

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUTHORITY BUDGET MEETING		
DATE:	25 FEBRUARY 2016	REPORT NO:	CFO/008/16
PRESENTING OFFICER	TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:			
TITLE OF REPORT:	MERSEYSIDE FIRE AND RESCUE AUTHORITY BUDGET AND FINANCIAL PLAN 2015/2016 – 2019/2020		

APPENDICES:	APPENDIX A:	DRAFT SUMMARY REVENUE BUDGET ANALYSIS
	APPENDIX B:	PROPOSED CAPITAL PROGRAMME 2016/17 – 2020/21
	APPENDIX C	PROPOSED 2016/17 – 2019/20 FOUR YEAR MTFP

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, value for money service. This will also allow the Authority to determine a budget for 2016/17 and a precept level in line with statutory requirements.

Recommendation

2. That Members consider the report and proposed budget and:-
 - (a) Note the 2016/17 service budgets set out in the report.
 - (b) Endorse the Treasurer's recommendation on maintaining the current level of general fund balance at £2.000m, and maintaining the reserves as outlined in Paragraph 170 to 173 of this report.
 - (c) Endorse their current plan to increase the precept by just below 2% for 2016/17, raising the Band D Council Tax from £71.47 to £72.89 and confirm the strategy for future precept rises (the plan assumes 2% in each year thereafter).
 - (d) Endorse the assumptions in developing a four year (2016/17 – 2019/20) Financial Plan outlined in the report and approve the Medium Term Financial Plan in Appendix C and the 2016/17 budget estimate of £61.507m.

- (e) Approve 2016/17 – 2019/20 £11.000m saving plan outlined in the report and summarised in Appendix C.
- (f) Accept the offer of a 4 year financial settlement as set out in the Final Local Government Finance Settlement on 9th February 2016 in principle subject to the development of a robust efficiency plan and any other required Home Office documentation.
- (g) Approve the capital strategy and investment strategy as summarised in Appendix B.
- (h) Approve the Minimum Revenue Payment (MRP) strategy for 2016/17 as outlined in Paragraph 79 of this report.
- (i) Note the prudential indicators relating to the proposed capital programme, paragraph 90 to 92 of this report.
- (j) Approve the Treasury Management Strategy outlined in Section F and agree the Treasury Management indicators set out in paragraph 97 of this report for:-
 - External Debt
 - Operational Boundary for Debt
 - Upper limits on fixed interest rate exposure
 - Upper limits on variable rate exposure
 - Limits on the maturity structure of debt
 - Limits on investments for more than 364 days
- (k) Note that the recommendations above provide an approved framework within which officers undertake the day to day capital and treasury activities.

Introduction and Background

- 3. The Authority is required to determine its budget and precept level for 2016/17 by 1st March 2016.
- 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) 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:-

- (a) Consider the borrowing freedoms available under the prudential code
- (b) Reflect best practice
- (c) Provide value for money
- (d) Focus on the link between capital investment decisions and revenue budgets
- (e) Continue developing their strategic financial plan

6. The following report structure will be adopted:-

Section	Focus	Paragraph
A	Executive Summary	7-30
B	Background Information	31- 50
C	Capital Programme	51-74
D	Minimum Revenue Provision Statement	75-84
E	Prudential Indicator Report	85-94
F	Treasury Management Strategy Statement	95-97
G	Revenue Forecasts 2016/17 – 2019/20	98-124
H	Options for Tackling the Financial Challenge	125-159
I	Adequacy of Reserves and Balances	160-174
J	Budget Timetable & Resolution	175-178

A) EXECUTIVE SUMMARY

7. The Authority must set a balanced budget and a precept level by 1st March 2016.
8. The budget and financial plan should allocate resources in line with the Authority's Mission and Aims:-

Our Mission:

To Achieve; Safer, Stronger Communities - Safe Effective Firefighters

Our Aims:

Excellent Operational Preparedness
Excellent Operational Response
Excellent Prevention and Protection
Excellent People

9. The Authority had planned prudently to deal with all known reductions in Government funding up to 2015/16. The **Authority had identified a potential £14.1m challenge** by 2019/20 based on possible Government Grant cuts. Any further cuts would require additional savings to be identified.
10. The Government has now announced the final settlement funding for 2016/17 and the indicative figures for 2017/18 – 2019/20. If the Authority is so minded it can accept the offer of a four year settlement subject to the production of an efficiency plan covering this period. Members indicated at their budget strategy day on 14th January 2016 that they would want to accept this offer in order to provide the certainty over future funding and therefore allow the Service time to prepare and change to meet the financial challenge. This financial plan sets out the savings required to meet the reduction in Government funding over the four year period.
11. By 2019/20 the Service is facing a cut in the Revenue Support Grant (RSG) it receives from the Government of over £7.7m or 41% compared to the 2015/16 grant. This is approximately a 50% cut in real terms once inflation is taken into account. RSG currently provides over 30% of the Authority's revenue budget funding, so this level of cut cannot be contained without a significant reduction in the current level of services.
12. After taking into the 2016/17 Government grant settlement and financial plan assumptions the Authority is facing an **£11.0m financial challenge by 2019/20**.
13. The updated four year financial plan has been prepared using the latest information and the following key assumptions:
 - The 2016/17 increase in the council tax base (£1.0m impact by 2019/20) is permanent.
 - Annual increases in council tax of (fractionally below) 2%.
 - A pay bill increase of 2% per annum. The pay bill includes all pay related costs including pension contributions and national insurance.
 - 2% per annum General Price Inflation.
 - The Government Settlement Funding Assessment figures for 2016/17 and proposed figures up to 2019/20.

- After taking into account the £1.023m increase in council tax income from the higher tax base this leaves a further £9.977m of savings to be identified.

14. The updated financial plan is attached to this report as Appendix C, but is summarised in the table below:-

2016/17 - 2019/20 MTFP				
	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Current Approved Plan Forecast	62,812	64,762	66,512	68,262
2016/17 Issues				
Growth required to cover 0.5% levy for national apprenticeship programme		200	200	200
Sec 31 Grant for restricted small business NNDR increase	1	1	1	1
Sec 31 Grant to cover subsidised local NNDR (NNDR1 Section C grants)	-140			
2016/17 Financial Plan Expenditure Forecast	62,673	64,963	66,713	68,463
Funding				
Government Funding - Settlement Funding Assessment				
Baseline Funding -Business Rates / Top-up	-18,428	-18,791	-19,345	-19,963
RSG (2016/17 - 2019/20)	-16,523	-13,664	-12,050	-11,000
Government Funding - Settlement Funding Assessment	-34,951	-32,455	-31,395	-30,963
Adjustment for District Local Business Rate income forecast	25	0	0	0
Council Tax (assuming +2% increase in precept p.a.)	-24,968	-25,469	-25,978	-26,500
Council Tax Base (increase) / decrease	-966	-985	-1,005	-1,023
Council Tax / Business Rates - Collection Fund (surplus)/deficit	-647			
Council Tax	-26,581	-26,454	-26,983	-27,523
Updated Income Forecast	-61,507	-58,909	-58,378	-58,486
Forecast Net Position (surplus) / deficit (after CT Base increase)	1,166	6,054	8,335	9,977

15. Section H of this report "Options for Tackling the Financial Challenge" considers what areas of the budget could deliver the funding gap to deliver a balanced 2016/17 budget and four year financial plan up to 2019/20.

Reserves and Balances

16. In light of the financial risks facing the Authority it has increased reserves in recent years. The latest financial review report CFO/007/16 identifies a 2015/16 forecast revenue underspend which will allow the Authority to increase its capital investment reserve by a further £0.650m. The current estimated reserves as at 31.03.16 are:-

- Ringfenced Reserves (not available for general spend) £1.820m
- Earmarked Reserves (created to fund future projects or as a resource to meet some potential future spend) £21.276m
- General Fund Reserve (required to cover unexpected events) £2.000m
£25.096m

17. Approximately £21.276m of earmarked reserves might be viewed as available, however £12.5m has already been committed to fund approved current and future capital investment, including the construction of new stations as part of the station merger initiative and controlling the level of borrowing to deliver the approved revenue debt servicing savings. Also £1.6m is required to cover insurance and catastrophe risks; £1.3m of the smoothing reserve is required to balance the 2016/17 – 2019/20 financial plan; and £2.2m is required to smooth out the future PFI unitary charges over the remaining contract years. This leaves £3.7m of earmarked reserve to consider. Although this would appear relatively high it reflects the level of risk associated with the current financial plan and the severity of cuts imposed on the Authority for 2016/17 and beyond. The £3.7m earmarked reserves are:

	£'m
Severance Reserve	0.4
Recruitment Reserve	1.0
Firefighter Safety	0.8
Inflation Reserve	0.5
Ill Health Cost	0.5
Equality / DDA	0.3
Other	<u>0.2</u>
	3.7

18. As previously stated this report identifies a number of potential risks in relation to the key assumptions in the medium term financial plan. If any of these assumptions vary then the forecast balanced budget position will be affected. Any material deficit might result in the Authority having difficulty in maintaining its value for money principles and in particular avoiding compulsory redundancies.
19. The Treasurer recommends the Authority hold the £3.7m identified above in reserves at the start of the financial plan. More information on reserves is set out in section (I).
20. 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 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.
21. The proposed financial plan assumes a (just below) 2% council tax increase in 2016/17 and each year thereafter.
22. The Authority may choose to use a further precept increase to bridge the gap, however current legislation requires that any increase above a threshold set by the Secretary of State must be subject to a referendum of the electorate of Merseyside. Any vote against such an increase will require a revised budget and incur the expense of re-billing all the districts within Merseyside. For 2016/17 any proposed increase at or in excess of 2% or more will require such a referendum.
23. The ready reckoners below show the impact of a potential 2% Council Tax increase:-

Council Tax Increase			
	0%	2%	Change
Band D Tax	71.47	72.89	1.42
District Precept	£m	£m	£m
LIVERPOOL	7.307	7.452	0.145
WIRRAL	6.467	6.595	0.129
ST.HELENS	3.495	3.565	0.069
SEFTON	5.775	5.890	0.115
KNOWSLEY	2.385	2.432	0.047
	25.428	25.934	0.505

24. The proposed 5 year capital programme is detailed in section C. The table below summarises the proposed £38.2m of investments which are mainly in the Authority's property, vehicle and ICT assets.

PROPOSED CAPITAL PROGRAMME for 2016/2017 - 2020/21						
Capital Expenditure	Total Cost £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Building/Land	20,611,500	14,624,500	4,070,500	630,500	905,500	380,500
Fire Safety	3,575,000	975,000	650,000	650,000	650,000	650,000
ICT	3,436,000	778,000	900,000	596,000	511,000	651,000
Operational Equipment & Hydrants	1,910,000	533,000	440,000	324,000	435,000	178,000
Vehicles	8,623,400	3,689,400	1,228,000	858,000	1,227,000	1,621,000
Total Expenditure	38,155,900	20,599,900	7,288,500	3,058,500	3,728,500	3,480,500
Financing Available	Total £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Capital Receipts	2,550,000	1,850,000	700,000	0	0	0
RCCO/Capital Reserves	7,603,000	5,743,000	690,000	390,000	390,000	390,000
Grants	6,442,000	6,442,000	0	0	0	0
Total Non Borrowing	16,595,000	14,035,000	1,390,000	390,000	390,000	390,000
Unsupported Borrowing	21,560,900	6,564,900	5,898,500	2,668,500	3,338,500	3,090,500
Total Funding	38,155,900	20,599,900	7,288,500	3,058,500	3,728,500	3,480,500

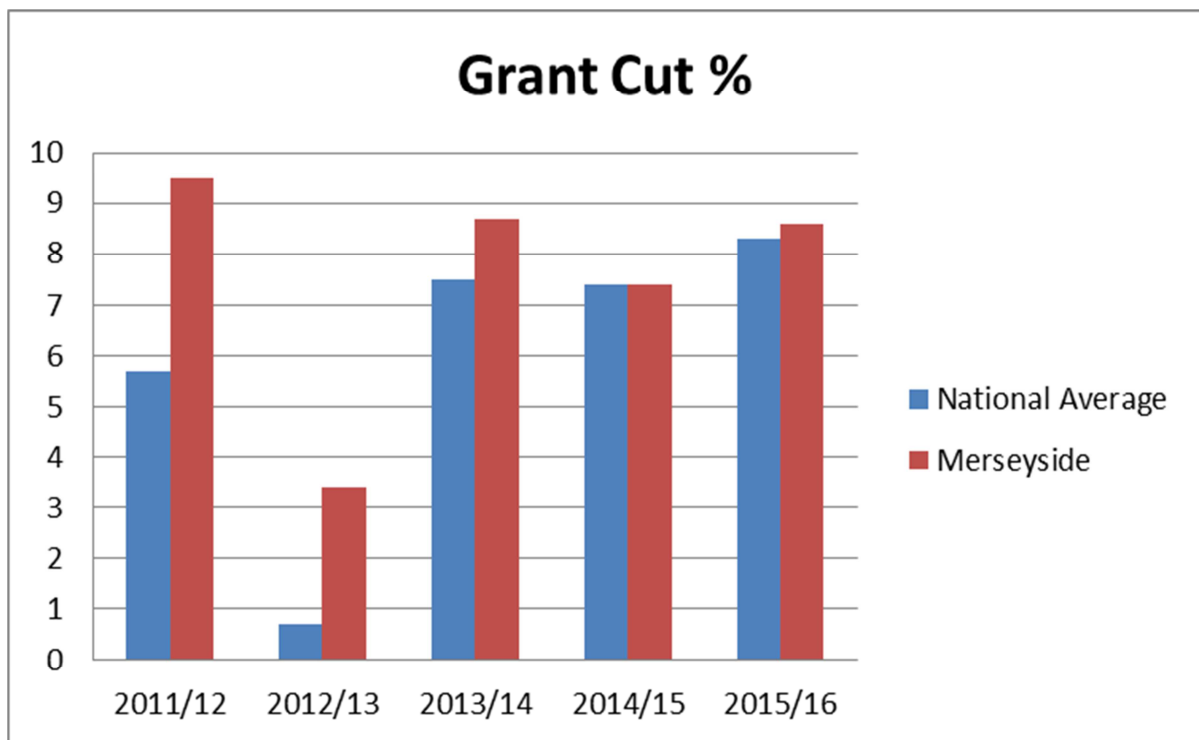
25. The proposed capital programme has a borrowing requirement of £6.565m in 2016/17 and £21.561m across the whole life of the plan. The proposed borrowing is unsupported borrowing or prudential as Members will note that the Government no longer allocates any supported borrowing to FRA's and therefore no longer builds any revenue grant funding support for new borrowing in the formula grant. This means all borrowing is prudential.
26. The Authority needs to be mindful of the revenue costs of borrowing. Current and future debt servicing costs as a consequence of the proposed capital programme have

been built into the proposed financial plan. This report provides members with a number of prudential indicators so they can ensure that this commitment is considered affordable, prudent and sustainable in light of these prudential indicators (Section E).

