax base has had one of the lowest increases across the same period. The tax base reflects how much income is generated by £1 of the "Band D" equivalent council tax. So, if the tax base increases, income will increase, even if the council tax charge remains unchanged. MFRA remained just above the average for council tax base in 2024/25.

52. However, despite recent improvements, it should be noted that we remain, compared to our peers, a relatively high spending Authority on a core spending per dwelling basis. *(Core Spending is a Government measure of the estimated overall budget, which includes Government funding plus council tax income based on future precept and tax base increases and the compensating small business rates grant).* The table overleaf outlines the core spending power / per dwelling as outlined in the 2025/2026 finance settlement data produced by the Government:



53. The proposed updated MTFP assumes the Authority will increase the 2025/2026 precept by £5.00 per Band D property, which is within the limit that, if exceeded, requires the Authority to hold a referendum. The updated MTFP assumes that future years' precept increases will be 2% p.a. In addition, based on the tax base information for 2025/2026, the increase is 2.32%, which is 1.82% greater than the amount anticipated in the current MTFP. This has meant an increase in Council Tax yield of £2.820m. The proposed MTFP assumes a 0.5% p.a. increase in the future years' tax base.

54. The Authority may increase the 2025/2026 precept by more than £5.00. However, this would be subject to a referendum of the electorate of Merseyside. Any vote against such an increase will require a revised budget and incur the expense of re-billing all the districts within Merseyside, estimated at +£1m.

Council Tax and Business Rates - Collection Fund

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

56. The Council Tax Collection Fund forecasts a surplus of £0.319m.

57. The Business Rates Collection Fund forecasts a surplus of £0.095m.

58. Overall, the Collection Fund has a surplus of £0.414m.

Pay:

59. The current MTFP assumption was for a 3% annual pay award increase in 2024/2025 and a 2.5% increase in future years. The proposed 2025/2026 MTFP includes the impact of the 2024/2025 of the additional pay awards above the budgeted 3%. The firefighter pay award was agreed at 4% an additional 1% or £338k above the budget in 2024/25 (part year) and £450k in a full year. The non-operational pay award was agreed at a flat £1,290 per full-time employee or 2.5% (whichever is the highest), this was 0.25% or £40k above the budget. In addition, the pay award assumption for 2025/2026 has been maintained at 2.5% as per the MTFP.

Amendments to the current MTFP Assumptions:

60. As well as the changes identified above to the current MTFP**, Section G** of this report outlines all the changes in the proposed new MTFP in more detail.

Updated 2025/2026 – 2029/2030 MTFP:

61. This report provides the Authority with an updated MTFP covering five years, 2025/2026 – 2029/2030. The proposed MTFP considers the Government's 2025/2026 financial settlement, updated council tax funding, and other budget assumptions discussed at the Budget Strategy Day. The proposed updated MTFP is attached to this report as Appendix C and is summarised below;

Proposed 2025/26 - 2029/30 MTFP					
	2025/26	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Current 2024/25 MTFP Forecast (Surplus) / Deficit	**931**	**832**	**1,099**	**1,695**	**1,695**
2025/26 MTFP Issues to build in future MTFP:-					
Impact of 2024/25 Grey Book Pay Award (4% - Budget 3%)	450	450	450	450	450
Impact of 2024/25 Green Book Pay Award (£1,290 or 2.5% whichever is greater) = c3.25%	40	40	40	40	40
Increase in Employers National Insurance (15%-13.8% £9,100 - £5,000) (2024 Autumn Budget)	1,000	1,000	1,000	1,000	1,000
Impact of Higher Prices (Indirect NI / Inflation)	771	936	1,016	1,116	1,116
2029/30 Inflation Provision	0	0	0	0	1,742
Contribution to Capital Reserve to fund Capital Programme and additional Inflationary Pressures	234	0	0	0	0
Loss of Fire Link Grant in 2025/26	54	0	0	0	0
Reverse MRP/Interest additional £400k from 2028/29	0	0	0	-400	-400
Unavoidable Growth	761	856	867	800	800
Efficiency Target (Procurement, Interest Payments, Inflation etc)	-262	-262	-262	-262	-262
Increase in Bus Rates Multiplier s31 compensation grant	-187	-187	-187	-187	-187
Annual Pension Grant (Following 2020 Actuarial Review) 28.8% to 37.6%	-992	-992	-992	-992	-992
LGPS Pension Rebate - Increase Rebate for 2025/26 £286k	-286	0	0	0	0
Employers National Insurance Grant 42.5% of NI cost	-425	-425	-425	-425	-425
Reduction in Services Grant (2025/26 £141k to £0)	141	141	141	141	141
Decrease in SFA Funding in 2024/25 below current MTFP Assumption	233	236	238	240	-162
Council Tax Precept	-1,927	-1,976	-2,026	-2,076	-3,114
Collection Fund Change	-414				
SFA Local Business Rate Estimate Adjustment	-122				
Summary of impact of changes to 2025/26 MTFP	**-931**	**-182**	**-140**	**-556**	**-253**
Forecast (Surplus) / Deficit	**0**	**650**	**959**	**1,139**	**1,442**

62. The MTFP delivers a balanced financial position in 2025/2026 but outlines a potential financial challenge from 2026/2027. Members are asked to note this at this point due to the significant uncertainty over future Government funding. The Autumn 2024 Budget announced the Government's intention to pursue a comprehensive set of reforms to place local government in a more sustainable position and these will be delivered through a multi-year settlement from 2026-27.

Allocation of Resources:

63. 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.

64. The Community Risk Management Plan (CRMP) is the key driver in allocating the Authority's resources in response to the risks facing Merseyside. The 2025/2026 MTFP includes the budget (revenue and capital) to support CRMP 2024 - 2027.

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

Our Vision:

To be the best Fire and Rescue Service in the UK.

One team, putting its communities first.

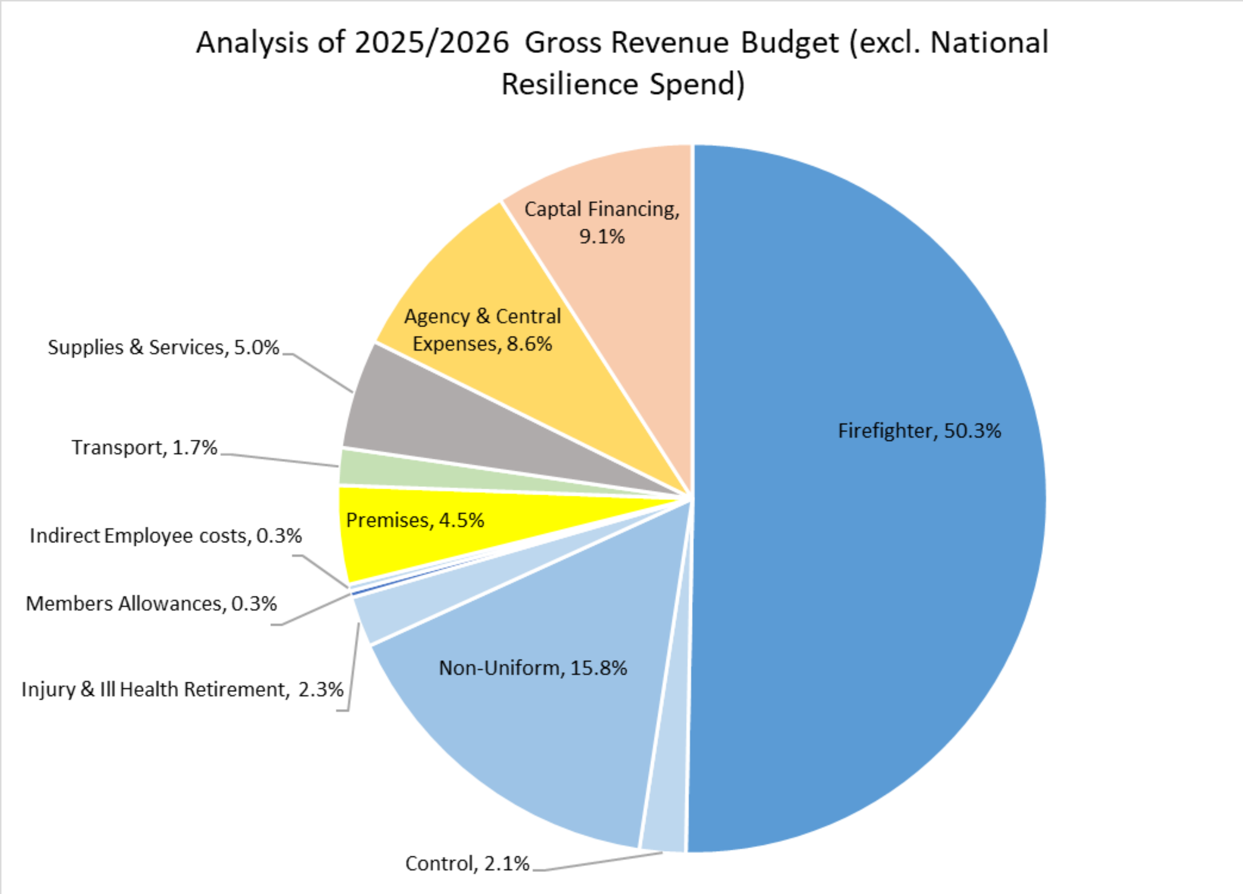
Our Purpose:

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

66. The updated 2025/2026 MTFP will support the delivery of the CRMP and the Authority's key strategic aims and priorities.

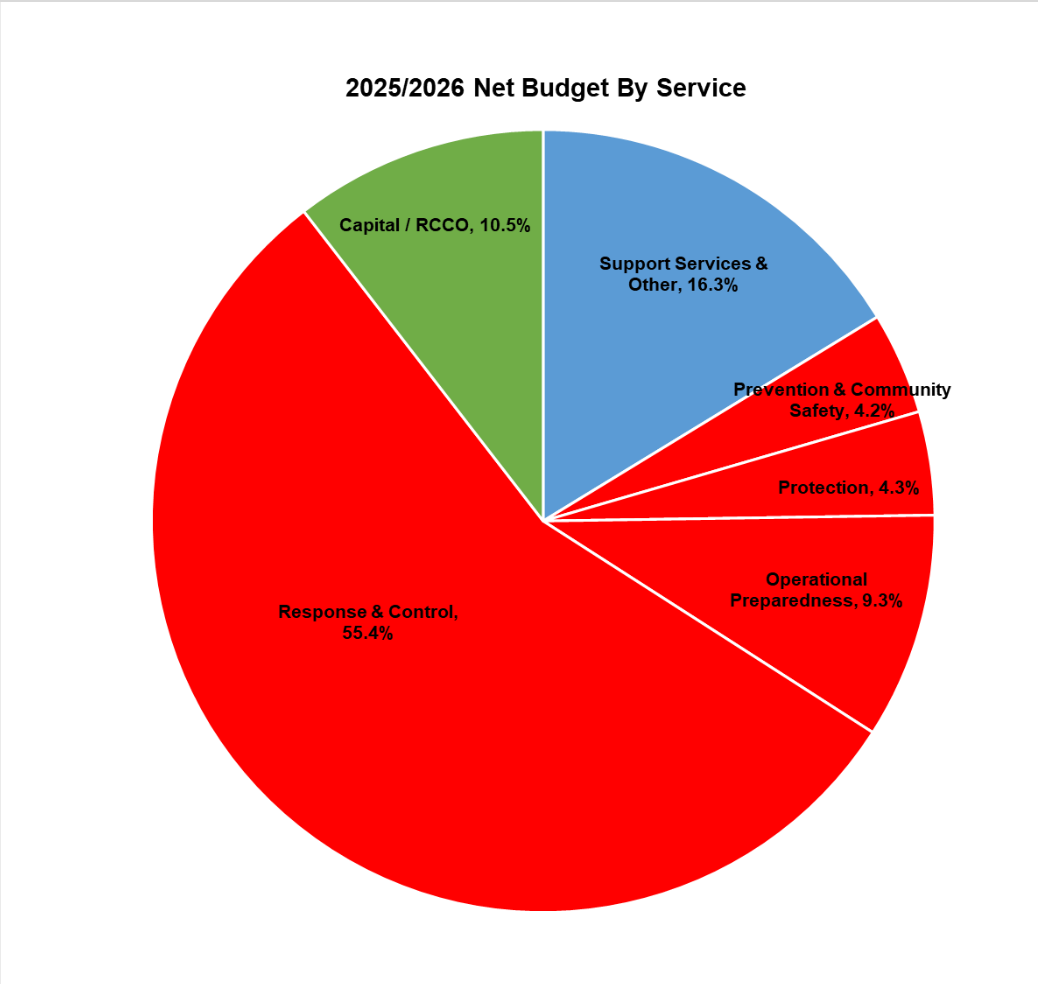
Analysis of the Budget Allocation by Service and Spend type:

67. An analysis of the planned revenue expenditure outlines that it is predominantly employee-related (71%). The pie chart overleaf analyses the revenue expenditure over the different main subjective headings (the blue sections relate to employee costs):



A complete subjective analysis of the base budget for 2025/2026 is set out in **Appendix A.** A subjective analysis is only part of the overall view on spending. To assist Members, the same data is shown in a "thematic" view in the following paragraphs and is based upon the Service's strategic objectives.

