

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	BUDGET AUTHORITY		
DATE:	26 FEBRUARY 2026	REPORT NO:	DFP/16/2526
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA	REPORT AUTHOR:	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM (SLT)		
TITLE OF REPORT:	BUDGET & FINANCIAL PLAN 2026/27 - 2030/31		
APPENDICES:	APPENDIX A:	DRAFT SUMMARY REVENUE BUDGET ANALYSIS	
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2026/27 – 2030/31	
	APPENDIX C:	PROPOSED 2026/27 – 2030/31 FIVE YEAR MTFP	
	APPENDIX D:	RESERVES	
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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 2026/2027 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 2026/2027 Fire and Rescue Authority budget as detailed in this report;

- c) approve the Director of Finance and Procurement's recommendation of maintaining the General Fund Reserve balance at £3.900m and maintaining the reserves as outlined in paragraphs 142 to 152 of this report;
- d) approve the proposal to increase the precept by £5.00 for Band D properties in 2026/2027, raising the Band D Council Tax from £96.25 to £101.25 and confirm the strategy for future precept rises (the plan assumes further increases of £5.00 in 2027/28 and £5.00 in 2028/29 for the remaining years of the multi-year settlement and 2% in each year after that);
- e) note the assumptions in developing a five-year financial plan outlined in the report and approve the 2026/2027 budget estimate of £86.039m;
- f) approve the Capital Programme as summarised in Appendix B;
- g) approve the 2026/2027 – 2030/2031 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 2026/2027, as this report outlines in paragraphs 81 to 91;
- j) note the prudential indicators relating to the proposed capital programme, outlined in paragraphs 92 to 102 of this report;
- k) 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; and
- l) 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

- 3. The Authority is required to determine its budget and precept level for 2026/2027 by 1st March 2026.
- 4. 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
5. Considering all the financial issues to be taken into account in a single report ensures that the Authority can:
- f. Consider the borrowing freedoms available under the prudential code
 - g. Reflect best practice
 - h. Provide value for money
 - i. Focus on the link between capital investment decisions and revenue budgets
 - j. Continue developing their strategic financial plan
6. The following report structure will be adopted:

Section	Focus	Paragraph
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A) EXECUTIVE SUMMARY

7. The Authority must set a balanced 2026/2027 budget and precept level by 1st March 2026.
8. 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.

9. Members approved a 2025/2026 – 2029/2030 Medium Term Financial Plan (MTFP) at the Budget Authority meeting on 27th February 2025. Based on assumptions around the 2026/2027 and future years funding and expenditure, the MTFP identified a financial challenge in 2026/2027 of £0.650m, rising to £1.442m by 2029/2030. 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.
10. The MTFP has now been updated for the 2026/2027 Government Fair Funding Assessment (FFA) and takes account of the changes to the MTFP's assumptions and technical adjustments that Members approved at the January 2026 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:-

PROPOSED 2026/27 - 2030/31 MTFP					
	2026/27	2027/28	2028/29	2029/30	2030/31
	£'000	£'000	£'000	£'000	£'000
<u>Current 2026/27 MTFP Forecast</u>	650	959	1,139	1,442	1,442
<u>Summary of impact changes to 2025/26 MTFP</u>	-650	-959	-1,139	-386	-237
<u>Forecast (Surplus) / Deficit</u>	0	0	0	1,056	1,205

11. Overall, the changes to the assumptions, technical adjustments, and funding amendments have resulted in the forecast balanced position for 2026/2027, 2027/2028, 2028/2029 and the updated MTFP is attached to this report as Appendix C.
12. Although a deficit is forecast from 2029/2030 onwards, uncertainty over government funding, potential changes to the Fair Funding Fire Formula, and future pay awards mean substantial uncertainty exists over these forecasts. Members are, therefore, asked to note any forecast financial challenge at this time.
13. 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 2026/2027 budget and MTFP balanced will be considered by Members as part of this reporting process.

14. The proposed updated MTFP assumes the Authority will increase the 2026/2027 precept by £5.00 per annum 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.
15. 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 2026/2027 are estimated at £13.447m, of which £6.563m will be utilised by the end of 2027/2028. The overall movement in reserves over the next 10+ years is outlined below and in Appendix D:

Committed Reserves																
	Balance C/fwd From 2025/26	Proposed Change	Proposed Increase	Revised Balance C/fwd for 2026/27	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	Estimated 2036/37 Use	Held to Cover Risk
<u>Emergency Related Reserves</u>	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bellwin / Emergency Planning Res	222			222												222
Insurance Reserve	534			534												534
<u>Modernisation Challenge</u>																
Smoothing Reserve	1,400			1,400												1,400
Pensions Reserve	300			300		-200	-100									0
Recruitment Reserve	1,814	-690		1,124		-624	-250	-250								0
Collection Fund Reserve	100			100		-100										0
Carbon Net Zero Reserve	2,000			2,000		-2,000										0
<u>Capital Investment Reserve</u>																
Capital Investment Reserve	2,036		493	2,529		-1,529	-500	-500								0
<u>PFI Annuity Reserve</u>	1,166			1,166	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	407
<u>Specific Projects</u>																
Health & Safety Reserve	57			57		-57										0
Equipment Reserve	466			466		-466										0
Clothing Reserve	940			940		-940										0
Health and Wellbeing Reserve	7			7		-7										0
Training Reserve	270			270		-170	-100									0
Inflation Reserve	1,200	690		1,890												1,890
<u>Ringfenced Reserves</u>																
Community Risk Management Res	236			236		-126	-110									0
Energy Reserve	111			111		-111										0
New Dimensions Reserve	95			95		-95										0
Forecast Use of Reserves in the year	12,954	0	493	13,447	-69	-6,494	-1,129	-819	-69	-69	-69	-69	-69	-69	-69	4,453
Total Earmarked Reserves Bal C/fwd	12,954	0	493	13,447	13,378	6,884	5,755	4,936	4,867	4,798	4,729	4,660	4,591	4,522	4,453	4,453
General Revenue Reserve	3,900	0	0	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900
Total Reserves	16,854	0	0	17,347	17,278	10,784	9,655	8,836	8,767	8,698	8,629	8,560	8,491	8,422	8,353	8,353

16. It is recommended by the Director of Finance and Procurement that the Authority's General Fund Reserve will remain at £3.900m. This figure represents 5% of the current net revenue budget, aligning with prudent financial management standards.
17. 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.

18. Section C of this report details the proposed five-year capital programme. The table below summarises the proposed £44.195m of investments:

Capital Programme 2026/27 to 2030/31

Capital Expenditure	Total Cost £	2026/27 £	2027/28 £	2028/29 £	2029/30 £	2030/31 £
Buildings & Land	9,648,800	4,357,000	2,573,300	993,500	1,102,500	622,500
Fire Safety	3,175,000	635,000	635,000	635,000	635,000	635,000
ICT	11,139,900	2,256,000	978,200	2,961,400	3,707,900	1,236,400
NRAT Resilience Assets	0	0	0	0	0	0
Operational Equipment & Hydrants	6,881,500	3,518,000	693,000	902,000	761,000	1,007,500
Vehicles	13,349,900	4,981,000	1,663,900	690,000	3,465,000	2,550,000
Expenditure	44,195,100	15,747,000	6,543,400	6,181,900	9,671,400	6,051,400

19. The Authority needs to be mindful of the revenue costs of borrowing. The Table below outlines how the £44.195m of investment will be funded:

Financing Available	Total £	2026/27 £	2027/28 £	2028/29 £	2029/30 £	2029/30 £
Capital Receipts	0	0	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	1,875,000	375,000	375,000	375,000	375,000	375,000
Unsupported Borrowing	42,320,100	15,372,000	6,168,400	5,806,900	9,296,400	5,676,400
Total Funding	44,195,100	15,747,000	6,543,400	6,181,900	9,671,400	6,051,400

20. The proposed capital programme has a borrowing requirement of £15.372m in 2026/2027 and £42.320m 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).
21. 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.
22. 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
23. Minimum Revenue Provision (MRP) is the amount set aside from the revenue budget each year to ensure the Authority can repay its debt liabilities. Under the

Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2024 and the Statutory Guidance on MRP (5th Edition), the Authority is required to prepare an annual statement of its policy for the forthcoming year. These updated regulations require the Authority to determine a prudent provision based on its total Capital Financing Requirement (CFR). The Director of Finance and Procurement has reviewed the policy to ensure compliance with these new requirements, and the proposed MRP policy for 2026/2027 and future years is outlined in Section D.

B) BACKGROUND INFORMATION

24. This section provides general financial information on the Authority's finances and financial health.
25. 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.
26. We remain dedicated to delivering high-quality services and rapid emergency response to ensure the safety of our communities. In common with the wider public sector, the Authority has navigated a challenging economic climate for over a decade. Despite experiencing real-terms budget reductions of approximately 50% since 2003, we have successfully managed evolving risks and demand through decisive action. Maintaining this resilience has, however, necessitated significant structural changes, including the reduction of our frontline workforce from over 1,000 to 620 firefighters and a decrease in our fleet from 43 to 26 fire engines in 2019.
27. In recent years, we have taken decisive steps to strengthen our capacity and resilience. This includes increasing our workforce to 642 firefighters and expanding our fire engine fleet to 34, improving our ability to respond to foreseeable and specialist risks.
28. The current budget provides for:
 - a. 642 FTE firefighters
 - b. 35 FTE staff in fire control
 - c. 297 FTE support and technical staff
 - d. Appliances:
 - i. Days: 27 immediately available plus 7 on a 30-minute recall
 - ii. Night: 21 immediately available plus 13 on a 30-minute recall
 - e. 21 fire stations maintained by various demand-led duty cover systems.
29. The proposed MTFP looks to:
 - **Investment in Personal Protective Equipment (PPE):** We are investing in new Breathing Apparatus and essential ancillary components. This includes a full upgrade of our Technical Rescue Ensembles, encompassing specialised helmets, tunics, trousers, and footwear.
 - **Investment in Fleet and Rescue Equipment:** The Authority is scheduled to take delivery of six new fire appliances during the 2026/2027 financial year. Simultaneously, all heavy-duty cutting equipment will be replaced to ensure peak operational performance and enhanced anti-theft security.

- **Training and Competence Assurance:** We are expanding our investment in specialist training and professional assurance. This includes funding for bespoke equipment, consumables, and modernised protective clothing.
- **Support Services and HR:** Strengthening our internal support by adding HR and Occupational Health resources and launching apprenticeships in Procurement and Communications to build future talent.
- **Strategic Establishment Review:** The budget provides the necessary provisions to review the Establishment, ensuring alignment with job evaluation standards and mitigate challenges of recruitment, retention, and organisational expansion.
- **Digital Infrastructure:** Improving digital systems and information technology facilities across the Authority.
- **Estate Modernisation:** We are committing further funding to improve our facilities, including a total makeover of Kirkby Fire Station in 2026/2027. These refurbishments will ensure our stations are welcoming for everyone while introducing modern systems to manage contaminants and keep our firefighters safe.
- **Strategic Energy Investment:** The Authority is dedicating £2 million reserve to a solar panel rollout and decarbonisation project. This strategic "invest-to-save" initiative provides a hedge against energy market volatility, delivering an initial £150,000 in annual savings, rising to a sustained £250,000 reduction in revenue expenditure from 2028/2029.