27. The Prudential Code requires the Authority to set a Treasury Management Strategy that includes a number of indicators and limits. It sets a framework for the Treasurer to manage investments and borrowing within.
28. 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
 - Limits on the maturity structure of debt
 - Limits on investments for more than 364 days
29. MRP is the amount of money set aside in the revenue budget by the Authority each year to reduce its overall level of debt. The Authority is required under the Local Authorities (Capital Finance and Accounting, England, Amendment) Regulations 2008 to prepare a statement on its policy for MRP in respect of the forthcoming year. Regulations require the Authority to pay debt at a rate which it considers prudent.
30. The Treasurer has reviewed the MRP policy in line with the legislation and the report outlines the proposed MRP policy for 2016/17 and future years.

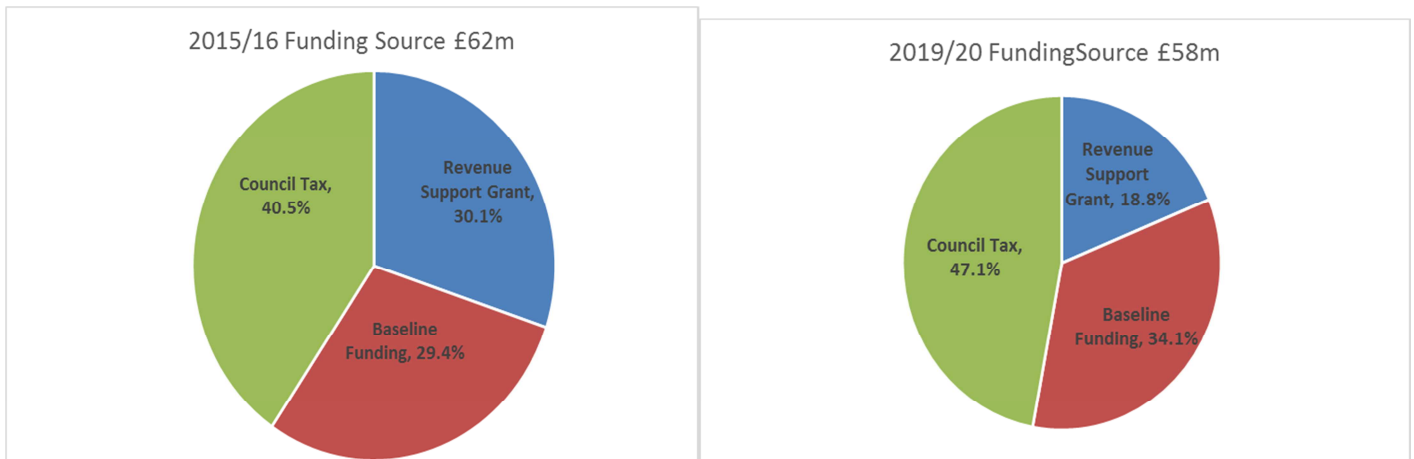
B) BACKGROUND INFORMATION

31. This section provides general financial information on the Authority's finances and financial health.
32. 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. This is a vital consideration when organisations face periods of severe resource shortages.
33. For many years now the Authority has maintained a comprehensive medium term financial plan (MTFP) and capital programme. In 2010 the Government announced its austerity plan in an attempt to reduce national debt. A significant element of the plan was to reduce the level of government funding for local government including fire and rescue.
34. The cumulative percentage reduction in grant for Merseyside between 2011/12 and 2015/16 equates to a 35% reduction, compared to a national average grant cut of 26% over the four year period for stand-alone Fire and Rescue Authorities:



35. The Authority has already approved plans to deal with the cuts up to 2015/16.
36. The Authority now faces an **£11.0m financial challenge to be delivered by 2019/20** following the announcement by the Government of the funding for the Service for 2016/17 to 2019/20. The RSG that currently provides over 30% of the Authority's funding is being reduced in real terms by nearly 50% by 2019/20 and overall Government funding by nearly 25% in real terms over the same period.

37. The reduction in Government Funding has increased the reliance upon Council Tax as a source of funding for the Authority:-



Note: the above assumes a 2% year on year increase in the Council Tax Precept.

38. The Integrated Risk Management Plan (IRMP) is the key driver in the allocation of the Authority's resources in response to the risks facing Merseyside.
39. The Authority's IRMP states the main strategic themes that the Authority has been progressing and its plans for the future. The current IRMP supplement covers the period from 2015 to 2017. Decisions made about the potential savings options presented as part of this Budget report will form the basis of consultation with the public in the Spring of 2016. The outcomes of that consultation will inform the IRMP planning process. A new IRMP will be developed during 2016, with a draft presented to Members in October. Following a period of consultation, the final IRMP will be approved in February 2017.
40. The Authority's Mission and Aims as set out in the IRMP are repeated below. Any financial plan should aim to allocate resources to deliver the mission and aims.

Our Mission;

To Achieve; Safer Stronger Communities - Safe Effective Firefighters

Our Aims;

Excellent Operational Preparedness

We will provide our firefighters with training, information, procedures and equipment to ensure they can safely and effectively resolve emergency incidents.

Excellent Operational Response

To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

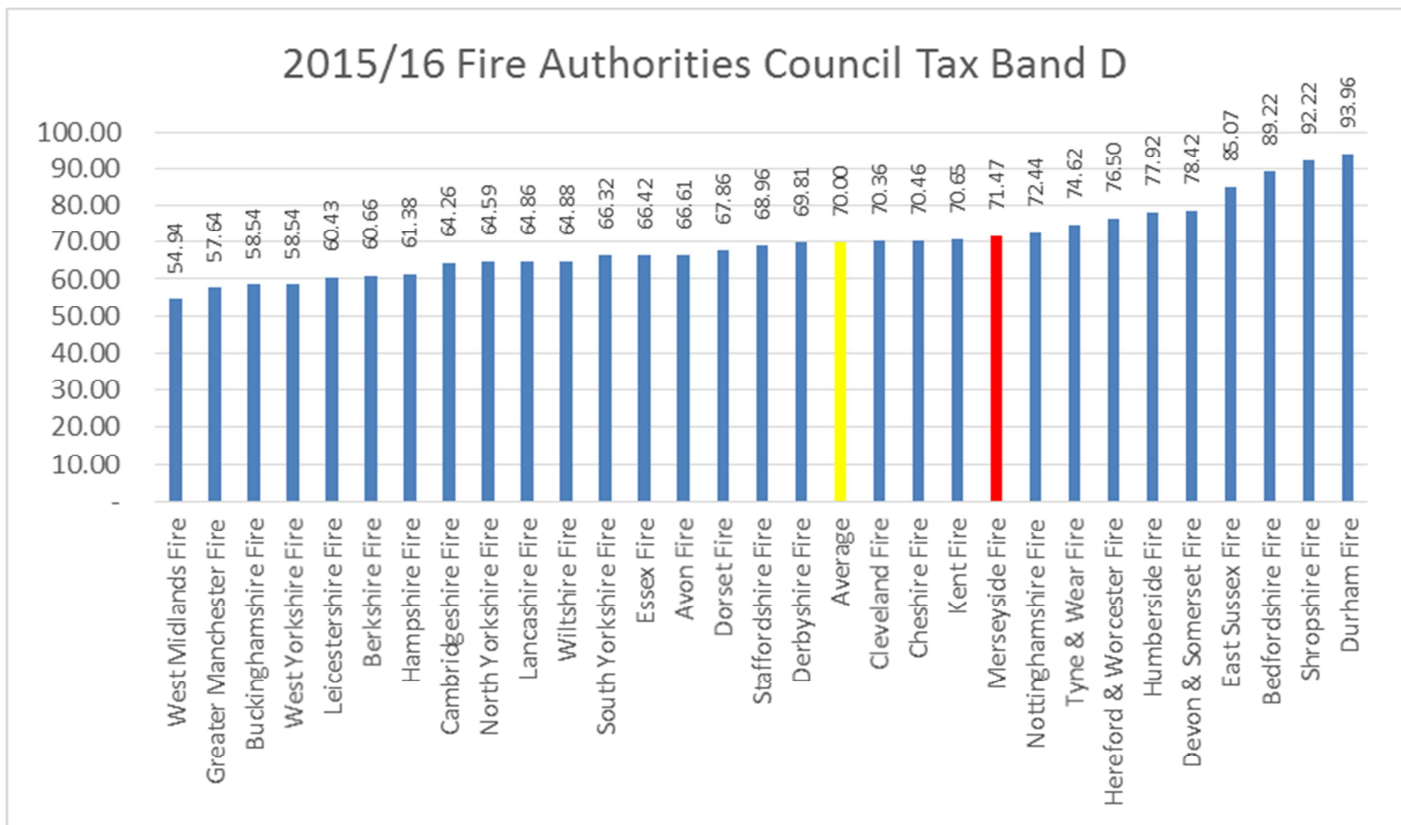
Excellent Prevention and Protection

Working with partners and our community to protect the most vulnerable.

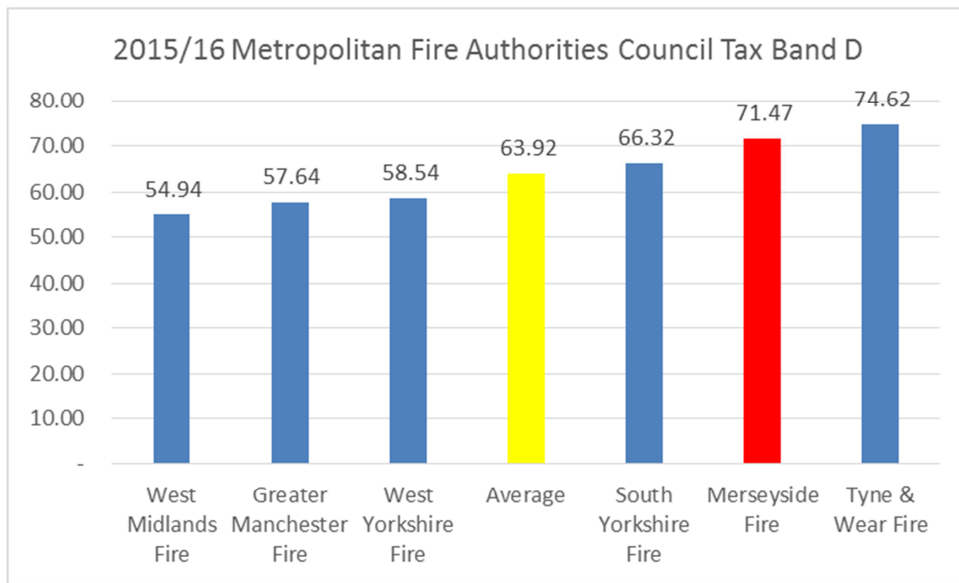
Excellent People

We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

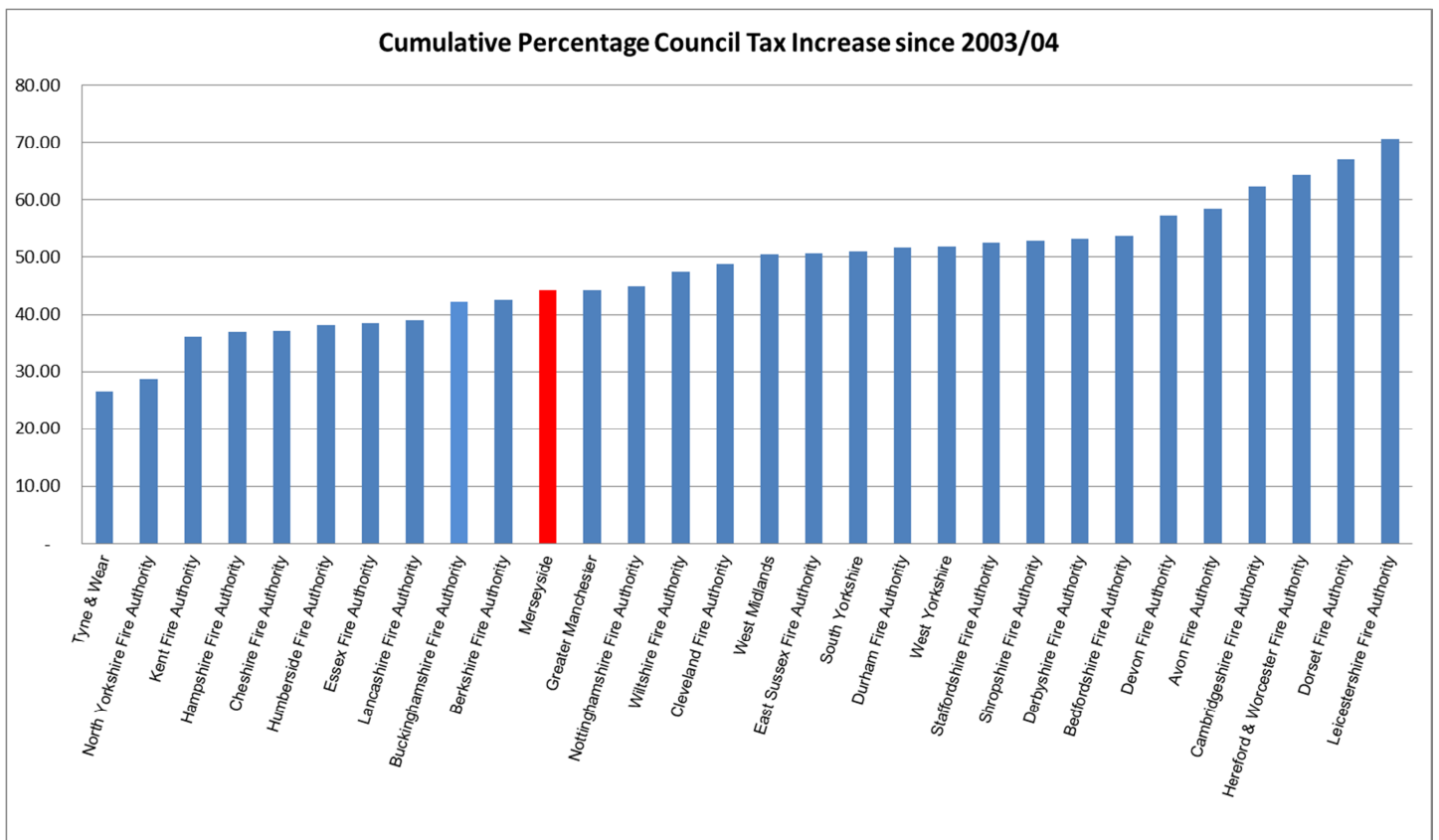
41. In recent years the Authority has adopted a financial strategy that:-
- Sought to control Council Tax increases,
 - Planned for pay awards and cost increases in line with HM Treasury inflation forecasts,
 - Sought to generate significant savings through staff reductions whilst avoiding compulsory redundancy,
 - Sought to minimise the impact of cuts on frontline services including prevention,
 - Made significant investment in IT and computing (including outsourcing),
 - Provided further investment in equality and health and safety,
 - Attempted to plan prudently over the medium term by considering all significant risks to the assumptions in the financial plan and creating specific reserves if deemed necessary,
 - Maintained a general reserve of at least £2m following assessments of risk,
 - Because of pressures on revenue budget generally avoided funding capital expenditure from revenue through leasing or RCCO,
 - Invested in the capital infrastructure of the Authority in line with the Asset Management Plan, vehicle replacement strategies and corporate objectives.
42. These strategies have over recent history allowed the Authority to reduce costs and maintain relatively low levels of Council Tax increase despite very tight grant settlements.
43. The Authority's 2015/16 (Band D) Council Tax is £71.47. This is slightly above the FRS national average (£70.00) as shown in the bar chart below:-