68. The Authority has an excellent track record of investing in line with its corporate priorities. The pie chart below outlines that most expenditure, 55.4%, goes on emergency and specialist response. In addition, 9.3% goes on Operational Preparedness and 8.5% on Protection, Prevention & Community Safety. Therefore, 73.2% of expenditure is on the "front line" services. The 10.4% on capital costs relate mainly to previous investments in front line assets, fire stations, vehicles and equipment. The remaining 16.4% is on support and operational enabling services.



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

<u>Operational Response & Control (Total £43.2m)</u>

- Service delivery and emergency response through its 21 fire stations and control room.
- Specialist capabilities such as the Search and Rescue Team.
- Invested in staff safety – procured state of the art fire kit, helmets, boots, breathing apparatus and appliances, ensuring the service maintains safe effective firefighters.
- Health & Safety & Assurance.
- Delivering a HFSC programme.
- Marine Rescue Unit to support safety on the River Mersey.

<u>Prevention & Community Safety (Total £3.3m)</u>

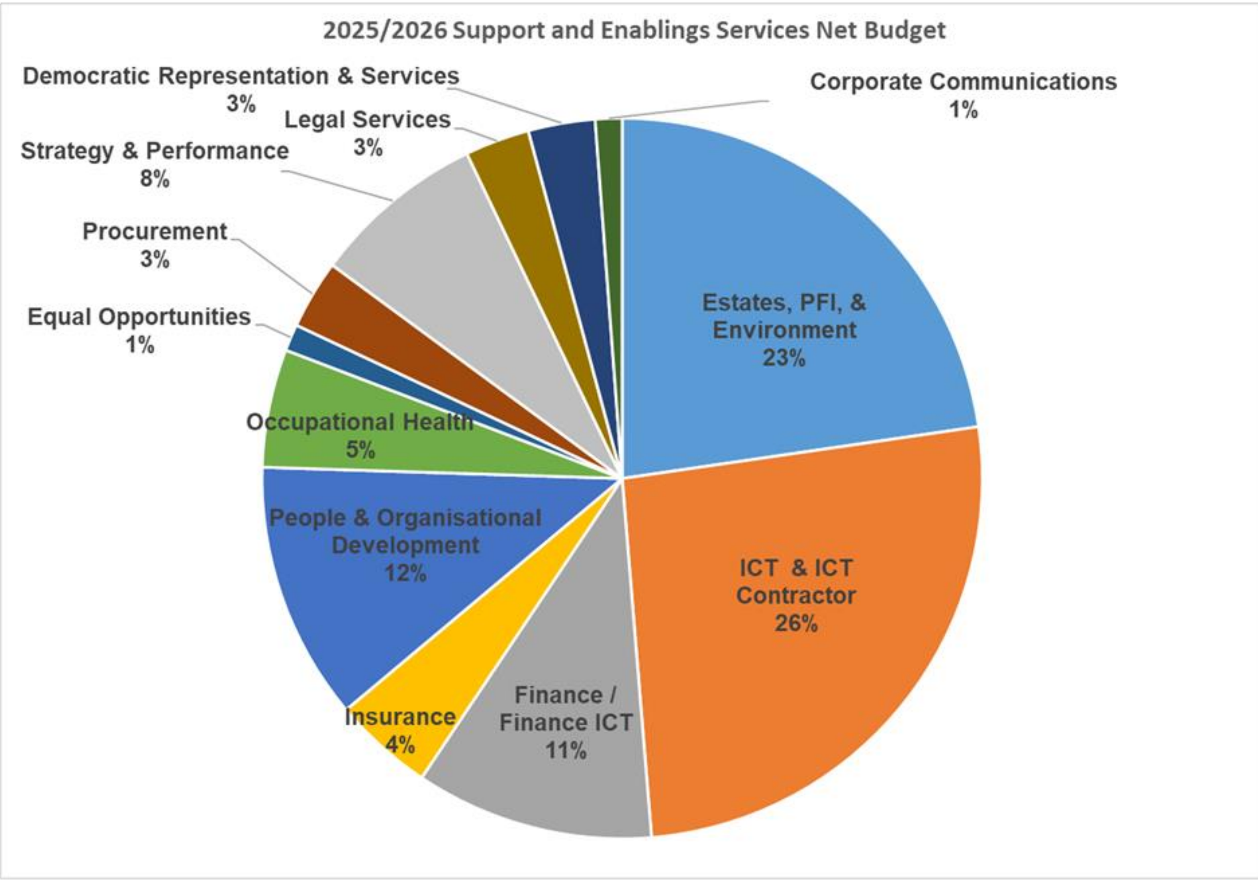
- Community Prevention work and youth engagement.
- Employment of specialist Advocates and continuation of the King's Trust and other programmes.
- Fire Service Direct.

- Purchase and installation of smoke alarms per annum (**capital expenditure**).

Protection (Total £3.2m)
- Protection Response Officers.
- Enforcement & Prosecution.
- ICT Information systems.

Operational Preparedness (Total £7.3m)
The investment delivers various services that help prepare for a full range of possible incidents in Merseyside and ensure Firefighter safety.
- Training Delivery
- Operational Planning and Policy
- Contingency Planning
- Training and Development Academy
- Operational Equipment Team
- Water Section
- Health and Safety Department
- Transport/Fleet Management – to keep vehicles operating effectively
- Workshops
- National Operational Guidance Review Team

Support Services & Enabling Services (Total £12.7m)
The investment in support services represents 16.4% of the budget. The pie chart below shows the breakdown of those support areas:



It should be noted that many of the support and enabling services are key "front line" elements of a modern FRA. For example:

- Estates – includes the running costs of buildings, including 21 Community Fire Stations,
- ICT – includes the cost of the ICT for Fire Control and stations,
- Occupational Health – to support staff wellbeing and manage attendance.

In addition, some support functions are unavoidable for any organisation:

- Insurance - to cover 3rd party, vehicle, public and employer liabilities,
- Legal, Payroll, Accountancy, Human Resources, Procurement, etc., to support the organisation in paying its staff and suppliers and ensuring activities are carried out within the relevant laws.

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

C) CAPITAL STRATEGY AND PROGRAMME

68. Capital is considered first in this report so that Members can consider the revenue impacts of capital investment and borrowing decisions as part of the revenue budget and council tax considerations. The proposed capital investment contributes to the future provision of operational and other Authority services as it facilitates the required infrastructure investment in, property, ICT, vehicles, and operational equipment needed by the Service to deliver future day to day activities. ***The following sections (C) to (F) anticipate the Authority's agreement to the proposed capital programme and its financing***.

69. 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 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 it believes it to be unaffordable or in times of public spending restraint. A key part of the revised capital system is the CIPFA "Prudential Code for Local Authority Capital Finance," which provides a framework of decision-making under which authorities will decide their capital investment and financing plans and set limits for borrowing.

70. Authorities will be required to 'have regard to' the "Prudential Code" when setting their future budgets and Council Tax levels - which in practice means they would need to have very good reasons not to comply. The overriding objective of the "Prudential Code" is to ensure that the capital investment plans of local authorities are affordable, prudent, sustainable, and follow good practices.

71. Some of the main features of the "Prudential Code" are as follows:

    - The full Authority must consider and set several 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 must be 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 into account 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.

72. 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 an acceptable level of Council Tax.

73. Proposals for capital investment are aligned to Authority and Service priorities. The starting point for this programme has been an assessment of the capital investment requirements for the Authority for future years based on 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, and officers have modified the programme taking into account the: -

- Updated five-year asset management plans (the asset management plans can be found on today's Authority agenda).

- Service requirements, particularly investments required to support and deliver the CRMP.

- 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.

74. The Authority produces a rolling five-year capital programme to manage major capital schemes each financial year. Owing to the nature of capital expenditure, many schemes span more than one financial year, so the programme is a rolling programme covering five future financial years.

75. Although the proposed capital programme covers a five-year period, an extended term view of future capital investment exists for assets with a significantly longer life. This is true specifically for property investment as these assets may have a +50-year asset life. Property asset management objectives exist to identify planned spend over a +10-year period. In addition, fire appliances and specialist vehicles have a 10 to 16 year asset life, and a replacement strategy ensures the Authority maintains the appropriate levels of operational capability. The vehicle replacement strategy ensures appliance and specialist vehicle refresh is spread over several years to allow flexibility on model options and to keep pace with new technology and innovations in design and development.

76. The proposed £43.291m five-year programme set out in Appendix B is summarised in the table overleaf. This table also identifies programme funding and a resultant borrowing requirement of £39.701m.

Capital Programme 2025/26 to 2029/30

Capital Expenditure	Total Cost £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
Buildings & Land	**9,393,600**	3,631,800	2,592,500	1,073,300	993,500	1,102,500
Fire Safety	**3,175,000**	635,000	635,000	635,000	635,000	635,000
ICT	**10,147,820**	2,796,960	1,187,660	818,900	2,008,900	3,335,400
Operational Equipment & Hydrants	**8,228,800**	1,722,800	3,350,000	843,000	1,252,000	1,061,000
Vehicles	**12,345,850**	4,370,850	2,021,100	2,623,900	690,000	2,640,000
Expenditure	**43,291,070**	**13,157,410**	**9,786,260**	**5,994,100**	**5,579,400**	**8,773,900**
Financing Available	**Total £**	**2025/26 £**	**2026/27 £**	**2027/28 £**	**2028/29 £**	**2029/30 £**
Capital Receipts	**1,715,000**	**1,715,000**	**0**	**0**	**0**	**0**
RCCO	**1,875,000**	**375,000**	**375,000**	**375,000**	**375,000**	**375,000**
Capital Reserves	**0**	**0**	**0**	**0**	**0**	**0**
Grants	**0**	**0**	**0**	**0**	**0**	**0**
Total Non Borrowing	**3,590,000**	**2,090,000**	**375,000**	**375,000**	**375,000**	**375,000**
Unsupported Borrowing	**39,701,070**	**11,067,410**	**9,411,260**	**5,619,100**	**5,204,400**	**8,398,900**
Total Funding	**43,291,070**	**13,157,410**	**9,786,260**	**5,994,100**	**5,579,400**	**8,773,900**

77. The updated capital programme includes new schemes and growth and inflation of existing schemes, these have increased the overall expenditure by £13.356m. The table below summarises the proposed changes:

Capital Expenditure	Total Cost £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
Building/Land						
Growth/Inflation	**237,900**	237,900	-	-	-	-
New Schemes	**2,162,500**	280,000	260,000	260,000	260,000	1,102,500
	2,400,400	**517,900**	**260,000**	**260,000**	**260,000**	**1,102,500**
Fire Safety						
New Schemes	**635,000**	-	-	-	-	635,000
	635,000	**-**	**-**	**-**	**-**	**635,000**
ICT						
Growth/Inflation/Savings	**81,000**	97,000	11,000	8,000	- 53,000	18,000
New Schemes	**5,310,400**	521,000	232,000	130,000	1,110,000	3,317,400
	5,391,400	**618,000**	**243,000**	**138,000**	**1,057,000**	**3,335,400**
Operational Equipment & Hydrants						
Growth/Inflation	**1,025,000**	200,000	825,000	-	-	-
New Schemes	**1,061,000**	-	-	-	-	1,061,000
	2,086,000	**200,000**	**825,000**	**-**	**-**	**1,061,000**
Vehicles						
Growth/Inflation	**203,000**	173,000	-	-	30,000	-
New Schemes	**2,640,000**	-	-	-	-	2,640,000
	2,843,000	**173,000**	**-**	**-**	**30,000**	**2,640,000**
Expenditure						
Inflation/Growth	**1,546,900**	**707,900**	**836,000**	**8,000**	**- 23,000**	**18,000**
New Schemes	**11,808,900**	**801,000**	**492,000**	**390,000**	**1,370,000**	**8,755,900**
Total	**13,355,800**	**1,508,900**	**1,328,000**	**398,000**	**1,347,000**	**8,773,900**
Financing Available	**Total £**	**2025/26 £**	**2026/27 £**	**2027/28 £**	**2028/29 £**	**2029/30 £**
Total Non Borrowing	**0**	**0**	**0**	**0**	**0**	**0**
Unsupported Borrowing	**13,355,800**	**1,508,900**	**1,328,000**	**398,000**	**1,347,000**	**8,773,900**
Total Funding	**13,355,800**	**1,508,900**	**1,328,000**	**398,000**	**1,347,000**	**8,773,900**

78. Of the £13.556m planned increase:

(a) Adding the “extra year” to the programme, 2029/2030, adds £8.774m

(b) New 2025/2026 – 2028/2029 proposals including Growth/Inflation/New Schemes/Savings add £4.582m. The key items are for investment in:

- Refurbishment of Kirkby £0.238m
- Training Tower Improvements £0.800m
- Installation of Photovoltaic Panels (Renewable Energy) £0.240m
- Replacement of Firewalls £0.100m
- Security Information & Event Management Software £0.297m
- Windows 11 Hardware Upgrade £0.100m
- Computer Aided Dispatch Replacement £1.000m
- Mitel Server Upgrade Corporate Telephony £0.150m
- Improvements to Fleet £0.200m
- BA Equipment £0.825m
- Ancillary Vehicles Pool Cars (Electric) £0.173m

79. The £13.356m of new planned capital spending requires unsupported additional borrowing, and this commitment has been built into the proposed MTFP.