30. The Authority's revenue budget requirement (gross day-to-day revenue spending less fees, specific grants, and other income) is funded approximately 52% from the Government and 48% from Council Tax (precept income).

Government Funding - Fair Funding Assessment (FFA):

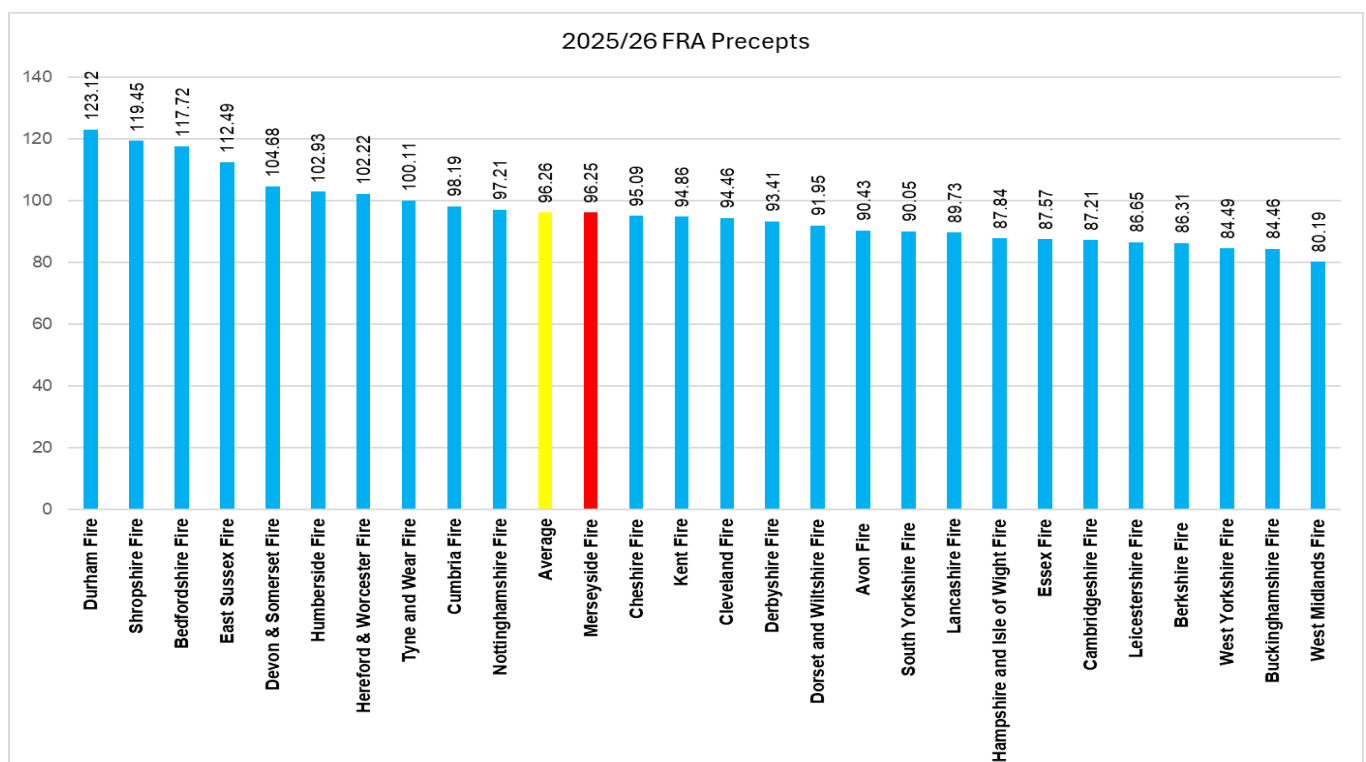
31. In the November 2024 Local Government Finance Statement, the government acknowledged that the current funding system is obsolete and failing, having lacked a significant update since 2013/14. Consequently, they committed to a fundamental overhaul of how local authorities are financed, focusing on directing resources to the areas with the greatest need.
32. The government proposed the 'Fair Funding Review 2.0', conducting a consultation from June to August 2025. When asked for feedback on the Fire and Rescue Formula design, only 64 of the 440 total participants provided a definitive stance.
33. The feedback breakdown for the Fire Formula was:
- Agreed: 25 respondents (6%)
 - Disagreed: 39 respondents (9%)
 - Neutral: 63 respondents (14%)
 - No Comment/Did Not Answer: 313 respondents (71%)

34. Following the consultation, the Government confirmed it will keep the existing funding formula for fire and rescue services, although it will be refreshed using the latest data and population projections. To safeguard budgets, standalone authorities will receive a real-terms funding floor throughout the multi-year settlement. Looking ahead, the government pledged to partner with the fire sector for a full-scale review of the entire formula's methodology in the medium term.
35. In November 2025 the Government published its Local Government Finance Policy Statement for 2026/2027 to 2028/2029, marking the first multi-year financial settlement for English councils in over a decade. The settlement provides fixed funding envelopes for the next three financial years, allowing the Authority to transition from year-to-year planning to long-term financial planning.
36. The settlement also introduced funding protection for standalone Fire and Rescue Authorities, a new "**real-terms funding floor**" has been introduced. This floor ensures their 2025/2026 income is protected in real terms throughout the multi-year period, **provided standalone Fire and Rescue Authorities take up the £5.00 per annum precept flexibility**.
37. The funding floor protection is 3.8% for 2026/27 (based on post-council tax Core Spending Power), with the GDP deflator to be used for the following years. As a result, our funding for 2026/27 will increase by £408k compared to the Provisional Settlement figures.
38. **2026/2027 Government Fair Funding Assessment** - The Governments Fair Funding Assessment for the 2026/2027 financial year identifies the following adjustments for the Authority:
- **Baseline Funding Level:** A reduction of £2.167 million, representing a 9.8% decrease on the 2025/2026 amount.
 - **Revenue Support Grant:** An uplift of £7.882 million, equivalent to a 46.6% increase on the 2025/2026 amount.
 - **Business Rates Multiplier (Compensation for Under-Indexing):** A total reduction of £5.095 million (100% decrease), on the 2025/26 amount.
 - **National Insurance Grant:** A total reduction of £0.425 million (100% decrease), on the 2025/26 amount.
 - **Transitional Protection:** New Fire & Rescue real terms floor increase of £0.408 million (100%), on the 2025/26 amount.
 - **Net Position:** A marginal net increase in the Fair Funding Assessment of £0.603 million (0.135%), on the 2025/26 amount.
39. **Provisional Fair Funding Assessment (2027/28 onwards)** – The provisional outlook for subsequent years is as follows:

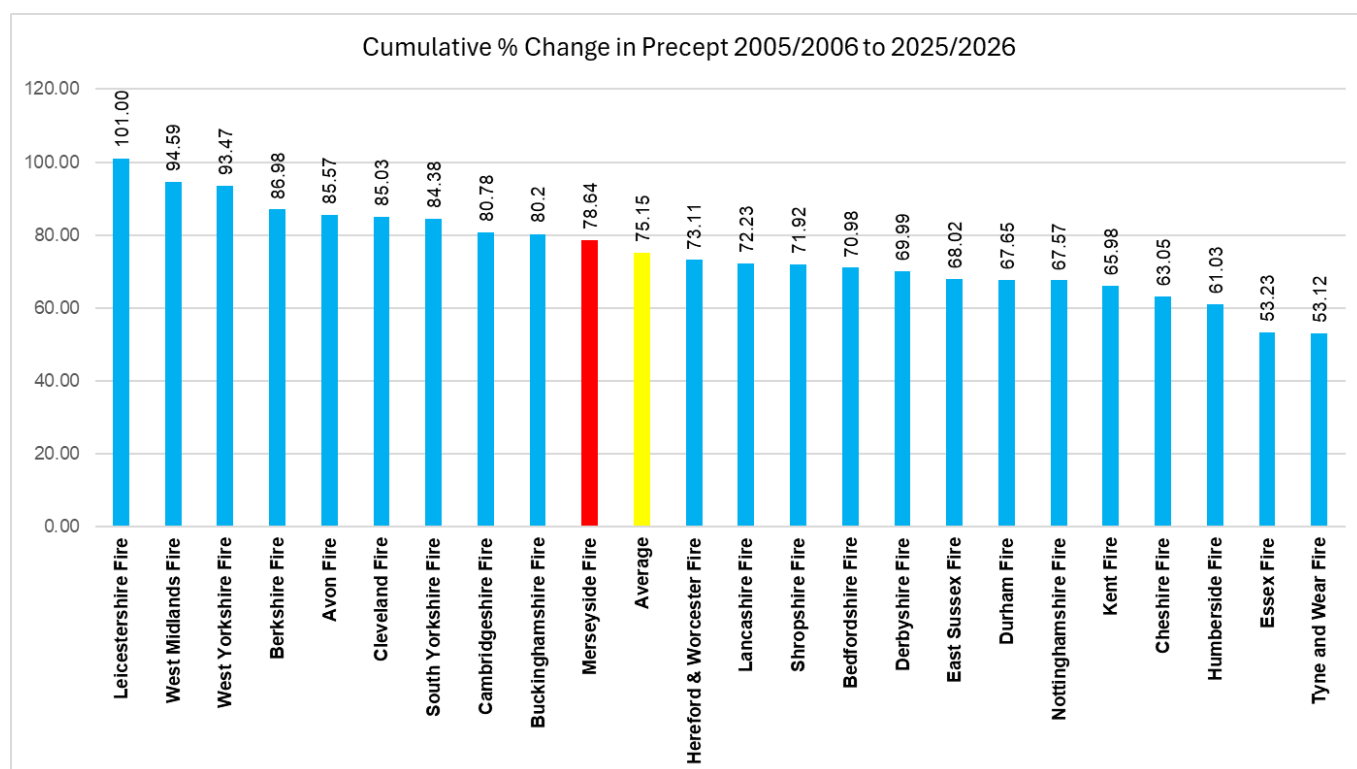
- **Baseline Funding Level:** Projected increases of £0.457 million in 2027/2028 and £0.411 million in 2028/2029.
- **Revenue Support Grant:** Forecast reductions of £0.928 million in 2027/2028 and £1.068 million in 2028/2029.
- **Transitional Protection:** The Authority will not receive any transitional protection within 2027/2028 and 2028/2029 (reduction of £0.408 million)
- **Net Fiscal Impact:** An anticipated net decrease in the Fair Funding Assessment of £0.879 million in 2027/28 and £0.657 million in 2028/29. Total net decrease from 2026/27 of £1.536 million.
- **Medium-Term Assumptions:** The Medium-Term Financial Plan (MTFP) assumes a 1% annual growth rate for both Baseline Funding and the Revenue Support Grant from 2029/30 onwards.

