

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	COMMUNITY SAFETY AND PROTECTION COMMITTEE		
DATE:	4 SEPTEMBER 2025	REPORT NO:	DFP/09/2526
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA	REPORT AUTHORS:	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM (SLT)		
TITLE OF REPORT:	FINANCIAL REVIEW 2025/26 - APRIL TO JUNE		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
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Purpose of Report

1. To review the revenue, capital, and reserves financial position for the Authority for 2025/26. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to June 2025.

Recommendation

2. It is recommended that Members;
 - a) note the contents of the report;
 - b) approve the use of £2.000m from the Capital Investment Reserve to fund capital expenditure and reduce the level of borrowing;
 - c) approve the proposed revenue and capital budget alignments;
 - d) approve the use of the Inflation Reserve required to cover pay awards above the 2.5% MTFP assumption; and

- e) instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2025/26 and use any savings to reduce the level of capital borrowing.

Executive Summary

Revenue:

The Authority approved a 5-year Medium-Term Financial Plan (MTFP) at the Budget Authority meeting on 27th February 2025. The approved MTFP delivered a balanced budget for 2025/26 based on key budget assumptions around costs, in particular pay. This report updates Members on the 2025/26 budget position and any issues arising in the year that may impact on the future years' financial position.

The total budget requirement remains at the original budget level of £77.934m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2025.

Capital:

The current 5-year capital programme has a planned total investment of £43.291m over the 2025/26 – 2029/30 period, of which £13.157m relates to 2025/26. During the quarter, the capital programme planned spend has increased by £14.488m in 2025/26 of which includes £13.899m net rephasing from 2024/25 and new expenditure of £0.589m which is detailed in section 17 below. The report outlines all the scheme adjustments in the year and the revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:

The general balance remains unchanged at £3.900m, as agreed at the 2024/25 financial year outturn. The report outlines all the movement in reserves in the quarter and considers the current adequacy of the available reserves. All movements in committed reserves are outlined in Appendix A4.

Treasury Management:

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

Introduction and Background

3. The purpose of this report is to enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.
4. This report reviews the Authority's financial position up to the end of the first quarter of 2025/26 (April – June 2025).

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

<u>Financial Review Structure</u>	
<u>Section</u>	<u>Content</u>
A	Current Financial Year Review:- <ul style="list-style-type: none">• Revenue Budget,• Capital Programme, and• Movement on Reserves
B	Treasury Management Review

(A) Current Financial Year – 2025/26

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

Revenue Budget Position

7. Budget Movements: there have been a number of budget adjustments in the quarter, but as they are self-balancing virements within department budgets, they have not changed the overall net revenue budget requirement. The budget adjustments in quarter 1 included: -
- A virement from the contingency / inflation provision of £0.009m to cover a small increase in the non-operational out of hours allowance budget as a result of the previous year's pay awards.
 - Several grant and external funded initiatives are only built into the budget during the year once the level of 2025/26 funding is known. These include Lead Authority/National Resilience grants of £19.683m which have been built into the Lead Authority/National Resilience budgets within quarter 1.
 - Other self-balancing virements to cover small adjustments across revenue budget lines.
8. **The net budget requirement remains at £77.934m, which is consistent with the original budget.** Appendix A1 – A3 outline the budget movements in the quarter.

Update on Budget Assumptions and forecast actual expenditure.

9. The key budget assumptions for 2025/26 are:

- annual pay awards of 2.5%
- price inflation - general price increases of 2.5%; outsourced contracts increases of 4.0%; and
- no significant unplanned growth pressures beyond those built into the MTFP.

10. **Annual Pay awards**

The 2025/26 budget assumed a Grey book pay award of 2.5%. The 2025/26 firefighters pay award has been agreed at 3.2%, and as this is higher than the 2.5% included as the budget assumption for 2025/26, this would exceed the budget forecast by approximately £247.5k in 2025/26 and £330k in 2026/27.

The 2025/26 budget assumed a Green/Red book pay award of 2.5%. The Local Government staff 2025/26 pay offer is currently 3.2%. For MFRS this would exceed the green/red book employee budget by approximately £100K. The Trade Unions are currently consulting with their members on the offer. The impact of the pay award will only be known once the pay award has been accepted by the employees and it will then be reported back to Members in a future financial review report.

If the settlement cannot be contained within the overall employee budget, then officers would draw-down funds from the Inflation Reserve to cover the 2025/26 impact. The ongoing financial implications will be considered as part of the 2026/27 budget process.

11. **Non-pay inflation**

The latest forecasts indicate 2025/26 non-pay inflation can be contained within the inflation provision.