80. **Appendix B** comprehensively analyses the proposed 5-year capital programme. The main areas of capital programme expenditure are summarised below: -

a. Building Investment Strategy (£9.394m):

The estate comprises 21 fire stations, a Training and Development Academy (TDA), a Service Headquarters including Fire and Rescue Control, a Marine Rescue Unit, Engineering Centre and three houses used by firefighters who work our Low Level of Activity and Risk (LLAR) duty system.

The capital programme reflects the funding required to replace, maintain and enhance the current estate portfolio and, when possible, seeks to attract external funding or specific contributions (capital grants, capital receipts, capital reserves) to reduce the level of borrowing required. The Estates Team maintain and revise a 5-year property asset management plan supported by a 10-year property strategy. The proposed capital programme is consistent with the priority areas contained within the plan.

Major refurbishment works of £4.310m at fire stations and other property works are planned over the programme period, including major refurbishments of Kirkby and Wallasey fire stations and other refurbishments including City Centre and Kensington fire stations and service headquarters.

General station upgrade work, £2.108m, is planned over the programme period, including investment in station roofs and canopy replacements, appliance room door repairs, appliance room floor repairs and sanitary accommodation refurbishments.

The balance, £2.976m, relates to other property work on schemes such as energy conservation, boiler replacements, access compliance and furniture replacement.

b. Fire Safety (Community Risk Management) (£3.175m)

Smoke alarms and sprinkler systems are being classed as capital expenditure per Government guidance. This follows the awarding of historic capital grants by the (then) Office of the Deputy Prime Minister towards the purchase cost of such items in financial years 2004/05 through to 2007/08. The current policy is to capitalise the installation costs of smoke alarms, estimated at £1.875m over the period. However, this expenditure is not funded through borrowing but financed in the year by a revenue contribution to capital. The Capital Programme includes £1.300m for smoke alarms and deaf alarms.

c. ICT – Investing in line with the ICT Strategy (£10.147m)

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:

- ICT Software £2.462m including licenses, security Information and event management software and Microsoft agreements
- Planned replacement of ICT Hardware including PC's, monitors, AV equipment and peripherals £1.976m
- ICT Servers including Mitel Server upgrade and Virtualisation refresh £1.176m
- ICT Network replacement and growth including Network Switch/Router upgrade £1.285m
- Operational ICT Equipment & ICT security £1.001m
- Other applications and ICT schemes including Command & Control Suite and Computer Aided Dispatch replacement £2.247m

d. Operational Equipment & Hydrants (£8.228m)

Provision is also made to ensure that a modern fire and rescue service can be delivered, and firefighters kept safe; in particular, provision is made for investment in specialist rescue equipment and new breathing apparatus such as -

- Hydraulic rescue equipment replacement programme £1.460m
- Pod Equipment including demountable unit refurbishment £0.265m
- Improvements to Fleet £0.650m
- Breathing Apparatus replacement programme £3.015m
- Radiation/Gas Detection Equipment £0.122m
- Fire Ground Equipment £0.319m
- Search and Rescue equipment £0.280m
- Gas detection Equipment £0.166m
- Water Rescue Equipment £0.172m
- CCTV Equipment £0.203m
- Operational Ladders £0.105m
- Water Delivery Hoses £0.111m
- Electrical Equipment £0.121m
- Emerging Technologies £0.250m
- Other Specialist Equipment £0.804m

- Installation of new or replacement hydrants per our water strategy, £0.185m.

e. Vehicle Replacement Strategy (£12.346m)

The vehicle asset management plan elsewhere on today's agenda has identified the vehicle needs of the Authority and the required replacement and procurement strategy. The proposed capital programme reflects the ask within the asset management plan: -

a. Fire Appliances - £6.624m

The Authority has developed an appliance replacement strategy based on the economic life of an appliance. Papa 1 and Papa 2 Pumping Appliances will be replaced at 10 years. This then creates a roll down process of the refreshed appliances to move to Papa 3, reserve and support appliances positions. This will enable MFRS to achieve a life period for Papa 3 and reserve appliances of no more than 16 years and support appliances of no more than 19 years. The plan provides for 19 new appliances (including an electric fire appliance).

b. Specialist Vehicles - £2.940m

There is a need to make provision for the purchase of specialist vehicles to support the wider range of roles for the fire and rescue service, including:

- Incident Command Unit (ICU)
- Prime Movers (4)
- POD Long Term capability management (1)
- Forklift Truck (1)
- BA Support Pod (1)
- Crane Lorry (1)
- Wildfire Appliance (2)
- Curtain Sided Truck
- Water Bowser Appliance (1)

c. Ancillary Vehicles – £2.132m

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

d. Marine Rescue Boats - £0.445m

e. Workshop Equipment - £0.205m

Funding:

81. A mixture of specific funding sources and borrowing will fund the proposed capital spend:

82. **Capital receipts**: - capital receipts are usually the proceeds from the sale of assets. Any such receipts can be applied to reduce an Authority's outstanding debt or reinvest in the capital infrastructure. The Authority has (when available) used capital receipts as a source of funding for new capital investment with little, if any, being

used for debt repayment – unless regulations require a proportion of the receipts to be explicitly used to repay debt.

83. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £1.715m. It assumes 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.

84. **Revenue Contribution to Capital Outlay (RCCO):** Capital spending can be funded by a contribution from the approved revenue budget. The proposed capital programme includes an annual RCCO of £1.875m, which comes from the "freed-up" employee budget following the capitalisation of smoke alarm installation costs (salary costs).

85. **Borrowing**: Under the Prudential capital system, local authorities can now determine their borrowing level. 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. After considering any specific funding, the proposed capital programme requires prudential "unsupported" borrowing of £39.701m. The revenue budget and MTFP include adequate provision for this debt's future revenue servicing cost.

86. When the Authority borrows money, it must 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 the proposed MRP policy for 2025/2026 – 2029/2030 for Members and the methodology for calculating the MRP. More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (see Section E).

(D) MINIMUM REVENUE PROVISION STATEMENT

87. Under the Local Authorities and Accounting Regulations, the Authority must set aside a sum of money each year to reduce the overall level of debt; this sum is known as the Minimum Revenue Provision (MRP). The 2003 Local Authorities (Capital Finance and Accounting) (England) Regulations set a minimum annual amount to be charged to revenue based on the Authority's Capital Financing Requirement (CFR), which is an amount broadly equivalent to the Authority's outstanding debt. The regulations were updated in 2008 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations and now require each Authority to repay debt at a rate it considers **prudent** and to set out in an annual statement the Authority's policy on making MRP in respect of the forthcoming year.

88. The regulations guidelines interpret that MRP may be deemed to be prudent if it is either:
    (a) Based over a period that is reasonably commensurate with that over which the capital expenditure/asset provides benefits (asset life), or
    (b) For the element of expenditure met from borrowing supported by Government Grant, a period reasonably commensurate with the period in the determination of that grant (this, in reality, would equate to a 4% MRP methodology).

89. The regulations and guidelines set out four options for calculating MRP; however, as the government is issuing no new supported borrowing, only 2 of the 4 options are applicable for new borrowing. (Asset Life Method or Depreciation methods):

    1. **Regulatory Method** – This allows local authorities to continue calculating 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 before 1st April 2008.

    2. **Capital Financing Requirement Method** – This is very similar to the regulatory method, but it does not take into account the adjustment that ensures authorities do not pay more MRP than under the previous capital regulatory regimes. This method may not be appropriate for most authorities as it would result in a higher level of provision than option 1.

    3. **Asset Life Method** – MRP is determined by reference to the life of the asset, and the amount is either based on:
        i equal instalments method. This generates a series of equal annual amounts over the life of each asset financed from borrowing, or
        ii annuity method. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

    4. **Depreciation Method** - MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which

expenditure has been financed by borrowing. This option is available to both supported and unsupported borrowing in determining the MRP requirement.

90. 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.

91. The 2025/2026 MRP is determined by the actual level of outstanding debt (CFR) at the end of 2024/2025. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2024/2025:

    (a) For all capital expenditure incurred after 1st April 2008 financed by **unsupported (prudential) borrowing**, MRP will be calculated using the Asset Life Method – equal instalments method.

    (b) For credit arrangements such as **on balance sheet leasing arrangements (finance leases)**, the MRP charge is to be equal to the principal element of the annual rental.

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

92. For all capital expenditure incurred before 1st April 2008 and funded via supported borrowing, the MRP is determined via a straight line (equal instalment) method for up to 40 years (except land for which 50 years is used). The Director of Finance and Procurement views this as a prudent methodology to ensure that all debt is repaid over a finite timeframe.

93. The options set out above meet the requirement for MRP to be deemed prudent but also allow for certainty and predictability over MRP charges. The financial plan outlined in this report takes into account the proposed Authority's policy on MRP.

94. In addition, it is proposed that any revenue budget savings identified in a year may be used to make additional one-off MRP payments if the overall financial position of the Authority in that year remains consistent with the approved financial plan.

95. Interest on loans to fund capital expenditure is estimated at £1.877m.

96. The proposed financial plan includes budget provision to meet the MRP and interest payments based on historic and planned future capital spend. In the past, the Authority has determined it can afford and sustain significant prudential borrowing to allow the required level of investment in the infrastructure and assets of the Authority to deliver a modern, well-equipped fire and rescue service.

(E) PRUDENTIAL INDICATOR REPORT

97. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2025/2026, 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.

98. It should be noted, however, that to provide those indicators, capital and revenue financial plans need to be prepared for each of the following three financial years, commencing with 2025/2026.

99. The financial plans prepared for the financial years 2026/2027 and 2027/2028 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 must be supported by an indication of future Council Tax. At this stage, an assumption of Council Tax increases of £5.00 in 2025/2026 and 2% in 2026/27 and after that.

100. The Authority must demonstrate that its spending plans comply with the Prudential Code by publishing several performance indicators, known as the Prudential Indicators. ***Details of the prudential indicators for the Authority are provided below.***

    (a) 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.
    (b) Estimates of the precept that would result from the three-year capital plan.
    (c) Estimates of the capital financing requirement.

101. The prudential indicators for the Authority are: -

- **Capital Expenditure**

  The actual capital expenditure that was incurred in 2023/2024 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2023/24 £000,s	Estimate 2024/25 £000,s	Estimate 2025/26 £000,s	Estimate 2026/27 £000,s	Estimate 2027/28 £000,s	Estimate 2028/29 £000,s	Estimate 2029/30 £000,s
Capital Expenditure	**34,895**	**11,664**	**13,157**	**9,786**	**5,994**	**5,579**	**8,774**

Members will note that the significant expenditure over 2023/2024 and 2024/2025 period covers the £41m investment in a new TDA and station.

This explains why the total expenditure in 2023/2024 and 2024/2025 appears relatively high. In addition, it is important to remember capital costs are shown as the gross, net of any grants or contributions received to contribute towards the cost. More details on the capital programme are given elsewhere in the report (see Section C).

