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<tr><td>MEETING OF THE:</td><td colspan="3">COMMUNITY SAFETY AND PROTECTION COMMITTEE</td></tr>
<tr><td>DATE:</td><td>3 SEPTEMBER 2026</td><td>REPORT NO:</td><td>DFP/07/2627</td></tr>
<tr><td>PRESENTING OFFICER:</td><td colspan="3">DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA</td></tr>
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Purpose of Report

1. To review the revenue, capital, and reserves financial position for the Authority for 2026/27. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to June 2026.

Recommendation

2. It is recommended that Members;

   a) note the contents of the report,

   b) approve the use of £2.000m from the Capital Investment Reserve to fund capital expenditure and reduce the level of borrowing; and

   c) approve the proposed revenue and capital budget alignments, and

   d) instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2026/27 and use any savings to reduce the level of capital borrowing required to finance the capital programme.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 26th February 2026. The approved MTFP delivered a balanced budget for 2026/27 based on key budget assumptions around costs, in particular pay. This report updates Members on the 2026/27 budget position and any issues arising in the year that may impact on the future years' financial position.

The total budget requirement remains at the original budget level of £86.039m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2026.

Capital:
The current 5-year capital programme has a planned total investment of £44.195m over the 2026/27 – 2030/31 period, of which £15.747m relates to 2026/27. During the quarter, planned capital expenditure for 2026/27 has increased by £29.740m, comprising net rephasing from 2025/26 of £28.430m (£24.962m relating to the National Resilience New Dimensions 2 asset refresh programme) and new expenditure of £1.310m, as detailed in section 16. The report outlines all the scheme adjustments in the year, and the revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £4.300m, as agreed at the 2025/26 financial year outturn. The report outlines all movement in reserves during the quarter and considers the current adequacy of the available reserves. All movements in committed reserves are outlined in Appendix A4.

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

Introduction and Background

3. The purpose of this report is to enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.

4. This report reviews the Authority's financial position up to the end of the first quarter of 2026/27, (April – June 2026).

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

Financial Review Structure	
Section	Content
A	Current Financial Year Review:- • Revenue Budget, • Capital Programme, and • Movement on Reserves
B	Treasury Management Review

(A) Current Financial Year – 2026/27

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

Revenue Budget Position

7. Budget Movements: there have been a number of budget adjustments in the quarter, but as they are self-balancing virements within department budgets they have not changed the overall net revenue budget requirement. The budget adjustments during the quarter included:

- A virement from the contingency / inflation provision of £0.001m to cover a small increase in the corporate subscriptions.

- Several grant and external funded initiatives are only built into the budget during the year, once the level of 2026/27 funding is known. These include National Resilience asset refresh grants totalling £20.322m, which have been built into the Lead Authority/National Resilience budgets during the quarter.

- Other self-balancing virements to accommodate minor adjustments across revenue budget lines. The most significant changes include an increase in the employee budget of £0.067m to support commercial training instructors, funded through additional fees and charges income; an increase in training expenditure of £0.100m relating to activity delivered through the Merseyside Resilience Forum, funded by increased contributions; and additional training expenditure of £0.075m relating to Apprenticeship End Point Assessments, funded through specific grant income.

8. **The net budget requirement remains at £86.039m, which is consistent with the original budget**. Appendices A1 – A3 outline the budget movements in the quarter.

Update on Budget Assumptions and forecast actual expenditure.

9. The key budget assumptions for 2026/27 are:

- Annual pay awards of 3.0%, and
- Price inflation - general price increase of 2.5%; outsourced contracts increase of 3.8%.
- No significant unplanned growth pressures beyond those built into the MTFP.

10. **Annual Pay awards**
The 2026/27 budget assumed a Grey Book pay award of 3.0%. The 2026/27 firefighters pay award has been agreed at 3.8% and as this is higher than the 3.0% included as the budget assumption for 2026/27 this would exceed the budget forecast by approximately £292k in 2026/27 and £390k in 2027/28.

The 2026/27 budget assumed a Green Book/Red Book pay award of 3.0%. The Local Government staff 2026/27 pay offer is currently 3.3%. For MFRS, this would exceed the Green Book/Red Book employee budget by approximately £43k. The trade unions are currently consulting with their members on the offer. The impact of the pay award will only be known once the pay award has been accepted by the employees, and it will then be reported back to Members in a future financial review report.

The combined financial impact of the agreed Grey Book pay award (£292k) and the current Green Book/Red Book pay offer (£43k) can be accommodated within the existing Inflation Contingency provision for 2026/27. The position will continue to be monitored and reported to Members as part of the regular financial review process.