12. **Unforeseen Growth**

Other than the annual pay awards referenced in section 10, no 2025/26 unavoidable growth has been identified in the quarter.

13. The expectation is that all other costs and income will be consistent with the approved budget. The table overleaf summarises the quarter 1 revenue position.

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

	TOTAL BUDGET	ACTUAL as at 30.06.25	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	63,858	17,758	63,858	0
Premises Costs	4,199	887	4,199	0
Transport Costs	1,479	439	1,479	0
Supplies and Services	3,626	701	3,626	0
Agency Services	7,768	1,605	7,768	0
Central Support Services	777	157	777	0
Capital Financing	7,919	401	7,919	0
Income	-13,371	-2,591	-13,371	0
Net Expenditure	76,255	19,357	76,255	0
Contingency Pay&Prices	1,814	0	1,814	0
Cost of Services	78,069	19,357	78,069	0
Interest on Balances	-300	100	-300	0
Movement on Reserves	165	0	165	0
Total Operating Cost	77,934	19,457	77,934	0

14. The Director of Finance and Procurement will continue to monitor the position during the year, with a view to deliver savings which could fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.
15. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. One debtor account was written off in the quarter totalling £48.16 as the service was likely to incur more costs than the value of the debt, in an attempt to trace the customers and recover the debt.

Capital Programme Position

16. At the Authority Budget meeting on 27 February 2025 (CFO/85/25), Members approved a 5-year capital programme (2025/26–2029/30) of £43.291m, of which £13.157m related to 2025/26. During quarter 1, the capital programme has increased by £14.308m due to:
 - a) The 2024/25 year-end net re-phasing of projects from 2024/25 into 2025/26 of £13.899m.

- b) The Authority manages the National Resilience asset refresh on behalf of the Ministry of Housing, Communities and Local Government (MHCLG) and receives 100% funding for the scheme. During the quarter, £0.100m of planned asset refresh has been identified and built into the programme.
- c) An increase to the capital programme of net £0.282m over the MTFP and £0.462m in 2025/26 relating to the procurement of B Type Fire Appliances as part of the Transport Asset Management Plan as agreed at Authority on 12th June 2025 (CFO/01/2526).
- d) A small revenue contribution to capital of £0.027m relating to ICT hardware in the capital programme.
- e) Two small self-balancing virements within the capital programme.

Capital Borrowing Requirement

- 17. The level of capital borrowing in 2025/26 increased in the quarter from £39.701m to £41.982m due to the net re-phasing of projects from the financial year 2024/25 into 2025/26 and the increase in the capital programme for the procurement of B Type Fire Appliances as referenced above. The Authority accesses capital borrowing through the Governments Public Works Loan Board (PWLB). PWLB long term 50-year rates have varied between a range of 5.54% and 5.95%. The revenue budget takes account of the rephasing and assumes an interest rate of approximately 5%, so the impact of the rate changes and the re-phasing can be contained within the budget.
- 18. The current strategy is to reduce investments and borrow for short periods, if necessary, as a means of deferring the point by which the Authority needs to arrange new long-term loans. By continuing this strategy, it is hoped that when the Authority has no option but to seek new long-term loans then PWLB interest rates will be more favourable.
- 19. The capital programme changes actioned in the quarter are summarised in table below. The revised detailed capital programme is attached as Appendix B (2025/26 Capital Programme) and Appendix C (2025/26–2029/30 Capital Programme) to this report.

Movement in the 5 Year Capital Programme

	Total Cost	2025/26	2026/27	2027/28	2028/29	2029/30
	£000's	£000's	£000's	£000's	£000's	£000's
Expenditure						
Amendments to Approved Schemes						
2024/25 year-end rephasing of MFRS schemes into future years	1,999.3	1,999.3				
Fire appliances price increase (CFO/1/2526)	282.0	462.0	-675.0	195.0		300.0
NRAT grant released	100.0	100.0				
2024/25 year-end rephasing of NRAT schemes into future years	11,900.0	11,900.0				
ICT Hardware Equipment	26.3	26.3				
	14,307.6	14,487.6	-675.0	195.0	0.0	300.0
Funding						
Revenue Contribution to Capital Outlay (RCCO)						
ICT Hardware Equipment	26.3	26.3				
2024/25 year-end rephasing NRAT MTA (NRAT006) Body Armour	50.8	50.8				
2024/25 year-end rephasing NRAT PRPS (NTAT007) Chemical Suits	3,200.0	3,200.0				
Capital Reserve						
No change	0.0	0.0				
Grant						
NRAT grant released	100.0	100.0				
2024/25 year-end rephasing NRAT	8,649.2	8,649.2				
Borrowing						
2024/25 year-end re-phasing of MFRS schemes into future years	1,999.3	1,999.3				
Fire appliances price increase	282.0	462.0	-675.0	195.0		300.0
	14,307.6	14,487.6	-675.0	195.0	0.0	300.0