44. In 1996/97 Merseyside's Council Tax was more than 50% above the average of Metropolitan FRA's. Now it is only 11.8% above the average of that group:



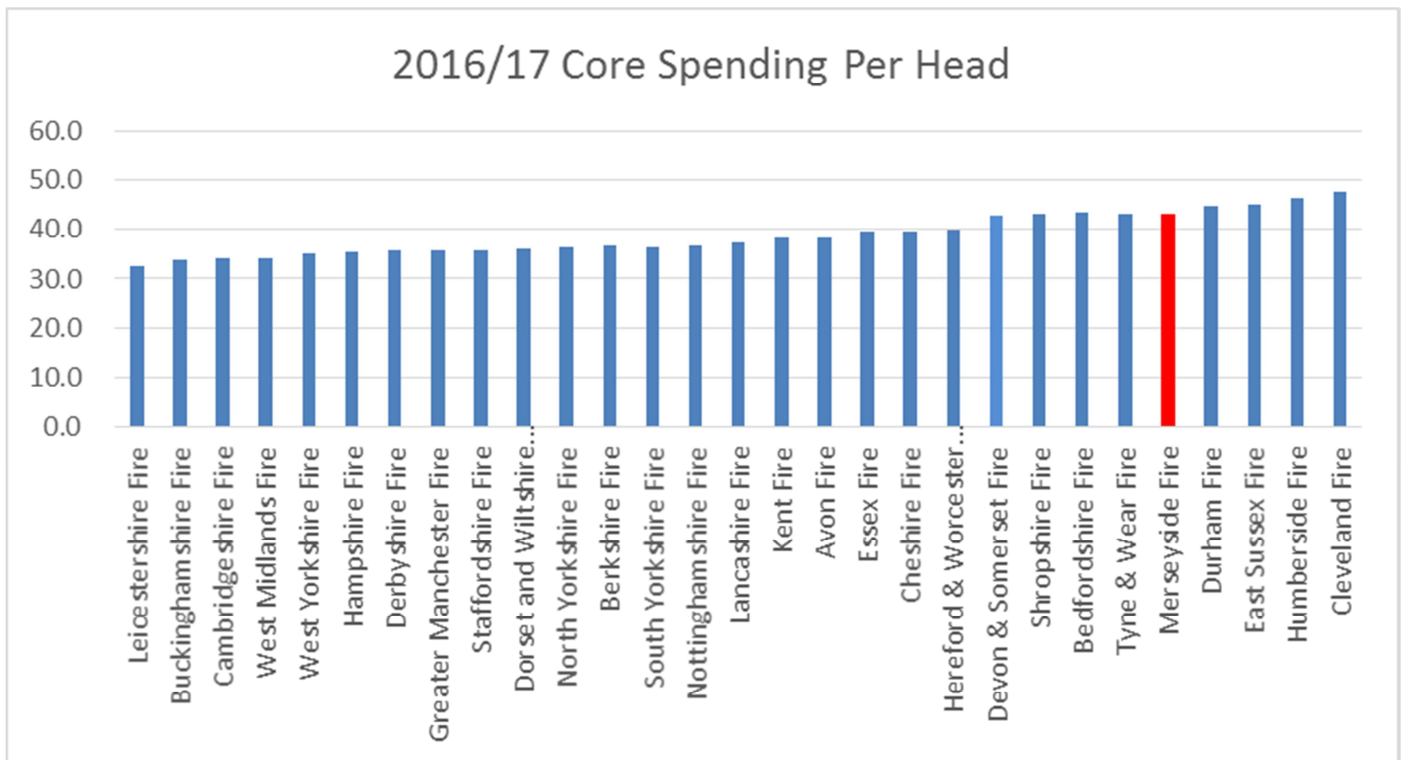
45. Over the past 13 years when compared to the other FRA's Merseyside has had one of the lowest cumulative council tax increases:



46. The Authority's control of council tax should be considered in light of the fact that across the same time period the council tax base of Merseyside has had one of the lowest increases. The tax base reflects how much income is generated by £1 of "Band

D” equivalent council tax. So if the tax base increases, income will increase, even if the council tax charge remains unchanged.

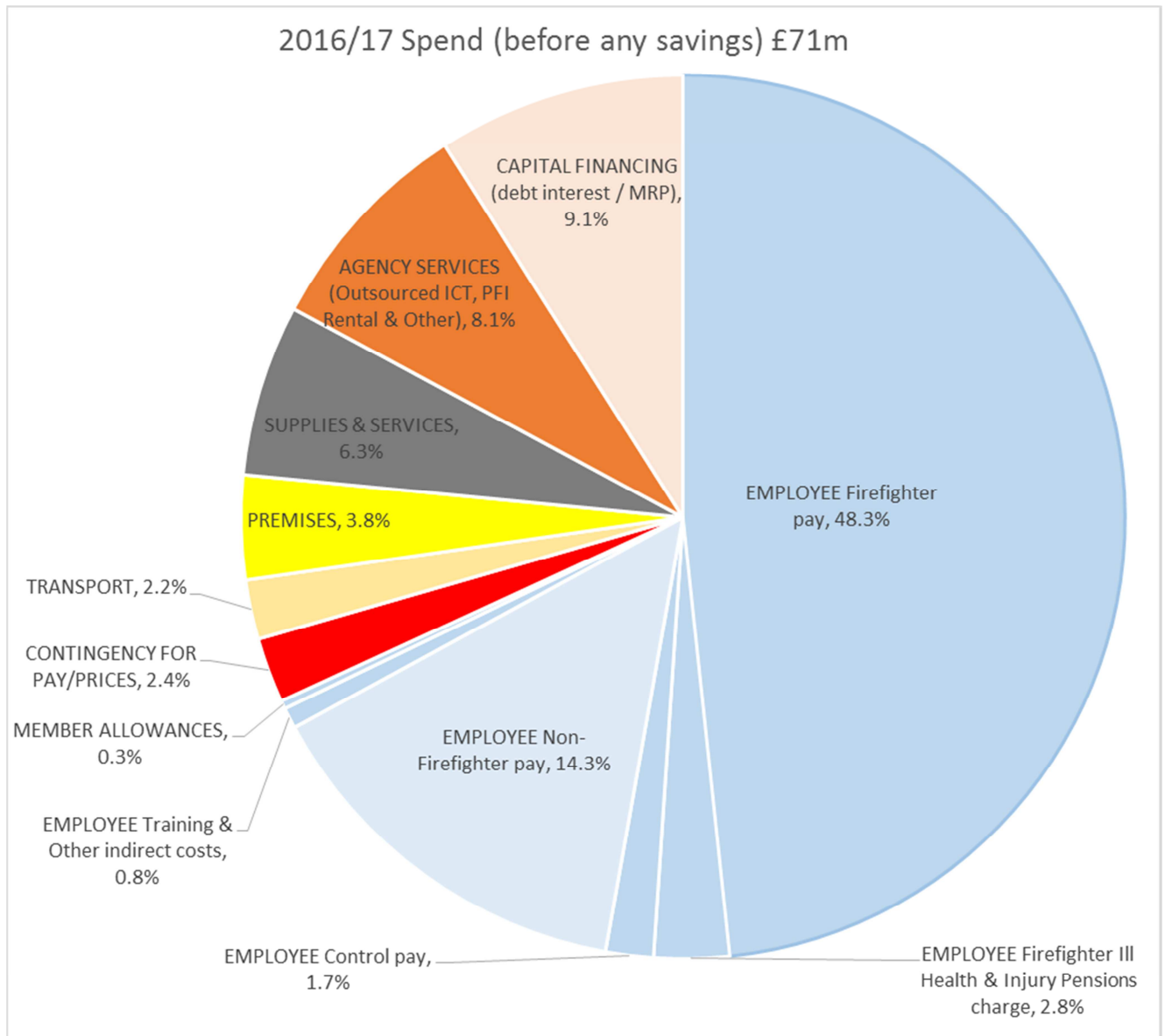
47. However, despite recent improvements it should be noted that we remain, in comparison to our peers, a relatively high spending Authority on a core spending per head basis. (*Core Spending is a Government measure of estimated overall budget which includes Government funding plus council tax income based on future precept and tax base increases*)



48. The Authority has a proven track record for meeting significant financial challenges in the past. The Authority, as part of a risk based strategy, has built up reserves in recent years to provide a short term buffer whilst the structural changes to deliver the required savings on a permanent basis are implemented. The unprecedented reductions in Government funding will require difficult decisions but the Authority has a proven track record in managing its financial affairs well as can be seen in the following indicators:-

- Authority accounts 2014/15 audited without qualification once again.
- Annual Audit Letter highlighted general satisfaction with financial corporate governance and reporting arrangements.
- IRMP recognised as innovative.
- The Authority has maintained a general revenue reserve of at least £2.0m in recent years.
- Cost centre budgeting now well established along with a culture of financial management.
- Maintained a medium term financial plan and capital programme and most importantly a consistent medium term strategy.
- Successfully delivered large-scale changes and savings.

49. Members will be aware that Merseyside Fire and Service expenditure is predominantly employee related (*approximately 70%*) as is shown in the pie chart below. (The blue sections relate to employee costs):-

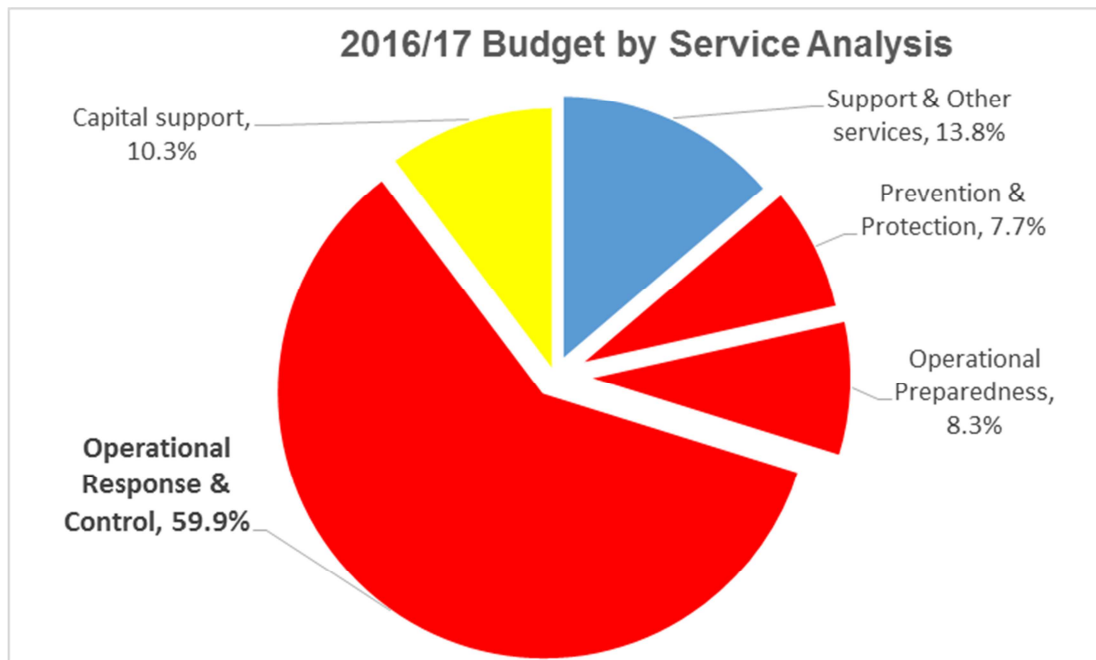


A full subjective analysis of the base budget for 2016/17 is set out in **Appendix A**

A subjective analysis is only part of the overall view on spending and in order to assist Members the same data is shown in a “thematic” view below and is based upon the service’s strategic objectives:

50. The Authority has an excellent track record of investing in line with its corporate priorities. It can be seen from the pie chart overleaf that most expenditure 59.9% goes on emergency and specialist response. In addition 8.3% goes on Operational Preparedness and 7.7% on Prevention & Protection, and therefore over 75.9% of expenditure is on the “front line” services. In addition the 10.3% on capital costs

relates mostly to previous investment in front line assets, fire stations, vehicles and equipment. The remaining 13.8% is on support services.



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

Operational Response & Control (Total £38m)

- Service delivery and emergency response through its 25 (reducing to 22) fire stations.
- Specialist capabilities such as the Search and Rescue Team and Search Dogs.
- Invested in staff safety – procured state of the art fire kit, helmets, boots, breathing apparatus and appliances.
- Invests £1.5m operating a Training and Development Academy.
- Deliver HFSC programme.
- Investing in new community fire stations.
- Marine Rescue Unit to support the airport and safety on the River Mersey.