Council Tax:

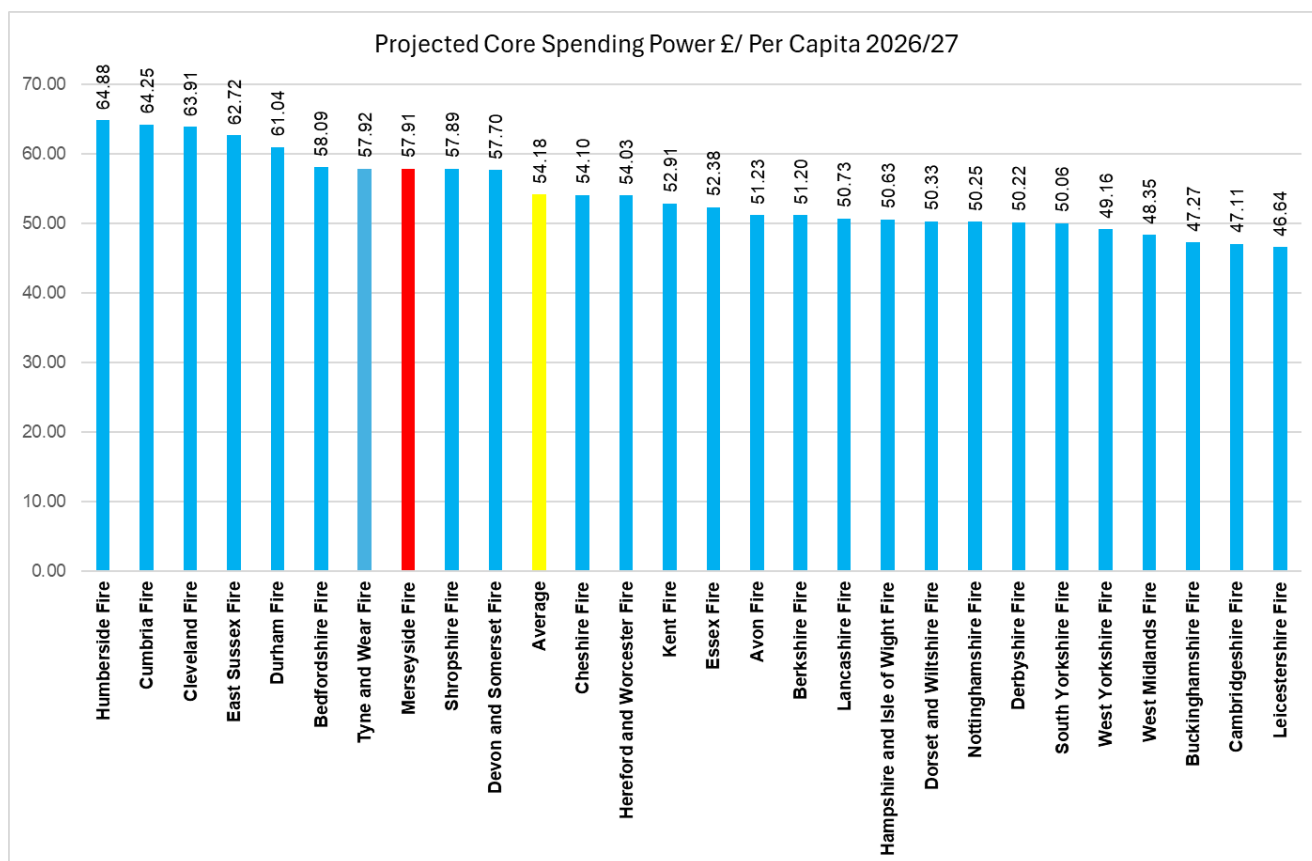
40. The level of council tax yield is dictated by the number of properties and the charge level on each. Each year, the billing authorities provide the Authority with the estimated Band “D” equivalent tax base, which is then used to calculate the expected council tax income based on a Band D Precept 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.
41. The Authority’s current 2025/2026 Band D Council Tax of £96.25 is slightly below the FRS national average of £96.26, as shown in the bar chart below. The proposed increase of £5.00 to £101.25 in 2026/2027 is unlikely to change this position:



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



43. Despite recent growth in the Authority's tax base - which boosts income by generating more revenue for every £1 of "Band D" council tax charged - our core spending per household remains high compared to similar authorities. "Core Spending" is the Government estimate of our total budget, combining central funding with projected council tax and tax base increases. The table overleaf outlines the projected core spending power / per capita as outlined in the 2026/2027 finance settlement data produced by the Government:



44. The updated MTFP assumes the Authority will increase the precept by £5.00 per Band D property in 2026/2027, a level that avoids the requirement for a referendum. This £5.00 increase is also assumed for 2027/2028 and 2028/2029, followed by an assumed 2% annual increase for the final two years of the plan.
45. In addition, the 2026/2027 tax base increased by 2.05%, which is 1.55% higher than anticipated in the current MTFP. The proposed MTFP assumes a 0.5% annual increase in the tax base for all future years.
46. Combined, the council tax base and precept increases will result in a total Council Tax yield of £2.822m.
47. While the Authority may increase the 2026/27 precept by more than £5.00, any such increase would be subject to a local referendum. Should the electorate vote against the increase, the Authority would be required to produce a revised budget and incur re-billing costs for all districts, estimated at over £1m.

Council Tax and Business Rates - Collection Fund

48. 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.
49. The Council Tax Collection Fund forecasts a surplus of £0.109m.

50. The Business Rates Collection Fund forecasts a surplus of £0.028m.

51. Overall, the Collection Fund has a surplus of £0.137m.

Pay:

52. The previous MTFP assumed a 2.5% annual pay award for 2025/2026 and subsequent years. However, the proposed 2026/2027 MTFP has been updated to reflect the impact of actual 2025/26 settlements, which exceeded the budget. The firefighter pay award (Grey Book) was agreed at 3.2% effective from 1 July 2025, representing a pressure of 0.7% (£330k) above the original budget. Similarly, the non-operational pay award (Green Book) was settled at 3.2% effective from 1 April 2025, which was 0.7% (£100k) above the budgeted provision.

53. For 2026/2027, the pay award assumption has been increased from 2.5% to 3.0% for both firefighter and non-operational staff, at a projected cost of £254k (part-year) and £314k (full-year). The MTFP continues to assume future pay awards of 2.5% per annum from 2027/2028 onwards.

Amendments to the current MTFP Assumptions:

54. 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 2026/2027 – 2030/2031 MTFP:

55. This report provides the Authority with an updated five-year MTFP for 2026/2027 – 2030/2031. It reflects the impact of the Government's first multi-year financial settlement in a decade (covering 2026/27 to 2028/29) along with updated tax yields and strategic assumptions from the Budget Strategy Day. The proposed plan is attached as appendix C and is summarised below.

Proposed 2026/27 - 2030/31 MTFP					
	2026/27	2027/28	2028/29	2029/30	2030/31
	£'000	£'000	£'000	£'000	£'000
Current 2025/26 MTFP Forecast (Surplus) / Deficit	650	959	1,139	1,442	1,442
2025/26 MTFP Issues to build in future MTFP:-					
Impact of the 2025/26 Grey Book Pay Award (Increase of 0.70%)	330	330	330	330	330
Impact of the 2025/26 Green Book Pay Award (Increase of 0.70%)	100	100	100	100	100
Historic Employers National Insurance Grant now consolidated within the Fair Funding Assessment	425	425	425	425	425
Impact 2026/27 Pay Award moving from 2.5% p.a. to 3% p.a.	254	314	314	314	314
Impact 2025 LGPS Actuarial Valuation reduction in employers pension contribution 17.9% - 5.9% 2026/27 to 2028/29 then assume only 50% of the saving for 2029/30 & 2030/31	-1,150	-1,150	-1,150	-575	-575
2030/31 Inflation Provision	0	0	0	0	1,796
Impact of Higher Prices (Inflation/Contingency)	622	784	953	957	957
2030/31 MRP/Interest - Additional year and Inflationary Impact on cost of Capital Goods	0	0	0	0	90
Contribution to Capital Reserve to fund Capital Programme and additional Inflationary Pressures	493	0	0	0	0
Unavoidable Growth net of Savings	476	425	282	600	480
Provision for the review of Establishment to meet Job Evaluation / Recruitment / Retention / Growth Challenges	400	300	300	300	300
Historic Business Rates Grant compensation for under-indexation of tax rates now consolidated within the Fair Funding Assessment	5,095	5,095	5,095	5,095	5,095
Transitional Protection for 2026/27 - Fire and Rescue real terms floor 3.8%	-408				
Increase in Fair Funding Assessment in 2026/27 - 2028/29 above the assumed MTFP	-5,325	-4,460	-3,406	-3,439	-3,879
Council Tax Precept	-1,858	-3,122	-4,382	-4,493	-5,669
Collection Fund Change	-137				
SFA Local Business Rate Estimate Adjustment	34				
Summary of impact of changes to 2026/27 MTFP	-650	-959	-1,139	-386	-237
Forecast (Surplus) / Deficit	0	0	0	1,056	1,205

56. The MTFP delivers a balanced financial position in 2026/2027 – 2028/29 but outlines a potential financial challenge from 2029/2030. Members are asked to note this at this point due to the significant uncertainty over future Government funding, council tax base and precept increases, pay awards and inflation.

Allocation of Resources:

57. 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.
58. The Community Risk Management Plan (CRMP) is the key driver in allocating the Authority's resources in response to the risks facing Merseyside. The 2026/2027 MTFP includes the budget (revenue and capital) to support CRMP 2024 - 2027.
59. 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:

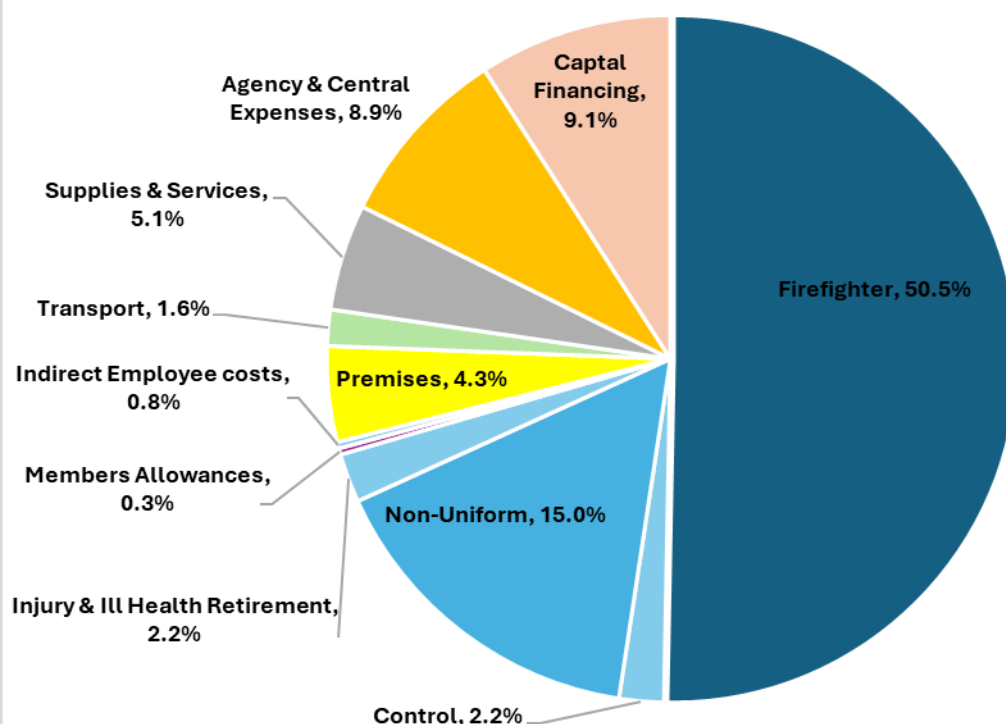
Here to serve. Here to protect. Here to keep you safe.