- **Ratio of Financing Costs to Net Revenue Stream**

  Estimates of the ratio of capital financing costs to net revenue stream (excludes capital amounts met from Government grants and specific funding) for the actual figures for 2023/2024 and the current and future years are:

	Actual 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29	Estimate 2029/30
Ratio of Financing costs to Net Revenue Stream	11.25%	9.36%	5.07%	6.90%	8.17%	8.85%	5.98%

This shows that forecast debt financing costs will decrease from 11.25% down to approximately 6% by 2029/2030. This reflects the current policy of using internal cash (funds held as reserves, unapplied capital and revenue grants, etc.) to temporarily fund capital expenditure to be financed by borrowing. The Authority will need to borrow to fund the planned capital spend as the internal cash is expected to be committed by 2025/2026.

- **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 the Authority has previously taken, are:

	Actual 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29	Estimate 2029/30
Incremental Impact of Capital Investment Decisions.	£0.00	-£5.26	£2.37	£0.66	-£0.30	-£0.12	£1.64

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 the Authority makes on the Council Tax levels. The re-phasing of expenditure from 2024/2025 into 2025/2026 approved during the year and the new starts in 2025/2026 – 2029/2030 explain the movement in the figures over this period.

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

103. Based on current commitments for 2024/2025 and the latest estimates of capital investment decisions in future years, the capital financing requirement forecast as of 31st March 2025 and future years is as follows:

	Actual 31.3.24 £000,s	Estimate 31.3.25 £000,s	Estimate 31.3.26 £000,s	Estimate 31.3.27 £000,s	Estimate 31.3.28 £000,s	Estimate 31.3.29 £000,s	Estimate 31.3.30 £000,s
Capital Financing Requirement (Excluding PFI & MRD)	45,445	42,057	51,049	57,104	58,504	59,075	62,841

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 positive and negative cash flows and manages its Treasury position in terms of its borrowings and investments per its approved Treasury Management Strategy and Practices. In day-to-day cash management, no distinction between revenue and capital cash can be made. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the capital financing requirement, CFR, reflects the Authority's underlying need to borrow for capital investment purposes.

104. CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

"In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

105. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach a maximum of £62.841m over the next 5 years, and the expected maximum debt position is £53.720m. The reason for the borrowing figure being lower than the CFR figure reflects the availability of cash in the form of reserves to the Authority and, therefore, the ability to defer having to take out new loans for the short to medium term.

106. The Treasury Management Code now recommends including a "liability benchmark" as a measure of how the existing loan portfolio matches the Authority's planned borrowing needs. The table overleaf outlines how the Authority utilisers internal cash over the short term and under-borrowing over the medium term. As the Authority utilises its available committed reserves and grants paid in advance of expenditure, it will need to seek additional borrowing. The Director of Finance and Procurement is reviewing the situation with Liverpool City Council's Treasury Management team

to determine when it is best to seek new loans based on future interest rate forecasts. Using internal cash benefits the Authority as it saves on interest payments it would have to make.

	Actual 31.3.24 £000,s	Estimate 31.3.25 £000,s	Estimate 31.3.26 £000,s	Estimate 31.3.27 £000,s	Estimate 31.3.28 £000,s	Estimate 31.3.29 £000,s	Estimate 31.3.30 £000,s
Capital Financing Requirement (Excluding PFI & MRD)	45,445	42,057	51,049	57,104	58,504	59,075	62,841
PWLB Loans	33,720	33,720	38,720	43,720	48,720	53,720	53,720
Forecast New Loans taken out (incl in above)			*5,000*	*5,000*	*5,000*	*5,000*	
(Under)/Over Borrowed	-11,725	-8,337	-12,329	-13,384	-9,784	-5,355	-9,121

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2025/2026

INTRODUCTION

107. This report sets out the expected treasury operations for this period, linked to the Budget, Financial Plan and Capital Programme. It is inextricably linked to delivering the Authority's aims and objectives. It contains four key legislative requirements:

(a) The Treasury Management Strategy Statement which sets out how the Authority's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (The Chartered Institute of Public Finance & Accountancy) Codes of Practice.

(b) The reporting of the prudential indicators for external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice.

(c) The investment strategy which sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Ministry for Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments. It is proposed to maintain the Authority's minimum long-term credit rating requirement of Fitch A- or equivalent.

(d) The Authority's Minimum Revenue Provision (MRP) Policy, which sets out how the Authority will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008 (Section D of this report).

Updated Treasury Management and Prudential Codes have recently been released that include a requirement to produce a Capital Strategy; this has been built into section C of this report.

PROPOSED STRATEGY

108. The above policies and parameters provide an approved framework within which the Officers undertake the day-to-day capital and treasury activities. The Authority is recommended to approve each of the key elements contained within this report, which are:

- The Treasury Management Strategy 2025/2026.
- The External Debt and Treasury Management Prudential Indicators and Limits for 2025/2026 to 2027/2028.
- The Investment Strategy 2025/2026.
- The Minimum Revenue Provision (MRP) Statement is included in section D, which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

109. The suggested strategy for 2025/2026 in respect of Treasury Management is based upon treasury officers' views on interest rates supplemented by leading market forecasts. The strategy covers:

- prospects for interest rates;
- capital borrowing and debt rescheduling;
- annual investment strategy;
- external debt prudential indicators;
- treasury management prudential indicators;
- performance indicators;
- treasury management advisers.

Each of the above is now considered in more detail below:

(a) PROSPECTS FOR INTEREST RATES:

The Treasury Management Strategy 2025/26 will be influenced by both national and geopolitical factors. The impact of the government's Autumn Budget has led to a slowdown in growth coupled with a weaker outlook on future interest rate cuts. The global economy is facing a level of uncertainty that can impact on the UK in terms of inflation and interest rates.

The Bank of England's (BoE) Monetary Policy Committee (MPC) cut the bank rate by 25bps in November 2024, to 4.75% and cut a further 25 bps to 4.5% on the 6th February. The treasury advisors MUFG Corporate Markets, appointed by Liverpool City Council, have significantly revised their central forecasts for the first time since May 2024. In summary:

- The bank rate is now 40bps – 75bps higher than previously anticipated.
- PWLB forecasts via gilt yields have been materially increased to reflect:
- Growing concerns around the future path of inflation
- The elevated levels of government borrowing projected over the current Parliament.

The MUFG Corporate Markets view suggests that monetary policy is tight enough to permit some moderate easing but the extent of this will depend on future data. The February cut was included within recent forecasts, followed by a pattern of rate cuts on a quarterly basis – in line with the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% bank rate will depend heavily on inflation data in the second half of 2025. At the November meeting of the MPC, eight Committee members voted to cut, while one member preferred to keep the bank rate on hold at 5%. This indicates that concerns around inflation's stickiness are already emerging. Additionally, recent public sector wage increases are beginning to flow into headline average earnings data, which will be scrutinised closely by the markets in upcoming releases.

The Office of National Statistics reported that the Consumer Price Index (CPI) inflation rate at 1.7% in September 2024, down from 2.2% in previous months and lower than the 1.9% expected. Core CPI also declined further than expected to 3.2% against a forecast of 3.4% and the previous month's 3.6%. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 to 2025 and reaching around 2.75% by the middle of 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget and a projected margin of economic slack. Over the medium term, once these pressures ease, inflation is expected to stabilise around the 2% target.

In terms of the PWLB forecast, the short to medium part of the curve is expected to remain elevated over the next year. The extent to which rates moderate will depend on the strength of the arguments for further bank rate loosening or otherwise.

The longer the part of the curve will similarly be influences by inflation factors, however, an additional concern is emerging:

- Major developed economies, such as the US and France are projected to run large budget deficits.

- This could result in a glut of government debt issuance and investors may only be willing to absorb this additional supply, if the interest rates offered provide sufficient reward for the increased borrowing levels.

(b) CAPITAL BORROWING AND DEBT RESCHEDULING:

The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisages that new long-term borrowing of £5 million will be required in 2025/26, with a further £5m required in 2026/27, 2027/28 and 2028/29. In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required, the Authority may initially choose to benefit from lower short-term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-authority market. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

Rescheduling of debt is the early repayment of loans and replacement by loans for different periods and at different interest rates. It can be used to enhance the balance of the long-term portfolio, by for example, amending the maturity profile or changing volatility levels and may on occasion generate cash savings. Debt rescheduling becomes more beneficial when the relationship between short- and long-term rates moves appreciably.

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Recent rises in long term interest rates may provide more favourable debt rescheduling opportunities. Interest rate structures will be continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

(c) ANNUAL INVESTMENT STRATEGY

The primary purpose of the Annual Investment Strategy is to set out the policies for managing investments giving priority to the security and liquidity of the Authority's investments. It also contains the policy on the use of credit ratings and credit ratings agencies, procedures for determining and limiting the use of higher risk investments and the use of external advisors.

The Authority's investment priorities are (a) the security of capital and (b) liquidity of its investments. The Authority will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. All investments will be in sterling. All cash balances will be invested in accordance with the Code of Practice and with regard to the statutory guidance.

A counterparty list of institutions with which the Authority will invest shall be maintained by reference to the criteria set out below for the different categories of institution and their credit rating. Regardless of these criteria, the money market will be closely monitored, and any institution will be suspended from the counterparty lending list should any doubts arise concerning its financial standing. Under the guidance, investments fall into two separate categories, either specified or non-specified investments.

Specified Investments: - Specified investments offer high security and high liquidity and satisfy the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (has a maturity of less than one year).
- The investment does not involve the acquisition of share capital in any corporate body.
- The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency, or with the UK Government or a local authority.

Specified investments will comprise the following institutions: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- UK Local Authorities.
- Money Market Funds.
- Ultra-Short Duration Bond Funds.
- UK Banks.

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

Credit Rating Criteria: - The Authority will invest with UK institutions or non-UK institutions that are domiciled in a country which has a minimum Sovereign long-term rating of “AA”. The institution must have a high credit rating assigned by any of the three credit ratings agencies (Fitch, Moodys and Standard & Poors). To be deemed highly rated the institution must satisfy at least the minimum of the following Fitch (or equivalent) criteria:

Long term credit rating A-

If any of the agencies assigns a rating lower than the Fitch minimum (or equivalent) to an institution, then the Authority will not invest with that institution.

In addition, the Authority will use institutions that are part nationalised UK banks.

Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list.

Investment Limits: - The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2025/26 are as follows:

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

No limits on investments with the UK Government and Local Authorities have been set because they are considered to be of the highest credit quality and are essentially risk free. The limits placed on other categories reflect some uncertainty and marginally higher risk profile of the institutions within those categories. The status of Royal Bank of Scotland as a part nationalized bank is unlikely to change for many years but in the event the bank is re-privatised it will revert to the lower limit of £2m alongside other UK banks. Money Market Funds although AAA rated, invest in a diverse portfolio so are not completely risk free and have been assigned a lower limit. There is a slightly higher risk for A- rated banks as described in the paragraph on Security below and so these institutions have the lowest limit.

Ways to increase investment returns have been considered including (a) reducing the minimum credit rating criteria from A- to BBB; (b) increasing the limits with individual institutions and (c) investing for periods longer than one year. Any of these ways would involve taking on additional risk because higher investment returns can only be achieved by taking higher risks. The decision not to do this but to continue with current policies was taken in the light of the Banking Reform Act which enables the Government to force investors to take losses if a bank became insolvent. It is now unlikely that the Government would fully fund a taxpayer bail-out of a failed bank.

The maximum that may be invested with different banks that are part of the same conglomerate shall not exceed the maximum of the highest rated bank within the group. The limits may be exceeded for short periods when there are adverse conditions in the money market with the agreement of the Director of Finance and Procurement, Head of Finance or Treasury Manager.

Non-Specified Investments: - Non-specified investments do not, by definition, meet the requirements of a specified investment. The Ministry for Housing, Communities and Local Government (MHCLG) guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. The following types of non-specified investments may be used.

- Deposits with the Authority's own banker shall be unlimited for transactional purposes and to allow for unusual cash flow circumstances.

- Deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment) with any bank or building society that meets the credit rating criteria above.

- Building societies which do not meet the normal credit criteria but are one of the top ten building societies, determined by asset size. Those societies that are within the top ten but do not have an agency determined credit rating shall have an individual limit of £1m. Building Society rankings are checked annually with the Building Societies Association.

Risk Management of Investment Counterparties: - Bank and Money Market Fund ratings are checked daily. The Authority is alerted by e-mail when there is an amendment by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Authority's minimum requirement, or any doubt over its financial standing exists, then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

Credit ratings are only the starting point when considering credit risk. The Code of Practice requires the Authority to supplement credit rating information with additional operational market information which will be applied before making any specific investment decision from the agreed pool of counterparties. Credit Default Swaps and negative rating watches/outlooks are examined, and the financial press, internet and financial information systems are monitored for market information regarding its counterparties. It also receives daily e-mails from various market participants that could identify potential problems. Any information that casts doubt on an institution's creditworthiness is acted on by suspending investment with that institution.

