

| MERSEYSIDE FIRE AND RESCUE AUTHORITY | | | |
|---------------------------------------------|------------------------------------------------------|------------------------|------------------------------------------------------|
| MEETING OF THE: | POLICY AND RESOURCES COMMITTEE | | |
| DATE: | 11 DECEMBER 2025 | REPORT NO: | DFP/12/2526 |
| 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 - JULY TO SEPTEMBER | | |

| | | |
|--------------------|---------------------|------------------------------------------------------------------------------------------------|
| APPENDICES: | APPENDIX A1: | REVENUE BUDGET MOVEMENTS SUMMARY |
| | APPENDIX A2: | FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS |
| | APPENDIX A3: | CORPORATE MANAGEMENT REVENUE BUDGET MOVEMENTS / LEAD AUTHORITY REVENUE BUDGET MOVEMENTS |
| | APPENDIX A4: | BUDGET MOVEMENTS ON RESERVES |
| | APPENDIX B: | CAPITAL PROGRAMME 2025/26 |
| | APPENDIX C: | APPROVED AUTHORITY CAPITAL PROGRAMME 2025/26 – 2029/30 |

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 July to September 2025.

Recommendation

2. It is recommended that Members;
 - a) note the contents of the report;

- b) approve the use of the forecast £1.350m savings to fund an increase in the Clothing Reserve £0.850m and Capital Investment Reserve £0.500m to enable future service expenditure relating to the replacement of fire kit and equipment and to fund capital expenditure to reduce the level of capital borrowing;
- c) approve the proposed revenue and capital budget alignments; and
- d) 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 five-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 July and September 2025.

Capital:

The current 5-year capital programme has a planned total investment of £57.599m over the 2025/26 – 2029/30 period, of which £27.645m relates to 2025/26. During the quarter, the planned capital programme expenditure for 2025/26 has increased by £1.530m. This includes £1.607m allocated for National Resilience asset refresh, an additional £0.023m for Information Technology, and a £0.100m reduction following a budget re-alignment. These adjustments have been incorporated into the programme which is detailed in section 19 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 Revenue Reserve 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 if required.

Introduction and Background

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

Financial Review Structure

| <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 2 included:-

- **A contribution from reserves of £0.130m.** Consisting of a £0.078m drawdown from the Capital Investment Reserve relating to the planned upgrade for the E-Financials application, a drawdown of £0.034m from the Equipment Reserve relating to Communications and ICT capture upgrade and fees, and a £0.018m drawdown from the Community Risk Management Reserve towards a contribution to Liverpool FC Foundation (£0.010m) to continue to work with children aged 8 to 18 years and a contribution to the Road Safety Team for the purchase of VR Headsets (£0.008m).

- A £1.234m drawdown from the Contingency/Inflation Provision to cover both the Grey and Green book annual pay award.
 - A £0.084m drawdown from Contingency/Inflation Provision to cover non-pay inflation and third-party contracts.
 - Several grant and externally funded initiatives are built into the budget during the year once the level of 2025/26 funding is known. This included protection uplift grant funding (£0.493m), funding for apprenticeships (£0.206m), Building Safety Regulator funding (£0.173m) and Street Intervention Teams (£0.024m).
 - 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%, and
 - Price inflation - general price increases of 2.5%; outsourced contracts increases of 4.0%.
 - No significant unplanned growth pressures beyond those built into the MTFP.

10. **Annual Pay awards:**

As previously reported in the Financial Review 2025/26 (April to June – report DFP/09/2526), the 2025/26 budget assumed a Grey book (firefighters) 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 £0.248m in 2025/26 and £0.330m 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 of 3.2% increase on all NJC pay points was agreed with representative bodies on the 24th of July 2025 for Green Book Staff. Negotiations are continuing regarding the pay deal for Craftworkers (Red Book). For MFRS, current estimates indicate this would exceed the green/red book employee budget by approximately £0.100m.

It is anticipated that the settlement will be contained within the overall employee budget. The ongoing financial implications will be considered as part of the 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 following paragraphs consider the September forecast revenue outturn position and potential variances;
 - I. **Employee Costs;**
Employee costs make-up nearly 80% of the Authority's revenue expenditure budget (*net of revenue costs associated with capital spend*) and is the most risk critical area of the financial plan. As a result, these costs are monitored extremely closely.

The latest Firefighter employee forecast indicates a small potential underspend of **£0.400m** due to a number of roles being paid out of grant income, vacant roles and a number of personnel not being at the top of the grade.