Prevention & Protection (Total £4.9m)

- Prevention & Protection Teams; £2.0m
- Community Prevention work and youth engagement; £2.0m
- Purchase of £0.3m of smoke alarms per annum
- Fire Service Direct; £0.2m
- Employment of specialist Advocates and continuation of the Princes Trust and other programmes; £0.2m
- Invested in volunteers with the Fire Support Network; £0.2m
- Working with the private sector to deliver speedier restoration of property

Operational Preparedness (Total £5.2m)

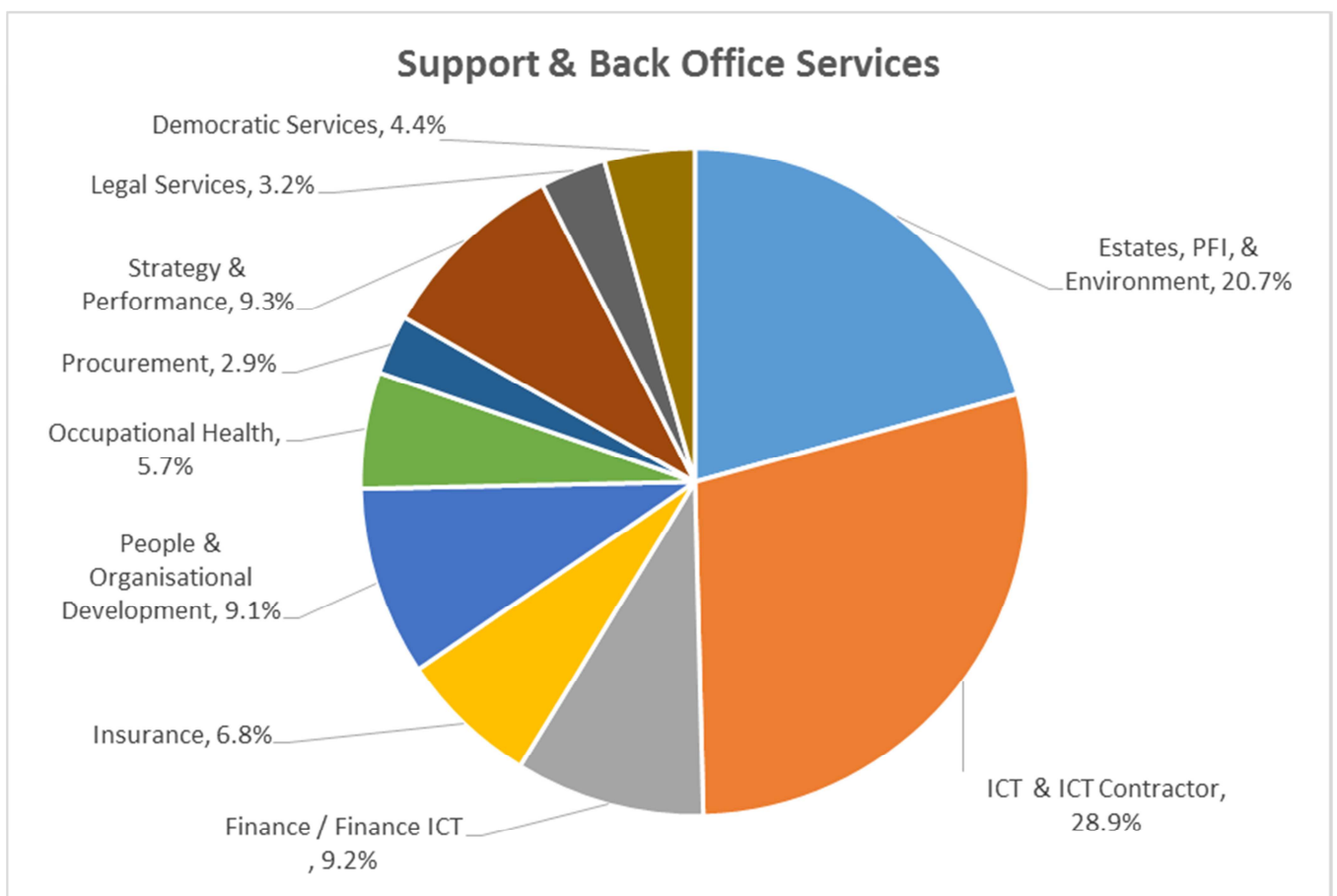
The investment of £5.2m delivers a variety of services which helps prepare for a full range of possible incidents in Merseyside and ensure Firefighter safety.

- Operational Planning and Policy

- Contingency Planning
- New Dimensions (National Resilience) to cope with major disasters and terrorist threats
- Operational Equipment Team
- Water Section
- Health and Safety Department
- Transport/Fleet Management – to keep vehicles operating effectively
- Workshops
- Standard Operating Procedure Review Team

Support Services & Other (Total £8.7m)

The investment in support services of £8.7m represents 13.8% of the budget. The pie chart below shows the breakdown of those support areas:-



It should be noted that many of the services are key “front line” elements of a modern FRA. For example:-

- Estates – includes the running costs of buildings including 25 Community Fire Stations;
- ICT – includes the cost of the Mobilising Communications Centre;
- Occupational Health – to support staff and manage sickness

In addition some costs are unavoidable for any organisation;

- Insurance- to cover 3 party, vehicle, public and employer liabilities;

- Legal, Payroll, Accounting; Human Resources; Procurement etc. to support the organisation in paying its staff, suppliers, carrying out activities within the law, supporting station mergers and other front line services and preparing statutory returns.

Also the cost of governance in relation to elected members is also contained within support and other costs.

C) CAPITAL PROGRAMME

51. Capital is considered first in this report so that Members can clearly consider the revenue impacts of capital investment and borrowing decisions as part of revenue budget and council tax considerations. ***The following sections (C) to (F) anticipate the Authority agreeing the proposed capital programme and its financing as set out.***
52. 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 for themselves 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 the Government believes it to be unaffordable, or in times of public spending restraint.
53. 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.
54. Authorities will be required to 'have regard to' the "Prudential Code" when setting their future budgets and Council Tax levels - which in practice means that they would need to have very good reasons not to comply.
55. The over-riding objective of the "Prudential Code" is to ensure that the capital investment plans of local authorities are affordable, prudent, sustainable, and follow good practice.
56. Some of the main features of the "Prudential Code" are as follows:
 - The full Authority must consider and set a number of indicators and limits for its capital plans as part of the annual budget setting process. The limits can be revised during the year but only by the full Authority. The mandatory indicators are shown in Section E.
 - The indicators and limits must be monitored during the year and outturn figures reported.
 - The Authority must produce and maintain capital and revenue plans for at least three future years including three year estimates of its future Council Tax taking account of the proposed capital programme and other plans.
 - The Authority must set an authorised limit for its total debt (including borrowing and long term liabilities) which may not be exceeded.
 - Limits relating to treasury management matters must be considered as part of the Annual Treasury Management Strategy Report.
57. 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 is an acceptable level of Council Tax.
58. Each financial year the Authority produces a capital programme to manage major capital schemes. Owing to the nature of capital expenditure a large number of

schemes span more than one financial year so the programme is a rolling programme covering five future financial years.

59. The starting point for this programme has been an assessment of the capital investment requirements for the Authority for future years based upon 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 Officers have modified the programme in the light of the updated asset management plans (the asset management plans can be found on today's Authority agenda), and also take account of:-

- service requirements, and in particular investments required to support and deliver the IRMP.
- the 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.

60. This has produced a five-year future capital programme proposal of £38.156m which is set out in the summary table below. This table also identifies funding of the programme and a resultant borrowing requirement of £21.561m. The full programme is set out in **Appendix B**.

PROPOSED CAPITAL PROGRAMME for 2016/2017 - 2020/21						
Capital Expenditure	Total Cost £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Building/Land	20,611,500	14,624,500	4,070,500	630,500	905,500	380,500
Fire Safety	3,575,000	975,000	650,000	650,000	650,000	650,000
ICT	3,436,000	778,000	900,000	596,000	511,000	651,000
Operational Equipment & Hydrants	1,910,000	533,000	440,000	324,000	435,000	178,000
Vehicles	8,623,400	3,689,400	1,228,000	858,000	1,227,000	1,621,000
Total Expenditure	38,155,900	20,599,900	7,288,500	3,058,500	3,728,500	3,480,500
Financing Available	Total £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Capital Receipts	2,550,000	1,850,000	700,000	0	0	0
RCCO/Capital Reserves	7,603,000	5,743,000	690,000	390,000	390,000	390,000
Grants	6,442,000	6,442,000	0	0	0	0
Total Non Borrowing	16,595,000	14,035,000	1,390,000	390,000	390,000	390,000
Unsupported Borrowing	21,560,900	6,564,900	5,898,500	2,668,500	3,338,500	3,090,500
Total Funding	38,155,900	20,599,900	7,288,500	3,058,500	3,728,500	3,480,500

61. New additions to the capital programme have increased the overall expenditure by £4.744m, the reasons for this are :-

- The addition of the "extra year" to the programme 2020/21, £3.481m.
- A re-assessment of spending on smoke alarm costs. The current fire safety capital programme is based on the installation of over 40,000 free smoke alarms a year. In recent years the spending on smoke alarms and installation has

reduced as a consequence of the Authority policy of offering free smoke alarms to only those households most at risk and those not previously visited. Smoke alarm spending and installation costs are expected to be £0.125m a year lower than previously planned from 2017/18. This results in a total reduction of £0.375m across the whole programme.

- (c) New Expenditure Proposals have been included which total across the whole life of the programme £1.263m. The key items are for investment in the electrical infrastructure at SHQ to upgrade the current 450kva Low voltage supply to a 1000kva High voltage supply (£0.2m) and specialist vehicle replacement (CPL aerial appliance £0.7m and prime movers £0.3m).

62. **Appendix B** provides a full analysis of the current 5 year capital programme and additional information can also be found in financial review report (CFO/007/16). Full details of the additional **new starts** can be found in **Appendix B** attached to this report. The main areas of capital programme expenditure are summarised below

A. Building Investment Strategy (£20.612m)

The estate comprises of 25 fire stations (*that will reduce to 22 following the completion of the current station merger programme*), a Training and Development Academy (TDA), Service Headquarters including Fire and Rescue Control, Marine Rescue Team, and the Engineering Centre. The capital programme reflects the funding required to replace, maintain and enhance the current estate stock, and when possible seeks to attract external funding (PFI) or specific contributions (capital receipts, capital reserves) to reduce the level of borrowing requirement. Estates maintain and revise a 5 year property asset management plan and the proposed capital programme is consistent with the priority areas that are contained within the plan. The construction of three new community fire stations, Prescot, Saughall Massie, and St Helens as part of the station merger programme accounts for £13.600m. The refurbishment and essential work at fire stations, £5.533m accounts for most of the balance.

B. Community Risk Management (£3.575m)

Smoke alarms and sprinkler systems are being classed as capital expenditure in line with 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. Current policy is to capitalise the installation costs of smoke alarms estimated at £1.950m over the period, however this expenditure is not funded through borrowing but financed in the year by a revenue contribution to capital.

C. ICT – Investing in line with the ICT Strategy (£3.436m)

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 in line with a planned replacement policy of 5 years for PCs, Servers and Network £2.0m, and software licenses £1.0m.

The other main investment is in the continued development of the portal £0.1m and replacement of MDT (mobile data terminal) in appliances £0.1m

D. Operational Equipment & Hydrants (£1.910m)

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 :-

- a. Hydraulic rescue equipment, £0.2m
- b. BA and communication equipment, £0.3m
- c. Thermal imaging cameras, £0.2m
- d. Gas Tight Suits & PPE, £0.1m
- e. Water rescue equipment, £0.2m
- f. Other specialist equipment, £0.7m
- g. Installation of new or replacement hydrants in line with our water strategy, £0.2m.

E. Vehicle Replacement Strategy (£8.623m)

The Fleet Manager has identified needs as follows:-

a. Fire Appliances;

The Authority has developed an appliance replacement strategy based on the economic life of an appliance. Each appliance has an estimated service life of 10 years on the front line followed by 2 years as a reserve appliance. The plan provides for 17 new appliances.

b. Specialist Vehicles;

There is a need to make provision for the purchase of specialist vehicles to support the IRMP and to support the wider range of roles for the fire and rescue service including:

- Combined Platform Ladder appliances (2 new vehicles)
- Incident Management Unit (IMU)
- Prime Movers (4)

c. Ancillary Vehicles;

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

Officers have commenced a review of the specialist vehicle and ancillary fleet and this will not be completed until after the budget. Any amendments to the proposed capital programme will be brought back to members for approval during 2016/17.

63. Capital receipts:- capital receipts are usually the proceeds from the sale of assets. Any such receipts can be applied either to reduce an Authority's outstanding debt or to be reinvested in the capital infrastructure.
64. The Authority has (when available) used capital receipts as a source of funding for new capital investment with little, if any, being used for debt repayment – unless regulations require a proportion of the receipts to be used specifically to repay debt.
65. The proposed capital programme anticipates capital receipts from a number of site disposals totalling £2.550m. It assumes that this income will be used to reinvest in the capital infrastructure and support the capital programme. Members should note that

the anticipated capital receipt values are based on the best estimates at a point in time.

66. Capital Grants: As part of the 2010 spending review the Government also made the decision that there will be no supported borrowing allocations for the Fire and Rescue Service in the spending review period. Government capital support will be given in the form of a capital grant only. The Government had previously announced that the Authority will receive specific capital grant of £1.770m for a new joint Police/Fire station at Prescot in line with its bid. In addition the Authority was successful in its bid for transformation grant funding for a programme of station mergers and blue light collaboration schemes and received £4.47m. The schemes associated with these grants are included in the proposed capital programme.
67. Operating Leasing:- Under the previous system of capital controls, investment that was funded by operating leases did not count as either capital expenditure or financing as a credit arrangement. Therefore, in common with most other local authorities, operating leasing has been a source of funding for some limited eligible assets (e.g. vehicles, plant and machinery, and computer equipment) although the Authority generally avoided this because of the impact on the revenue account. However, whilst operating leasing as a source of funding remains outside of the Prudential Capital System, no leasing is assumed in this programme. The Treasurer will monitor the suitability of alternative methods of finance.
68. Borrowing:- Under the Prudential capital system Local Authorities are now able to determine their level of borrowing. However, the Government has retained reserve powers to limit an Authority's borrowing if the Government believes an Authority's proposals to be "unaffordable" or in times of national public spending constraint.
69. In the past Government provided support for the Authority's capital spending through supported capital expenditure. The revenue costs associated with supported borrowing was funded through the revenue formula grant. All borrowing from 2008/09 is therefore effectively now unsupported or prudential borrowing.
70. The proposed capital programme represents an overall expenditure increase of £4.744mm reflecting the proposed new starts expenditure. Of this £3.481m relates to the addition of an extra year (2020/21).
71. The impact of these net additions to the expenditure programme on the Authority's borrowing requirement is a net increase of £4.579m:

	£m
Increase in expenditure	4.744
Change in Non Borrowing Funding Sources:	
RCCO (HFSC installation costs)	<u>0.165</u>
Required Increase in Borrowing	4.579

The level of prudential "unsupported" borrowing therefore will increase by £4.579m to £21.561m. *(Although elsewhere on today's agenda the financial review for April – December 2015 identifies a reduction in borrowing in the current capital programme of £2.252m as a consequence of a review of scheme needs).*

72. When the Authority borrows money it has to factor the debt repayment and interest costs into its financial plans. The minimum revenue provision (MRP) methodology calculates how much debt repayment is required each year. Following the new Capital Regulations announced in 2008 the Authority must approve an MRP Statement each year that sets out the policy on MRP. Section D of this report outlines for Members the proposed MRP policy for 2016/17 – 2019/20 and the methodology for calculating the MRP. The additional borrowing and proposed MRP policy require an increase to the 2015/16 base figure for MRP and Interest of:-

	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
	£'m	£'m	£'m	£'m
Cummulative increase in MRP / Interest	0.245	0.695	0.945	1.195

73. A significant factor in the large increase in the budget requirement is down to the Government's decision to factor in no new supported borrowing since 2008/09 and the capital regulations requiring all non-supported borrowing to be repaid over the relevant asset life. This has meant a four or five fold increase in MRP calculations for assets with a short asset life that previously had MRP calculated over a twenty-five year period.