Liquidity of Investments: - Each investment decision is made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. Investments are normally short-term having a maturity of less than one year. The Prudential Code does allow longer term investments and under certain money market conditions it may be prudent to invest for up to three years dependent on cash flow forecasts.

Risk Benchmarking: - The CIPFA Codes and the DLUHC Investment Guidance recommend the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Security and liquidity benchmarks were new requirements introduced in 2018/19, and the application of these is more subjective in nature. The benchmarks are simple guides to maximum risk and so may be breached from time to time depending on movements in interest rates and counterparty criteria. The purpose of them is for officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security: - Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings. A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Authority's investment strategy. The Authority's minimum credit rating criteria is "A-". The average expectation of default for a one-year investment in counterparty with an "A-" long term rating is 0.10% of the total investment. The inclusion of unrated Building Societies raises this factor to 0.14% e.g. for a £1m investment the average loss would be £1,400. This is only an average and any specific counterparty loss is likely to be higher, but these figures do act as a proxy benchmark for risk across the portfolio. The Authority's maximum security risk benchmark of 0.14% is embodied in the criteria for selecting cash investment counterparties and will be monitored and reported to Members.

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

Yield: - The Authority's benchmark for investment returns is the Sterling Overnight Index Average (SONIA) rate.

ESG Policy

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

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

Reporting Arrangements: - The Investments Strategy forms part of the Treasury Management Strategy which is referred to Policy and Resources or Audit Committee for monitoring. An interim report is produced during the year and a final annual report by 30th September following the end of a financial year.

(d) EXTERNAL DEBT PRUDENTIAL INDICATORS:

The Prudential Code requires the following external debt indicators of prudence:

- Authorised limit for external debt
- Operational boundary for external debt

Authorised Limit: The Authorised Limit for Debt represents the maximum level of debt which the Authority may have during the year. The Authority has no powers to exceed this unless a further report with revised prudential indicators is approved by the Authority. The limit therefore makes appropriate allowance for the risks and uncertainties which affect day-to-day debt levels, and the ups and downs of short-term cash flow.

The authorised limits reflect the Authority's Capital Financing Requirement, identified in its capital expenditure and financing plans. They are consistent with the treasury management policy statement and practices. The limit will ensure that total gross debt does not exceed the total of the CFR in the preceding, current or following two financial years. The Authority is asked to approve the limits below and to delegate authority to the Director of Finance & Procurement, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities.

Authorised Limit for External Debt	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**
	£'000	**£'000**	**£'000**
Gross Borrowing	51,000	57,000	59,000
Other Long-Term Liabilities	15,000	14,000	13,000
TOTAL	**66,000**	**71,000**	**72,000**

Operational Boundary: The Operational Boundary indicator represents the expected maximum debt position during each year. It takes into account projections of borrowing requirement and repayments in future years. It may be different from the year end position as it reflects cash flows within each year. The Authority is asked to approve the limits and to delegate authority to the Director of Finance and Procurement, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities.

Operational Boundary for External Debt	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**
External Borrowing	46,000	51,000	53,000
Other Long-Term Liabilities	15,000	14,000	13,000
TOTAL	**61,000**	**65,000**	**66,000**

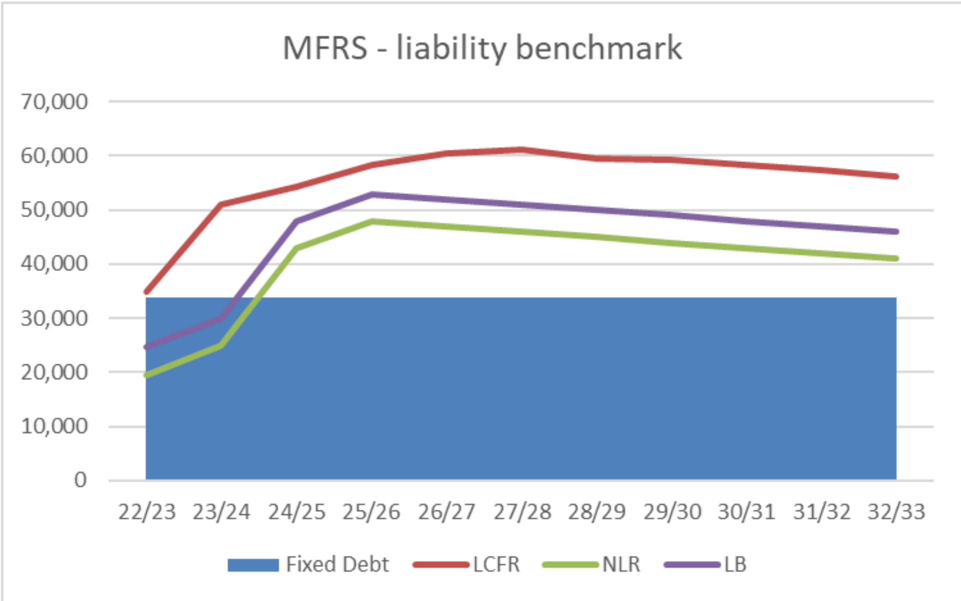
Actual External Debt: The prudential indicator for actual external debt considers a single point in time and hence is only directly comparable to the authorised limit and operational boundary at that point in time. Actual external debt is monitored during the year against the limits. It is forecast to be £33.7 million at 31st March 2025.

The figure for actual borrowing in recent years has been below the capital financing requirement. In an environment of extremely low interest returns, treasury officers have adopted a strategy whereby the Authorities' capital borrowing need has not been fully funded by external debt, but rather cash supporting the Authorities usable reserves and working capital has been used as a temporary funding measure in lieu of external borrowing. Internal borrowing by its very nature is a temporary measure to contain interest costs in the short term, however the approach does involve an element of interest rate risk given that it postpones the point at which long term borrowing costs are fixed. The following table demonstrates the estimated use of internal borrowing over the budget period, though actual borrowing decisions will be significantly influenced by expectations regarding movements in interest rates.

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Capital Financing Requirement	57.3	65.7	70.9	71.6	71.3	74.2
Less: PFI	(15.2)	(14.6)	(13.8)	(13.1)	(12.2)	(11.4)
Less: MRD	(0.1)	-	-	-	-	-
Borrowing CFR	**42.0**	**51.1**	**57.1**	**58.5**	**59.1**	**62.8**
Existing Debt Portfolio	33.7	38.7	43.7	48.7	53.7	53.7
Over(-)/Under borrowing	**8.3**	**12.4**	**13.4**	**9.8**	**5.4**	**13.5**
Borrowing as a % of CFR	**80.0%**	**75.7%**	**76.5%**	**83.3%**	**90.1%**	**85.5%**

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

The authority's liability benchmark is set out in the graph below. The benchmark assumes that cash and investment balances are kept to a minimum level of £5m at each year-end. The benchmark is currently £30.0m for 2024/25 and is forecast to increase to £35.0m in 25/26 based on the combination of the borrowing requirement arising from the capital programme and the anticipated reduction of internal resources that will be available to off-set the need to borrow. The below graph covers an extended period of ten years.



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

The graph does highlight the extent to which the fire authority borrowing levels has exceeded the liability benchmark in recent years based on the historic borrowing portfolio that is predominately long dated. However, this position has now reversed in 2024/25 with the utilisation of internal borrowing to fund recent capital expenditure plans. The significant movement in interest rates during 2022/23 and 2023/24 has increased the cost of new borrowing and the consideration at this point is whether further risk is reduced by borrowing with longer term borrowing for durations that would reduce the gap between the existing debt portfolio and the estimated liability benchmark or borrowing for shorter periods. To inform these decisions treasury officers are mindful of the interest rate forecasts from appointed specialist treasury advisors. The latest forecast is that interest rates will start to fall back during 2025/26, as central banks are expected to implement an easing of monetary policy in response to falling inflation rates. As such the current strategy is to continue to defer the point at which long term debt is arranged.

(e) TREASURY MANAGEMENT PRUDENTIAL INDICATORS:

The Treasury Management Code requires the following Treasury Management indicators of prudence:

- Upper limit on fixed interest rate exposures;
- Upper limit on variable interest rate exposures;
- Upper and lower limits for the maturity structure of borrowing;
- Total principal sums invested for periods longer than 365 days.

Interest Rate Exposures: It is recommended that the Authority sets upper limits on its fixed and variable interest rate exposures as a percentage of its net outstanding principal sums as follows: -

Upper Limits on Interest Rate Exposures	2025/26	2026/27	2027/28
	%	%	%
Fixed	100	100	100
Variable	50	50	50

This means that the Director of Finance and Procurement will manage fixed interest rate exposures within the range of 50% to 100% and variable interest rate exposures within the range of 0% to 50% for 2024/25.

Maturity Structure of Borrowing: It is recommended that the Authority sets upper and lower percentage limits for the maturity structure of its borrowings as follows. Percentage of projected fixed rate borrowing that is maturing in each period:

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

Total Principal Sums Invested for Periods Longer than 365 Days: It is recommended that the limit for investments of longer than 365 days be set at £2 million for each of the years 2025/26, 2026/27 and 2027/28.

(f) PERFORMANCE INDICATORS

The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

The Authority will maintain performance indicators for borrowing and investment, although it must be stressed that the pursuit of higher performance shall not be at the expense of taking undue risks. The indicators for the treasury function are:

- Borrowing – Average rate of borrowing for the year compared to average available.
- Investments – Internal returns compared to the Sterling Overnight Index Average (SONIA) rate.

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

Training - CIPFA's Code of Practice requires the Director of Finance to ensure that all members with responsibility for treasury management receive appropriate training relevant to their needs and understand their roles and responsibilities.

(g)TREASURY MANAGEMENT ADVISORS

The Treasury Management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisers appointed under a competitive procurement exercise who provide a range of services which include:

- Technical support on treasury matters and capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

Whilst Liverpool City Council and its advisors provide the treasury function, the responsibility for any decision on treasury matters remains with the Authority.

(G) REVENUE FORECASTS 2025/2026 – 2029/2030

110. The Authority has maintained a robust Medium Term Financial Plan (MTFP) over a number of years. The plan is thoroughly reviewed on an annual basis, monitored throughout the year, and reported on a quarterly basis through the financial review reports to Members.

111. This section of the report will develop a financial forecast for the Authority based upon the latest information. It will: -

- Outline the historical background to the current financial plan,
- Outline the underlying assumptions to support the forecast,
- Outline any movement since the previously approved financial plan.

112. Following the financial crisis of 2008, the Government implemented a programme of austerity that resulted in significant reductions in Government grant funding for the Authority since 2010/2011. The cumulative percentage reduction in Government revenue support for the Authority up to 2020 equated to a 33% cash reduction or approximately 50% in real terms. That resulted in unavoidable reductions in the front-line operational services over this period: -

113. In 2010, the Authority;

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

114. The current budget provides for;

(a) 642 FTE firefighters (36% lower),
(b) 35 FTE staff in fire control (17% lower)
(c) 295 FTE support and technical staff (31% lower),
(d) Appliances;
- Days: 27 immediately available plus 5 on a 30-minute recall
- Night: 21 immediately available plus 11 on a 30-minute recall

(e) 21 fire stations maintained by a variety of demand-led duty cover systems.

115. Based on the information at that time, the 2024/2025 MTFP approved at the Budget Authority meeting on 29th February 2024 delivered a balanced financial position in 2024/2025 and a £0.931m challenge in 2025/2026, rising to £1,695m by 2028/2029. As significant uncertainty existed over future Government funding and future cost increases from 2025/2026, Members were asked to note any financial challenges in future years and deal with any challenge once the future funding became clearer.

116. The current MTFP has been updated for the 2025/2026 government funding settlement (another one-year settlement) and the Merseyside local authorities' 2025/2026 Council Tax Base, Collection Fund, and Business Rate forecasts. All known pay and price inflation increases have been built into the MTFP, and a review of the key assumptions around future funding and cost pressures has been reviewed.

