MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**COMMUNITY SAFETY AND PROTECTION COMMITTEE**		
DATE:	**5 SEPTEMBER 2024**	**REPORT NO:**	**CFO/56/24**
PRESENTING OFFICER	**DIRECTOR OF FINANCE & PROCUREMENT, MIKE REA**		
RESPONSIBLE OFFICER:	**MIKE REA**	**REPORT AUTHORS:**	**MIKE REA**
OFFICERS CONSULTED:	**STRATEGIC LEADERSHIP TEAM**		
TITLE OF REPORT:	**FINANCIAL REVIEW 2024/25 - APRIL TO JUNE**		

APPENDICES:	**APPENDIX A1:**	**REVENUE BUDGET MOVEMENTS SUMMARY**
	APPENDIX A2:	**FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS**
	APPENDIX A3:	**CORPORATE SERVICE REVENUE BUDGET MOVEMENTS**
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	APPENDIX B:	**CAPITAL PROGRAMME 2024/25**
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Purpose of Report

1. To review the revenue, capital, and reserves financial position for Merseyside Fire and Rescue Authority ('the Authority') for 2024/25. 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 2024.

Recommendation

2. It is recommended that Members;

   a. Note the contents of the report,

   b. Approve the proposed revenue and capital budget alignments,

   c. Approve the use of the Inflation Reserve were required to cover pay awards above the 3% MTFP assumption; and

   d. Instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2024/25, and use any savings to reduce the level of capital borrowing.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 29 February 2024. The approved MTFP delivered a balanced budget for 2024/25 based on key budget assumptions around costs, in particular pay. This report updates Members on the 2024/25 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 £74.191m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2024.

Capital:
The current 5-year capital programme has a planned total investment of £47.016m over the 2024/25 – 2028/29 period, of which £22.103m relates to 2024/25. During the quarter the capital programme planned spend has increased by £11.145m in 2024/25 of which includes £8.579m net rephasing from 2023/24 and new expenditure of £2.566m which is detailed in section 17 below. The report outlines all the scheme adjustments in the year and the revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £3.700m, as agreed at the 2023/24 financial year outturn. The report outlines all the movement in reserves in the quarter and considers the current adequacy of the available reserves. All movements in committed reserves are outlined in Appendix A4.

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

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 2024/25, (April – June 2024).

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 – 2024/25

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 either self-balancing virements within department budgets or budget increases financed by reserves (in line with previously agreed Authority decisions), they have not changed the overall net revenue budget requirement. The budget adjustments in quarter 1 included:-

- A contribution from reserves of £0.012m relating to ongoing support for community projects.

- A virement from the contingency / inflation provision of £0.010m into the Corporate Management budget to cover an increase in subscription costs.

- Several grant and external funded initiatives are only built into the budget during the year once the level of 2024/25 funding is known. The Home Office is providing additional grant for Protection Officers in 2024/25 which involved a £231k realignment of the externally funded Protection Budgets into Protection Officers salary budget and an increase of £179k in the Protection Training budget. Other initiatives include Merseyside Resilience Forum funding, £70k increase in training budget and the Apprenticeship Programme increase of 97K in the training budget.

- Other self-balancing virements to cover small adjustments within non-employee budget lines.

8. **The net budget requirement remains at £74.191m, which is consistent with the original budget**. Appendix A1 – A3 outline the budget movements in the quarter.

9. Update on Budget Assumptions and forecast actual expenditure.

10. The key budget assumptions for 2024/25 are:

- Annual pay awards of 3%, and
- Price inflation - general price increases of 3% to 4%; outsourced contracts increases of 6.7%.
- No significant unplanned growth pressures beyond those built into the MTFP.

11. **Annual Pay awards:**
The 2024/25 budget assumed a Grey book pay award of 3%. The 2024/25 firefighters pay award has been agreed at 4% and as this is higher than the 3% included as the budget assumption for 2024/25 this would exceed the budget forecast by approximately £340K in 2024/25 and £450k in 2025/26.

The 2024/25 budget assumed a Green/Red book pay award of 3%. The Local Government staff 2024/25 pay offer is currently a £1,290 fixed sum on all NJC pay points 2 to 43 inclusive and 2.5% on all pay points above 43. This is the equivalent to 5.7% on point 2 and 2.5% on point 43. For MFRS this would exceed the green/red book employee budget by approximately £40K. 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.

If the settlement cannot be contained within the overall employee budget, then officers would draw-down funds from the Inflation Reserve to cover the 2024/25 impact. The ongoing financial implications will be considered as part of the 2025/26 budget process.