74. Anticipated increase in MRP and Interest has been built into the financial plan for 2016/17 – 2019/20. To give Members an indication of the impact of the proposals, for each £1m reduction in borrowing it would reduce the associated revenue cost by potentially £0.050m - £0.100m (dependant upon on the relevant asset life), the council tax equivalent reduction would be 0.2% - 0.5% or £0.14 to £0.28.

More information on the impact on the Capital Programme is shown in the section on Prudential Indicators (Section E).

(D) MINIMUM REVENUE PROVISION STATEMENT

75. Under the Local Authorities and Accounting Regulations the Authority is required to set aside a sum of money each year to reduce the overall level of debt, this sum is known as the Minimum Revenue Provision (MRP). The 2003 regulations set a minimum annual amount to be charged to revenue based on the Authority's Capital Financing Requirement (CFR) which is an amount broadly equivalent to the Authority's outstanding debt. The regulations have been updated in 2008 and now require each Authority to repay debt at a rate it considers **prudent** and to set out in an annual statement the Authority's policy on making MRP in respect of the forthcoming year.
76. The new regulations guidance interprets MRP may be deemed to be prudent if it is either:
- Based over a period that is reasonably commensurate with that over which the capital expenditure / asset provides benefits (asset life), or
 - For the element of expenditure met from borrowing supported by Government Grant a period reasonably commensurate with the period in the determination of that grant (this in reality would equate to the current 4% MRP methodology).
77. The regulations guidelines set out four options for calculating MRP, however as the Government are issuing no new supported borrowing only 2 of the 4 options are applicable for new borrowing. (Asset Life Method or Depreciation methods):
1. **Regulatory Method** – This provides for Local Authorities to continue to calculate 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 prior to 1st April 2008.
 2. **Capital Financing Requirement Method** – This is very similar to the regulatory method but it does not take account of the adjustment that ensures Authorities do not pay more MRP than under the previous capital regulatory regimes. For most Authorities this method may not be appropriate 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;
 - equal instalments method. This generates a series of equal annual amounts over the life of each asset that is financed from borrowing; or
 - 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.
78. The guidance indicates that for finance leases and on balance sheet PFI contracts, the MRP requirement is met by making a charge equal to the element of the finance lease rental that goes to write down the balance sheet liability under proper accounting practices. This is in effect a modified version of the asset life - annuity method, the

impact on the revenue account is neutral with MRP for these items matching the principal repayment embedded within the PFI or lease agreement.

79. The 2016/17 MRP is determined by the actual level of outstanding debt (CFR) as at the end of 2015/16. It is recommended that the Authority adopt a similar strategy for MRP determination as that in 2015/16;
- For all capital expenditure incurred before 1st April 2008 and for all capital expenditure funded via **supported borrowing**; MRP to be calculated using the Regulatory Method.
 - For all capital expenditure incurred after 1st April 2008 financed by **unsupported (prudential) borrowing**; MRP to be calculated using the Asset Life Method – equal instalments method.
 - For credit arrangements such as **on balance sheet leasing arrangements (finance leases)**; the MRP charge is to be equal to the principal element of the annual rental.
 - For **on balance sheet PFI contracts**; the MRP charge will be equal to the principal element of the annual rental.
80. The above options meet the requirement for MRP to be deemed prudent but also allows certainty and predictability over MRP charges. The financial plan outlined in this report reflects the proposed Authority's policy on prudential MRP.
81. By adopting the recommendations above, the MRP charge for 2016/17 would be £3.9m, consisting of £1.8m for prudential borrowing schemes incurred after 1st April 2008 and £2.1m for all other capital schemes (these figures exclude PFI and Finance lease as the MRP charge is a notional figure and contained within the rental budget).
82. Interest on loans taken out to fund capital expenditure is estimated at £2.4m.
83. In addition it is proposed that if any approved MRP/Interest budget becomes available due to; capital schemes being re-phased; additional specific non-borrowing funding becoming available; or a reduction on the approved capital programme/ required borrowing, then the Service may choose to make additional MRP payments if the overall financial position of the Authority in that year remains consistent with the approved financial plan.
84. The Authority in the past has determined it can afford and sustain significant prudential borrowing in order 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

85. Having formulated a draft Capital Programme, the Authority, in making final decisions upon that Capital Programme and Revenue Budget 2016/17, 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.
86. It should be noted, however, that in order to provide those indicators, capital and revenue financial plans need to be prepared for each of the next three financial years, commencing with 2016/17.
87. The financial plans prepared in respect of the financial years 2017/18 and 2018/19 are not to be mistaken for approved Budgets. They are, at this stage, only a guide for financial planning and as such subject to significant change as a result of decisions made by the Authority. However, such plans are required to be supported by an indication of future Council Tax. At this stage an assumption of Council Tax increases of 2% in 2016/17 and future years.
88. The Authority must demonstrate that its spending plans comply with the Prudential Code by the publication of a number of performance indicators, which are known as the Prudential Indicators. ***Details of the prudential indicators for this Authority are provided below.***
89. The purpose of the indicators is to demonstrate that capital investment remains within sustainable limits and that the Authority has considered the impact of the whole plan on future levels of Council Tax. The indicators that will measure this are:-
- Estimates of the ratio of capital financing charges to the net revenue budget
 - Estimates of the precept that would result from the three-year capital plan.
 - Estimates of the capital financing requirement.
90. The prudential indicators for Merseyside are:-

a) Capital Expenditure

The actual capital expenditure that was incurred in 2014/15 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Actual 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Expenditure	7,850	7,129	20,600	7,288	3,059	3,728	3,481

Members will note that the increased expenditure in 2016/17 reflects a number of significant investments including;

- The planned new station in Prescot, £4.350m.
- The planned new station in St Helens, £4.250m, plus £1.000m in 2017/18.
- The planned new station in Saughall Massie. £3.000m plus £1.000m in 2017/18.

This explains why the total expenditure in 2016/17 appears to be relatively high. In addition it is important to remember capital costs are shown as the gross figure and are not shown net of any grants or contributions received to contribute towards the cost. More details on the capital programme are given elsewhere in the report (Section C).

(b) Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream (amounts met from government grants and local taxpayers) for the current and future years, and the actual figures for 2014/15 are:

	Actual 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21
Ratio of Financing costs to Net Revenue Stream	8.17%	9.54%	8.75%	9.86%	10.86%	11.39%	11.71%

This shows that forecast debt financing costs will increase from 8.17% in 2014/15 to 11.71% by 2020/21. As stated previously the impact of the Government’s decision to issue no new supported borrowing for CSR10 has meant all MRP calculations are now based on asset life. This has resulted in a significant rise in MRP over the medium term, but eventually the ratio will fall as historic debt is repaid and all other debt is paid off over the life of the asset. This is also affected by the fact that whilst the Authority’s debt is increasing its overall budget is reducing because of forecast Government funding cuts.

(c) 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 have been previously been taken by the Authority are:

	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21
Incremental Impact of Capital Investment Decisions	-£2.47	£1.57	£1.13	-£0.06	£0.20	£1.18

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 being made by the Authority, on the Council Tax levels. The re-phasing of expenditure from 2015/16 into 2016/17 approved during the year, £4.5m, and the new starts in 2016/17 – 2018/19 explains the movement in the figures over this period. The new start programme in 2020/21 has resulted in the increase in 2020/21.

91. The Capital Financing Requirement (CFR) measures the Authority’s underlying need to borrow for capital investment purposes.

92. Based on current commitments for 2015/16 and the latest estimates of capital investment decisions in future years, the capital financing requirement at 31st March is as follows:

	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	31.3.15	31.3.16	31.3.17	31.3.18	31.3.19	31.3.20	31.3.21
	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s	£000,s
Capital Financing Requirement (Excluding PFI)	50,276	50,321	53,605	55,741	54,210	53,320	52,217

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 cash flows both positive and negative, and manages its Treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and Practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. 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.

93. 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 net borrowing 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."

94. The Authority had no difficulty in meeting this requirement as the Authority's CFR (excluding PFI) is expected to reach £55.741m by the end of 2017/18 and the expected maximum debt position, (the "operational boundary" – see Treasury Management Strategy) for 2017/18 is £40.000m. 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.

(F) TREASURY MANAGEMENT STRATEGY STATEMENT 2016/17

INTRODUCTION

95. This report sets out the expected treasury operations for this period, linked to the Authority's Budget, Medium Term Financial Plan, and Capital Programme. 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 Department for Communities and Local Government (DCLG) 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, which sets out how the Authority will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

PROPOSED STRATEGY

96. 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 2016/17.
- The External Debt and Treasury Management Prudential Indicators and Limits for 2016/17 to 2018/19.
- The Investment Strategy 2016/17.
- The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

TREASURY MANAGEMENT STRATEGY

97. The suggested strategy for 2016/17 in respect of Treasury Management is based upon treasury officers' views on interest rates supplemented by leading market forecasts. The strategy covers:-
- (a) prospects for interest rates;
 - (b) capital borrowing and debt rescheduling;
 - (c) annual investment strategy;

- (d) external debt prudential indicators;
- (e) treasury management prudential indicators;
- (f) performance indicators;
- (g) treasury management advisers.

Each of the above is now considered in more detail below:

(a) PROSPECTS FOR INTEREST RATES:

Monetary indicators point to the pace of recovery being maintained but the risks are building. Recent volatility in financial markets has underlined the downside risks to global growth, primarily emanating from emerging markets. Confidence in the UK economy is also waning following recent business surveys implying that the near-term outlook for economic activity is weaker. UK inflation is expected to remain benign and is not expected to breach Bank of England target levels in 2016. Additionally, the uncertainty created by the forthcoming referendum on European Union (EU) membership will also act as a dampener for growth and interest rates. Therefore, it is unlikely that the Monetary Policy Committee will increase base rates until at least the latter part of 2016 with some economists arguing that it could defer until 2017.

Longer term fixed interest borrowing rates are based on central government borrowing costs i.e. UK gilt yields. Gilt yields have continued to fall despite the high volume of gilt issuance in the UK and of bond issuance in other major countries. This has been due to rapidly falling inflation and the continued demand for safe haven instruments correlated to geo-political risks. Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. PWLB rates have risen slightly but are still at historically low levels. It is difficult to predict how long current levels are sustainable, made even harder by the political risks around the coming referendum on UK membership of the European Union. However, the economic fundamentals of continued growth, falling unemployment and eventually rising inflation would indicate upward pressure on long term rates and longer-term Public Works Loans Board (PWLB) rates could rise by around 0.5% in 2016/17.

The overall structure of interest rates is expected to remain the same and short term rates will continue to be lower than long term rates and are likely to remain so throughout 2016/17. In this scenario, the strategy will be to reduce investments and borrow for short periods and possibly at variable rates when required.

(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 does not envisage that any new long term borrowing will be required in 2016/17. Given the likely structure of interest rates described above, it is envisaged that any borrowing to meet short term cash flow shortages will be for very short periods. Against this background, 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. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, 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 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.
- Enhanced Money Market (Cash) 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 2016/17 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

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 Lloyds Bank is likely to be re-privatised in the near future so 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 Treasurer or Treasury Manager.

Non-Specified Investments:- Non-specified investments do not, by definition, meet the requirements of a specified investment. The Department for Communities & Local Government (DCLG) 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 DCLG 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 are new requirements although 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 a 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 7 day LIBID rate.

Reporting Arrangements:- The Investments Strategy forms part of the Treasury Management Strategy which is referred to Policy and Resources or Audit Sub-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:

- (h) Authorised limit for external debt
- (i) 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 Treasurer, 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		2016/17	2017/18	2018/19
		£'000	£'000	£'000
Borrowing		54,000	56,000	54,000
Other Long Term Liabilities (PFI)		19,000	19,000	19,000
TOTAL		73,000	75,000	73,000

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 Treasurer, 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		2016/17	2017/18	2018/19
		£'000	£'000	£'000
Borrowing		42,000	40,000	39,000
Other Long Term Liabilities (PFI)		19,000	19,000	19,000
TOTAL		61,000	59,000	58,000

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 £41.1 million at 31st March 2016.

(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 364 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		2016/17	2017/18	2018/19
		%	%	%
Fixed		100	100	100
Variable		50	50	50

This means that the Treasurer will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50% for 2016/17.

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	90%	0%

Total Principal Sums Invested For Periods Longer Than 364 Days: It is recommended that the limit for investments of longer than 364 days be set at £2 million for each of the years 2016/17, 2017/18 and 2018/19.

(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 7 day LIBID rate.

The results of these indicators will be reported in the Treasury Management Monitoring and Annual Reports.

(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 2016/17 – 2019/20

98. The Authority has in recent years maintained robust medium term financial plans.
99. This plan is fully reviewed on an annual basis and monitored quarterly. 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 forecast,
 - Outline any movement since the previously approved financial plan,
100. Members will recall that in the past few years the Authority's budget forecasts have dealt with significant financial challenges because of government grant reductions.
101. Following the financial crisis of 2008, the Government set its spending review for 2010 to reflect major reductions in public expenditure. The spending review dealt with funding for 2011/12 to 2015/16. For the first two years of that period, the Authority suffered cuts at double the national average for fire and rescue services. Merseyside subsequently received cuts at approximately the same level as all other fire and rescue services in percentage terms (albeit the absolute impact is higher because Merseyside is more reliant on grant than most other fire and rescue authorities).
102. The Authority approved plans to cope with the spending review cuts over the 2011/12 – 2015/16 period and approved £25.6m of total saving options. As planned by the end of 2015/16 £21.9m of savings will have been delivered with the balance being delivered by 2017 to fit in with firefighter natural retirement rates.
103. As a consequence of the approved savings the number of Firefighters in the Service will reduce from 962 at the start of 2011/12 to 664 by the early 2017, a reduction of 31%. Over the 2011/12 – 2015/16 period control staff will have reduced by 21% from 42 to 33, and non-uniform post by 35% from 425 to 277.
104. The structural changes required to sustain the approved saving have all been actioned bar the station merger programme which, as planned, would take a number of years to implement. The new Prescott fire station has received planning permission and construction is expected to commence in the coming weeks. Plans for the other two new stations are being finalised and it is hoped construction will commence in 2016.
105. **The Authority's current financial plan has remained on track and the approved saving options will meet the known financial challenge up to and including 2015/16.**
106. When the Authority set the 2015/16 budget it recognised that any future Government was likely to apply further cuts to the Fire and Rescue Service beyond 2015/16. However as it was extremely difficult to assess, at that time, the scale of the future financial challenges. The Authority agreed to continue to lobby the Government against such a position and highlight the consequences that further cuts would have on effectively delivering an emergency service. The Authority recognised any further cuts to funding would mean additional station closures, reductions in front line

Firefighter's posts, fire appliances and cuts to its support services. Therefore the approved financial plan beyond 2015/16 was noted and the Authority agreed to prepare plans for meeting the future year's financial challenge during 2015/16.