60. The updated 2026/2027 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:

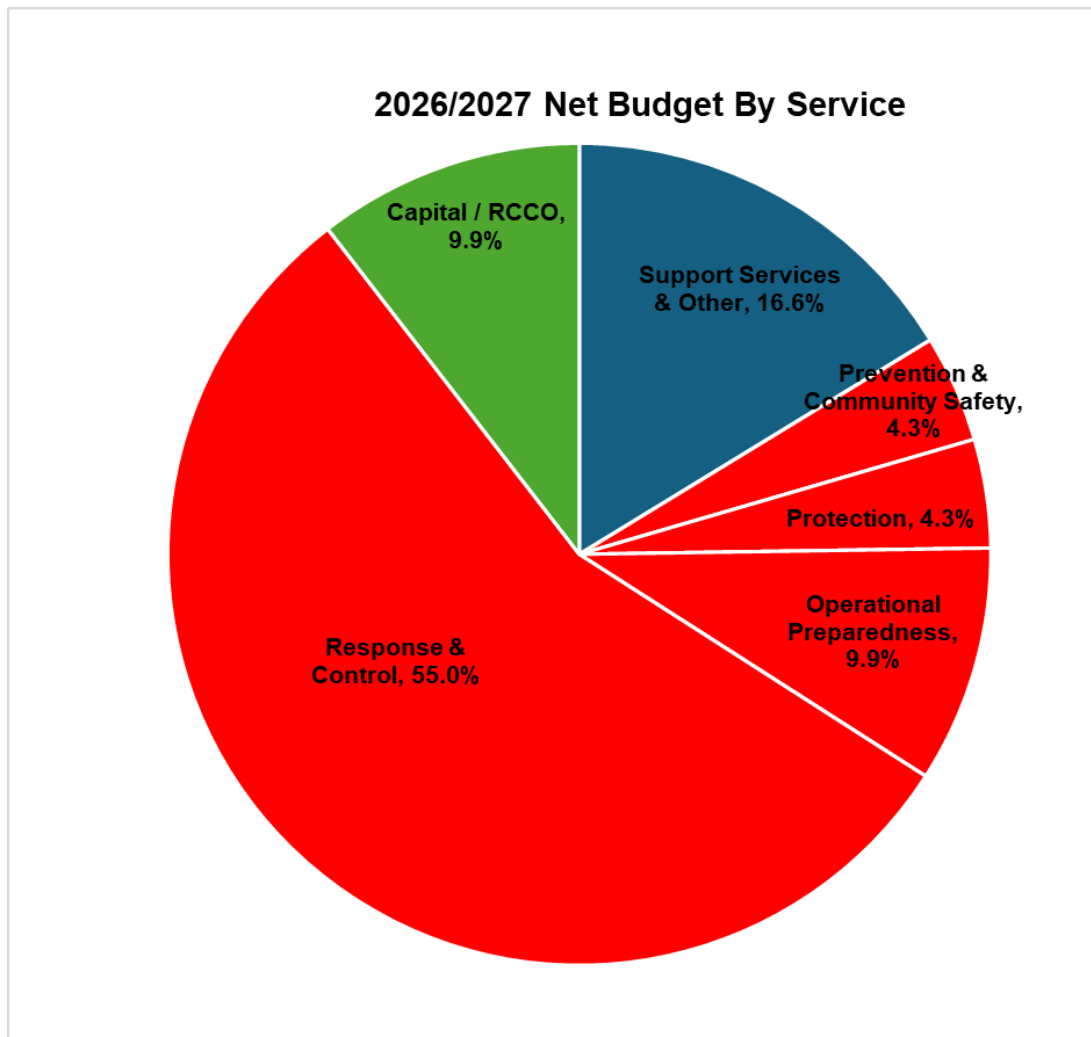
61. An analysis of the planned revenue expenditure outlines that it is predominantly employee-related (71%). The pie chart overleaf analyses the revenue expenditure over the different main subjective headings (the blue sections relate to employee costs):

Analysis of 2026/2027 Gross Revenue Budget (excl. National Resilience Spend)



A complete subjective analysis of the base budget for 2026/2027 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.

62. The Authority has an excellent track record of investing in line with its corporate priorities. The pie chart below outlines that most expenditure, 55.0%, goes on emergency and specialist response. In addition, 9.9% goes on Operational Preparedness and 8.6% on Protection and Prevention. Therefore, 73.5% of expenditure is on the “front line” services. The 9.9% on capital costs relate mainly to previous investments in front line assets, fire stations, vehicles and equipment. The remaining 16.6% is on support and operational enabling services.



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

Operational Response & Control (Total £47.3m)

- 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.

Prevention (Total £3.7m)

- 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 £3.7m)

- Protection Response Officers.
- Enforcement & Prosecution.
- ICT Information systems.

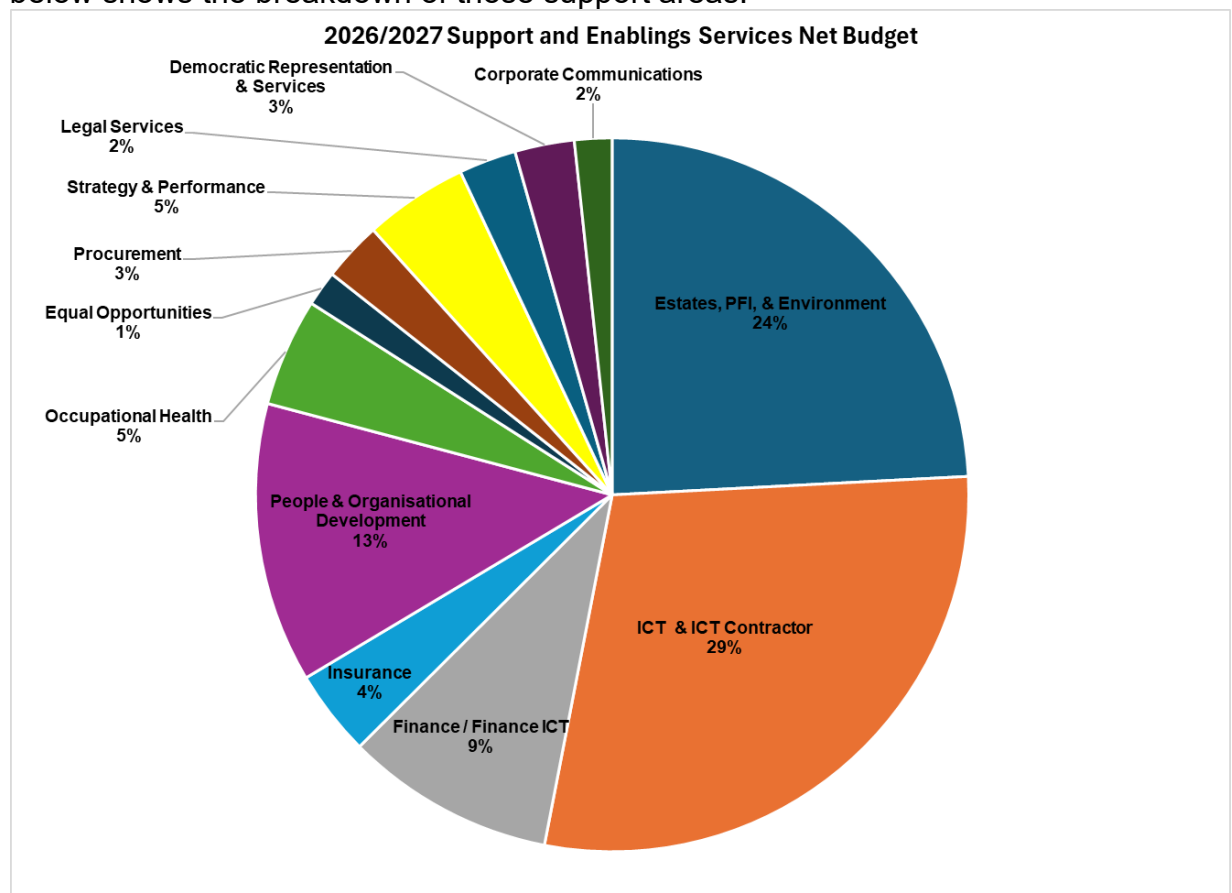
Operational Preparedness (Total £8.5m)

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 £14.4m)

The investment in support services represents 16.6% 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

63. 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.***
64. 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.
65. 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.

Key Features of the Prudential Code

66. The main operational requirements of the code:
- **Approval of Indicators:** The full Authority must determine and approve a suite of Prudential Indicators and limits for its capital plans during the annual budget process. These limits may only be revised mid-year by the full Authority. The mandatory indicators are shown in Section E.
 - **Monitoring and Reporting:** These indicators and limits must be monitored throughout the financial year, with actual outturn figures reported formally to the Authority.
 - **Medium-Term Planning:** The Authority must maintain capital and revenue plans covering at least **three future years**. This includes three-year estimates of future Council Tax, accounting for the impact of the proposed capital programme.
 - **The Authorised Limit for Debt:** The Authority is statutorily required to set an **Authorised Limit** for its total external debt (including borrowing

and other long-term liabilities). This limit is a legal boundary that may not be exceeded.

- **Treasury Management Alignment:** All limits relating to treasury management matters must be considered as part of the Annual Treasury Management Strategy Report.

67. 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.
68. 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.
69. 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.
70. 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.
71. The proposed £44.195m 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 £42.320m.

Capital Programme 2026/27 to 2030/31

Capital Expenditure	Total Cost £	2026/27 £	2027/28 £	2028/29 £	2029/30 £	2030/31 £
Buildings & Land	9,648,800	4,357,000	2,573,300	993,500	1,102,500	622,500
Fire Safety	3,175,000	635,000	635,000	635,000	635,000	635,000
ICT	11,139,900	2,256,000	978,200	2,961,400	3,707,900	1,236,400
NRAT Resilience Assets	0	0	0	0	0	0
Operational Equipment & Hydrants	6,881,500	3,518,000	693,000	902,000	761,000	1,007,500
Vehicles	13,349,900	4,981,000	1,663,900	690,000	3,465,000	2,550,000
Expenditure	44,195,100	15,747,000	6,543,400	6,181,900	9,671,400	6,051,400
Financing Available	Total	2026/27	2027/28	2028/29	2029/30	2029/30
	£	£	£	£	£	£
Capital Receipts	0	0	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	1,875,000	375,000	375,000	375,000	375,000	375,000
Unsupported Borrowing	42,320,100	15,372,000	6,168,400	5,806,900	9,296,400	5,676,400
Total Funding	44,195,100	15,747,000	6,543,400	6,181,900	9,671,400	6,051,400

72. The updated capital programme includes new schemes and growth of existing schemes, these have increased the overall expenditure by £8.912m. The table below summarises the proposed changes:

New Starts 2026/27 - 2030/31

Capital Expenditure	Total Cost £	2026/27 £	2027/28 £	2028/29 £	2029/30 £	2030/31 £
Building/Land	1,422,500	800,000	0	0	0	622,500
Fire Safety	635,000	0	0	0	0	635,000
ICT	2,722,900	24,000	27,500	1,037,500	397,500	1,236,400
Operational Equipment & Hydrants	1,057,500	0	0	0	50,000	1,007,500
Vehicles	3,075,000	0	0	0	525,000	2,550,000
Expenditure	8,912,900	824,000	27,500	1,037,500	972,500	6,051,400
Financing Available	Total	2025/26	2026/27	2027/28	2028/29	2029/30
	£	£	£	£	£	£
Total Non Borrowing	375,000	0	0	0	0	375,000
Unsupported Borrowing	8,537,900	824,000	27,500	1,037,500	972,500	5,676,400
Total Funding	8,912,900	824,000	27,500	1,037,500	972,500	6,051,400

73. Of the £8.912m planned increase:

- Adding the “extra year” to the programme, 2030/2031, adds £6.051m
- New 2026/2027 – 2029/2030 proposals including Growth//New Schemes/Savings add £2.861m. The key items are for investment in:
 - Refurbishment of Kirkby £0.800m
 - Replacement of Control Computer Aided Despatch (CAD) £1.000m
 - PIPS Application Upgrade £0.120m
 - Cradlepoint replacing PSTN lines on stations £0.150m
 - Windows 11 Hardware Upgrade £0.100m
 - Operational Equipment – Fire Blankets Car Fires £0.050m

- Ancillary Vehicles £0.525m

74. The £8.912m of new planned capital spending requires unsupported additional borrowing of £8.537m, and this commitment has been built into the proposed MTFP.
75. **Appendix B** comprehensively analyses the proposed 5-year capital programme. The main areas of capital programme expenditure are summarised below: -

a. Building Investment Strategy (£9.648m):

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 £4.727m 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, Kensington and Toxteth fire stations and service headquarters.

