AGENDA ITEM:

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY**
DATE:	**19TH JANUARY 2012**
REPORT NO.	**CFO/094/11**
REPORTING OFFICER:	**DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**IAN CUMMINS, DIRECTOR OF FINANCE, EXTN. 4244**
OFFICERS CONSULTED:	
SUBJECT:	**FINANCIAL REVIEW 2011/12 – April to June**

APPENDIX A1: TITLE "Revenue Budget Movements Summary"
APPENDIX A2: TITLE "Budget Movement on Reserves 2011/2012"
APPENDIX A3: TITLE "Fire Service Revenue Budget Movements Summary"
APPENDIX A4: TITLE "Corporate Service Revenue Budget Movements Summary"
APPENDIX B: TITLE "Revenue Forecast Statement"
APPENDIX C: TITLE "Capital Programme 2011/2012"
APPENDIX D: TITLE "Updated 2011/2012 – 2015/2016 Capital Programme"
APPENDIX E: TITLE "Internal Audit Reports"
APPENDIX F: TITLE "Bad Debt Write-Offs in Quarter 1"

<u>Outcome</u>

1. By reporting on a regular basis to Members on the financial performance of the Service compared to that in the approved financial plan it allows Members to consider the robustness of the budget plan and, if required, take corrective action.

<u>Purpose of Report</u>

2. To review the financial position, both revenue and capital, for the Authority for 2011/12. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the first 3 months of the year (April – June 2011).

<u>Recommendation</u>

3. That Members
    a. approve the 2011/12 budget variations identified in this report; and
    b. instruct the Deputy Chief Executive to continue to work with budget managers to maximise savings in 2011/12; and
    c. approve the write off of two debtor accounts totalling £7,763

Executive Summary

Revenue:

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

- To control Council Tax
- Continue with its modernisation programme and deliver the Authority's purpose of making Merseyside a Safer, Stronger, Healthier Community
- To deliver the required savings through efficiencies of which most are employee related and will be achieved without redundancy by using natural retirement rates and if required VER/VS.

The Authority is on target to deliver the 2011/12 budget savings in cash terms and is progressing well with the required structural changes in its workforce to maintain the required savings on a permanent basis.

The only significant movement on the revenue budget so far this year relates to the formal implementation of the £0.900m (£1.300m in a full year) support services savings. In addition there has been

- a drawdown from earmarked reserves of £0.053m to fund projects that have been re-phased from 2010/11,
- a reduction in the contingency for pay and prices of £0.100m by cash limiting various controllable expenditure lines, and
- the capital financing budget has been increased by £0.100m for debt serving costs associated with the final accounts decision to fund the 2010/11 smoke alarm installation costs from borrowing, and not revenue as assumed in the original 2010/11 budget.

The total budget requirement remains at the original budget level of £69.781m, (appendix A1 – A4 outlines in detail all the revenue budget and reserve movements).

Capital:

Amendments to the capital programme have resulted in an increase of £3.850m in spend, however as specific funding, mostly grants, increased by £5.002m, the level of borrowing has actually reduced by £1.153m. The revised Capital Programme is outlined in Appendix C and D.

Reserves & Balances:

The general balance remains unchanged at £4.684m. All movements in reserves are outlined in Appendix A2.

Treasury Management:

Short-term interest rates have remained at 0.50% as expected. No new long term borrowing has been arranged and the Authority has continued its policy of reducing investments and only taking short term borrowing to cover cash flow requirements.

Financial Processes:

Performance in Financial processes remains strong.

Reason for Report

3. To enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.

4. This report is the review of the Authority's position up to the end of the June of the financial year 2011/12 (April – June 2011).

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

Financial Review Structure

Section	Content
A	Final Position 2010/11
B	Current Financial Year Review (Revenue Budget, Capital Programme and movement on Reserves)
C	Treasury Management Review
D	Internal Audit
E	Financial Process Monitoring/Performance Indicators

2010/2011 Position/Final Accounts

6. Members were informed of the 2010/11 final accounts position at the Authority meeting on 30th June 2011 (report CFO/066/11). The accounts reported an increase in the general fund reserve of £2.140m to £4.684m and an increase in earmarked reserves of £0.911 to fund the re-phasing of grant and specific projects into 2011/12.

7. At the time of writing this report the Audit Commission have not yet completed the audit of the accounts but the Deputy Chief Executive is not aware of any areas of concern identified by the auditors that will alter the reported position and is confident Audit will approve the accounts without any qualifications.

Current Financial Year – 2011/12

8. The purpose of the financial review report is to provide Members with an assurance that the approved budget remains robust and that the current forecast of expenditure can be contained within the available resources. If

actual expenditure or income for the year is inconsistent with the current budget then the report will, if necessary, identify the appropriate corrective action.

Revenue Position:

Revenue Budget Movements:

9. The attached **Appendix A** to this report summarises the revenue budget movements since the last financial review report. The net budget requirement remains at £69.781m which is consistent with the original budget.

10. The most significant process in delivering the budget has been the full implementation of support services savings option, £0.900m (£1.300m in future years). In addition there has been :

    (a) the drawdown from earmarked reserves of £0.053m to fund projects that have been re-phased from 2010/11,
    (b) a reduction in the contingency for pay and prices of £0.100m by cash limiting various controllable expenditure lines, and
    (c) the capital financing budget has been increased by £0.100m to reflect the debt serving costs associated with the final accounts decision to fund the 2010/11 smoke alarm installation costs from borrowing, and not revenue as assumed in the original 2010/11 budget (as part of the financial strategy of building up reserves).

