MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT & SCRUTINY COMMITTEE**		
DATE:	**8TH FEBRUARY 2018**	**REPORT NO:**	**CFO/003/18**
PRESENTING OFFICER	**CHIEF FIRE OFFICER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**STRATEGIC MANAGEMENT GROUP**		
TITLE OF REPORT:	**FINANCIAL REVIEW 2017/18 - APRIL TO DECEMBER**		

APPENDICES:	**APPENDIX A1:**	**REVENUE BUDGET MOVEMENTS SUMMARY**
	APPENDIX A2:	**FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A3:	**CORPORATE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A4:	**BUDGET MOVEMENTS ON RESERVES**
	APPENDIX B:	**CAPITAL PROGRAMME 2017/18**
	APPENDIX C:	**APPROVED AUTHORITY CAPITAL PROGRAMME 2017/18 – 2021/22**

Purpose of Report

1. To review the financial position, revenue and capital, for the Authority for 2017/18. 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 December 2017.

Recommendation

2. That Members;
   a) Note the potential £0.500m favourable revenue position identified within this report,
   b) Approve the utilisation of the £0.500m favourable revenue position to increase the Capital Reserve in order to enable the Authority to manage its borrowing need and any potential additional investment in the new St Helen's fire station and TDA refurbishment schemes, and
   c) Instruct the Treasurer to continue to work with budget managers to maximise savings in 2017/18.

Executive Summary

Revenue:
The Authority has a detailed medium-term financial plan. The key elements of this are :-

- To control Council Tax
- To continue with its modernisation programme and deliver the Authority's Mission of achieving Safer Stronger Communities – Safe Effective Firefighters
- To deliver the required savings through efficiencies, most of which are employee related, whilst minimising the impact of the cuts.

The Authority is on target to deliver the approved 2017/18 budget savings and is progressing well with the required structural changes in its workforce in order to maintain the required savings on a permanent basis. The Authority has a strategy of maximising savings and delivering its savings plan as early as possible in order to increase reserves as a hedge against future financial challenges. Overall this report has identified that in cash terms the Authority is £0.500m ahead of its saving plan target. Members are asked to approve utilising this saving to fund an increase in the capital reserve in light of the delay in finalising the new St Helen's fire station and TDA refurbishment schemes and the potential increase in build costs due to inflationary pressures. The capital reserve would allow the Authority to meet any additional capital costs from the capital reserve and therefore avoid additional borrowing and associated long term revenue costs associated with borrowing. Officers will continue to work through the remainder of the year to maximise any savings in order to increase reserves.

The total budget requirement remains at the original budget level of £59.490m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and December 2017.

Capital:
The capital programme planned spend has increased by £0.733m and is fully funded from specific resources. The revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £2.000m. All movements in earmarked 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 is the review of the Authority's position up to the end of December of the financial year 2017/18 (April – December 2017).

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 – 2017/18

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 Position:

7. Budget Movements: The attached Appendix A1 – A4 to this report summarises the movements in the revenue budget. The net budget requirement remains at £59.490m which is consistent with the original budget.

8. There have been a number of minor budget adjustments in the quarter but they have had no impact on the "bottom-line" as they are either self-balancing virements within department budgets or budget adjustments financed by reserves in line with previously agreed Authority decisions.

9. Update on Budget Savings Implementation:
Pre 2016/17 Budget - the Authority had approved savings in total of £25.597m as part of the medium term financial plans. These savings had been forecast to be fully delivered by 2017 through natural firefighter retirement rates. The savings are on target to be delivered as expected by the end of calendar year. However the required structural changes will not be formally implemented until the required new fire stations being built as part of the station merger initiative are completed. However, the full saving target will be delivered in cash terms as long as the firefighter retirement rate remains consistent with the current expectation.

10. **The Authority approved 2016/17 & 2017/18 Budget** savings of £12.462m to be delivered in full by 2021/22. The saving plan included;

- efficiency savings of £8.256m by reducing management and support services costs,
- a known or anticipated £2.306m increase in the council tax base that the plan assumed is permanent.

Despite identifying efficiencies of £10.562m the Authority had to approve an unavoidable reduction of £1.900m from operational response in order to balance the financial plan by 2021/22. The operational saving has been phased so it can be achieved by anticipated firefighter retirement rates.

All saving options assumed in 2017/18 have been successfully implemented although the 2017/18 firefighter pay increase has not yet been settled.