General station upgrade work, £2.016m, is planned over the programme period, including investment in station roofs and canopy replacements, appliance room door repairs, tower improvements, appliance room floor repairs and sanitary accommodation refurbishments.

The balance, £2.905m, 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 (£11.139m)

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 £2.576m including licenses, security Information and event management software and Microsoft agreements
- Planned replacement of ICT Hardware including PC's, monitors, AV equipment and peripherals £1.926m
- ICT Servers including Mitel Server upgrade and Virtualisation refresh £1.190m
- ICT Network replacement and growth including 5 year Core Network Switch/Router upgrade £1.345m
- Operational ICT Equipment, including refresh of Mobile Data Terminals on front line vehicles and tough pad asset refresh £0.895m
- ICT Security including the replacement of PfSense Firewalls £0.170m
- Other applications and ICT schemes including Command & Control Suite and Computer Aided Dispatch replacement £3.037m

d. Operational Equipment & Hydrants (£6.881m)

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 £0.140m
- Pod Equipment including demountable unit refurbishment £0.355m
- Improvements to Fleet £0.500m
- Breathing Apparatus replacement programme £3.045m
- Radiation/Gas Detection Equipment £0.132m
- Bulk Foam Equipment £0.110m
- Search and Rescue equipment £0.278m
- Gas detection Equipment £0.148m
- Water Rescue Equipment £0.136m
- CCTV Equipment £0.133m
- Operational Ladders £0.115m
- Water Delivery Hoses £0.122m
- Electrical Equipment £0.148m
- Operational Drones £0.107m
- Emerging Technologies £0.250m
- Communications £0.280m
- Other Specialist Equipment £0.697m
- Installation of new or replacement hydrants per our water strategy, £0.185m.

e. Vehicle Replacement Strategy (£13.349m)

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 - £6.479m

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 14 new appliances

b. Specialist Vehicles - £3.014m

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) (1)
- Prime Movers (4)
- POD Long Term capability management (1)
- Forklift Truck (1)
- Water Rescue Unit (1)
- BA Support Pod (1)
- Crane Lorry (1)
- Wildfire Appliance (2)
- Curtain Sided Truck (1)
- Welfare Vehicle (1)
- Tele Handler Truck (1)
- Youth Engagement vehicle (1)
- Water Bowser Appliance (1)

c. Ancillary Vehicles – £3.165m

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

d. Marine Rescue Boats - £0.458m

e. Workshop Equipment - £0.233m

Funding:

76. A mixture of specific funding sources and borrowing will fund the proposed capital spend:
77. **Capital receipts:** - these are generally proceeds from the sale of assets. Such receipts may be used to reduce an Authority's outstanding debt or reinvested in capital infrastructure. The Authority typically uses capital receipts to fund new capital investment, with minimal allocation toward debt repayment unless specifically required by regulation.
78. **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 £0.375m, which comes from the “freed-up” employee budget following the capitalisation of smoke alarm installation costs (salary costs).

79. **Borrowing:** Under the Prudential Framework, local authorities have the power to determine their own levels of affordable borrowing. However, the Government retains reserve powers under the Local Government Act 2003 to impose national limits or specific restrictions on an Authority’s borrowing if it is deemed unaffordable or for broader national economic reasons. Following the application of specific funding, the proposed capital programme requires £42.320m in “unsupported” prudential borrowing. The revenue budget and Medium Term Financial Plan (MTFP) include adequate provision to meet the future debt-servicing costs associated with this requirement.
80. **Minimum Revenue Provision (MRP):** When the Authority borrows to fund capital expenditure, it is a statutory requirement to make a “prudent” provision from revenue for the repayment of that debt, alongside interest costs. The Authority’s methodology for this is defined by the Minimum Revenue Provision (MRP) Policy. In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2024, the Authority must approve an annual MRP Statement. Section D of this report outlines the proposed policy and calculation methodology for the period 2026/27 to 2030/31 for Member approval. 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

81. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended), the Authority is statutorily required to set aside a prudent sum of money each year to reduce its overall debt; this is known as the **Minimum Revenue Provision (MRP)**. While the 2003 Regulations originally prescribed specific calculation methods, the system was moved to a 'prudent duty' basis in 2008.
82. This framework was further strengthened by the 2024 Amendment Regulations and the 5th Edition of Statutory Guidance, effective for financial years commencing 1 April 2025. These updates clarify that authorities cannot exclude any portion of their Capital Financing Requirement (CFR) from MRP calculations and strictly prohibit the use of capital receipts as a direct replacement for the required revenue charge. The Authority must continue to approve an annual MRP Policy Statement prior to the start of each financial year, ensuring its debt repayment remains prudent and compliant with the latest statutory requirements.
83. Statutory guidance defines a 'prudent' MRP as being calculated using one of the following principles:
 - a. Asset Life Method: Based over a period reasonably commensurate with that over which the capital expenditure or asset provides benefits.
 - b. Regulatory Method: For historical borrowing originally supported by government grant, a period commensurate with the period implicit in the determination of that grant (typically equating to a 4% reducing balance methodology).
84. The statutory guidance sets out four options for calculating MRP. As the government no longer issues 'Supported Borrowing', Options 1 and 2 are restricted to historical debt, leaving Options 3 and 4 for all new borrowing:
 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.

- 85. Statutory guidance indicates that for finance leases and on-balance sheet Private Finance Initiative (PFI) contracts, the MRP requirement is satisfied by a charge equal to the element of the rental or unitary charge that writes down the balance sheet liability under proper accounting practices. This is effectively a modified version of the asset life-annuity method, ensuring the impact on the revenue account is neutral as the MRP matches the principal repayment embedded within the agreement.
- 86. The 2026/27 MRP is determined by the actual level of the Capital Financing Requirement (CFR) at the end of 2025/26. It is recommended that the Authority adopt the following strategy for 2026/27:
 - a. Post-2008 Unsupported Borrowing: For all capital expenditure incurred after 1 April 2008 financed by unsupported (prudential) borrowing, MRP will be calculated using the Asset Life Method (Equal Instalments).
 - b. Finance Leases and PFI: For credit arrangements, including on-balance sheet leasing and PFI contracts, the MRP charge shall be equal to the principal element of the annual rental or unitary charge.
 - c. IFRS 16 Transition: For former operating leases brought onto the balance sheet under IFRS 16, MRP will be adjusted to ensure the total charge over the lease term reflects the value of the right-of-use asset recognised at transition.
- 87. For all capital expenditure incurred before 1 April 2008 and funded via supported borrowing, the Authority calculates MRP using a straight-line (equal instalment) method over a period of up to 40 years (extending to 50 years for land). The Director of Finance and Procurement consider this a prudent methodology as it ensures all historical debt is fully extinguished over a finite timeframe, rather than the perpetual 'reducing balance' approach of the 4% Regulatory Method.
- 88. The options detailed above satisfy the statutory requirement for MRP to be deemed 'prudent' while providing long-term certainty and predictability for the revenue budget. The Medium-Term Financial Plan (MTFP) outlined in this report fully incorporates the financial impact of the Authority's proposed MRP policy.
- 89. 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.

90. Interest on loans to fund capital expenditure is estimated at £1.715m.
91. 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

92. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2026/2027, 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.
93. 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 2026/2027.
94. The financial plans prepared for the financial years 2027/2028 and 2028/2029 are not to be mistaken for approved budgets. They are, at this stage, only a guide for financial planning and, as such, subject to 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 2026/2027, 2027/2028 and 2028/29.
95. 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.***
96. The purpose of these indicators is to demonstrate that capital investment plans are affordable, prudent, and sustainable, and that the Authority has considered the proportionality of its investments relative to its financial capacity. To demonstrate this, the Authority will monitor the following mandatory indicators:
- a. **Ratio of Financing Costs to Net Revenue Stream:** Measures the proportion of the revenue budget required to meet borrowing and other long-term liability costs.
 - b. **Capital Financing Requirement (CFR):** Represents the Authority's underlying need to borrow for capital purposes.
 - c. **Liability Benchmark:** A graphical projection of the Authority's actual borrowing against its minimum need to borrow, identifying future refinancing or new borrowing requirements.
97. The prudential indicators for the Authority are: -
- **Capital Expenditure**
The actual capital expenditure that was incurred in 2024/2025 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 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	Estimate 2030/31 £000,s
Capital Expenditure	13,790	10,955	15,747	6,543	6,182	9,671	6,051

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 2024/2025 and the current and future years are:

	Actual 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29	Estimate 2029/30	Estimate 2030/31
Ratio of Financing costs to Net Revenue Stream	10.15%	9.09%	5.95%	6.92%	7.46%	5.98%	5.98%

This shows that forecast debt financing costs will decrease from 10.15% down to approximately 6% by 2030/2031. 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 2029/2030.

- **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 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29	Estimate 2029/30	Estimate 2030/31
Incremental Impact of Capital Investment Decisions.	-£7.05	£1.10	£2.82	-£0.11	£0.10	£1.97	£0.66

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 2025/2026 into 2026/2027 approved during the year and the new starts in 2026/2027 – 2030/2031 explain the movement in the figures over this period.

98. The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for capital investment purposes.
99. Based on current commitments for 2025/2026 and the latest estimates of capital investment decisions in future years, the capital financing requirement forecast as of 31st March 2026 and future years is as follows:

	Actual 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	Estimate 31.3.31 £000,s
Capital Financing Requirement (Excluding PFI & MRD)	34,008	37,937	50,378	52,754	54,309	59,059	59,095

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.

100. 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."

101. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach a maximum of £59.095m over the next 5 years, and the expected maximum debt position is £42.720m. 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.

