

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY & RESOURCES COMMITTEE		
DATE:	19 MARCH 2026	REPORT NO:	DFP/17/2526
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 - OCTOBER TO DECEMBER		

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 October to December 2025.

Recommendation

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

- b) approve the use of the forecast £1.250m savings to fund capital expenditure and reduce the level of 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 October and December 2025.

Capital:

The current 5-year capital programme has a planned total investment of £59.179m over the 2025/26 – 2029/30 period, of which £29.175m relates to 2025/26. During the quarter, the planned capital programme expenditure for 2025/26 has increased by £4.914m. This includes £4.621m allocated for National Resilience asset refresh, a budget re-alignment for Operational Equipment of £0.663m and a budget reduction of £0.244m for Buildings and a budget reduction of £0.126m for Information Technology. 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 third quarter of 2025/26, (October – December 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 3 included:-
 - No drawdowns from or contributions to reserves took place within the period.
 - 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 Reviews 2025/26 (April to June – report DFP/09/2526 and July to September report DFP/12/2526), 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.

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 December forecast revenue outturn position and potential variances;

I. Employee Costs;

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

The latest non-uniform establishment forecast indicates a **£0.250m favourable variance** realised due to current staff vacancies and several post holders being positioned below the top of their respective pay scales.

II. Non Employee Costs and Income;

Forecasts have indicated a favourable variance in the Authority's radio communications contract - Airwaves. The budget has a favourable variance of **£0.300m** following the Competition Appeal Tribunal (the Tribunal). The Tribunal took the decision in December 2023 to uphold the Competition and Markets Authority (CMA)'s decision to impose a charge control mechanism on Motorola in respect of the revenue Airwave can earn from its charges. Motorola went on to lodge an application for permission to appeal the Tribunal's decision to the Court of Appeal (CoA), however this has been unsuccessful. As a result, the Home Office, from April 2025 to December 2025, has invoiced FRAs in England at the reduced rate of 51.34%; the discount between January 2026 and March 2026 is not yet confirmed but will be in this ballpark.

It is also anticipated that additional income generated from services provided to strategic partners will be **£0.150m** above the 2025/26 budgeted income target.

III. Interest on Balances & Contingency for Pay & Prices

Forecast investment income is expected to exceed the income target by **£0.300m** due to higher rates of interest. The Authority has successfully realised savings through the non-utilisation of the Contingency for Pay & Prices. This positive variance has been achieved by budget managers effectively absorbing rising costs and inflationary pressures within their existing baseline allocations. Forecasts indicate a one-off saving on the contingency for pay and prices **£0.250m**.

14. Overall, the latest forecast has identified a favourable net revenue variance of **£1.250m**. The Director of Finance and Procurement would recommend that Members approve that the **£1.250m** favourable variance be used to fund capital expenditure and reduce the level of borrowing for 2025/26.
15. The table overleaf summarises the year-end forecast position based on spend to the end of December 2025:

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

	TOTAL BUDGET	ACTUAL as at 31.12.25	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	65,794	49,241	65,544	-250
Premises Costs	4,230	2,580	4,230	0
Transport Costs	1,510	1,083	1,510	0
Supplies and Services	3,795	2,211	3,495	-300
Agency Services	7,907	5,631	7,907	0
Central Support Services	881	553	881	0
Capital Financing	9,940	2,452	9,940	0
Income	-15,110	-12,129	-15,260	-150
Net Expenditure	78,947	51,622	78,247	-700
Contingency Pay & Prices	402	0	152	-250
Cost of Services	79,349	51,622	78,399	-950
Interest on Balances	-800	-1,280	-1,100	-300
Movement on Reserves	-615	0	-615	0
Total Operating Cost	77,934	50,342	76,684	-1,250

16. The Director of Finance and Procurement will continue to monitor the position during the year to look to deliver savings to fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.
17. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. No debtor accounts were written off if this quarter.