The latest non-uniform establishment forecast indicates a **£0.400m favourable variance** due to a number of roles being vacant and a number of staff not being at the top of the grade.
 - II. **Other Employee Costs;**
It is anticipated that the contributions from the Merseyside Pension Fund – Local Government Pension Scheme (LGPS) relating to non-uniformed and fire control roles, is expected to result in a higher refund rate when compared to the current budget. The forecast indicated a **£0.050m favourable variance**.
 - III. **Interest on Balances**
Forecast investment income is expected to exceed the income target by **£0.500m** due to higher rates of interest.
14. Overall, the latest forecast has identified a favourable net revenue variance of £1.350m. The Director of Finance and Procurement would recommend that Members approve that the £1.350m favourable variance be used to fund an increase in the Clothing Reserve (£0.850m) and Capital Investment Reserve (£0.500m) to enable future service expenditure relating to the replacement of fire kit and equipment and to fund capital expenditure to reduce the level of borrowing.
15. The table overleaf summarises the year-end forecast position based on spend to the end of September 2025;

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

| | TOTAL BUDGET | ACTUAL as at 30.09.25 | FORECAST | VARIANCE |
|-----------------------------------|-----------------|--------------------------|----------|----------|
| | £'000 | £'000 | £'000 | £'000 |
| Expenditure | | | | |
| Employee Costs | 66,570 | 32,866 | 65,720 | -850 |
| Premises Costs | 4,199 | 1,617 | 4,199 | 0 |
| Transport Costs | 1,489 | 773 | 1,489 | 0 |
| Supplies and Services | 3,738 | 1,551 | 3,738 | 0 |
| Agency Services | 7,866 | 3,676 | 7,866 | 0 |
| Central Support Services | 880 | 434 | 880 | 0 |
| Capital Financing | 9,942 | 2,424 | 9,942 | 0 |
| Income | -14,981 | -8,134 | -14,981 | 0 |
| Net Expenditure | 79,703 | 35,207 | 78,853 | -850 |
| Contingency Pay&Prices | 496 | 0 | 496 | 0 |
| Cost of Services | 80,199 | 35,207 | 79,349 | -850 |
| Interest on Balances | -300 | -852 | -800 | -500 |
| Movement on Reserves | -1,965 | 0 | -1,965 | 0 |
| Total Operating Cost | 77,934 | 34,355 | 76,584 | -1,350 |
| | | | | |

16. The Director of Finance and Procurement will continue to monitor the position during the year to look to deliver savings to fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.
17. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. Two debtor accounts were written off in the quarter totalling £1,149.72 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:

18. At the last financial review report (DFP/09/2526) approved a 5-year capital programme worth £57.599m, of which £27.645m related to 2025/26. During quarter 2 the capital programme has increased by £1.580m, due to:
 - a) 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, £1.600m RCCO of planned asset refresh relating to National Resilience assets for

Urban Search and Rescue has been identified and built into the programme.

- b) A small RCCO totalling £0.050m relating to ICT hardware and National Resilience Marauding Terrorist Attack body armour in the capital programme.
- c) A budget re-alignment reduction to the capital programme, totalling £0.050m across the capital programme relating to ICT software.
- d) A National Resilience grant reduction adjustment to the capital programme of £0.020m

Capital Borrowing Requirement:

- 19. The level of capital borrowing in 2025/26 has decreased in the quarter from £41.982m to £40.380m due to the £2.000m drawdown from Capital Reserves agreed at the Q1 Financial review, an expected net reduction of £0.448m following a reduction in capital receipts due to the removal of sale for Vesty 5A following a review of ICT Managed Services provision, which needed to remain on site and an anticipated increase from the sale of Richie Avenue stores and a net reduction of £0.050m from the capital programme relating to ICT software as referred to above.
- 20. 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 5.45% and 6.12% in the quarter whilst short term 5-year rates have varied between 4.62% and 4.99% in the quarter. The revenue budget takes account of the additional contribution and the rephasing and assumes an interest rate of approximately 5%, the impact of the rate changes can be contained within the budget.
- 21. 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.
- 22. The capital programme changes actioned in the quarter are summarised in the overleaf 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 |
|------------------------------------------------------|----------------|----------------|-------------|-------------|---------------|-------------|
| Expenditure | £000's | £000's | £000's | £000's | £000's | £000's |
| Amendments to Approved Schemes | | | | | | |
| NRAT USAR ND2 Purchases | 1,600.0 | 1,600.0 | | | | |
| NRAT MTA BPPE Vests | 25.5 | 25.5 | | | | |
| ICT Hardware equipment | 24.9 | 24.9 | | | | |
| NRAT Grant adjustment | -19.9 | -19.9 | | | | |
| IT002 Budget Realignment | -50.0 | -100.0 | 50.0 | 50.0 | -100.0 | 50.0 |
| | 1,580.5 | 1,530.5 | 50.0 | 50.0 | -100.0 | 50.0 |
| Funding | | | | | | |
| Revenue Contribution to Capital Outlay (RCCO) | | | | | | |
| ICT Hardware equipment | 24.9 | 24.9 | | | | |
| NRAT MTA BPPE Vests | 25.5 | 25.5 | | | | |
| NR USAR grant | 1,600.0 | 1,600.0 | | | | |
| Capital Reserve | | | | | | |
| No change | 0.0 | 0.0 | | | | |
| Grant | | | | | | |
| NRAT Grant adjustment | -19.9 | -19.9 | | | | |
| Borrowing | | | | | | |
| IT002 Budget realignment | -50.0 | -100.0 | 50.0 | 50.0 | -100.0 | 50.0 |
| | 1,580.5 | 1,530.5 | 50.0 | 50.0 | -100.0 | 50.0 |