117. At the January 2025 budget strategy day, members considered the key budget assumptions that should be included in the updated MTFP. The following paragraphs summarise the proposed key assumptions to be included within the plan: -

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

PAY;
The 2024/2025 MTFP assumed pay awards of 3%, in light of inflation rates at the time, and assumed future pay awards assumptions would remain at 2.5%. In 2024/25, firefighters received a 4% pay increase, and the non-operational staff received £1,290 or 2.5% (whichever was the greater) pay increase. The firefighter pay award was 1% greater than the 3% budget resulting in an additional budget requirement of £0.338m in 2024/25 (part-year) and £0.450m in a full year. The non-firefighter pay award was £0.040m above the 3% budgeted increase. The proposed MTFP has included a budget increase to cover the 2024/25 additional pay award.

Inflation remains above the Bank of England target of 2%, The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 to 2025 and reaching around 2.75% by the middle of 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget and a projected margin of economic slack. Over the medium term, once these pressures ease, inflation is expected to stabilise around the 2% target. At the Strategy Day in January, Members agreed to maintain the 2025/2026 pay award assumption of 2.5% in light of the current inflation forecast and keep future pay award assumptions at 2.5%.

The 2024 Autumn Budget increased employers' national insurance contributions from 13.8% to 15% and lowered the threshold from £9,100 to £5,000 before employers' national insurance is paid, the increase takes place from 1st April 2025. The adjustment adds an additional 1.7% on a firefighter's salary. The national insurance increase results in an additional cost on the employee budget of £1.000m (£0.700m on the operational pay and £0.300m on the non-operational pay). The government has given local authorities a contribution towards the increase in employers national insurance. MFRA will receive a grant of £0.425m towards the increased employer's insurance.

PENSIONS: -
Firefighter Pension Scheme(s): - Firefighter Pension Scheme Actuarial review 2020:- Following the 2020 Firefighter Pension Scheme actuarial review, the Home Office has announced that there will be a Fire Pension Grant in

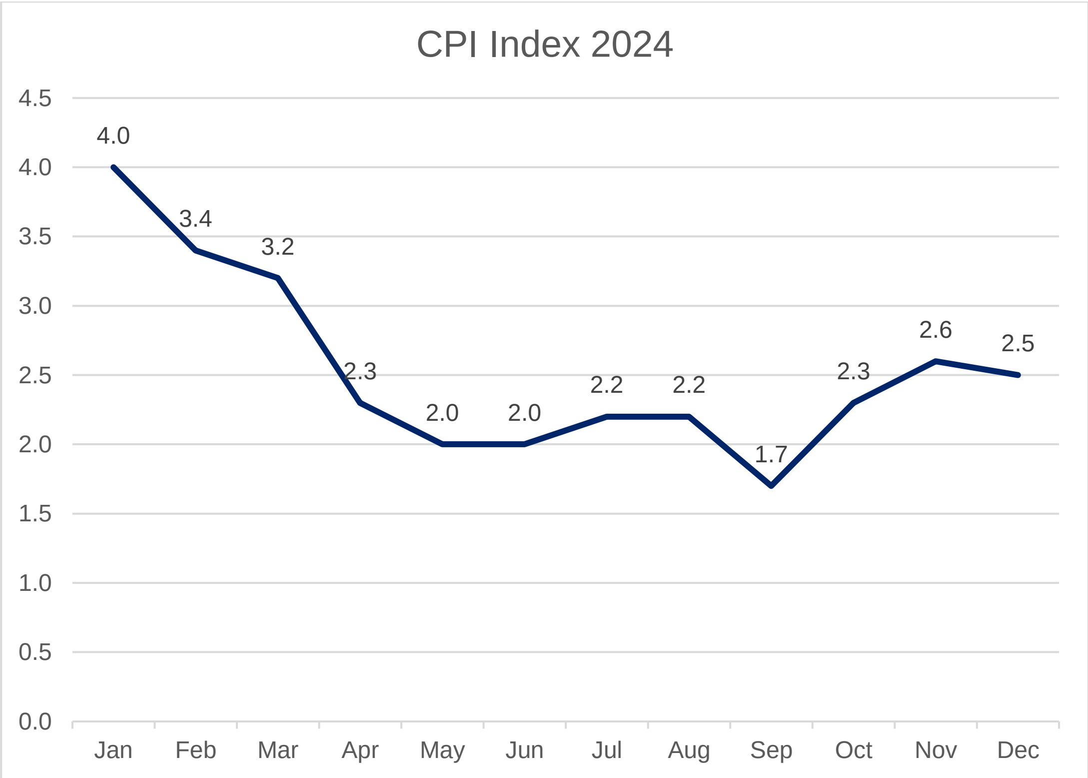
2024/25 to cover the increase in employer contribution rates from 28.8% to 37.6%. The impact on the Firefighter Pension Scheme to MFRA was an overall increase in the employer cost of over £2.300m. The Home Office announced a fixed grant of £2.183m (calculation is based on a four-year average) for 2024/25 to cover the increase. At that time the Authority understood that the additional pension grant (as well as other specific grants for fire and rescue services) would be allocated on a one-year basis with future years subject to the Spending Review in the usual way. The current MTFP plan assumed the Authority would receive a contribution in 2025/26 and future years of £1.191m.

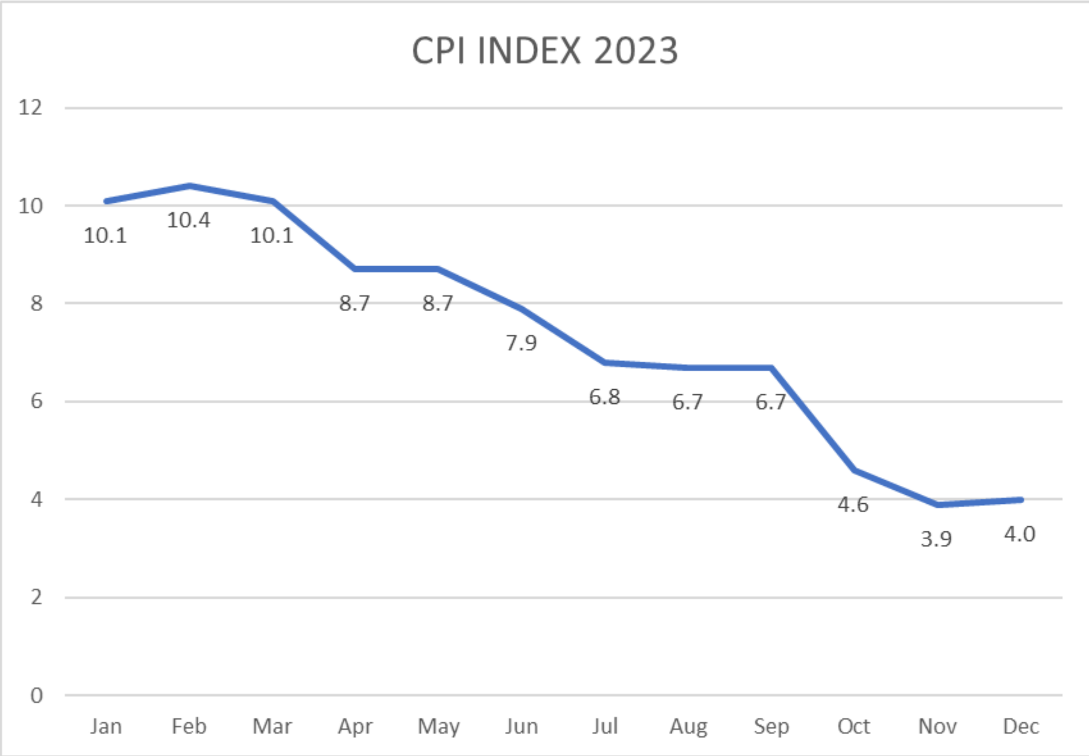
The Authority has been informed by Home Office they will receive a similar grant in 2025/26 to that received in 2024/25 and it is proposed the grant will be rolled into the SFA. The MTFP has been updated to include a Fire Pension Grant of £2.183m in 2025/26 and assumes the grant will continue at this rate for future years.

Future LGPS Employer Rate – The 2020 actuarial review increased the current employer rate from 17.5% to 17.9% from April 2023. However, the review also identified that the fund has a surplus of past service costs that will be repaid to the Authority. The net impact has resulted in an annual saving of £0.200m from 2023/2024 onwards and an additional one-off saving in 2025/26 of £0.286m.

PRICES

The current MTFP included a provision for general price and energy increases of 3% based on inflation forecasts in January 2024. The government expected CPI inflation to fall towards the target of 2% in 2024/25. The Twelve-month CPI inflation did fall to 2.5% in December 2024.





The outlook for CPI inflation is for it to reach around 2.75% by the middle of 2025. Over the medium term, once pressures ease, inflation is expected to stabilise around the 2% target.

The proposed MTFP has built an increase of £0.771m to uplift the contingency for pay and inflation towards the impact of the inflationary pressures in 2024/2025 and the expected 2025/2026 inflationary impact.

An inflation provision of £1.742m is included in the proposed MTFP to cover the new-year, 2029/2030, based on general inflation of 2% and pay uplifts of 2.5%.

119. **Revenue Growth**

The current plan assumed no future unavoidable growth requirements beyond those approved in the 2024/2025 plan. The CFO, SLT and Officers have identified a number of unavoidable growth issues that need to be built into the proposed MTFP;

- Increase in fire engine/appliance availability from 32 to 34, enhancing the Authority's resilience and response to foreseeable risk (specialist response),

- Increase in investment in training and assurance (competency) given the Grenfell Tower Phase 2 report, Personal Protective clothing, bespoke equipment and consumables,

- Improved ICT facilities,

- Increased investment in properties, including further station refurbishments to ensure they are welcoming and well managed (contaminants risk)

120. **Cost of Capital Borrowing**
The proposed MTFP takes into account the 5-year capital programme and MRP policy, discussed previously in sections C and D. Where the revenue budget has allowed, the Authority has continued to contribute towards the capital programme to reduce the Authority's borrowing requirement. As a result of the additional revenue contributions, the increase in debt servicing budget in the 2024/25 MTFP for 2028/29 and future years has been reversed and the debt servicing budget has been reduced by £0.400m in 2028/2029 and future years.

The Authority seeks to provide its firefighters and other staff with the right equipment, personal protective equipment (PPE), vehicles, and training facilities to enable them to fulfil their role safely and at the best standard possible. As the Government does not make any capital funding available, the Authority has a strategy for building up the Capital Reserve. The proposed MTFP will increase the Capital Investment Reserve by £0.234m to £2.1m to fund a significant proportion of this investment to maintain borrowing at an affordable and sustainable level and to contribute towards the CRMP.

121. **Non-Pay Budget - 2% Efficiency Target**
As part of the spending review, fire and rescue services will be expected to increase wholetime firefighter productivity by 3% and create 2% of non-pay budget efficiency savings. For MFRA, 2% efficiency saving of non-pay budget would equate to £0.262m in 2025/26.

The Director of Finance & Procurement is confident a £0.262m efficiency saving can be offered up from non-pay budgets and the £0.262m efficiency saving has been built into the proposed MTFP.

122. **Firelink Grant**
The Firelink grant has been reducing over the previous four years, with 2025/26 expected to be the final year when the grant was paid, albeit at a reduced level of £0.054m. The Home Office has taken the difficult decision to end the Firelink grant in 2024/25, therefore there will be no Firelink grant provided in 2025/26. The Authority has reduced the Firelink grant by £0.054m in 2025/26.

123. **Resources Available:** The Authority has two primary sources **Government Funding** and **Council Tax**.

124. **Government Funding;**

Settlement Funding Assessment (SFA);
In 2013/2014, the Government reformed the Fire and Local Government funding system and introduced the 50% Business Rates Retention scheme. The new system determines the Authority's funding allocation based on a Settlement

Funding Assessment (SFA), and this support can be broken down into two parts;

- **Baseline** – the estimated value of retained **local business rates** plus **a Top-Up grant** and
- **Revenue Support Grant**.

The Government announced another one-year local government finance settlement, and the small business rates will be frozen again in 2025/2026. However, as business rates can be increased by a factor equal to the previous year's September Consumer Price Index (CPI) (1.7%), the Government announced it would continue to compensate authorities for the loss of income through a specific grant.

The Authority's SFA for 2025/2026;

- Increase in Baseline Funding of +1.14% or £0.252m, and
- Increase in Revenue Support Grant of 1.7% or £0.285m.

The settlement resulted in an overall increase of 1.4% or £0.537m.

Business Rates Multiplier Compensation Grant;
To compensate the Authority for the business rates freeze, a £0.187m increase in the business rates multiplier grant was announced as part of the financial settlement. The MTFP assumes this increase will be permanent.