11. **Non-pay inflation**
The latest forecasts indicate 2026/27 non-pay inflation can be contained within the inflation provision.

12. **Unforeseen Growth**
Other than the annual pay awards referenced in section 10, no 2026/27 unavoidable growth has been identified in the quarter.

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

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

	TOTAL BUDGET	ACTUAL as at 30.06.26	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	66,284	16,628	66,284	0
Premises Costs	3,955	-225	3,955	0
Transport Costs	1,512	452	1,512	0
Supplies and Services	4,048	767	4,048	0
Agency Services	8,207	1,636	8,207	0
Central Support Services	800	115	800	0
Capital Financing	7,895	12	7,895	0
Income	-9,188	-1,160	-9,188	0
Net Expenditure	83,513	18,225	83,513	0
Contingency Pay&Prices	2,602	0	2,602	0
Cost of Services	86,115	18,225	86,115	0
Interest on Balances	-500	7	-500	0
Movement on Reserves	424	0	424	0
Total Operating Cost	**86,039**	**18,232**	**86,039**	**0**

14. The Director of Finance and Procurement will continue to monitor the position during the year, with a view to delivering savings that could fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.

15. Two debtor accounts totalling £842 were written off during the quarter as the Service was not in a position to recover the debts.

Capital Programme Position

16. At the Authority Budget meeting on 26 February 2026, (DFP/16/2526), Members approved a 5-year capital programme (2026/27–2030/31) of £44.195m, of which £15.747m related to 2026/27. During the quarter the capital programme has increased by £29.740m, due to:

    a) The 2025/26 year-end net rephasing of projects from 2025/26 into 2026/27 of £28.430m.

    b) The Authority manages the National Resilience asset refresh on behalf of the Ministry of Housing, Communities and Local Government (MHCLG) and receives 100% funding for the scheme. During the quarter, £1.299m of planned asset refresh has been identified and built into the programme.

c) A revenue contribution to capital outlay (RCCO) of £0.011m relating to ICT hardware has been incorporated into the capital programme.

Capital Borrowing Requirement

17. The level of capital borrowing in 2026/27 increased in the quarter from £42.320m to £45.467m, due to the net rephasing of projects from the financial year 2025/26 into 2026/27. The increase in borrowing reflects the rephasing of capital expenditure from 2025/26 into 2026/27. Rephasing delays expenditure rather than removing it, and therefore the associated borrowing requirement also transfers into 2026/27. PWLB rates for both long- and short-term borrowing have seen volatility during the quarter. The 1-year PWLB rate on offer during the quarter has varied between a range of 4.76% and 5.17%. Longer term PWLB 50-year rates on offer have varied between a range of 5.88% and 6.34%.

18. The current strategy is to reduce investments and borrow for short periods, if necessary, as a means of deferring the point by which the Authority needs to arrange new long-term loans. By continuing this strategy, it is hoped that when the Authority has no option but to seek new long-term loans then PWLB interest rates will be more favourable.

19. The capital programme changes actioned in the quarter are summarised in the table below. The revised detailed capital programme is attached as Appendix B (2026/27 Capital Programme) and Appendix C (2026/27–2030/31 Capital Programme) to this report.

Movement in the 5 Year Capital Programme

	Total Cost	2026/27	2027/28	2028/29	2029/30	2030/31
Expenditure	£000's	£000's	£000's	£000's	£000's	£000's
Amendments to Approved Schemes						
2025/26 year-end rephasing of MFRS schemes into future years	3,467.8	3,467.8				
2025/26 year-end rephasing of NRAT schemes into future years	24,961.7	24,961.7				
NRAT Grant	1,271.6	1,271.6				
NRAT006 MTA	21.6	21.6				
IT003 ICT Hardware Equipment	17.8	17.8				
	29,740.5	**29,740.5**	**0.0**	**0.0**	**0.0**	**0.0**
Funding						
Borrowing						
2025/26 year-end re-phasing of MFRS schemes into future years	3,467.8	3,467.8				
Revenue Contribution to Capital Outlay (RCCO)						
IT003 ICT Hardware Equipment	17.8	17.8				
NRAT006 MTA	21.6	21.6				
NRAT003 ELS	24.2	24.2				
NRAT007 PRPS	985.3	985.3				
Grant						
NRAT grant released	1,271.6	1,271.6				
2025/26 year-end rephasing NRAT	23,952.2	23,952.2				
	29,740.5	**29,740.5**	**0.0**	**0.0**	**0.0**	**0.0**

Use of Reserves

20. The analysis in Appendix A4 outlines the reserve movements in the quarter. No draw-down adjustments were required in the quarter.