	Actual 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	Estimate 31.3.31 £000,s
Capital Financing Requirement	51,746	55,012	66,780	68,428	69,195	73,093	72,277
Less PFI	-17,699	-17,075	-16,402	-15,674	-14,886	-14,034	-13,182
Less MRD	-39	0	0	0	0	0	0
Borrowing CFR	34,008	37,937	50,378	52,754	54,309	59,059	59,095
Existing Debt Portfolio (PWLb)	33,720	33,720	33,720	33,720	36,720	39,720	42,720
Under / (Over) Borrowing	288	4,217	16,658	19,034	17,589	19,339	16,375

102. 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 utilises 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 31.3.25 £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	Estimate 31.3.31 £000,s
Liability Benchmark							
Capital Financing Requirement (Excluding PFI & MRD)	34,008	37,937	50,378	52,754	54,309	59,059	59,095
PWLb Loans	33,720	33,720	33,720	33,720	36,720	39,720	42,720
<i>Forecast New Loans taken out (incl in above)</i>					3,000	3,000	3,000
(Under)/Over Borrowed	- 288	- 4,217	- 16,658	- 19,034	- 17,589	- 19,339	- 16,375

(F) TREASURY MANAGEMENT STRATEGY STATEMENT

2026/2027

INTRODUCTION

103. 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, this defines how the Authority will provide for the repayment of debt from revenue each year. This policy is governed by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2024, which mandate a "prudent provision" for all debt-funded capital expenditure.

In accordance with the latest CIPFA Treasury Management and Prudential Codes (2021 Edition), a Capital Strategy has been produced and is included in Section C of this report.

PROPOSED STRATEGY

104. 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 2026/2027.
- The External Debt and Treasury Management Prudential Indicators and Limits for 2026/2027 to 2028/2029.
- The Investment Strategy 2026/2027.

- The Minimum Revenue Provision (MRP) Statement is included in section D, which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

105. The suggested strategy for 2026/2027 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 2026/27 will be influenced by both national and geopolitical factors. Developed economies have been open for some years now post-pandemic, but the degree to which inflation took root in those economies demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the previous decade.

In the UK, the CPI measure of inflation is at 3.4% (December 2025), somewhat above the target of 2% the Bank of England's Monetary Policy Committee is trying to achieve over a two to three years' time horizon. Although recent inflation and employment data points towards a reduction in headline inflation through 2026, the Bank will need to exercise fine judgment as to the degree of inflation emanating from the 26th November 2025 Budget. Moreover, geo-political events may play a meaningful part in impacting monetary policy over the coming months.

The Bank of England's (BoE) Monetary Policy Committee (MPC) cut the bank rate by 25bps in December 2025, to 3.75%.

The outlook from markets commentators suggests that monetary policy is tight enough to permit some moderate easing but the extent of this will depend on future data. A forecast for the next reduction in the bank rate to be made in June 2026, followed by one further cut in December 2026.

Any movement further below the current 3.75% bank rate will depend heavily on inflation data in the first half of 2026. At the February 2026 meeting, the MPC voted 5-4 to hold rates, with four members pushing for a further reduction to 3.5%. This indicates the finely balanced nature of the decision and how the future path of policy will be heavily data-dependent.

In terms of the PWLB forecast, the short to medium part of the yield 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 part of the yield curve will similarly be influenced by inflation factors, however, an additional concern is emerging, namely the extent to which 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 no new long-term borrowing will be required until 2028/29. The latest projection is that £3m will be required in 2028/29, with a further £3m required in both 2029/30 and 2030/31. 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. In light of this, 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 full 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 2026/27 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 MHCLG 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 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.

Authorised Limit for External Debt	2026/27 £'000	2027/28 £'000	2028/29 £'000
Gross Borrowing	51,000	53,000	55,000
Other Long-Term Liabilities	17,000	16,000	15,000
TOTAL	68,000	69,000	70,000

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 & 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	2026/27 £'000	2027/28 £'000	2028/29 £'000
External Borrowing	46,000	48,000	50,000
Other Long-Term Liabilities	17,000	16,000	15,000
TOTAL	63,000	64,000	65,000

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 2026.

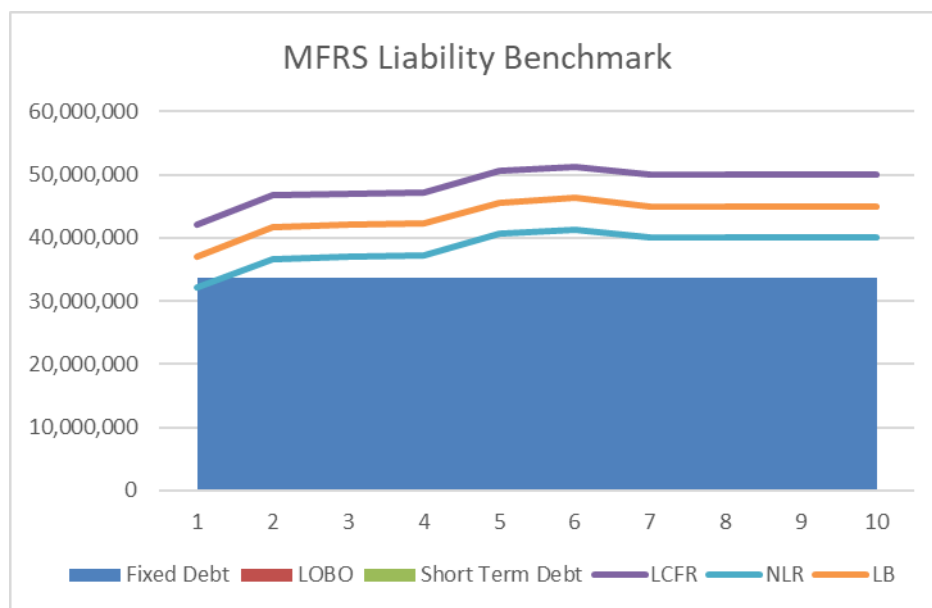
The figure for actual borrowing in recent years has been below the capital financing requirement. In an environment of extremely low interest returns, treasury officers have adopted a strategy whereby the Authorities' capital

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.

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£'m	£'m	£'m	£'m	£'m	£'m
Capital Financing Requirement	55.2	66.7	68.4	69.2	73.1	72.9
Less: PFI	(17.1)	(16.4)	(15.6)	(14.9)	(14.0)	(13.1)
Borrowing CFR	38.1	50.3	52.8	54.3	59.1	59.8
Existing Debt Portfolio	33.7	33.7	33.7	36.7	39.7	42.7
Over(-)/Under borrowing	4.4	16.6	19.1	17.6	19.4	17.1
Borrowing as a % of CFR	88.4%	67.0%	63.8%	67.6%	67.2%	71.4%

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 £37.0m for 2025/2026 and is forecast to increase to £54.0m by 2029/2030 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 graph overleaf covers an extended period of ten years.



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

The graph in prior years previously highlighted the extent to which the Authority borrowing levels has exceeded the liability benchmark based on the historic borrowing portfolio that is predominately long dated. However, this position reversed in 2024/2025 with the utilisation of internal borrowing to fund recent capital expenditure. The significant movement in interest rates during 2022/2023 and 2023/2024 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 continue to fall back during 2026/2027, 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	2026/27	2027/28	2028/29
	%	%	%
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 2026/27.

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 2026/27, 2027/28 and 2028/29.

(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 and Procurement 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 2026/2027 – 2030/2031

106. 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.
107. 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.
108. 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.
109. The Authority has successfully managed evolving risks and demand through decisive action. Maintaining this resilience has, however, necessitated significant structural changes, including the reduction of our frontline workforce from over 1,000 to 620 firefighters and a decrease in our fleet from 43 to 26 fire engines in 2019.
110. In recent years, we have taken decisive steps to strengthen our capacity and resilience. This includes increasing our workforce to 642 firefighters and expanding our fire engine fleet to 34, improving our ability to respond to foreseeable and specialist risks.
111. The current budget provides for:
- a. 642 FTE firefighters
 - b. 35 FTE staff in fire control
 - c. 297 FTE support and technical staff,
 - d. Appliances:
 - i. Days: 27 immediately available plus 7 on a 30-minute recall
 - ii. Night: 21 immediately available plus 13 on a 30-minute recall
 - e. 21 fire stations maintained by various demand-led duty cover systems.
112. Based on the information at that time, the 2025/2026 MTFP approved at the Budget Authority meeting on 27th February 2025 delivered a balanced financial position in 2025/2026 and a £0.650m challenge in 2026/2027, rising to £1,442m by 2029/2030. As significant uncertainty existed over future Government funding and future cost increases from 2026/2027, Members were asked to note any financial challenges in future years and deal with any challenge once the future funding became clearer.

113. The current MTFP has been updated for the 2026/2027 first multi-year settlement for English councils in over a decade, the Merseyside local authorities' 2026/2027 Council Tax Base and Collection Fund surplus and deficits. 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.
114. At the January 2026 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: -
115. **Inflation - Pay & Prices Changes: -**

PAY:

The previous MTFP assumed a 2.5% annual pay award for 2025/2026 and beyond. However, the proposed 2026/2027 MTFP has been updated to reflect the actual 2025/2026 national settlements, both of which exceeded budgeted provisions. The Grey Book (firefighter) pay award was agreed at 3.2% (effective 1 July 2025), creating a budget pressure of 0.7% (£330k). Similarly, the Green Book (non-operational) award was settled at 3.2% (effective 1 April 2025), representing a 0.7% (£100k) pressure.

Following the Strategy Day in January 2026, the 2026/2027 pay award assumption has been increased from 2.5% to 3.0% for all staff groups. This revised forecast accounts for current inflationary trends and recent public sector pay precedents, with a projected impact of £254k (part-year) and £314k (full-year). Assumptions for 2027/2028 onwards remain at 2.5% p.a. at this stage

PENSIONS:

Firefighter Pension Scheme: Firefighter Pension Scheme Actuarial review 2020:- Following the 2020 actuarial review, the Home Office introduced a Fire Pension Grant for 2024/2025 to offset the rise in employer contribution rates from 28.8% to 37.6%. For the MFRA, the increase in employer contributions resulted in a total cost increase of over £2.300m. To bridge this gap, a fixed grant of £2.183m (calculated on a four-year average) was awarded for 2024/25. While initially issued on a one-year basis pending future Spending Reviews, the Authority's 2025/2026 MTFP assumed this £2.183m contribution will continue in future years. Confirmation for 2026/2027 is currently awaited, though funding is expected to remain at the £2.183m.

Future LGPS Employer Contribution Update: Merseyside Pension Fund aims to maintain long-term solvency and cost efficiency while maximising investment returns within acceptable risk levels. Following the January 2026 consultation on the 2025 actuarial results, the fund is estimated to be 117% funded. Based on this surplus, the Actuary recommends establishing a 1% Sustainability Reserve and reducing MFRA employer contributions from 17.9% to 5.9% for the three-year period. The new employer contribution rates will typically come into effect on 1st April 2026 and will be formally certified in the Actuary's formal report on the 2025 actuarial valuation, this report will be signed

off by the actuary by 31 March 2026. This change will deliver approximately £1.150m in annual savings, which have been integrated into the MTFP through 2028/29, followed by a planned 50% tapering of these savings in 2029/30 and 2030/31.