The non-firefighter pay award for 2017/18 has been settled at the assumed budget target of 1%, but as stated above the 2017/18 firefighter pay award remains to be agreed. An employers' offer of 2% with a potential further 3% in April 2018 has been rejected by the FBU. Any settlement above the 1% assumed in 2017/18 will require permanent additional savings to be identified (approximately £0.3m for each additional 1%). The Authority has established an inflation reserve of £0.5m that may be able to cover any increase in 2017/18, but Members will need to consider the consequences of any agreed 2017/18 pay award above the assumed 1% during the 2018/19 budget making process. As most non-employee and technical savings have been exhausted it is likely that any pay award above the 1% assumed in 2017/18 or change in the 1% assumed for 2018/19 & 2019/20 (2% assumed thereafter) will have to be met from a reduction in the employee establishment. To assist Members as an example each additional 1% may require the loss of up to 10 firefighter posts. The issue over future pay award increases will be considered as part of the 2018/19 budget process.

11. Actual expenditure in comparison to Revenue Budget**:** The Authority is concerned that any future Government may continue to reduce the level of Government support in real terms post 2019/20. It therefore has directed the Chief Fire Officer to maximise savings in the year to contribute towards the building up of reserves. Such reserves can then be used as part of an implementation and risk management strategy to deliver savings.

Employee Costs;

Employee costs make-up approximately 75% of the Authority's revenue budget and is the most risk critical area of the financial plan. As a result these costs are monitored extremely closely.

Firefighter retirements are slightly ahead of the forecast profile adopted for the financial strategy and a small favourable variance of £0.175m is anticipated. Non-firefighter employee costs are forecast to be £0.025m below budget due to temporary vacancies and not all employees being at

the budgeted top of the grade. At this point employee costs are expected to be £0.200m under budget.

Contingency for 2017/18 Pay & Price Increases;

As stated already Members will recall that the budget assumed a 1% pay bill increase in 2017/18 and up to 2019/20. The non-uniform staff have accepted a 2017/18 1% pay award but significant risk exists around the firefighter's award. In addition the current plan's assumption of a 1% pay award in 2018/19 and 2019/20 is at risk with the possible removal of the public sector 1% pay freeze. Each additional 1% award would require additional permanent savings of +£0.400m (£0.300m for firefighters and £0.100m for non-operational staff). A review of the current financial plan's assumptions will form part of the 2018/19 budget process. Officers are continuing to control the allocation of non-employee inflation and the current 5 year financial plan includes a permanent reduction in the inflation provision of £0.454m by 2019/20. The close management of the non-employee inflation is delivering the approved saving ahead of schedule and along with the current practice of looking to fund any inflationary pressure from within the relevant budget line in the first instance, the current expectation is that this strategy will result in a £0.300m saving against the current provision.

The Treasurer will continue to monitor actual staff numbers during the year to ensure the Service continues to deliver in "cash" terms the required saving target and report back as the year progresses.

12. Debtor accounts under £5,000 may be written off by the Treasurer. Following advice from legal services that due to charges being raised in error the three debtor accounts have been approved for write-off under delegated powers in the second quarter totalling £1,660.80:-

Service	Write Off Reason	Original Invoice Value		
		Nett	VAT	Gross
		£	£	£
SPECIAL SERVICE CALL	LITIGATION ADVICE	688.00	137.60	825.60
SPECIAL SERVICE CALL	LITIGATION ADVICE	348.00	69.60	417.60
SPECIAL SERVICE CALL	LITIGATION ADVICE	348.00	69.60	417.60
		1,384.00	276.80	1,660.80

13. Summary of Revenue Forecast Position: The Authority has made good progress in implementing the approved budget saving options and required organisational structure changes.

As expected the implementation of all of the approved station merger proposals have yet to be formally concluded, therefore the required budgetary structural changes remain outstanding. As Firefighter retirements are slightly ahead of the planned schedule the Service continues to deliver in "cash" terms the required saving target. The quarter 3 forecast has identified a revenue saving of £0.500m. Members are asked to approve the utilisation of this saving to fund an increase in

the capital reserve in light of the delay in finalising the new St Helen's fire station and TDA refurbishment schemes and the potential increase in build costs due to inflationary pressures. The capital reserve would allow the Authority to meet any additional capital costs from the capital reserve and therefore avoid additional borrowing and associated long term revenue costs associated with borrowing. The Table below summarises the revenue year-end forecast position based on spend to the end of December 2017:

	FIRE SERVICE BUDGET	Fire Authority	NRAT	TOTAL BUDGET	ACTUAL as at 31.12.17	FORE-CAST	VARI-ANCE
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Expenditure							
Employee Costs	48,217	403	1,753	50,373	33,651	50,173	-200
Premises Costs	2,694	0		2,694	1,553	2,694	0
Transport Costs	1,633	0	465	2,098	1,235	2,098	0
Supplies and Services	3,127	34	1,303	4,464	2,066	4,464	0
Agency Services	5,815	0	780	6,595	3,873	6,595	0
Central Support Services	469	92	215	776	527	776	0
Capital Financing	11,043	0	5	11,048	0	11,048	0
Income	-7,560	0	-4,521	-12,081	-9,731	-12,081	0
Net Expenditure	65,438	529	0	65,967	33,174	65,767	-200
Contingency Pay&Prices	774			774	0	474	-300
Cost of Services	66,212	529	0	66,741	33,174	66,241	-500
Interest on Balances	-172			-172	-26	-172	0
Movement on Reserves	-7,079			-7,079	0	-7,079	0
Total Operating Cost	58,961	529	0	59,490	33,148	58,990	**-500**

The Treasurer is continuing to work with budget holders to maximise savings in 2017/18.

Capital Programme Position:

14. The last financial review report (CFO/076/17) approved a 5 year capital programme worth £43.445m. This has now been updated for scheme additions and changes during quarter 3 of £0.733m which are summarised in the table below:

Movement in the 5 Year Capital Programme						
	Total Cost	2017/18	2018/19	2019/20	2020/21	2021/22
Expenditure	£'000	£'000	£'000	£'000	£'000	£'000
Amendments to Approved Schemes;						
Re-phasing of planned spend	0.0	-3,811.1	4,036.1	54.3	-384.3	105.0
Increase in Vehicle Prog due to price increases	38.0	20.8	4.6	7.2	5.4	0.0
Increase in Saughall Massie CFS (CFO/059/17)	600.0	0.0	600.0	0.0	0.0	0.0
New ESMCP Remedial Works	111.3	111.3	0.0	0.0	0.0	0.0
New & amended ICT & Bulding works funded by Res/Revenue	-16.4	-16.4	0.0	0.0	0.0	0.0
	732.9	**-3,695.4**	**4,640.7**	**61.5**	**-378.9**	**105.0**
Funding						
Borrowing:						
Rephasing of approved schemes from 2017/18	0.0	-3,461.1	3,686.1	54.3	-384.3	105.0
Increase in price of Vehicles	38.0	20.8	4.6	7.2	5.4	0.0
Capital Receipts						
Re-phasing of Formby LLAR house	0.0	-350.0	350.0	0.0	0.0	0.0
Reserves						
Saughall Massie FS New Build- increase (CFO/059/17)	600.0	0.0	600.0	0.0	0.0	0.0
New ICT & Building schemes	27.9	27.9				
Revenue Contribution to Capital Outlay(RCCO)						
New ICT equipment	6.7	6.7				
Capital Grant						
New ESMCP Project schemes	60.3	60.3				
	732.9	**-3,695.4**	**4,640.7**	**61.5**	**-378.9**	**105.0**

15. Although the level of planned expenditure has increased by £0.733m, the level of required borrowing has only increase by £0.038m as the majority of the increase in expenditure is funded by non-borrowing resources. Details of the planned changes in quarter 3 are outlined below:

- Following a review of the current programme £3.811m has rephrased into future years. The most significant adjustments are for the £1.0m for the TDA refurbishment as plans are unlikely to be finalised until the end of this year, and £1.1m for the prime movers and Incident Command Unit as the tender specification and evaluation has only recently been finalised.
- The replacement of the national Airwaves emergency communications system with a new Emergency Services Mobile Communications Programme alternative, ESMCP, requires up-front investment in the control room integration and ICT security and a new scheme for £0.111m funded by Home Office grant monies has been added to the current programme.
- Members approved report CFO/059/17 at the Authority meeting on 14th December 2017, and agreed to drawdown an additional £0.600m from the

capital reserve to fund increased spend on the new Saughall Massie fire station.

- A number of small changes to the ICT, Building and Vehicle programmes totalling £0.022m have been built into the latest capital budget.

16. Overall the revised capital programme has increased by £0.733m. The revised detailed capital programme is attached as Appendix B (2017/18 Capital Programme) and Appendix C (2017/18–2021/22 Capital Programme) to this report for Members information.