21. The Authority has a number of reserves for specific purposes and has funds set aside to meet known or predicted future liabilities or risks (as shown in Appendix A4). The Director of Finance and Procurement has carried out a review of the adequacy of these reserves based on the latest financial review, the known financial risks and the planned future use of the Authority's forecast reserves.

22. The general revenue reserve has remained unchanged at £4.300m as per the agreed 2025/26 outturn position.

(B) Treasury Management

23. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to June 2026.

24. **Prospects for Interest Rates**

The first quarter of 2026/27 was dominated by shifting geopolitical, trade and fiscal dynamics. The quarter started with considerable market reaction to the onset of conflict between the United States and Iran in the Middle East, only to recede slightly in response to a negotiated peace framework in June. Following the agreement, there have been signs that the arrangement might not hold in the long term, resulting in a secondary spike in oil prices. While a peace framework has been negotiated, the situation remains unstable and has the potential to impact markets in the future. Any ongoing disruption to supply chains has the potential to feed higher future inflation.

In the UK, GDP is estimated to have grown by 0.7% in the three months to May 2026 compared to the previous three-month period, driven largely by the construction sector. Given global events, the UK economy faces a challenging period. Following the change in UK Government leadership after the quarter end, financial markets continue to assess the potential impact of future fiscal and economic policy decisions. A series of policy initiatives are anticipated, and it will be important to note the Gilt market's reaction to the new government given the highly indebted nature of the public finances. CPI inflation remains above the target level of 2%, with the latest CPI release for the 12 months to June 2026 showing a rise of 2.6%.

On the 17th June, the Bank of England's Monetary Policy Committee (MPC) voted to hold the Bank Rate at 3.75%, the level it was reduced to in December 2025. The next meeting is scheduled for the 29th July and the latest market speculation is that the bank will continue to hold its policy rate at the current level, to further assess how the impacts of the conflict might filter through the UK economy in the form of higher inflation, or whether that pressure is likely to subside. Given the current uncertainty in the UK economy the path of interest rates and monetary policy will continue to be informed and influenced by the latest data.

PWLB rates for both long- and short-term borrowing have seen volatility during the quarter. The 1-year PWLB rate on offer during the quarter has varied between a range of 4.76% and 5.17%. Longer term PWLB 50-year rates on offer have varied between a range of 5.88% and 6.34%.

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

25. **Capital Borrowings and the Portfolio Strategy**

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

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

26. **Annual Investment Strategy**

The investment strategy for 2026/27 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with Ministry of Housing, Communities and Local Government Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or part-nationalised banks and AAA rated money market funds has enabled reasonable returns in the current interest rate environment which has seen interest rates continue to draw back from their recent peak levels. With current uncertainty over the path of future interest rates, opportunities to add more duration to the investment balances will be explored in the coming months. In the period 1st April to 30 June 2026 the average rate of return achieved on average principal available was 4.43%. This compares with an average SONIA rate (Sterling Overnight Rate) of 3.73%.

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
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

The Authority had investments of £89.7m as at 30th June 2026. The investment balance includes National Resilience funding, earmarked reserves and other resources held for specific future purposes. It also reflects timing differences between the receipt of funding and the delivery of expenditure and is therefore not wholly available to reduce borrowing.

27. **External Debt Prudential Indicators**

The external debt indicators of prudence for 2026/27 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£51 million
Operational boundary for external debt:	£46 million

Against these limits, the maximum amount of debt reached at any time in the period 1 April to 30 June 2026 was £33.7 million.

28. **Treasury Management Prudential Indicators**

The treasury management indicators of prudence for 2026/27 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

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

The maximum that was reached in the period 1 April to 30 June 2026 was as follows:

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

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1 April to 30 June 2026 was as follows: -

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

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

The limit for investments of longer than 365 days was set at £2 million for 2026/27. One investment of £2m over 1 year is currently in place.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

32. The financial implications are contained within the body of the report and summarised in the Executive Summary.

Risk Management and Health & Safety Implications

33. There are no risk management or health & safety implications directly related to this report.

Environmental Implications

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

35. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's Mission.

BACKGROUND PAPERS

DFP/16/2526 "MFRA Budget and Financial Plan 2026/2027-2030/2031" Authority 26th February 2026.

DFP/06/2627 "Revenue and Capital Outturn 2025/26" - Policy and Resources Committee 23rd July 2026

GLOSSARY OF TERMS

MTFP	**M**edium **T**erm **F**inancial **P**lan
MHCLG	**M**inistry of **H**ousing, **C**ommunities and **L**ocal **G**overnment
NRAT	**N**ational **R**esilience **A**ssurance **T**eam
PWLB	**P**ublic **W**orks **L**oans **B**oard