12. **Non-pay inflation;**
The latest forecasts indicate 2024/25 non-pay inflation can be contained within the inflation provision.

13. **Unforeseen Growth;**
Other than the annual pay awards referenced in section 11, no 2024/25 unavoidable growth has been identified in the quarter.

14. The expectation is that all other costs and income will be consistent with the approved budget. The table overleaf summarises the quarter 1 revenue position:

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

	TOTAL BUDGET	ACTUAL as at 30.06.24	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	62,239	15,138	62,239	0
Premises Costs	3,987	628	3,987	0
Transport Costs	1,451	239	1,451	0
Supplies and Services	3,481	640	3,481	0
Agency Services	7,202	1,610	7,202	0
Central Support Services	697	227	697	0
Capital Financing	8,115	0	8,115	0
Income	-15,099	-3,694	-15,099	0
Net Expenditure	72,073	14,788	72,073	0
Contingency Pay&Prices	1,998	0	1,998	0
Cost of Services	74,071	14,788	74,071	0
Interest on Balances	-300	-135	-300	0
Movement on Reserves	420	0	420	0
Total Operating Cost	74,191	14,653	74,191	**0**

15. The Director of Finance and Procurement will continue to monitor the position during the year to look to deliver savings to fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.

16. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. Two debtor accounts were written off in the quarter totalling £814 plus VAT as the service was likely to incur more costs than the value of the debt, in an attempt to trace the customers and recover the debt.

Capital Programme Position:

17. At the Authority Budget meeting on 29 February 2024, (CFO/13/24), Members approved a 5-year capital programme (2024/25–2028/29) of £35.871m, of which £10.958m related to 2024/25. During quarter 1 the capital programme has increased by £11.145m, due to:

    a) The 2023/24 year-end net re-phasing of projects into from 2023/24 into 2024/25 of £8.579m.

    b) The Authority manages the national resilience asset refresh on behalf of the Home Office and receives 100% funding for the scheme. During the quarter, £1.450m of planned asset refresh has been identified and built into the programme.

c) NRAT body amour relating to potential marauding terrorist attacks £1.1m, IT Equipment £0.012m, Capital refurbishment container units £0.004m.

d) One small self-balancing virement within the capital programme.

Capital Borrowing Requirement:

18. The level of capital borrowing in 2024/25 increased in the quarter from £29,631m to £38,210m as a result of the net re-phasing of projects from the financial year 2023/24 into 2024/25. The Authority accesses capital borrowing through the Governments Public Works Loan Board (PWLB), PWLB long term 50-year rates started the quarter at 5.26%, rose to a peak of 5.6% in late May before falling back to finish the quarter at 5.37%. The revenue budget takes account of the rephasing and assumes an interest rate of approximately 5%, so the impact of the rate changes and the re-phasing can be contained within the budget.

19. 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.

20. The capital programme changes actioned in the quarter are summarised in Table below. The revised detailed capital programme is attached as Appendix B (2024/25 Capital Programme) and Appendix C (2024/25–2028/29 Capital Programme) to this report.

Movement in the 5 Year Capital Programme

	Total Cost	2024/25	2025/26	2026/27	2027/28	2028/29
Expenditure	£000's	£000's	£000's	£000's	£000's	£000's
Amendments to Approved Schemes						
2023/24 year-end re-phasing of schemes into future years	8,618.7	8,618.7				
NRAT - Enhanced Logistic Support assets	1,450.0	1,450.0				
NRAT - Marauding Terrorist Attacks - Body Armour	1,100.0	1,100.0				
Secondary Fire control backup telephone refresh	-40.0	-40.0				
ICT Hardware Equipment	12.4	12.4				
Capital refurbishment - Container Units	4.0	4.0				
	11,145.1	**11,145.1**	**0.0**	**0.0**	**0.0**	**0.0**
Funding						
Revenue Contribution to Capital Outlay (RCCO)						
ICT Hardware Equipment	12.4	12.4				
Capital refurbishment - Container Units	4.0	4.0				
NRAT - Marauding Terrorist Attacks - Body Armour	1,100.0	1,100.0				
Capital Reserve						
No change	0.0	0.0				
Grant						
NRAT - Enhanced Logistic Support assets	1,450.0	1,450.0				
Borrowing						
2023/24 year-end re-phasing of schemes into future years	8,618.7	8,618.7				
Secondary Fire control backup telephone refresh	-40.0	-40.0				
	11,145.1	**11,145.1**	**0.0**	**0.0**	**0.0**	**0.0**

Use of Reserves:

21. The analysis in Appendix A4 outlines the reserve movements in the quarter. A £0.012m draw-down adjustment was required in the quarter as outlined in paragraph 7 of this report.