Use of Reserves:

17. The analysis in Appendix A4 outlines a £0.025m drawdown of earmarked reserves to fund changes to the capital and revenue budgets to cover planned spend. The general revenue reserve has remained unchanged at £2.000m.

18. This report is recommending that the report's forecast revenue underspend of £0.500m be used to increase the existing capital reserve in light of the delay in finalising the new St Helens fire station and TDA refurbishment schemes and the potential increase in build costs due to inflationary pressures. The capital reserve would allow the Authority to meet any additional capital costs from the capital reserve and therefore avoid additional borrowing and associated long term revenue costs associated with borrowing.

(B) Treasury Management

19. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to December 2017.

20. **Prospects for Interest Rates;**
The Bank of England Monetary Policy Committee (MPC) increased the base rate by 0.25% to 0.50% at its meeting on 2nd November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expect to increase the bank rate only twice more by 0.25% prior to 2020 with a view to a base rate of 1.00%. Latest forecasts anticipate that a further 0.25% increase is not expected before December 2018. However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak service sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

PWLB rates and gilt yields have continued to experience exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Despite this volatility PWLB rose slightly, from historically low levels, by 0.15 % during the first half of the financial year.

The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2017/18. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

21. **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 does not envisage that any new long term borrowing will be required in 2017/18. Current market conditions continue to be unfavourable for any debt rescheduling.

22. **Annual Investment Strategy;**
The investment strategy for 2017/18 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG 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 nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 31st December 2017 the average rate of return achieved on average principal available was 0.49%. This compares with an average seven day deposit (7 day libid) rate of 0.17%.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2017/18 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
Building societies within the top ten but do not have an agency determined credit rating	£1m

The Authority had investments of £30.5m as at 31st December 2017 (this included a proportion of the £28.7m firefighters' pension grant received in July that will be utilised in the year):

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Average Interest
		£	£	£	%
Federated Investors	AAA	2,900,000			0.20
JP Morgan Sterling Liquidity Fund	AAA	300,000			0.20
Standard Life Investors (Ignis)	AAA	300,000			0.20
Birmingham CC	Unrated		5,000,000		0.20
Close Brothers	A		2,000,000		1.10
Goldman Sachs	A		2,000,000		0.79
Handelsbanken	A		2,000,000		0.20
HBOS FTD	A		2,000,000		0.90
HBOS FTD	A		2,000,000		0.90
Santander UK	A		2,000,000		1.05
Cumberland BS	Unrated			1,000,000	0.36
Nationwide B Soc	A			2,000,000	0.63
Newcastle B Soc	Unrated			1,000,000	0.80
Nottingham B Soc	Unrated			1,000,000	0.77
Principality B Soc	Unrated			1,000,000	0.75
Skipton B Soc	Unrated			1,000,000	0.75
West Bromwich B Soc	Unrated			1,000,000	1.05
Yorkshire B Soc	A-			2,000,000	0.75
Totals		**3,500,000**	**17,000,000**	**10,000,000**	**0.64**
Total Current Investments				**30,500,000**	

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

23. **External Debt Prudential Indicators;**
The external debt indicators of prudence for 2017/18 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £77 million
Operational boundary for external debt: £59 million

Against these limits, the maximum amount of debt reached at any time in the period 1st April to 31st December year 2017 was £39.1 million.

24. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2017/18 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 in the period 1st April to 31 December year 2017 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 1st April to 31st December year 2017 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	3%	0%
12 months and within 24 months	50%	0%	2%	1%
24 months and within 5 years	50%	0%	10%	9%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	90%	0%	89%	86%

c) Total principal sums invested for periods longer than 364 days.

The limit for investments of longer than 364 days was set at £2 million for 2017/18. No such investments have been placed during 2017/18.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

28. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

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

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

30. 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

CFO/015/17 "MFRA Budget and Financial Plan 2017/2018-2021/2022" Authority 23rd February 2017.

CFO/054/17 "Financial Review 2017/18 – April June" Audit and Scrutiny Sub Committee 21st September 2017.

CFO/076/17 "Financial Review 2017/18 – April September" Authority December 2017.

GLOSSARY OF TERMS

PWLB	Public Works Loans Board
CIPFA	Chartered Institute of Public Finance and Accountancy
MPC	Monetary Policy Committee
ESMCP	Emergency Services Mobile Communications Programme
TDA	Training and Development Academy
IMU	Incident Management Unit