Use of Reserves:

23. The analysis in Appendix A4 outlines the reserve movements in the quarter. A total drawdown adjustment of £0.130m was required in the quarter as outlined in paragraph 7 of this report.
24. 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.
25. The General Revenue Reserve has remained unchanged at £3.900m.

(B) Treasury Management Review

26. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period July to September 2025/26.
27. **Prospects for Interest Rates;**

The Bank of England (BoE) voted on the 1/8/25 to cut the bank rate by 0.25% to 4%. This was the fifth cut in interest rates from the Bank of England after rates had been held at a 16-year high level of 5.25% for 12 months. The current anticipation is that the bank will continue to cut rates over the course of the next

year, but perhaps with not the same regularity as was seen when interest rates increased.

The prospect of falling interest rates might provide some stimulus to the economy, however, with inflationary pressures remaining and considerable uncertainty in the global economy there remains risk to the economic outlook. The subsequent meeting of the MPC was held 18th September and rates were maintained at 4%. The next meeting is scheduled for 6th November.

The Consumer Price Index (CPI) measure of inflation rose by 3.8% in the 12 months to August 2025, unchanged from July. While the current CPI measure remains above the Bank of England's CPI target, the inflationary spike of recent times continues to be felt across the economy, with those increases factored into the base of the current CPI measure. The CPI measure is anticipated to stay above target in the second half of 2025/26, with food price inflation having a strong impact on the measure, with food price inflation outstripping rates in Europe.

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

The PWLB certainty rate for borrowing is linked to Gilt yield plus a margin of 0.80%. Gilt yields and PWLB rates were on a trend throughout the first half of 2025/26 reflecting a steepening of the yield curve, meaning rates for short term borrowing were falling and longer-term borrowing rates were rising.

28. Capital Borrowings and the Portfolio Strategy;

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 envisaged that new long-term borrowing of £5.000m would be required in 2025/26.

In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required, the Authority may initially choose to benefit from lower short-term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-authority market. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Any rescheduling that takes place will be reported to members in monitoring reports.

29. **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 Ministry of Housing, Communities and Local Government Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and a limit of £2.000m for investments with duration more than one year.

Investments have been made with various counterparties including UK and foreign banks with higher credit ratings, the larger Building Societies, “nationalised” banks and AAA rated money market funds. This diversity has enabled reasonable returns in the current interest rate environment in the first half of 2025/26. In the period 1st April to 30 September 2025 the average rate of return achieved on average principal available was 4.70%. This compares with an overnight SONIA (Sterling Overnight Index Average Rate) rate of 4.19%.

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 follow:

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

The Authority had investments of £66.2m as at 30th September 2025 (this included a £29.140m firefighters’ pension grant received in July that will be utilised in the year).

30. **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 that was reached in the period April to September 2025 was £33.700 million

31. **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 April to September 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 April to September 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 £2.000 million for 2025/26. No such investments were made in the first half of 2025/26.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

35. See Executive Summary.

Risk Management and Health & Safety Implications

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

Environmental Implications

37. 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.

38. 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 27 February 2025.

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

DFP/09/2526 “Financial Review 2025/26 – April to June” – Community Safety and Protection Committee 04th September 2025

GLOSSARY OF TERMS

| | |
|--------------|-----------------------------------------------------------------------------------------------|
| BOE | B ank of England |
| CIPFA | Chartered Institute of P ublic Finance and A ccountancy |
| CPI | C onsumer P rice Index |
| DMADF | D ebt M anagement A ccount D eposit F acility |
| LGPS | Local G overnment P ension S cheme |
| MTFP | M edium T erm F inancial P lan |
| MHCLG | M inistry of H ousing, C ommunities and L ocal G overnment |
| NJC | N ational J oint C ouncil |
| NRAT | N ational R esilience A ssurance T eam |
| PWLB | P ublic W orks L oans B oard |