PRICES

The current MTFP included a provision for general price and energy increases of 2% based on inflation forecasts in January 2025. The government expected CPI inflation to fall towards the target of 2% in 2025/26. The Twelve-month CPI inflation can be seen in the following chart.



The Office of Budget Responsibility forecasts CPI inflation of 2.5% in 2026. Over the medium term, once pressures ease, inflation is expected to stabilise around the 2% target.

The proposed MTFP has built an increase of £0.622m to uplift the contingency for pay and inflation towards the impact of the inflationary pressures in 2025/2026 and the expected 2026/2027 inflationary impact.

An inflation provision of £1.796m is included in the proposed MTFP to cover the new-year, 2030/2031, based on general inflation of 2% and pay uplifts of 2.5%.

116. Revenue Growth

The current plan assumed no future unavoidable growth requirements beyond those approved in the 2025/2026 plan. However, the CFO, SLT, and Officers have identified several unavoidable growth pressures not covered by inflation, totalling £0.476m (net of savings) in 2026/2027. This has been built into the proposed MTFP and includes:

- Increased ICT Service Provider Costs: Improving digital systems and IT facilities across the Authority.
- Fleet and Rescue Equipment: Rising maintenance and parts costs.

- Support Services and HR: adding HR and Occupational Health resources, and launching Procurement and Communications apprenticeships to build future talent.
- Income Fluctuations: A reduction in Marine Fire One income.
- Operational Pressures: Increases in scientific support costs, Health & Safety software applications, Cyber Security Arrangements, and PPE/laundry costs.

These pressures are partially offset by:

- Utility Savings: Reductions resulting from the solar panel rollout and decarbonisation project.
- Financial Gains: An increase in investment income and a reduction in Merseyside Residual Debt.

Furthermore, the current MTFP budget provides the necessary provisions to review the Establishment. This ensures alignment with job evaluation standards and helps mitigate challenges regarding recruitment, retention, and organisational expansion (£0.400m in 2026/2027 and £0.300m in future years).

117. Cost of Capital Borrowing

The proposed MTFP incorporates the 5-year Capital Programme and the Minimum Revenue Provision (MRP) policy, as detailed in Sections C and D. Where revenue headroom has permitted, the Authority has made voluntary contributions to the capital programme to minimise the underlying need to borrow. However, to fund the proposed MTFP Capital Programme, an additional revenue provision of £0.090m will be required in 2030/31 to service the associated borrowing costs.

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 £0.493m to £2.529m to fund a significant proportion of this investment to maintain borrowing at an affordable and sustainable level and to contribute towards the CRMP.

118. 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 approx. £0.300m in 2026/2027.

The Director of Finance & Procurement is confident a £0.300m efficiency saving can be offered up from non-pay budgets and the £0.300m efficiency saving has been built into the proposed MTFP.

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

120. **Government Funding;**

In November 2025 the Government published its Local Government Finance Policy Statement for 2026/2027 to 2028/2029, marking the first multi-year financial settlement for English councils in over a decade. The settlement provides fixed funding envelopes for the next three financial years, allowing the Authority to transition from year-to-year planning to long-term financial planning.

The settlement also introduced funding protection for standalone Fire and Rescue Authorities, a new "**real-terms funding floor**" has been introduced. This floor ensures their 2025/2026 income is protected in real terms throughout the multi-year period, **provided standalone Fire and Rescue Authorities take up the £5.00 per annum precept flexibility**.

The funding floor protection is 3.8% for 2026/27 (based on post-council tax Core Spending Power), with the GDP deflator to be used for the following years. As a result, our funding for 2026/27 will increase by £408k compared to the Provisional Settlement figures.

2026/2027 Government Fair Funding Assessment - The Governments Fair Funding Assessment for the 2026/2027 financial year identifies the following adjustments for the Authority:

- **Baseline Funding Level:** A reduction of £2.167 million, representing a 9.8% decrease on the 2025/2026 amount.
- **Revenue Support Grant:** An uplift of £7.882 million, equivalent to a 46.6% increase on the 2025/2026 amount.
- **Business Rates Multiplier (Compensation for Under-Indexing):** A total reduction of £5.095 million (100% decrease), on the 2025/26 amount.
- **National Insurance Grant:** A total reduction of £0.425 million (100% decrease), on the 2025/26 amount.
- **Transitional Protection:** New Fire & Rescue real terms floor increase of £0.408 million (100%), on the 2025/26 amount.
- **Net Position:** A marginal net increase in the Fair Funding Assessment of £0.603 million (0.135%), on the 2025/26 amount.

Provisional Fair Funding Assessment (2027/28 onwards) – The provisional outlook for subsequent years is as follows:

- **Baseline Funding Level:** Projected increases of £0.457 million in 2027/2028 and £0.411 million in 2028/2029.

- **Revenue Support Grant:** Forecast reductions of £0.928 million in 2027/2028 and £1.068 million in 2028/2029.
- **Transitional Protection:** The Authority will not receive any transitional protection within 2027/2028 and 2028/2029 (reduction of £0.408 million)
- **Net Fiscal Impact:** An anticipated net decrease in the Fair Funding Assessment of £0.879 million in 2027/28 and £0.657 million in 2028/29. Total net decrease from 2026/27 of £1.536 million.
- **Medium-Term Assumptions:** The Medium-Term Financial Plan (MTFP) assumes a 1% annual growth rate for both Baseline Funding and the Revenue Support Grant from 2029/30 onwards.

121. **Council Tax Income;**

The current plan assumed a Council Tax Base increase of 0.5% for 2026/2027 and future years; the actual increase in 2026/2027 was an increase of 2.05%. The 2026/2027 Tax Base figures are in the table below: -

District	2025/26	2026/27	Variance	
	Council Tax Taxbase	Council Tax Taxbase		
KNOWSLEY	39,638.00	40,313.00	675.00	1.70%
LIVERPOOL	120,257.54	122,885.21	2,627.67	2.19%
SEFTON	87,367.70	89,044.00	1,676.30	1.92%
ST.HELENS	53,700.00	54,022.00	322.00	0.60%
WIRRAL	97,908.96	100,786.00	2,877.04	2.94%
	398,872.20	407,050.21	8,178.01	2.05%
2025/26 Band D Tax Level	96.25	96.25		
Total Income £	38,391,449	39,178,583	787,133	2.05%

122. This means that for each £1 of Council Tax, the income level will be higher than that generated in 2024/2025 by £8,178. **The result is that the income from the current level of Council Tax is anticipated to be higher by £0.787m.**

123. The updated MTFP assumes the Authority will increase the precept by £5.00 per Band D property in 2026/2027, a level that avoids the requirement for a referendum. This £5.00 increase is also assumed for 2027/2028 and 2028/2029, followed by an assumed 2% annual increase for the final two years of the plan. A £5.00 increase for 2026/2027 will see the Band D precept increase from £96.25 to £101.25. **The precept increase will raise an additional £2.035m in 2026/2027.**

Council Tax Increase			
District	Change In Band D Tax		
	0%	£5.00	Change
	£96.25	£101.25	£5.00
	£	£	£
KNOWSLEY	3,880,126	4,081,691	201,565
LIVERPOOL	11,827,701	12,442,128	614,427
SEFTON	8,570,485	9,015,705	445,220
ST.HELENS	5,199,618	5,469,727	270,109
WIRRAL	9,700,653	10,204,582	503,929
	39,178,583	41,213,833	2,035,251

Council Tax and Business Rates Collection Fund

124. 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 summarise the collection fund position for Council Tax and Business Rates: -

Council Tax Collection Fund	
District	deficit/ (surplus)
	2025/26
	£
KNOWSLEY	-31,000
LIVERPOOL	152,401
SEFTON	-238,842
ST.HELENS	2,084
WIRRAL	6,000
Net MFRA Impact	-109,357

125. The council tax collection fund has a surplus of £0.109m and this will be taken into account in the 2026/2027 MTFP.

Business Rates Collection Fund	
District	deficit/ (surplus)
	2025/26
	£
KNOWSLEY	-6,838
LIVERPOOL	26,264
SEFTON	-1,914
ST.HELENS	-3,871
WIRRAL	-41,498
Net MFRA Impact	-27,857

126. The business rates collection fund has a surplus of £0.027m.

Discretionary service Charges

127. 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 £0.054m 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 3.2%, in line with the 2025/2026 firefighter pay award.
- b. Automatic Fire Alarms have gone up with the CPI rate for December 2025, which was 3.4%.

Appendix E, attached to this report, outlines the proposed 2026/2027 charges.

OVERALL IMPACT

128. The overall impact of all these changes to the 2026/2027 MTFP is outlined below:

Proposed 2026/27 - 2030/31 MTFP					
	2026/27	2027/28	2028/29	2029/30	2030/31
	£'000	£'000	£'000	£'000	£'000
Current 2025/26 MTFP Forecast (Surplus) / Deficit	650	959	1,139	1,442	1,442
2025/26 MTFP Issues to build in future MTFP:-					
Impact of the 2025/26 Grey Book Pay Award (Increase of 0.70%)	330	330	330	330	330
Impact of the 2025/26 Green Book Pay Award (Increase of 0.70%)	100	100	100	100	100
Historic Employers National Insurance Grant now consolidated within the Fair Funding Assessment	425	425	425	425	425
Impact 2026/27 Pay Award moving from 2.5% p.a. to 3% p.a.	254	314	314	314	314
Impact 2025 LGPS Actuarial Valuation reduction in employers pension contribution 17.9% - 5.9% 2026/27 to 2028/29 then assume only 50% of the saving for 2029/30 & 2030/31	-1,150	-1,150	-1,150	-575	-575
2030/31 Inflation Provision	0	0	0	0	1,796
Impact of Higher Prices (Inflation/Contingency)	622	784	953	957	957
2030/31 MRP/Interest - Additional year and Inflationary Impact on cost of Capital Goods	0	0	0	0	90
Contribution to Capital Reserve to fund Capital Programme and additional Inflationary Pressures	493	0	0	0	0
Unavoidable Growth net of Savings	476	425	282	600	480
Provision for the review of Establishment to meet Job Evaluation / Recruitment / Retention / Growth Challenges	400	300	300	300	300
Historic Business Rates Grant compensation for under-indexation of tax rates now consolidated within the Fair Funding Assessment	5,095	5,095	5,095	5,095	5,095
Transitional Protection for 2026/27 - Fire and Rescue real terms floor 3.8%	-408				
Increase in Fair Funding Assessment in 2026/27 - 2028/29 above the assumed MTFP	-5,325	-4,460	-3,406	-3,439	-3,879
Council Tax Precept	-1,858	-3,122	-4,382	-4,493	-5,669
Collection Fund Change	-137				
SFA Local Business Rate Estimate Adjustment	34				
Summary of impact of changes to 2026/27 MTFP	-650	-959	-1,139	-386	-237
Forecast (Surplus) / Deficit	0	0	0	1,056	1,205

129. The proposed MTFP, as a result of the changes identified in this section of the report, forecasts a balanced position in 2026/2027, 2027/28 and 2028/29 but indicates a potential financial challenge in 2029/30 of £1,056m, rising to £1.205m by 2030/2031.

130. As the updated MTFP results in a balanced financial position for 2026/2027, Members do not need to consider options for additional savings in 2026/2027. This is subject to the key assumptions, particularly around the 2026/2027 annual pay increases (3% for all staff), remaining robust.