Capital Programme Position:

18. At the last financial review report (DFP/12/2526) approved a 5-year capital programme worth £59.179m, of which £29.175m related to 2025/26. During quarter 3 the capital programme has increased by £3.664m, 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, £4.621m of planned asset refresh relating to National Resilience assets for Urban Search and Rescue has been identified and built into the programme.

- b) A budget re-alignment/net reduction to the capital programme, totalling £0.337m for Operational Equipment, £0.494m for Buildings a budget saving for ICT of £0.126m across the capital programme.

Capital Borrowing Requirement:

19. The level of capital borrowing in the capital programme has decreased in the quarter from £40.380m to £39.422m due to the net reductions in the capital programme as per paragraph 18b 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 6.09% and 6.48% in the quarter whilst short term 5-year rates have varied between 4.70% and 4.98% 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 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	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Amendments to Approved Schemes;						
RCCO NRAT010 NRAT - ND2 Office Works	10,300	10,300				
RCCO IT003 Hardware	1,050	1,050				
NRAT Grant Released	4,610,510	4,610,510				
OPS003 Budget Realignment and saving	(336,530)	663,470	(150,000)	(150,000)	(350,000)	(350,000)
BLD000 Budget Realignment and saving	(494,000)	(244,000)	(1,750,000)	1,500,000		
IT000 Budget Saving	(127,600)	(127,600)				
	3,663,730	4,913,730	(1,900,000)	1,350,000	(350,000)	(350,000)
Funding						
Unsupported Borrowing						
RCCOs	11,350	11,350				
Unsupported Borrowing	(958,130)	291,870	(1,900,000)	1,350,000	(350,000)	(350,000)
Grants						
NRAT Grant	4,610,510	4,610,510				
	3,663,730	4,913,730	(1,900,000)	1,350,000	(350,000)	(350,000)

Use of Reserves:

23. The analysis in Appendix A4 outlines the reserve movements in the quarter. No drawdown adjustments were 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

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

At its meeting on 18th December 2025, the Bank of England's Monetary policy committee voted 5-4 to reduce the bank rate to 3.75%. Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April 2026.

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

The third quarter of 2025/26 saw:

- A -0.1% month on month change in real GDP in October 2025, leaving the economy no bigger than at the start of April 2025.
- The 3 month average year on year, rate of average earnings growth excluding bonuses fell to 4.6% in October 2025, having been as high as 5.5% earlier in the financial year.
- CPI inflation fell sharply from 3.6% to 3.2% in November 2025, with core CPI inflation easing to 3.2%.
- The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.

Prior to the November 2025 Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

After the Budget, public net sector borrowing of £11.7bn in November 2025 was comfortably below last November's figure of £13.6bn and was the lowest November borrowing figure since 2021, mainly due to tax receipts being £5.4bn higher, largely because of the hike in employer NICs in April 2025. Cumulative borrowing in the first eight months of 2025/26 was still £10bn above last year's total. However, lower inflation and a disposal of assets ahead of the Budget should mean borrowing in 2025/26 comes in below last year's total.

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 envisages that new long-term borrowing of £5 million will not 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.

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 (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 short

term interest rates fall. With the speculation that interest rates will continue to fall in 2026, opportunities to add more duration to the investment balance will be explored in the coming months. In the period 1st Oct to 31 Dec 2025 the average rate of return achieved on average principal available was 4.17%. This compares with an average SONIA rate (Sterling Overnight Index Average Rate) of 3.94%.

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
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 £62m as at 31st December 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 reached at any time in the period 01 October to 31 December 2025 was £33.7 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 01 October to 31 December 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 December 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 are currently in place.

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.
- DFP/12/2526** “Financial Review 2025/26 – July to September” – Policy and Resources Committee 11th December 2025.

GLOSSARY OF TERMS

BOE	Bank of England
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
DMADF	Debt Management Account Deposit Facility
LGPS	Local Government Pension Scheme
MPC	Monetary Policy Committee
MTFP	Medium Term Financial Plan
MHCLG	Ministry of Housing, Communities and Local Government
NJC	National Joint Council
NRAT	National Resilience Assurance Team
PWLB	Public Works Loans Board