Taking together the business rates multiplier compensation grant increase and the SFA settlement, the overall increase compared to 2025/2026 is £0.724m or 1.7%. Within the SFA is a forecast of the local retained business rates assumed for the Authority of £4.691m. However, the business rate freeze and other discounts may impact the local business rate yield. Based on the billing authorities forecast for local business rates yield in 2025/2026, the Authority's local share **is estimated at £4.813m, a surplus of £0.122m against the SFA estimate.** The proposed MTFP includes the £0.122m increase in local business rates for 2025/2026.

The proposed MTFP attempts to forecast future government support beyond 2025/2026; however, it is very challenging to predict the likely levels of support in coming years with any certainty. It is tough to forecast as the Government will pursue a comprehensive set of local government reforms to return the sector to a sustainable position. This will include reform of the approach to allocating funding through the Local Government Finance Settlement. The government is committed to reforming the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure it reflects an up-to-date assessment of need and local revenues. position plans to complete and implement the outcome of the Fair Funding Review. These reforms may impact the Authority's share of Government funding.

In order to produce a 5-year MTFP, the **assumption is that the SFA will increase by 1.0% p.a. in 2026/2027 and future years.** Assuming a 1% p.a.

increase in 2026/27 and future years (the Authority may be on the low side of future inflation forecasts), creates some robustness within the forecast to absorb any adverse impact of the local government reform.

Services Grant;
The Government announced a new un-ringfenced "one-off" Services Grant for 2022/2023. The Government stated that this new grant was a one-off, but the intention was to work closely with local government on how to best distribute this funding from 2023/2024 onwards. The Authority received a Services Grant of £0.814m in 2023/2024 and assumed this would continue in future years in the MTFP. In 2024/25, the Authority received a Service Grant of £0.141m, a reduction of £0.673m. The current MFTP assumed the Services Grant of £0.141m would continue in 2025/26 and future years. The government removed the services grant entirely from 2025/26, the proposed MTFP has been adjusted to take the reduction into account.

125. **Council Tax Income**;
The current plan assumed a Council Tax Base increase of 0.5% for 2025/2026 and future years; the actual increase in 2025/2026 was an increase of 2.32%. The 2025/2026 Tax Base figures are in the table overleaf: -

District	**2024/25** Council Tax Taxbase	**2025/26** Council Tax Taxbase	**Variance**	
KNOWSLEY	38,957.00	39,638.00	681.00	1.75%
LIVERPOOL	114,955.25	120,257.54	5,302.29	4.61%
SEFTON	86,458.90	87,367.70	908.80	1.05%
ST.HELENS	53,461.00	53,700.00	239.00	0.45%
WIRRAL	95,993.93	97,908.96	1,915.03	1.99%
	389,826.08	**398,872.20**	**9,046.12**	**2.32%**
2024/25 Band D Tax Level	91.25	91.25		
Total Income £	**35,571,630**	**36,397,088**	**825,458**	**2.32%**

128. This means that for each £1 of Council Tax, the income level will be higher than that generated in 2024/2025 by £9,046. **The result is that the income from the current level of Council Tax is anticipated to be higher by £0.825m.**

129. The Government has announced that for 2025/2026, the maximum increase in Council Tax before holding a referendum will be £5.00 per Band D property. The proposed MTFP assumes that Members will uplift the Precept by £5.00 in 2025/26 and 2% each year after that. A £5.00 increase for 2025/2026 will see the Band D precept increase from £91.25 to £96.25**. The precept increase will raise an additional £1.994m in 2025/2026**.

Council Tax Increase			
	Change In Band D Tax		
	0%	£5.00	Change
District	£91.25	£96.25	£5.00
	£	£	£
KNOWSLEY	3,616,968	3,815,158	198,190
LIVERPOOL	10,973,501	11,574,788	601,287
SEFTON	7,972,303	8,409,141	436,838
ST.HELENS	4,900,125	5,168,625	268,500
WIRRAL	8,934,193	9,423,737	489,544
	36,397,090	**38,391,449**	**1,994,359**

Council Tax and Business Rates Collection Fund

130. Each billing authority maintains a **collection fund** account to which any surplus or deficit in the actual collected council tax or local business rate income to that assumed in the budget is charged. The Merseyside authorities have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The tables below summarises the collection fund position for Council Tax and Business Rates: -

Council Tax Collection Fund	
District	deficit/ (surplus)
	2024/25
	£
KNOWSLEY	0
LIVERPOOL	-75,401
SEFTON	-119,462
ST.HELENS	10,546
WIRRAL	-135,103
Net MFRA Impact	**-319,420**

131. The council tax collection fund has a surplus of £319,420 and this will be taken into account in the 2025/2026 MTFP.

Business Rates Collection Fund	
District	deficit/ (surplus)
	2024/25
	£
KNOWSLEY	-90,738
LIVERPOOL	-5,520
SEFTON	27,427
ST.HELENS	-26,197
WIRRAL	0
Net MFRA Impact	**-95,028**

132. The business rates collection fund has a surplus of £95,028.

Discretionary service Charges

133. Members approved an overarching charging policy for special and discretionary services at the Policy and Resources Committee on 25th March 2021. The income raised is included within the budget, approximately £0.080m for special services charges. The report approved by members included a recommendation that the charges will be uplifted annually as outlined below, and details about the charges will be included with each annual budget report for consideration.

The proposed increase in charges is based on the following;

a. Fees and charges have increased by 4%, in line with the 2024/2025 firefighter pay award.

b. Automatic Fire Alarms have gone up with the CPI rate for December 2024, which was 2.5%.

Appendix E, attached to this report, outlines the proposed 2025/2026 charges.

OVERALL IMPACT

134. The overall impact of all these changes to the 2025/2026 MTFP is outlined overleaf:

Proposed 2025/26 - 2029/30 MTFP					
	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000
Current 2024/25 MTFP Forecast (Surplus) / Deficit	**931**	**832**	**1,099**	**1,695**	**1,695**
2025/26 MTFP Issues to build in future MTFP:-					
Impact of 2024/25 Grey Book Pay Award (4% - Budget 3%)	450	450	450	450	450
Impact of 2024/25 Green Book Pay Award (£1,290 or 2.5% whichever is greater) = c3.25%	40	40	40	40	40
Increase in Employers National Insurance (15%-13.8% £9,100 - £5,000) (2024 Autumn Budget)	1,000	1,000	1,000	1,000	1,000
Impact of Higher Prices (Indirect NI / Inflation)	771	936	1,016	1,116	1,116
2029/30 Inflation Provision	0	0	0	0	1,742
Contribution to Capital Reserve to fund Capital Programme and additional Inflationary Pressures	234	0	0	0	0
Loss of Firelink Grant in 2025/26	54	0	0	0	0
Reverse MRP/Interest additional £400k from 2028/29	0	0	0	-400	-400
Unavoidable Growth	761	856	867	800	800
Efficiency Target (Procurement, Interest Payments, Inflation etc)	-262	-262	-262	-262	-262
Increase in Bus Rates Multiplier s31 compensation grant	-187	-187	-187	-187	-187
Annual Pension Grant (Following 2020 Actuarial Review) 28.8% to 37.6%	-992	-992	-992	-992	-992
LGPS Pension Rebate - Increase Rebate for 2025/26 £286k	-286	0	0	0	0
Employers National Insurance Grant 42.5% of NI cost	-425	-425	-425	-425	-425
Reduction in Services Grant (2025/26 £141k to £0)	141	141	141	141	141
Decrease in SFA Funding in 2024/25 below current MTFP Assumption	233	236	238	240	-162
Council Tax Precept	-1,927	-1,976	-2,026	-2,076	-3,114
Collection Fund Change	-414				
SFA Local Business Rate Estimate Adjustment	-122				
Summary of impact of changes to 2025/26 MTFP	**-931**	**-182**	**-140**	**-556**	**-253**
Forecast (Surplus) / Deficit	**0**	**650**	**959**	**1,139**	**1,442**

135. The proposed MTFP, as a result of the changes identified in this section of the report, forecasts a balanced position in 2025/2026 but indicates a potential financial challenge in future years, rising to £1.442m by 2029/2030.

136. As the updated MTFP results in a balanced financial position for 2025/2026, Members do not need to consider options for additional savings in 2025/2026. This is subject to the key assumptions, particularly around the 2025/2026 annual pay increases (2.5% for all staff), remaining robust.

137. The MTFP is forecasting a deficit from 2026/2027 onwards, uncertainty over government funding, potential changes to the funding mechanism, and future pay awards, which means substantial uncertainty exists over these forecasts. Whist Members are asked to note any forecast financial challenge at this time; the Authority has access to a range of mitigating strategies that could be deployed to close the funding gap without the need for service reductions.

   a **Reserves** – The Authority maintains a level of reserves set aside to manage unmitigated financial risks. Please see the table overleaf for balances:

Reserve	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	
General Reserve	3.700	3.700	3.700	3.700	3.700
Smoothing Reserve	1.400	1.400	1.400	1.400	1.400
Inflation Reserve	1.200	1.200	1.200	1.200	1.200
Total Reserves Available to Manage General Financial Risk	6.300	6.300	6.300	6.300	6.300

Available balances are sufficient to cover the projected MTFP deficit should the Authority not succeed in closing the gap by other means, in future years.

b Capital Programme – Re-phase/delay the capital programme and look at ways to reduce the revenue cost of borrowing. Extending the life of property, vehicles, and equipment, would allow for the annual revenue contribution to capital to be reduced by £0.250m.

c Non-pay budget Inflation – The Authority could cash limit the Authority's non pay budget (excluding unavoidable increases), saving £0.241m from the inflation provision.

d Non-pay budget – The Authority could assess the Authority's non pay budgets and look at reducing these between 5 – 10%. This could generate a saving of between of £0.660m and £1.319m.

138. The updated MTFP is attached to this report as Appendix C.

(H) ADEQUACY OF RESERVES AND BALANCES

139. Responsibilities of Chief Finance Officers - Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an Authority is now required to comment on the following matters:

- the robustness of the estimates made for the purposes of determining its Budget Requirement for the forthcoming year,

- the adequacy of the proposed financial reserves.

140. 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.

141. The Authority's Chief Finance Officer is the Director of Finance and Procurement. For the purposes of the Act, the “financial reserves” of the Authority would incorporate Committed Reserves and Working Balances.

142. 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

143. To fully satisfy the Chief Finance Officer, any proposed Budget or amendment should, therefore: -

- Be fully based upon the advice of Service Officers (supported by Finance Officers) – or based upon or supported by information the Chief Finance Officer considers reasonable to accept.
- Provide only for Budget proposals that are fully costed to service level and where the implications – both financial and upon service performance – are estimated and identified.
- Provide for all known future developments either through direct service Budget allocations or the establishment of specific reserves for such purposes.
- Provide for an adequate level of Balances and Reserves consistent with the requirements of any Regulation that may be committed and/or the Authority’s own risk assessment.
- Provide for the full revenue implications of the Capital Programme.
- Establish clear targets for income collection in respect of key income streams.
- Ensure there are no unidentified savings targets.
- Where appropriate, ensure that the consequences of current over and under spending have been taken into account.

Adequacy of proposed Financial Reserves

144. 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 had not enacted any such regulations.

145. However, the 2003 Act still requires the Chief Finance Officer to report if the level of reserves is likely to be inadequate. That report should contain comments on the following:

- **a** the reasons for that situation
- **b** the actions, if any, considered appropriate to prevent the situation arising.

146. The Authority must then respond to the report when deciding on its future financial reserves.

Fire and Rescue National Framework for England

147. The Framework requires that each fire and rescue authority publish their reserves strategy on their website, either as part of their medium-term financial plan or in a separate reserves strategy document. This section of the proposed MTFP fulfils that requirement, as it includes details of current and future planned reserve levels and sets out a total amount of reserves and the amount of each specific reserve held for each year over the next 5 years.

General Revenue Reserve £3.7m (5% of the current Revenue Budget)

148. The level of the General Fund Balance is a matter for the Authority to determine with regard to the advice of the Chief Finance Officer. A general assumption over many years was to allow for a balance of 5% of Net Operating Expenditure unless the organisation had a financial risk management process operating, which justified a lower level of reserves. In addition, the Fire and Rescue National Framework requires a statement within the reserves strategy outlining the justification for a general reserve larger than 5%.

149. For this Authority, a 5% forecast Net Operating Expenditure equates to approximately £3.7m. Given the level of specific reserves held by the Authority to cover those issues deemed to be high risk, such as annual pay inflation, the current General Revenue Reserve is deemed prudent. The Director of Finance and Procurement (Chief Finance Officer) recommends **maintaining the general reserve at its current £3.7m level**.