Use of Reserves

20. The analysis in Appendix A4 outlines the reserve movements in the quarter. No draw-down adjustments were required in the quarter.
21. The Authority has a number of reserves for specific purposes and have funds set aside to meet known or predicted future liabilities or risks (as shown in Appendix A4). The Director of Finance and Procurement has carried out a review of the adequacy of these reserves based on the latest financial review, the known financial risks and the planned future use of the Authority's forecast reserves.
22. The general revenue reserve has remained unchanged at £3.900m as per the agreed 2024/25 outturn position.

(B) Treasury Management

23. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to June 2025/26.
24. **Prospects for Interest Rates**

The first quarter of 2025/26 was dominated by shifting geopolitical, trade and fiscal dynamics. The quarter started with considerable market reaction to sweeping tariff's announced by the US Government, only to recede in response to a 90-day delay in implementation. During the quarter, tensions between Israel

and Iran escalated resulting in a temporary spike in oil prices. While a ceasefire has been negotiated, the situation remains unstable and has the potential to impact markets in the future. Any ongoing disruption to supply chains has the potential to feed higher future inflation.

In the UK, GDP is estimated to have grown by 0.5% in the three months to May 2025 compared to the previous three-month period, driven largely by the services sector. However, monthly GDP fell by 0.1% in May, following a 0.3% fall in April. Clearly the UK economy faces a challenging period and there is speculation that the Chancellor's October budget might have to include further tax rises in response to the faltering economy and higher government borrowing figures. CPI inflation remains above the target level of 2%, with the latest CPI release for the 12 months to June 25 showing a rise of 3.6%.

On the 8th May 2025, the Bank of England's Monetary Policy Committee (MPC) voted to reduce Bank Rate by 0.25 percentage points, to 4.25%. The Bank of England has cut four times since the peak level of 5.25% was reached. At the subsequent meeting in June 2025, the bank rate was held unchanged. The latest market speculation is that there will be a further two rate cuts this calendar year. However, given the current uncertainty in the UK economy, the path of interest rates and monetary policy will continue to be informed and influenced by the latest data.

PWLB rates for both long and short-term borrowing have seen volatility during the quarter. The 1-year PWLB rate on offer during the quarter has varied between a range of 4.46% and 4.74%. Longer term PWLB 50-year rates on offer have varied between a range of 5.54% and 5.95%.

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

25. Capital Borrowings and the Portfolio Strategy

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

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Recent rises in longer term interest rates may

provide more favourable debt rescheduling opportunities. Any rescheduling that takes place will be reported to Members in monitoring reports.

26. Annual Investment Strategy

The investment strategy for 2025/26 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with MHCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or part-nationalised banks and AAA rated money market funds has enabled reasonable returns in the current interest rate environment which has seen interest rates start to draw back from their recent peak levels. With the speculation that interest rates will continue to fall in the second half of 2025/26, opportunities to add more duration to the investment balances will be explored in the coming months. In the period 1st April to 30th June 2025, the average rate of return achieved on average principal available was 5.11%. This compares with an average SONIA rate (Sterling Overnight Rate) of 4.31%. Deposits arranged with other local authorities helped to enhance the return achieved.

The Authority had investments of £45.9m as at 30th June 2025.

27. External Debt Prudential Indicators

The external debt indicators of prudence for 2025/26 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£66 million
Operational boundary for external debt:	£61 million

Against these limits, the maximum amount of debt reached at any time in the period 1 April to 30 June 2025 was £33.7 million.

28. Treasury Management Prudential Indicators

The treasury management indicators of prudence for 2025/26 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the period 1st April to 30th June 2025 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1 April to 30 June 2025 was as follows: -

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

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

The limit for investments of longer than 365 days was set at £2 million for 2025/26. Nil investments over 1 year have been placed so in the first quarter of 2025/26.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

32. See Executive Summary.

Risk Management and Health & Safety Implications

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

Environmental Implications

34. There are no Environmental implications directly related to this report.

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

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

35. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Authority is to achieve its Vision.

BACKGROUND PAPERS

CFO/85/25 "MFRA Budget and Financial Plan 2025/2026-2029/2030" Authority 27th February 2025.

DFP/08/2526 "Revenue and Capital Outturn 2024/25 - Policy and Resources Committee 24th July 2025

GLOSSARY OF TERMS

MTFP Medium Term Financial Plan

MHCLG Ministry of Housing, Communities and Local Government

NRAT National Resilience Assurance Team

PWLB Public Works Loans Board