107. The **approved financial plan**, which was updated during 2015/16, identified a potential **£14.109m financial challenge by 2019/20** based on various assumptions. The key technical and policy assumptions in the current plan are:-

Inflation & Pay Changes:-

108. The forecast plan currently includes a contingency for pay awards and price increases in each year. This has been prepared using the following assumptions –

- With effect **from 2016/17 an annual increase in the pay bill of 2%**
- All Other **Price Inflation 2% p.a.**

109. The Government's concern over the cost of public pensions has not gone away despite introducing new schemes in 2014/15 and 2015/16 for the local government and firefighter pension schemes. At this time the assumption is that the pension changes will have no impact on the employer's pension costs, however;

- In 2016/17 the Merseyside Local Government Pension scheme, LGPS, (*a funded scheme*) will undertake its three year actuarial review. Current indications are that the scheme is operating at a potential shortfall in required funding and therefore it may need to consider what options it has to increase contributions.
- The Government is carrying out an actuarial valuation of the firefighters pension schemes. As with the LGPS scheme the regulations allow the employer contribution rate to be increased up to a maximum of 2%.
- **The proposed financial plan assumes no change to the current rate employer rate for either of the above schemes.**

Cost of Capital Borrowing:-

110. The revenue impacts of capital investment decisions and proposed 2016/17 – 2020/21 capital programme are included within forecasts. The plan also takes into account the proposed MRP policy discussed previously in section D.

Increase in Expenditure 2016/17 – 2019/20:-

111. The overall increase in net expenditure on the 2015/16 figure is **£6.093m**.

Resources Available:-

112. The Authority has two main sources **Government Funding** and **Council Tax**. In 2013/14 the Government reformed Fire and Local Government funding system & introduced the Business Rates Retention scheme. The new system provides support in the form of a Revenue Support Grant (RSG) and Business Rates Baseline Funding (made up from local business rates and a top-up grant). The Government has delivered the reductions in support for local authorities and fire and rescue authorities by reducing RSG.

113. In 2015/16 the Authority funding split was; Council Tax Precept 40.5% / £25.2m; RSG 30.1% / £18.7m; and Baseline Funding 29.4% / £18.3m.

114. The **current financial plan assumed** for 2019/20 future reductions in Government support and Council Tax changes of:-

- Government Funding;
 - (b) **RSG would reduce in cash terms by £10.789m (58%)**
 - (c) **Baseline Funding (Business Rates) would increase by £1.438m (8%)**
- Council Tax;
 - a. **No change in the Tax Base**
 - b. Collection Fund would be neutral, (£0.683m surplus in 15/16)
 - c. **The council tax precept would increase each year by 2%, £2.018m**

A total reduction in funding compared to 2015/16 of **£8.016m**

115. The current approved financial plan anticipated a financial challenge by 2019/20 of **£14.109m**:

Current 2015/16 - 2019/20 MTFP					
	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
2015/16 Base Budget:					
Base	63,818	63,818	63,818	63,818	63,818
End of contracting-out of the additional State Pension and Higher Employers NI		1,000	1,000	1,000	1,000
FYE of Approved Budget Savings beyond 2016/17					
Various		-461	-341	-341	-341
Firefighter reductions (£0.350 in 15/16, £3.0m 16/17, £3.4m from 17/18)	-350	-3,000	-3,400	-3,400	-3,400
Smoothing Reserve drawdown adjustment	-1,299	-280			
Approved Minimum Revenue Provision (MRP) & Interest Payable on loans		310	760	1,010	1,260
Future Years Inflation		1,425	2,925	4,425	5,925
Current Approved Plan Forecast	62,169	62,812	64,762	66,512	68,262
Estimated Government Settlement Funding Assessment Summer 2015.	-37,004	-30,669	-27,100	-25,829	-27,653
Council Tax (assuming +2% increase in precept p.a.)	-24,482	-24,972	-25,471	-25,980	-26,500
One-off income (Collection Fund)	-683				
Updated Income Forecast	-62,169	-55,641	-52,571	-51,809	-54,153
Forecast Net Position (surplus) / deficit	0	7,171	12,191	14,703	14,109

116. **The financial forecast is based upon historic assumptions. The Treasurer has reviewed the underlying assumptions in order to identify savings, and this is considered in Section (H).**

117. The Government funding settlement for 2016/17 and indicative proposals up to 2019/20 has now been confirmed. The next section looks at what impact this and any other known changes has made to the £14.1m financial challenge forecast.

Known Changes to the currently Approved Plan 2016/17 – 2019/20 Plan:-

GRANT

118. The Government funding settlement for 2016/17 and indicative figures up to 2019/20 have now been confirmed and the reduction in RSG is marginally lower than expected. The current plan assumed a reduction of £10.8m in RSG or 57.6% from 2015/16 to 2019/20. The actual reduction in RSG is £7.7m or 41.3% in cash terms. The Baseline Funding (business rates) is slightly higher, £0.2m, than expected. Overall the reduction in government funding is down by £6.0m from 2015/16 to 2019/20, and this reduction is £3.3m better than anticipated in the current plan. The table below summarises the actual settlement figure and the change compared to the current plan:-

UPDATED Financial Plan based on Provisional Settlement Figures							
Funding	2015/16	2016/17	2017/18	2018/19	2019/20	2015/16 - 2019/20	
	£'000	£'000	£'000	£'000	£'000	%	£'000
Revenue Support Grant	18,729	16,523	13,664	12,050	11,000	-41.3%	-7,729
Baseline Funding	18,275	18,428	18,791	19,345	19,963	9.2%	1,688
Government Funding	37,004	34,951	32,455	31,395	30,963	-16.3%	-6,041

Change Compared to Current Plan					
Funding	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	0	4,478	5,544	5,564	3,060
Baseline Funding	0	-196	-189	2	250
Government Funding	0	4,282	5,355	5,566	3,310

COUNCIL TAX

119. Each district council has now finalised the 2016/17 Council Tax base estimates and collection fund statement. The overall Council Tax Base has increased by 3.87%:-

District	2015/16	2016/17	Variance	
	Council Tax Taxbase	Council Tax Taxbase	£	%
	£	£	£	%
LIVERPOOL	94,459.50	102,235.66	7,776.16	8.23%
WIRRAL	89,344.90	90,481.90	1,137.00	1.27%
ST.HELENS	47,808.00	48,904.00	1,096.00	2.29%
SEFTON	78,319.00	80,806.50	2,487.50	3.18%
KNOWSLEY	32,617.00	33,364.00	747.00	2.29%
	342,548.40	355,792.06	13,243.66	3.87%
2015/16 Band D Tax Level	71.47	71.47		
Total Income £	24,481,934	25,428,459	946,525	3.87%

This means that each £1 of Council Tax the level of income will be greater than that generated in 2015/16 by £13,243.66. The result of this is that the income from the current level of Council Tax is anticipated to higher by £946,525 (this is assumed to be a permanent increase).

This means that the additional income forecast from a just below **2% increase in Council Tax** in 2016/17 is now £0.505m. This plan assumes that increase. (This is the maximum level of increase before holding a referendum).

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 Districts of Merseyside have reviewed their collection funds and identified the proportion of any surplus or deficit attributable to the Authority. The results are set out in the tables below and show a net surplus of £647,298. This impact is a one-off.

District	2015/2016 Council Tax deficit/(surplus)	District	2015/2016 Bus Rates deficit/(surplus)	District	2015/2016 Total deficit/(surplus)
	£		£		£
LIVERPOOL	-486,588	LIVERPOOL	184,257	LIVERPOOL	-302,331
WIRRAL	-168,328	WIRRAL	52,676	WIRRAL	-115,652
ST.HELENS	-44,316	ST.HELENS	0	ST.HELENS	-44,316
SEFTON	-240,210	SEFTON	-28,645	SEFTON	-268,855
KNOWSLEY	-23,000	KNOWSLEY	106,856	KNOWSLEY	83,856
	-962,442		315,144		-647,298

BUSINESS RATES

120. The Government has also confirmed the value of the Section 31 grants it will pay to offset the loss of business's rate income as a consequence of various national policies on rate relief for these companies. The current plan assumed a grant of £0.267m, the actual grant expected in 2016/17 is £0.406m, which represents a £0.139m increase.
121. Within the Government settlement funding assessment is an assumption around business rate income and in particular the level of local business rates. The Government funding assumes the Authority will receive 1% of local business rates yield estimated at £4.263m in 2016/17. Each billing authority has prepared an estimate of what they believe they will collect and this estimate is £0.025m lower than that assumed in the settlement grant. Therefore the overall local share of business rates is £0.025m lower than that in the final settlement funding estimate.

APPRENTICESHIP LEVY

122. The Chancellor's 2015 Autumn Statement announced a new initiative – the apprenticeship levy which will be introduced in April 2017 at a rate of 0.5 per cent of an employer's pay bill (on employer's pay bills over £3 million). This needs to be built into the updated financial plan at a cost of £200k p.a. from 2017/18.

OVERALL IMPACT

123. The overall impact of all these known changes is that the financial challenge by 2019/20 has reduced from **£14.109m to £11.000m** before any adjustment is made for any council tax base adjustment. The 2016/17 known increase in the Council Tax

(H) Options for Tackling the Future Financial Challenge (2016/17 – 2019/20)

125. The Government has offered the Authority a four-year funding settlement, 2016/17 to 2019-20. Barring any exceptional circumstances the Government expects the settlement figures to be presented to Parliament each year up to 2019/20 for approval.
126. The offer is conditional on the Authority publishing an “efficiency plan”. It is hoped that this report (and budget resolution) would be deemed as meeting this requirement if members approve a financial strategy that would deliver a balanced financial position by 2019/20.
127. Officers recommend taking the Government up on this offer as it will provide the funding certainty and stability to enable effective planning for the future service provision. The previous section identified, based on current budget assumptions, a **£11.000m financial challenge by 2019/20**. After taking into account the impact of the 2016/17 Council Tax Base increase the **outstanding saving target to be identified is £9.977m**. The following paragraphs identify saving options to deliver a balanced 2016/17 budget and options for a balanced financial strategy up to 2019/20.
128. Before looking at any areas of potential savings it is important to remember that the Authority has agreed a number of Value for Money Principles that have underpinned its approach to budgets and financial plans in recent years. They are:-

Value for Money Principles (Budget Principles):

Principle 1 – Allocate resources in a way that contributes towards the achievement of MFRA’s Mission, Aims and Values

Principle 2 – To continue to seek to avoid compulsory redundancy (if possible given the difficult financial circumstances)

Principle 3 – To choose budget options which minimises negative impact on the front line services or on firefighter safety

Principle 4 – To consider budget approaches which ensure the right balance between local and national funding levels and considers the views of local people on the right level of council tax balanced against aspirations for service levels

Principle 5 – To allocate resources having considered the impact on our diverse communities and our employees.

129. As the Authority faces a further four or more years of significant financial savings there is very limited room for manoeuvre and these principles may prove difficult to maintain.
130. Officers have considered the options available in light of the Value for Money Principles and they have also taken account of the views of the Authority at the Budget Strategy Day at which Members supported:-

- a. Reviewing the current pay bill assumptions,

- b. Review council tax income forecasts,
- c. Consider technical and non-employee saving options,
- d. Consider savings targets as far as possible on Support and Management Costs,
- e. Choosing efficiencies in front line staffing arrangements that minimise the impact on front line services to the public.

131. **Pay Strategy** – Currently the financial plan assumes annual pay rises of **2% per annum from 2016/17, or £1m p.a.**

The employers have made no offer to firefighter staff for 2016/17 to date but have offered non-firefighter staff a 1% pay rise in 2016/17. Members may take a view that it is likely that there will be further pay restraint for staff over the next four years (up to and including 2019/20) in light of Government comments over public sector pay. *“So to ensure we have public services we can afford, and protect more jobs, we will continue recent public sector pay awards with a rise of 1% per year for the next four years.”* George Osborne stated in his post-election Budget statement. **If the current annual pay award assumption was revised down to 1% per annum the full year saving would be £0.5m for each year.** There are significant risks associated with this approach (even at a 2% level) and the Treasurer recommends that Members continue to maintain the current inflation reserve at £0.5m, to cover any pay increases above 1% at least in the short term, pending the identification of additional permanent savings.

Members are asked to support the amendment to the current annual pay increase assumption from 2% to 1% per annum.

132. **Pay Strategy** – Currently the financial plan assumes no increase in the employer’s pension contribution rates.

Pressure on public pensions has not gone away. Actuarial revaluations for the Local Government (LGPS) and Firefighters’ (FPS) pension schemes are planned to take place in 2016/17. The LGPS, which is a funded scheme, has recently been estimated at only having a funding level of 80%. While for the FPS the recent outcome of a legal case (Milne v GAD) and on-going case over age discrimination over age protection is adding to pressure on scheme.

The rates for 2016/17 are fixed, but within both scheme regulations is the provision that Employer rates can increase by a maximum of 2%, a potential increase to the Authority of £0.9m, from 2017/18.

Members are asked to keep to the approved financial plan and assume no change in employer’s pension contribution rates.

The Treasurer will monitor the outcome of any actuarial reviews in 2016/17 and report back to the Authority.

133. **Pay Strategy** – Currently the financial plan assumes no saving from the new 2015 Fire Pension Scheme (FPS).

At the time the 2015/16 budget was approved the final details over the new 2015 FPS had not been confirmed. The budget assumed that the full firefighter establishment as

members of the 1992 FPS. Currently firefighters, depending on their age and when they started their career can be on one of three FPS schemes, the 1992, 2006 or 2015 scheme.