Committed (Earmarked) Reserves

150. The Authority has created these reserves for specific purposes and involves funds being set aside to meet known or predicted future liabilities or risks. The Director of Finance and Procurement has carried out a review of current reserves based on the latest financial review, known financial risks, and the planned future use of the Authority's forecast reserves. The proposed reserves for 2025/2026 and future years are outlined below, and the planned use over the MTFP is in the table at the end of this section and attached as Appendix D.

151. **Emergency & Insurance Related Reserves;**

a **Bellwin & Emergency Planning, £0.2m** - The Bellwin scheme is intended to reimburse the eligible cost of local authority actions taken in the immediate phase of an emergency. The Government expects councils to cover costs themselves up to a certain level - an individual authority is required to have spent 0.2% of its calculated annual budget on works that have been reported. This reserve is held as a contingency to provide the Authority with the funds to meet those costs not deemed to be eligible for grant support and any other emergency planning costs.

b **Insurance Reserve, £0.5m** - The Authority has a number of insurance premiums that require it to cover an excess (£250k on employee & public liability, £10k on vehicles). Based on recent claims history, this reserve has been established as a contingency to cover those costs that can't be contained within the base revenue budget.

152. **Modernisation Challenge Reserves**;

a **Smoothing Reserve, £1.4m –** This reserve was created to allow the Authority time to re-engineer the Service and deliver future saving options if the future Government funding assumptions in the proposed MTFP do not reflect the actual future change. This level of uncertainty means the Authority may face significant future funding cuts but with little time to manage any required budget reductions. By having this reserve, the Authority may be able to avoid compulsory redundancies by allowing it time to identify permanent savings to cover any additional costs or reduced funding.

b **Pensions Reserve, £0.3m –** The Firefighters' Pensions (Remediable Service) Regulations 2023 took effect on 1 October 2023. This new legislation allows for retrospective remedy covering the period between 1 April 2015 to 31 March 2022**.** The Authority has successfully completed the remedy data exercise, but it is important to note that the exercise is still taking place and may take additional time and resources for the pension administrators to complete. The implementation of the remedy will result in significant administration costs as well as possible compensation payments. This reserve will be maintained to contribute towards additional administration costs and possible compensation payments. However, it is hoped the government will continue to fund all such costs as the changes to public pension schemes come about due to changes in government legislation.

c **Recruitment Reserve, £1.8m** – As significant numbers of firefighters will retire over the next few years, the Authority plans to recruit in advance of these employees leaving over this period. This means the firefighter establishment will be, on average, +20 FTE above the budgeted establishment at a potential +£0.3m p.a. This reserve will cover any costs that can't be contained within the establishment budget.

- **d** **Collection Fund Reserve, £0.1m** – Section G of this report outlines the council tax and business rates collection fund positions for 2025/2026. Given the fluctuation over the last year or so, it is felt prudent to keep a small reserve.

153. **Capital Reserve, £2.1m**
The reserve is committed to contributing towards capital investments and reducing the required level of borrowing. The general capital reserve has been increased by £0.2m to £2.1m to contribute towards the Capital Programme and reduce borrowing costs in the future, given the impact of inflation on major capital schemes.

154. **PFI Annuity Reserve, £1.2m**
PFI schemes have an affordability gap (existing budget plus grant never covers the proposed total cost of the scheme). As the grant was paid in advance of the full PFI scheme being completed, PFI authorities, therefore, received an "excess" grant relative to the unitary charge payments at the beginning of the scheme. This available grant was put into a reserve and is then drawndown to smooth out the affordability gap over the life of the PFI. This reserve provides the Authority with that resource and will be fully utilised over the PFI life.

155. **Specific Reserves;**
   - **a** **Inflation Reserve, £1.2m -** This reserve provides some resilience if the pay and price inflation assumptions in the MTFP are insufficient and the actual inflation increase is higher than expected. Each additional 1% above the pay inflation assumption would require a permanent budget increase of +£0.6m p.a. This reserve would hopefully allow the Authority time to identify and implement any new savings to fund the pay award if it exceeded the level assumed in the plan.
   - **b** **Equipment Reserve, £0.3m** – This reserve has been established to fund those planned projects or investments in equipment that had been budgeted for but not completed in the anticipated year. Therefore, the budget has been carried forward. The equipment refresh is expected to be finalised over the next 12 – 18 months.
   - **c** **Training Reserve, £0.3m** – The reserve has been established to fund additional training requirements as a result of firefighter retirements and turnover of staff.
   - **d** **Other, £0.2m** – this reserve is to fund community-based initiatives, additional and additional PPE.

156. **Ringfenced Reserves, £0.5m -** External grants / contributions have been received to fund specific projects such as; Local Authorities funds for community initiatives; energy efficiency schemes; and new dimensions related activities. This reserve ensures the funds are brought forward until they have been fully spent.

157. The anticipated, planned use of these reserves over the MTFP is outlined in the table overleaf and appendix D:

Committed Reserves															
	Balance C/fwd From 2024/25	Proposed Increase	Revised Balance C/fwd for 2025/26	Estimated 2025/26 Use	Estimated 2026/27 Use	Estimated 2027/28 Use	Estimated 2028/29 Use	Estimated 2029/30 Use	Estimated 2030/31 Use	Estimated 2031/32 Use	Estimated 2032/33 Use	Estimated 2033/34 Use	Estimated 2034/35 Use	Estimated 2035/36 Use	Held to Cover Risk
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Emergency Related Reserves															
Bellwin / Emergency Planning Res	222		222												222
Insurance Reserve	534		534												534
Modernisation Challenge															
Smoothing Reserve	1,400		1,400												1,400
Pensions Reserve	300		300		-200	-100									0
Recruitment Reserve	1,814		1,814		-314	-300	-300	-300	-300	-300					0
Collection Fund Reserve	100		100		-100										0
Capital Investment Reserve															
Capital Investment Reserve	1,830	234	2,064		-1,064	-500	-500								0
PFI Annuity Reserve	1,235		1,235	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	476
Specific Projects															
Community Sponsorship Reserve	55		55		-55										0
Equipment Reserve	342		342		-342										0
Training Reserve	270		270		-100	-100	-70								0
Health and Wellbeing Reserve	7		7		-7										0
Inflation Reserve	1,200		1,200												1,200
Clothing	90		90		-90										0
Ringfenced Reserves															
Community Risk Management Res	246		246		-121	-125									0
Energy Reserve	111		111		-111										0
New Dimensions Reserve	77		77		-77										0
Forecast Use of Reserves in the year	9,833	234	10,067	-69	-2,650	-1,194	-939	-369	-369	-369	-69	-69	-69	-69	3,832
Total Earmarked Reserves Bal C/fwd	9,833	234	10,067	-69	-2,650	-1,194	-939	-369	-369	-369	-69	-69	-69	-69	3,832
General Revenue Reserve	3,700	0	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700	3,700
Total Reserves	13,533	0	13,767	3,631	1,050	2,506	2,761	3,331	3,331	3,331	3,631	3,631	3,631	3,631	7,532

158. The Director of Finance and Procurement recommends that the Authority approve the maintenance of the £10.067m identified above in committed reserves to cover the risks and projects identified in this section of the report and a general reserve of £3.700m.

159. **Members should bear in mind that reserves and balances should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would find itself facing the same deficit in the next and future years but without reserves available to finance it. This is underlined by the Auditor's 'Golden Rule' - that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure.**

160. Members need to consider their strategy on reserves and balances in light of the guidance of the Director of Finance and Procurement.

(I) BUDGET TIMETABLE & RESOLUTION

161. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2025. The Authority meeting is now invited to:

a Confirm the financial plan set out in Appendix C, and approve the budget requirement of £77,934m for 2025/2026 as outlined in Appendix C.

b note that the Authority's council tax base for 2025/2026 is 398,872.20, being the aggregate of the tax bases calculated by the Districts.

c approve the following amounts calculated in accordance with Sections 42a to 49 of the Local Government Finance Act 1992:-

Calculation of Aggregate Amounts Under Section 42a (2) and (3) of the Local Government Act 1992					
			Gross Expenditure 2025/2026	**Gross Income 2025/2026**	**Estimate 2025/2026**
			£'000	**£'000**	**£'000**
(A)	sec 42 (2) (a)	Service Budget	91,260		91,260
(B)	sec 42 (3) (a)	Income		-13,491	-13,491
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	234		234
(B)	sec 42A (3) (a)	Contribution from reserves		-69	-69
		Budget Requirement	91,494	-13,560	77,934
(B)	sec 42A (3) (a)	Spending Funding Assessment		-39,007	-39,007
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		-414	-414
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-122	-122
		Non-Precept Income		-39,543	-39,543
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	**Precept Requirement**			**38,391**
		Tax Base			**398,872.20**
		Precept Requirement / Tax Base:			**£96.25**
		Basic Tax Amount At Band 'D'			**£96.25**

162. The valuation bands calculated by the Authority in accordance with Section 47 (1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands:

2025/26	Property Band		Increase	
£			**£**	**%**
£64.17	For properties in Band	A	3.34	5.49
£74.86	For properties in Band	B	3.89	5.48
£85.56	For properties in Band	C	4.45	5.49
£96.25	**For properties in Band**	**D**	**5.00**	**5.48**
£117.64	For properties in Band	E	6.11	5.48
£139.03	For properties in Band	F	7.22	5.48
£160.42	For properties in Band	G	8.34	5.48
£192.50	For properties in Band	H	10.00	5.48

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

PRECEPT		AUTHORITY
£		
3,815,158	Payable by	KNOWSLEY
11,574,788	Payable by	LIVERPOOL
8,409,141	Payable by	SEFTON
5,168,625	Payable by	ST.HELENS
9,423,737	Payable by	WIRRAL
38,391,449		

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

Thursday	17/04/2025
Thursday	29/05/2025
Friday	04/07/2025
Monday	11/08/2025
Wednesday	17/09/2025
Thursday	23/10/2025
Friday	28/11/2025
Thursday	08/01/2026
Friday	13/02/2026
Wednesday	18/03/2026

Equality and Diversity Implications

165. The financial plan makes provision for the necessary investment to ensure the Authority meets and exceeds its Equality and Diversity requirements in addition to work carried out by all staff and teams.

Staff Implications

166. The proposed MTFP underpins the Authority's ambition to be the best fire and rescue service in the country - our plan ensures that our people are afforded the relevant training, work equipment and personal protective equipment the job requires.

Legal Implications

167. The Authority must act in accordance with its powers and duties under the legislation, which includes setting a balanced budget and deciding the level of precept prior to 1st March 2025.

Financial Implications & Value for Money

168. See executive summary.

Risk Management and Health & Safety Implications

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

Environmental Implications

170. 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.*

171. The proposed financial plan considers how best to allocate resources and deliver a balanced budget aligned to the Authority's vision and purpose of the service and service priorities.

BACKGROUND PAPERS

CFO/13/24 "MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2024/2025 – 2028/2029" Budget Authority 29th February 2024

GLOSSARY OF TERMS

CAPITAL	The capital budget covers the money the Authority spends on investing in buildings, infrastructure and expensive equipment with an asset life of more than one year.
CFO	Chief Fire Officer
CFR	Capital Financing Requirement – measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for capital purposes, although it may not necessarily occur externally (use of available cash, etc.).
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
CRMP	Community Risk Management Plan
DLUHC	Department for Levelling Up, Housing and Communities
FPS	Firefighters' Pension Scheme
FTE	Full Time Equivalent employee number
HFSC	Home Fire Safety Check
LGPS	Local Government Pension Scheme
MRP	Minimum revenue provision is an amount set aside from revenue towards the repayment of loan debt.
MTFP/ PLAN	Medium-Term Financial Plan
NRAT	National Resilience Assurance Team
NRAT	National Resilience Assurance Team
PFI	Private Finance Initiative
PPE	Personal Protective Equipment
PWLB	Public Works Loans Board
RESERVES	Amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account.
	The revenue budget is the term used to describe the amount the Authority spends on its day-to-day running of services. This includes

REVENUE	wages and salaries, property and transport running costs and payments to suppliers. In addition to the running costs of services, the Authority must fund the costs of borrowing money to pay for their capital assets.
RSG	Revenue Support Grant
SFA	Settlement Funding Assessment. Government's estimated funding assessment for the Authority, from a share of Business Rates (local business rates share plus a Top-Up grant) and Revenue Support Grant.
SLT	Strategic Leadership Team
TDA	The Training and Development Academy
UNSUPPORTED BORROWING	No Revenue Support Grant to cover the costs associated with borrowing, and the Authority must earmark revenue funds to cover these costs.