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

23. The general revenue reserve has remained unchanged at £3.700m as per the agreed 2023/24 outturn position.

(B) Treasury Management

24. 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 2024/25.

25. **Prospects for Interest Rates;**

GDP rose by 0.7% in the first quarter of 2024, following the technical recession the UK economy experienced in the final two quarters of 2023. The economy appears to have weathered the drag from higher inflation better than was expected and core CPI inflation has returned to the target level of 2% in the most recently published release for May 2024.

A general election took place on the 4th July 2024, after which a new government has been formed. Given the legacy of recent years, it is anticipated that the financial environment will remain challenging for the new government, with a characteristic of the pre-election campaigning being the importance placed on financial discipline and an unwillingness to guarantee unfunded spending commitments.

On 20th June, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate at 5.25% for the seventh consecutive time. The base rate has been frozen at a 16 year high since August 2023. At the two most recent meetings, the vote has been split 7-2, with two members of the committee voting to cut bank rate by 0.25%. The next meeting is scheduled for August 1st, with the committee meeting again in September, November & December.

The minutes published with the most recent MPC vote highlight that the committee remains concerned with the high level of service inflation and the inflationary pressures created by wage growth currently seen across the economy. This commentary pushed back expectations that the first interest rate cut might be seen in August, with the final two meetings perhaps representing a more likely start to the interest rate cutting cycle. However, the timing of when to

start cutting interest rates remains one of fine judgment: cut too soon, and inflationary pressures may well return; cut too late and any downturn or recession may be prolonged.

PWLB rates for both long- and short-term borrowing peaked in late May before falling back by the end of the period. The 1-year PWLB started the quarter at 5.59%, before reaching a peak of 5.81% in late May, then subsequently fell back to finish the quarter at 5.57%. Longer term PWLB 50-year rates started the quarter at 5.26%, rose to a peak of 5.6% in late May before falling back to finish the quarter at 5.37%.
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.

26. **Capital Borrowings and the Portfolio Strategy;**

The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisages that new long-term borrowing of £8 million will be required in 2024/25. 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.

27. **Annual Investment Strategy;**

The investment strategy for 2024/25 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DLUHC 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 remained high in the first quarter of 2024/25. With the speculation that interest rates might start to fall in the second half of 2024/25, opportunities to add more duration to the investment balance will be explored in the coming months. In the period 1st April to 30 June 2024 the average rate of return achieved on average principal available was 5.14%. This compares with an average SONIA rate (Sterling Overnight Index Average Rate) of 5.20%.

The Authority had investments of £27.3m as at 30 June 2024:

ANALYSIS OF INVESTMENTS END OF QUARTER 1 2024/25

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Aberdeen Liquidity	AAA	500,000				5.23
CCLA Investment Management	AAA	3,000,000				5.21
Federated Investors UK (Overnight)	AAA	2,300,000				5.24
Legal & General	A+	3,000,000				5.05
HSBC (MFRS Deposit Account)	A		100,000			1.99
Lloyds Call Account	A		400,000			5.14
Newcastle BS				1,000,000		5.90
Blackpool Council					3,000,000	5.30
Kirklees Council					3,000,000	5.35
London Borough of Haringey					3,000,000	5.20
Medway Council					3,000,000	5.30
Wirral Borough Council					3,000,000	5.30
Wyre Forest District Council					2,000,000	2.00
Totals		**8,800,000**	**500,000**	**1,000,000**	**17,000,000**	**4.79**
Total Current Investments					**27,300,000**	

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

28. **External Debt Prudential Indicators;**

The external debt indicators of prudence for 2024/25 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £71 million
Operational boundary for external debt: £66 million

Against these limits, the maximum amount of debt reached at any time in the period 1 April to 30 June 2024 was £33.7 million.

29. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2024/25 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 2024 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 2024 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 2024/25. Nil investments over 1 year have been placed so in the first quarter of 2024/25.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

33. See Executive Summary.

Risk Management and Health & Safety Implications

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

Environmental Implications

35. 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.

36. 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 Vision.

BACKGROUND PAPERS

CFO/13/24 "MFRA Budget and Financial Plan 2024/2025-2028/2029" Authority 29 February 2024.

GLOSSARY OF TERMS

MTFP Medium Term Financial Plan

NRAT National Resilience Assurance Team

PWLB Public Works Loans Board