Each scheme has a different employer on-cost rate. FPS 1992 has the highest rate at 21.7%, followed by FPS 2015 at 14.3% and FPS 2006 at 11.9%. At the start of 2015/16 70% of MFRS firefighters were in the 1992 scheme. By 2019/20 the majority of firefighters will be on FPS 2015 (subject to actual retirement rates). Therefore the Authority will make a saving on its current employer FPS contributions budget of approximately £0.375m by 2019/20. The saving may be higher depending on when firefighters retire and what FPS scheme they are in.

Members are asked to support the amendment to the current financial plan and build in a £0.375m saving on the FPS employer contributions.

134. **Pay Strategy** – Currently the financial plan assumes that the cost of the ending of contracting-out of the additional State Pension and associated higher employers national insurance payments requires a permanent £1m increase in the budget from 2016/17.

Further on in this section the report will identify that reduction in the total employee establishment will be required. The expecting reduction will be in the order of 12.5%, by 2019/20, therefore it is reasonable to assume a saving of 12.5% or £0.125m on the £1.0m set-a-side for higher national insurance costs.

Members are asked to support the assumption that a saving of £0.125m can be made on the £1.0m provision earmarked for higher national insurance payments.

135. **Council Tax – Precept Increase:**

The Financial Plan assumes a just below 2% council tax increase for 2016/17 and future years which is in line with inflation forecasts. This is expected to be the maximum level of increase before holding a referendum.

The Authority might consider a **higher (above 2%) Council Tax increase**. This would require the Authority to hold a referendum (local vote on its proposals). The advantages of this approach would be:-

- Permanently increased income
- Reduced reliance on grant funding in the mid term
- Potentially avoids cuts in service although the increase would need to be significant as each additional 1% would generate approximately £0.250m in additional council tax income. As an example: a 30% increase (additional 28% above that in the plan) would generate £7m towards any future financial challenge.
- The current band D council tax is £71.47, a 30 % increase would increase by £21.44pa to £92.91.
- Future council tax increases would be cumulative on this base

There are a number of practical issues relating to a potential referendum that would make it a risky proposition;

- The Authority has to meet the costs of the referenda – it would need to hold one in each district and get a positive vote in each (Estimate £1m-2m),
- The Authority would have to meet the cost of rebilling if it were not successful (potentially as high as £2m) and would still have to find the required savings to balance the budget,
- There are administrative limitations on the process and campaigning around any referendum which would limit the ability to present a comprehensive argument
- There would be a substantial impact on the taxpayer

Members are asked to keep to the approved financial plan and increase the Council Tax in 2016/17 by 2%, (1.99%).

136. Council Tax – Tax Base:

The current plan **assumes no increase in the tax base in 2016/17 or thereafter.** Over recent years the Authority has seen small increases, 1.0% to 2.4%, in its tax base. In 2016/17 the increase was 3.9%, however this was due in the main to a +8% increase in Liverpool's tax base following one-off technical adjustments and a reduction in the number of Council Tax Support claimants.

The Treasurer believes it is prudent to assume a small increase in the tax base in 2017/18, of 0.5%.

Members are asked to amend the current assumption and assume a 0.5% increase in the tax base from 2017/18. This amendment increases the forecast level of council tax income by £0.125m from 2017/18.

137. Council Tax – Collection Fund

Council Tax billing authorities (Merseyside district councils) maintain a collection fund into which they pay all the council taxes and business rates they collect in their area and from which they pay precepts to the precepting authorities. If they collect more or less than they expected at the start of the year, the surplus or deficit is shared with the precepting authorities in proportion to their council taxes and business rate share. The current plan assumes a neutral position on the collection fund. As one would expect small variance have materialised year-on-year. Business rating appeals over premises valuations and the closure of businesses has seen repeated deficits on the rates element of the fund, however the impact of higher than expected council tax monies has more than offset this.

In recent years the overall collection fund closing balance has varied from a deficit of £0.048m to a surplus of £0.778m. In 2015/16 it had a net surplus of £0.647m. These variances are one-off adjustments.

Members are asked to keep to the approved financial plan and assume the collection fund position remains neutral in future years.

138. **Non-Employee and Technical saving options** – Non-Employee budget savings. Most of the £14.3m non-employee budget has a direct link to operational response;

- (a) **Premises** – £2.7m budget (fire stations; rates, energy, maintenance)
- (b) **Transport** – £1.5m (fire appliances; fuel, insurance, maintenance)
- (c) **Supplies & Services** – £4.4m (protective equipment, communications, uniforms & operational supplies)
- (d) **Agency** – £5.7m (private finance initiative fire stations - unitary charge, ICT contract {control}, and facilities management)

The Strategic Management Group (SMG) have reviewed the historic non-employee spending patterns and budgets and would consider a permanent reduction of £0.350m in the budget as deliverable without adversely impacting on firefighter safety or operational response.

Members are asked to approve the £0.350m saving on non-employee costs identified by SMG.

139. **Non-Employee and Technical saving options**– Minimum Revenue Provision (MRP). The Authority is required to set aside a sum of money each year to reduce the overall level of debt associated with capital expenditure funded through borrowing. Regulations set a minimum annual amount to be charged to the revenue budget (see section D of this report), and this is known as the minimum revenue provision, MRP.

Historically by the very nature of the complexity and size of the large capital schemes they often are re-phased (due issues over planning, design, or partnership agreements) to a later start date than that assumed in the budget.

As the Service looks to re-engineer itself to meet the financial challenge ahead Principal Officers will scrutinise the existing and future capital programme to, if possible, reduce borrowing demands.

The Treasurer will continue to look for opportunities to spread MRP payments based on options available within the Prudential Code and statutory regulations.

The Treasurer feels it is prudent to assume that these actions can reduce the level of future MRP payments below those in the current financial plan by £0.825m by 2019/20.

Members are asked to amend the current financial plan and reduce the MRP budget by £0.825m by 2019/20.

140. **Non-Employee and Technical saving options** – Non-employee inflation provision. The budget has a provision for general price inflation of 2% for non-employee costs. A significant proportion of the £14.3m non-employee spend relates to long term contracts (Private Finance Initiative payments, £2.7m) that have contractual obligations over annual inflationary uplifts. Other inflationary pressures on costs such as building rates (£1.6m), energy (£0.9m), or vehicle running costs (£1.5m) are beyond the control of officers.

In the future the Treasurer will expect any non-employee “controllable” expenditure inflation pressures to be met from department budgets in the first instance. If this is not possible then the inflation provision will be used.

This strategy is expected to save £0.728m by 2019/20.

Members are asked to amend the current financial plan and reduce the non-employee inflationary provision by £0.728m by 2019/20.

141. After taking into account the identified savings above it leaves £5.499m to be found from the employee budget:

Updated 2016/17 - 2019/20 MTFP				
	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Updated Approved Plan Forecast - Forecast Financial Challenge	1,166	6,054	8,335	9,977
Saving identified so far:				
Pay Strategy:				
Change Pay Assumption from 2% to 1% over 2016/17 - 2019/20 period				
2016/17	-450	-500	-500	-500
2017/18	0	-450	-500	-500
2018/19	0	0	-450	-500
2019/20	0	0	0	-450
Review long term FPS Employer Budget	0	-180	-255	-375
Review NI increase following SERPS changes	0	-125	-125	-125
Council Tax – Tax Base:				
Assume increase of 0.5% in 2016/17 base from 2017/18	0	-125	-125	-125
Non-Employee and Technical saving options:				
Review Non-Employee Budgets	-350	-350	-350	-350
Review MRP payments	0	-500	-675	-825
Review Inflation for non-employee / cash limit budgets	-197	-500	-650	-728
Total Savings	-997	-2,730	-3,630	-4,478
Savings still required	169	3,324	4,705	5,499

142. The employee budget makes up approximately 70% of the budget. Employee savings cannot be achieved without staffing reductions, the tables below show how staff numbers have been reduced since 2011/12;

Non-Uniform Budgeted FTE		Fire Control Budgeted FTE		Uniform Budgeted FTE	
425	31.03.11	42	31.03.11	962	31.03.11
277	Current	33	Current	664	Current
-148	-34.8%	-9	-21.4%	-298	-31.0%

143. The agreed strategy is to protect operational response as much as possible, therefore in the first instance savings from management and support services have been identified. However, the required level of saving cannot be delivered from management and support staff costs alone and therefore is likely to mean further reductions in appliances, a review of fire station numbers and duty system arrangements.

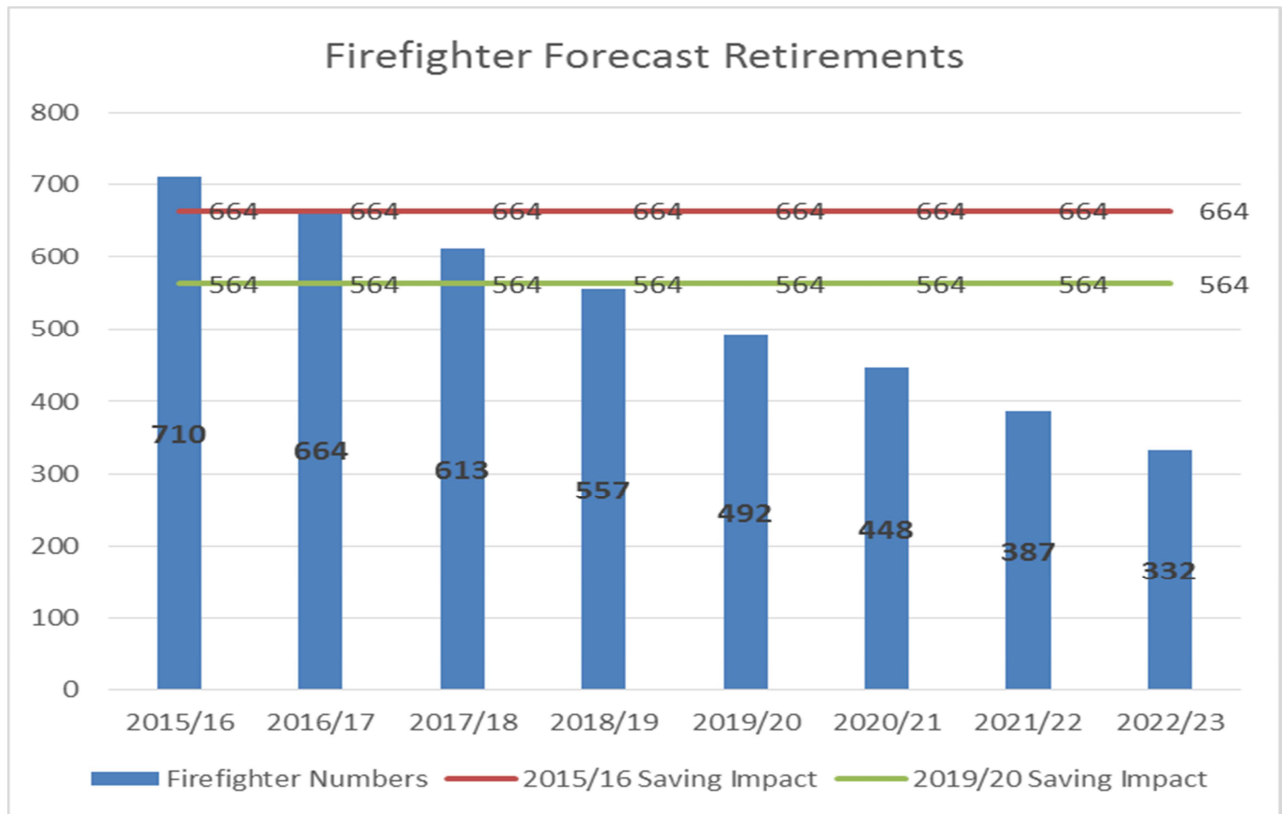
Management and Support Services Staff Savings:

144. Members have already approved a revised senior management structure when the approved report CFO/056/15 at the Authority meeting on 11th June 2015. The revised **senior management structure delivers a permanent full year saving of £0.499m** from 2016/17.
145. At the Budget Strategy day the Deputy Chief Fire Officer (DCFO) presented to members the changing landscape facing the Authority; the drive for closer working between the Emergency Services and blue light collaboration; the transfer of Fire to the Home Office; City Region Mayor – Devolution deal; and the financial challenge facing the Authority. Within this context Members supported the **CFO's proposal to set a saving target of £1.0m from a corporate and support services review that is currently being undertaken**. The impact on the establishment numbers will depend on the relevant salary levels of the posts being deleted, but it is expected that a net reduction of 30 to 40 posts (-11% to 15%) will be required. The review is not expected to be completed until at least towards the end of 2016. Any recommendations will need to take account of any investment in systems or processes required to deliver the organisational changes. The reduction in support staff is not expected to deliver any net cash saving until 2017/18.

Members are asked to approve the proposal to set a £1.0m saving target from the Support Services establishment which together with the approved senior management savings would deliver £1.499m.

Operational Response Staff Savings:

146. Assuming all of the above saving proposals are taken this leaves an outstanding financial challenge of £4.000m to come from the front-line, which is equivalent to about 100 firefighter posts. This would see the current budgeted establishment of 664 firefighters being reduced to 564.
147. Based on the current firefighter retirement profile the number of firefighters will not fall to 564 until the end of 2018/19. The table overleaf outlines firefighter retirements over the next few years.



148. In response to previous cuts the service planned to reduce the number of fire appliances from 42 to 24 crewed on a full time basis and 4 on a wholetime retained basis, and a reduction from 26 fire stations to 22 with most only having one appliance.
149. The operational priority of the Chief Fire Officer (CFO) is to maintain the availability of wholetime appliances in order to sustain as far as possible the existing speed and weight of attack to incidents.
150. The CFO presentation to Members at the Budget Strategy day recognised that with the further inevitable reduction in Firefighter numbers as a result of the 2016/17 – 2019/20 budget cuts it will not be possible to maintain the existing numbers of wholetime appliances. Given the existing ratio of appliances to stations this will necessitate either station closures, days only crewing, or changing duty systems to, for example, retained.
151. The Authority operational response model is predicated on a pan Merseyside 10 minute response standard. In order to achieve the 10 minute response standard Officers have designated 10 strategic locations (key stations) which, if always covered, will ensure that the 10 minute response is maintained. In addition Croxteth station provides the local, regional and national resilience for search and rescue response provision. Therefore in any review the minimum provision is for the 11 stations outlined below:-
1. Southport (33)
 2. Formby (32)
 3. Bootle/Netherton (30)
 4. Kirkby (42)

5. St Helens (50) (new build 2017 pending planning consent)
 6. Prescott (40) (new build 2017)
 7. Speke/Garston (14)
 8. Old Swan (16)
 9. Bromborough (21)
 10. Saughall Massie (23) (new build 2017 pending planning consent)
- Plus Croxteth (19)

152. The aspiration is however to attend incidents well within the 10 minute standard. This is best achieved by maintaining as many wholetime appliances as possible from as many stations as possible. When faced with an inevitable reduction in appliances it is essential that the appliances that remain are sited at the most optimal deployment locations.
153. If the operational response establishment is required to deliver £4.0m of savings and this equates to up to 100 firefighter posts which may result in the loss of 4 wholetime appliances. No realistic merger options remain beyond those approved already, therefore the CFO has identified a range of possible options for consideration:-
- (a) No station closures – 10 one pump wholetime stations, 4 LLAR stations, and 8 stations crewed days only, or
 - (b) Eight station closures – 10 two pump wholetime stations, 4 LLAR stations, or
 - (c) Assume 4 riders instead of 5 on all pumps
 - (d) A hybrid option somewhere between the above extremes directed by the best response times achievable
154. The CFO would not be proposing any reduction in operational response resources if it wasn't for the financial position the Authority finds itself in.
155. All options will be fully evaluated over the coming months and officers will consult with the public on the response options as part of the IRMP 2017/20 pre-planning during March and April 2016. The preferred options will then be included in the draft IRMP that will be considered by the Authority in October 2016. The final version of the IRMP will be approved by the Authority in February 2017.
156. The CFO will implement any interim measures as necessary under delegated authority.