131. The MTFP delivers a balanced financial position in 2026/2027 – 2028/29 but outlines a potential financial challenge from 2029/2030. Members are asked to note this at this point due to the significant uncertainty over future Government funding, council tax base and precept increases, pay awards and inflation; 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 below for balances:

Reserve	2026/27	2027/28	2028/29	2029/30	2030/31
	£m	£m	£m	£m	
General Reserve	3.900	3.900	3.900	3.900	3.900
Smoothing Reserve	1.400	1.400	1.400	1.400	1.400
Inflation Reserve	1.890	1.890	1.890	1.890	1.890
Total Reserves Available to Manage General Financial Risk	7.190	7.190	7.190	7.190	7.190

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 £0.255m 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 £0.750m and £1.500m.

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

(H) ADEQUACY OF RESERVES AND BALANCES

133. Under Section 25 of the Local Government Act 2003, the Chief Finance Officer has a statutory duty to report to the Authority on the following matters when it is determining its budget and council tax:
- The robustness of the estimates made for the purposes of the budget calculations.
 - The adequacy of the proposed financial reserves.
134. The Authority is required to have regard to the Chief Finance Officer's report when making decisions regarding its budget requirement and the level of financial reserves.
135. The Authority's Chief Finance Officer is the Director of Finance and Procurement (the Section 151 Officer). For the purposes of the Act, "financial reserves" include both Earmarked (Committed) Reserves and General Fund (Working) Balances.
136. To reach a final judgement on these matters, the Chief Finance Officer must consider the Authority's proposed budget decisions within the context of this comprehensive report.

Robustness of Estimate

137. To satisfy the requirements of the Chief Finance Officer, any proposed Budget or amendment should:
- Be based on the professional advice of Service Officers, supported by Finance Officers, or other information deemed reasonable by the Chief Finance Officer.
 - Ensure all proposals are fully costed to the service level, with identified financial and performance implications.
 - Account for all known future developments through direct budget allocations or specific earmarked reserves.
 - Maintain an adequate level of balances and reserves consistent with the Authority's risk assessment and statutory regulations.
 - Provide for the full revenue implications arising from the Capital Programme.
 - Establish clear and achievable targets for key income streams.
 - Ensure there are no "unidentified" or "unmet" savings targets.
 - Account for the consequences of any current-year overspends or underspends.

Adequacy of proposed Financial Reserves

138. Under the Local Government Act 2003, the Secretary of State holds the power to enact regulations defining "controlled reserves" and setting minimum aggregate

levels for such reserves. At the time of this report, no such regulations have been enacted.

139. Notwithstanding the absence of national regulations, Section 25 of the 2003 Act mandates that the Chief Finance Officer must report to the Authority if the proposed level of reserves is considered inadequate. In such an event, the report must outline:
- The underlying reasons for the projected inadequacy.
 - Recommended actions to mitigate the risk and prevent the situation from arising.
140. The Authority is statutorily required to have regard to this report and its findings when determining its future financial reserves and budget requirements.

Fire and Rescue National Framework for England

141. 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 £3.9m (5% of the current Revenue Budget)

142. 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%.
143. For this Authority, a 5% forecast Net Operating Expenditure equates to approximately £3.9m. 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 £3.9m level.**

Committed (Earmarked) Reserves

144. 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 2026/2027 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.

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

- e. **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.
- f. **Insurance Reserve, £0.5m** - The Authority has a number of insurance policies that require it to cover an excess (for example £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.

146. **Modernisation Challenge Reserves;**

- g. **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.
- h. **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. This reserve will be maintained to contribute towards additional administration 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.
- i. **Recruitment Reserve, £1.1m** – As firefighters 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 could be, on average, +20 FTE above the budgeted establishment at a potential +£0.6m p.a. This reserve will cover any costs that can't be contained within the establishment budget.
- j. **Collection Fund Reserve, £0.1m** – Section G of this report outlines the council tax and business rates collection fund positions for 2026/2027. Given the fluctuation over the last year or so, it is felt prudent to keep a small reserve.
- k. **Carbon Net Zero Reserve, £2.0m** – The Authority is dedicating £2.0 million reserve to a solar panel rollout and decarbonisation project. This strategic

"invest-to-save" initiative provides a hedge against energy market volatility, delivering an initial £150,000 in annual savings, rising to a sustained £250,000 reduction in revenue expenditure from 2028/2029.

147. Capital Reserve, £2.5m

The reserve is committed to contributing towards capital investments and reducing the required level of borrowing. The general capital reserve has been increased by £0.493m to £2.529m to contribute towards the Capital Programme and reduce borrowing costs in the future, given the impact of inflation on major capital schemes.

148. 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 drawn down 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.

149. Specific Reserves;

- a Inflation Reserve, £1.9m** - 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 +£0.630m 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 Clothing Reserve, £0.9m** – This reserve is to support investment in a full upgrade of our Technical Rescue Ensembles, encompassing specialised helmets, tunics, trousers, and footwear.
- c Equipment Reserve, £0.4m** – 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.
- d Training Reserve, £0.3m** – The reserve has been established to fund additional training requirements as a result of firefighter retirements and turnover of staff.
- e Other, £0.1m** – this reserve is to fund community-based initiatives and health and safety.

150. Ringfenced Reserves, £0.4m - 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.

151. 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 2025/26	Proposed Change	Proposed Increase	Revised Balance C/fwd for 2026/27	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	Estimated 2036/37 Use	Held to Cover Risk
Emergency Related Reserves	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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	-690		1,124		-624	-250	-250								0
Collection Fund Reserve	100			100		-100										0
Carbon Net Zero Reserve	2,000			2,000		-2,000										0
Capital Investment Reserve																
Capital Investment Reserve	2,036		493	2,529		-1,529	-500	-500								0
PFI Annuity Reserve																
PFI Annuity Reserve	1,166			1,166	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	407
Specific Projects																
Health & Safety Reserve	57			57		-57										0
Equipment Reserve	466			466		-466										0
Clothing Reserve	940			940		-940										0
Health and Wellbeing Reserve	7			7		-7										0
Training Reserve	270			270		-170	-100									0
Inflation Reserve	1,200	690		1,890												1,890
Ringfenced Reserves																
Community Risk Management Res	236			236		-126	-110									0
Energy Reserve	111			111		-111										0
New Dimensions Reserve	95			95		-95										0
Forecast Use of Reserves in the year	12,954	0	493	13,447	-69	-6,494	-1,129	-819	-69	-69	-69	-69	-69	-69	-69	4,453
Total Earmarked Reserves Bal C/fwd	12,954	0	493	13,447	13,378	6,884	5,755	4,936	4,867	4,798	4,729	4,660	4,591	4,522	4,453	4,453
General Revenue Reserve	3,900	0	0	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900
Total Reserves	16,854	0	0	17,347	17,278	10,784	9,655	8,836	8,767	8,698	8,629	8,560	8,491	8,422	8,353	8,353

152. The Director of Finance and Procurement recommends that the Authority approve the maintenance of the £13.447m identified above in committed reserves to cover the risks and projects identified in this section of the report and a general reserve of £3.900m.

153. **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.**

154. 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

155. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2026. The Authority meeting is now invited to:

l. Confirm the financial plan set out in Appendix C, and approve the budget requirement of £86,039m for 2026/2027 as outlined in Appendix C.

m. note that the Authority's council tax base for 2026/2027 is 407,050.21, being the aggregate of the tax bases calculated by the Districts.

- n. 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 2026/2027	Gross Income 2026/2027	Estimate 2026/2027
			£'000	£'000	£'000
(A)	sec 42 (2) (a)	Service Budget	94,584		94,584
(B)	sec 42 (3) (a)	Income		-8,969	-8,969
			Reserves Movement:		
(A)	sec 42 (2) (c)	Contribution to reserves	493		493
(B)	sec 42A (3) (a)	Contribution from reserves		-69	-69
Budget Requirement			95,077	-9,038	86,039
(B)	sec 42A (3) (a)	Spending Funding Assessment		-44,722	-44,722
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		34	34
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-137	-137
Non-Precept Income				-44,826	-44,826
(c)	In accordance with Sec 42A (4), aggregate of (A) over (B)	Precept Requirement			41,213
Tax Base					407,050.21
Precept Requirement / Tax Base:					£101.25
Basic Tax Amount At Band 'D'					£101.25

156. 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:

2026/27	Property Band		Increase	
£			£	%
£67.50	For properties in Band	A	3.33	5.19
£78.75	For properties in Band	B	3.89	5.20
£90.00	For properties in Band	C	4.44	5.19
£101.25	For properties in Band	D	5.00	5.19
£123.75	For properties in Band	E	6.11	5.19
£146.25	For properties in Band	F	7.22	5.19
£168.75	For properties in Band	G	8.33	5.19
£202.50	For properties in Band	H	10.00	5.19

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

PRECEPT		AUTHORITY
£		
4,081,691	Payable by	KNOWSLEY
12,442,128	Payable by	LIVERPOOL
9,015,705	Payable by	SEFTON
5,469,727	Payable by	ST.HELENS
10,204,582	Payable by	WIRRAL
41,213,833		

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

Wednesday	15/04/2026
Friday	22/05/2026
Tuesday	30/06/2026
Wednesday	05/08/2026
Friday	11/09/2026
Monday	19/10/2026
Tuesday	24/11/2026
Monday	04/01/2027
Tuesday	09/02/2027
Wednesday	10/03/2027

Equality and Diversity Implications

159. 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

160. 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

161. 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 2026.

Financial Implications & Value for Money

162. See executive summary.

Risk Management and Health & Safety Implications

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

Environmental Implications

164. 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.*

165. 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/85/25 "MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2025/2026 – 2029/2030" Budget Authority 27th February 2025

GLOSSARY OF TERMS

BOE	Bank Of England
BPS	Basis Point is a unit of measure equal to 1/100th of 1% (0.01%) used to denote changes in interest rates and financial percentages. One hundred bps equal 1%.
CAPITAL	The Capital Budget covers the money the Authority spends on investing in building, 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	C onsumer P rice I ndex
CRMP	C ommunity R isk M anagement P lan
FFA	F air F unding R evue
FPS	F irefighters' P ension S cheme
FTE	F ull T ime E quivalent employee number
HFSC	H ome F ire S afety C heck
IFRS	I nternational F inancial R eporting S tandards
LGPS	L ocal G overnment P ension S cheme
MHCLG	M inistry of H ousing, C ommunities and L ocal G overnment
MRP	M inimum R evue P rovision is an amount set aside from revenue towards the repayment of loan debt
MTFP	M edium- T erm F inancial P lan
NRAT	N ational R esilience A ssurance T eam
PFI	P rivate F inance I nitiative
PPE	P ersonal P rotective E quipment
PWLB	P ublic W orks L oans B oard
RESERVES	Amount 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.
REVENUE	The revenue budget is the term used to describe the amount the Authority spend on its day-to-day running of services. This includes 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.
SLT	S trategic L eadership T eam
SONIA	S terling O ver N ight I ndex A verage
TDA	T raining & D evelopment A cademy

**UNSUPPORTED
BORROWING** No revenue support grant to cover the costs associated with borrowing, and the Authority must earmark revenue fund to cover these costs.