Members are asked to approve the proposal to set a £4.0m saving target from the Operational Response establishment to be delivered by natural retirement rates. Members request that the CFO report back on the recommended future operational response structure.

157. The VFM principle 2; “*To continue to seek to avoid compulsory redundancy (if possible given the difficult financial circumstances)*” would require using the £1.150m of the £2m smoothing reserve to compensate for the timing profile of the delivery of the support service review and firefighter retirements. The smoothing reserve was set-up to reflect the fact that it takes time to re-engineer the service and in the Section (I) identifies that sufficient reserve exists to allow for the phasing of the £5.499m staff

saving options. The table below outlines the profile of the utilisation of the smoothing reserve:

	Balance 31.03.16	2016/17	2017/18	2018/19	2019/20	Future Yrs	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Smoothing Reserve contribution to (£x) / drawdown from £x	1,323	977	-1,075	-406	0	-819	0

158. The financial plan assumptions are subject to a number of risks beyond the control of the Authority. Small percentage changes to the assumed annual pay rises or employer pension contribution rates can significantly adversely impact on the Authority's financial position, requiring the identification of additional saving options if this happens. If the Authority finds itself in a more favourable position then officers would look to reinvest funds back into front line operational response services. The Treasurer will constantly monitor the financial plan and report back to the Authority via the quarterly financial monitoring reports.
159. The financial plan attached to this report as Appendix C, if approved, sets a balanced budget for 2016/17 and outlines a financial strategy for delivering a balanced financial plan up to and including 2019/20. The CFO will bring back reports to the Authority for approval on how the Support and Operational staff savings can be delivered during 2016/17.

(I) ADEQUACY OF RESERVES AND BALANCES

160. Responsibilities of Chief Finance Officers - Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an Authority is now required to comment on the following matters:

- the robustness of the estimates made for the purposes of determining its Budget Requirement for the forthcoming year;
- the adequacy of the proposed financial reserves.

161. There is then a requirement for the Authority to have regard to the report of the Chief Finance Officer when making decisions on its Budget Requirement and level of financial reserves.

162. In the Authority the Chief Finance Officer is the Treasurer. For the purposes of the Act the “financial reserves” of the Authority would incorporate Earmarked Reserves and Working Balances.

163. To make a final judgement on these issues it will be necessary to consider the proposed budget decisions of the Authority in the light of this budget report.

Robustness of Estimate

164. To fully satisfy the Chief Finance Officer any proposed Budget or amendment should therefore:-

- Be fully based upon the advice of Service Officers (supported by Finance Officers) – or based upon or supported by information the Chief Finance Officer considers reasonable to accept.
- Provide only for Budget proposals that are fully costed to service level and where the implications – both financial and upon service performance – are estimated and identified.
- Provide for all known future developments either through direct service Budget allocations or the establishment of specific reserves for such purposes.
- Provide for an adequate level of Balances and Reserves consistent with the requirements of any Regulation that may be earmarked and/or the Authority’s own risk assessment.
- Provide for the full revenue implications of the Capital Programme.
- Establish clear targets for income collection in respect of key income streams.
- Ensure there are no unidentified savings targets.
- Where appropriate ensure that the consequences of current over and under spending have been taken into account.

Adequacy of proposed Financial Reserves

165. Under the 2003 Local Government Act the Secretary of State may enact Regulations that define certain types of “controlled reserves” and the minimum level for those Reserves. At the time of preparing this report the Secretary of State has not enacted any such Regulations.

166. However, the 2003 Act still places a requirement upon the Chief Finance Officer to report if the level of reserves is likely to be inadequate. That report should contain comment upon:
- the reasons for that situation
 - the actions, if any, considered appropriate to prevent the situation arising.
167. There is then a requirement for the Authority to respond to the report when making decisions on its future financial reserves.
168. In recent years the Authority has maintained a general revenue reserve of, in excess, of £2m and also maintained a number of earmarked reserves.
169. A pilot Comprehensive Performance Assessment (CPA) performance indicator relating to the level of general fund reserves indicated that;
- an appropriate level was 5% of the forecast Net Operating Expenditure, or
 - that the organisation had a financial risk management process operating which justified a lower level of reserves”.

This is the ‘normal’ rule for multi-service local authorities.

170. For this Authority a 5% forecast Net Operating Expenditure equates to approximately £3million. The Authority’s general revenue reserve is currently £2.000m, however:-
- The Authority’s risk management arrangements have improved. As part of this budget process the Treasurer has prepared a financial risk management matrix and also assessed the year on year variation in risk facing the Authority. This takes account of the corporate risk register.
 - The Authority has previously maintained a number of specific earmarked reserves against risk.
 - The Authority is single purpose and does not face as full a range of risks to manage as a multi-purpose authority.
 - The Authority is unlikely to face significant increases in cost because of uncontrollable demand issues (unlike for example Social Services care for the elderly).
 - Members will note that the Authority’s revenue reserves have not generally been consumed during the year by overspending but have been maintained throughout the year.

Therefore, as the significant risks are known and are being managed or have a specific reserve, the Treasurer recommends maintaining the general reserve at its current £2.000m level.

171. Current Reserves:- Based on the latest financial review and known planned future use the Authority's forecast reserves are outlined in the table below:

Forecast Movement on Reserves 2016/17 Onwards								
	Anticipat ed Balance 31.03.16	EXPECTED USE						Balance
		2016/17		2017/18	2018/19	2019/20	Future Years	
		Assumed in the Bud	Anticipated Additional Use					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Earmarked Reserves								
Emergency Related Reserves								
Bellwin Reserve	147	0	0	0	0	0	-147	0
Insurance Reserve	870	0	-470	-400	0	0	0	0
Emergency planning Reserve	75	0	0	0	0	0	-75	0
Catastrophe Reserve	500	0	0	0	0	0	-500	0
Modernisation Challenge								
Smoothing Reserve	1,323	977	0	-1,075	-406	0	-819	0
Severance Reserve	365		-65	-300	0	0	0	0
Ill Health Penalty Reserve	500		-250	-250	0	0	0	0
Recruitment Reserve	1,000		-1,000	0	0	0	0	0
Capital Investment Reserve	12,453	-5,292	-829	-6,332	0	0	0	0
PFI Annuity Reserve	2,177	-49	-51	-100	-100	-100	-1,777	0
Equality / DDA Investment Reserve	285		-185	-100	0	0	0	0
Firefighter Safety Investment Reserve	760		-260	-500	0	0	0	0
Specific Projects								
Community Sponsorship Reserve	0		0	0	0	0	0	0
Equipment Reserve	157		-157	0	0	0	0	0
Contestable Research Fund Reserve	25		-25	0	0	0	0	0
Healthy Living / Olympic Legacy	23		-23	0	0	0	0	0
Inflation Reserve	500		0	0	0	0	-500	0
Clothing / Boots Reserve	16		-16	0	0	0	0	0
CFOA Road Safety Reserve	100		-100	0	0	0	0	0
Ringfenced Reserves								
F.R.E.E. Reserve	52		-52	0	0	0	0	0
Princes Trust Reserve	368		-368	0	0	0	0	0
Community Youth Team Reserve	58		-58	0	0	0	0	0
Beacon Peer Project Reserve	62		-62	0	0	0	0	0
Innovation Fund Reserve	171		-171	0	0	0	0	0
Energy Reseve	156	48	-204	0	0	0	0	0
St Helens District Reserve	6		-6	0	0	0	0	0
New Dimensions Reserve	947		-947	0	0	0	0	0
Total Earmarked Reserves	23,096	-4,316	-5,299	-9,057	-506	-100	-3,818	0
General revenue Reserve	2,000	0	0	0	0	0	0	2,000
Total Reserves	25,096	-4,316	-5,299	-9,057	-506	-100	-3,818	2,000

172. The current estimated reserves as at 31.03.16 are:-

• Ringfenced Reserves (not available for general spend)	£1.820m
• Earmarked Reserves (created to fund future projects or as a resource to meet some potential future spend)	£21.276m
• General Fund Reserve (required to cover unexpected events)	<u>£2.000m</u>
	£25.096m

Approximately £21.276m of earmarked reserves might be viewed as available, however, £12.5m of this has already been committed to fund approved current and future capital investment, including the construction of new stations as part of the station merger initiative and controlling the level of borrowing to deliver the approved revenue debt servicing savings. Also £1.6m is required to cover insurance and catastrophe risks; £1.3m of the smoothing reserve is required to balance the 2016/17 – 2019/20 financial plan; and £2.2m is required to smooth out the future PFI unitary charges over the remaining contract years. This leaves £3.7m of earmarked reserve to consider. Although this would appear relatively high it reflects the level of risk associated with the current financial plan and the severity of cuts imposed on the Authority for 2016/17 and beyond. The £3.7m earmarked reserves are:

	£'m
Severance Reserve	0.4
Recruitment Reserve	1.0
Firefighter Safety	0.8
Inflation Reserve	0.5
Ill Health Cost	0.5
Equality / DDA	0.3
Other	<u>0.2</u>
	3.7

173. Based upon assumptions that; the Authority will adopt all the savings identified and their attendant risks; that the Authority needs a buffer to give it time to make changes required; and, in order to avoid compulsory redundancy if possible the Treasurer recommends the Authority hold the £3.7m identified above in reserves at the start of the financial plan.

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.

174. Members need to consider their strategy on reserves and balances in the light of the guidance from the Treasurer.

(J) BUDGET TIMETABLE & RESOLUTION

175. There is a legal requirement for the Authority to set a balanced budget and decide its level of precept before 1st March 2016. The Authority meeting is now invited to:

- Confirm the financial plan set out in Appendix C, approve the budget requirement of £61.507m for 2016/17 as outlined in Appendix C.
- note that the Authority's council tax base for 2016/17 is 355,792.06, being the aggregate of the tax bases calculated by the Districts.
- 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 (Updated in the Localism Act 2011)					
			Gross Expenditure 2016/17	Gross Income 2016/17	Estimate 2016/17
			£'000	£'000	£'000
(A)	sec 42 (2) (a)	Service Budget	72,205		72,205
(B)	sec 42 (3) (a)	Income		-6,382	-6,382
		Reserves Movement:			
(A)	sec 42 (2) (c)	Contribution to reserves	1,025		1,025
(B)	sec 42A (3) (a)	Contribution from reserves		-5,341	-5,341
		Budget Requirement	73,230	-11,723	61,507
(B)	sec 42A (3) (a)	Spending Funding Assessment		-34,951	-34,951
(B)	sec 42A (3) (a)	Local NNDR Estimate Adjustment		25	25
(B)	sec 42A (3) (a)	Collection Fund Deficit / (Suplus)		-647	-647
		Non-Precept Income			-35,573
(C)	In accordance with Sec 42A (4), aggregate of (A) over (B)	Precept Requirement			25,934
		Tax Base			355,792.06
		Precept Requirement / Tax Base:			£72.89
		Basic Tax Amount At Band 'D'			£72.89

176. 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 categories of dwellings listed in different valuation bands:

2015/16	2016/17	Property Band		Increase	
£	£			£	%
£47.65	£48.59	For properties in Band	A	0.94	1.97
£55.59	£56.69	For properties in Band	B	1.10	1.98
£63.53	£64.79	For properties in Band	C	1.26	1.98
£71.47	£72.89	For properties in Band	D	1.42	1.99
£87.35	£89.09	For properties in Band	E	1.74	1.99
£103.23	£105.29	For properties in Band	F	2.06	2.00
£119.12	£121.48	For properties in Band	G	2.36	1.98
£142.94	£145.78	For properties in Band	H	2.84	1.99

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

PRECEPT	AUTHORITY
£	
7,451,957	LIVERPOOL
6,595,226	WIRRAL
3,564,613	ST.HELENS
5,889,986	SEFTON
2,431,902	KNOWSLEY
25,933,684	

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

21st April 2016
31st May 2016
6th July 2016
11th August 2016
19th September 2016
25th October 2016
30th November 2016
10th January 2017
15th February 2017
17th March 2017

Equality and Diversity Implications

179. Future reports on staff saving plans, if required, will be accompanied by EIAs.
180. 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

181. The relevant consultation will take place as and when the plans are drawn up to deliver the required staffing change to deliver the reduction in support staff and firefighters.

Legal Implications

182. The Authority must set a balanced budget and decide its level of precept before 1st March 2016.

Financial Implications & Value for Money

183. See Executive Summary

Risk Management, Health & Safety, and Environmental Implications

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

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

185. To Achieve; Safer Stronger Communities - Safe Effective Firefighters. The proposed financial plan considers how best to allocate resources and deliver a balanced budget in light of the approved mission of the service and service priorities.

BACKGROUND PAPERS

CFO/007/16 "FINANCIAL REVIEW REPORT 2015/16 APRIL TO DECEMBER REVIEW"
AUTHORITY 25 FEBRUARY 2016

GLOSSARY OF TERMS

MFRA Merseyside Fire and Rescue Authority

MFRS Merseyside Fire and Rescue Service

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 purpose, although this borrowing may not necessarily take place externally (use of available cash etc).

MRP	MINIMUM REVENUE PROVISION - An amount set aside from revenue towards the repayment of loan debt.
RESERVES	Amounts 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.
UNSUPPORTED BORROWING	No Revenue Support Grant to cover the costs associated with borrowing and the Authority must earmark revenue funds to cover these costs.
RSG	Revenue Support Grant
FRA	Fire and Rescue Authority
MTFP	Medium Term Financial Plan
FPS	Firefighters' Pension Scheme
LGPS	Local Government Pension Scheme