11. **Update on 2011/12 – 2013/14 Approved Saving Options**
    The Authority approved a number of saving options as part of their medium term financial plan (MTFP) that delivered a saving of £5.500m in 2011/12 rising to £9.200m by 2013/14. The Authority has made good progress in finalising and implementing the majority of the saving options and £3.300m of the approved budget saving options have now been finalised.

    Members approved report CFO/074/11 at the Authority meeting on 21st July, 2011, regarding the implementation of the £1.800m (£2.950m once fully actioned) Dynamic Reserve saving, this will be reflected in the budget in the next financial review report. Also at the same Authority meeting Members confirmed their support following consultation for the MACC review proposals, CFO/074/11, Group Manager/ Station Manager review, CFO/072/11, and the revised crewing arrangements at the Marine Rescue Team, and the Service has now entered a 12 week negotiation period in relation to these options.

    In the interim period the Deputy Chief Executive will continuously monitor actual staff numbers to ensure the Service continues to deliver in "cash" terms the required saving target.

    Overall the Authority is well on line to deliver its approved budget saving options.

Table A below summarises the position at the time of writing this report:

Table A

Progress in allocating out 2011/12 Approved Saving Options					
	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
2011/12 Approved Savings:	**-5,500**	**-8,525**	**-9,200**	**-9,200**	**-9,200**
Complete:					
Assume Pay Bill Freeze 2010/11	-1,000	-1,000	-1,000	-1,000	-1,000
Assume Pay Bill Freeze 2011/12	-1,000	-1,000	-1,000	-1,000	-1,000
Reduction in Support Service Costs	-900	-1,300	-1,300	-1,300	-1,300
Review of Capital Programme Financing	-400	-400	-400	-400	-400
Rephasing of Vehicles Capital Programme		-100	-100	-100	-100
	-3,300	-3,800	-3,800	-3,800	-3,800
Approved Saving Options yet to be finalised:					
Assume Pay Bill Freeze 2012/13		-1,000	-1,000	-1,000	-1,000
Reduce Senior Management Costs	-200	-400	-400	-400	-400
Outsource Estates function		-250	-250	-250	-250
MACC Review	-200	-400	-400	-400	-400
Manage dynamic reserve more effectively	-1,800	-2,300	-2,950	-2,950	-2,950
Flexible Shift Patterns at Whiston		-300	-300	-300	-300
Flexible Shift Patterns at Marine 1		-75	-100	-100	-100
	-2,200	-4,725	-5,400	-5,400	-5,400
TOTAL	-5,500	-8,525	-9,200	-9,200	-9,200

Revenue Forecast Position:

12. The Authority is well aware of the likely future financial challenge and therefore as part of its strategy it has directed Officers to maximise savings in the year to contribute towards the agreed plan of building up reserves.

Employee Costs

Employee costs make-up nearly 80% of the Authority's revenue budget and is the most risk critical area of the financial plan and it is therefore monitored extremely closely.

As stated in paragraph 11 of this report the Authority at its meeting on 21 July 2011 considered and approved reports in relation to the approved revised duty systems for staffing arrangements for MACC, the Marine Rescue Team , Senior Management, and the Dynamic Reserve. The Dynamic Reserve adjustments are currently being implemented in the budget and will be reflected in the next financial review report. The other revised duty systems have now entered a 12 week negotiation period and will be reflected in the relevant budget lines when Members ratify their decision following this period of negotiation. Firefighter retirements have continued in line with the forecast profile adopted for the financial strategy. This means that the Authority is generating in cash terms the required level of savings to cover these saving options.

The support services establishment has been reduced by 28 WTE posts (deletion of 14 WTE vacant posts and 14 WTE VER/VS approvals) saving £0.6m in a full year. This together with support service non-employee savings of £0.7m has achieved the approved support service saving in the current financial plan. The forecast for support service employee spend in 2011/12 is in line with the revised budget provision. A number of VER/VS requests are still being processed and it is hoped further reductions will materialise.

Therefore employee costs in the year are forecast to deliver the required budget saving in cash terms. The Deputy Chief Executive will continue to monitor actual staff numbers during the year to ensure the Service continues to deliver in "cash" terms the required saving target.

Other Non-Employee Revenue Costs
The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2011/12 in order to contribute to the current strategy of building up reserves in order to provide a temporary short term buffer to balance future budgets. The latest indications are that a number of small savings over a variety of expenditure heads may materialise at the year-end, however, at this early stage in the year it is too early to confirm these savings. The next financial review will report in more detail on these savings once more certainty has been established over the likely year-end position. Officers will continue to monitor all costs and work with the Deputy Chief Executive to maximise any savings.

13. **Contingency for 2011/12 Pay & Price Increases**
Members will recall that the budget made no provision for pay bill increases in 2011/12. No pay offer has been made to staff this year although the FBU have registered a claim for 2011/12 equal to RPI for June 2011, 5.2%. A 5.2% pay rise would require an increase in the firefighter employee budget of approximately £2.5m. This financial review report assumes the pay bill freeze will remain in place for at least 2011/12.

<u>Other Potential Issues:</u>

14. **Home Fire Safety Checks, (HFSC);** Performance on the HFSC programme is expected to continue to be outstanding and the Authority will continue its long standing policy to charge the costs of the alarms and their installation costs to the capital programme. The budget assumes the capitalised installation cost is to be funded through a revenue contribution to capital (*funded by the revenue saving following the capitalisation of HFSC salaries*). The Deputy Chief Executive will consider at the year-end if the option of funding the capitalised installation costs through borrowing is worthy of contemplation in the short term as part of an overall financial strategy.

15. **Private Finance Initiative (PFI)**; The planned demolition and building work is progressing well and in line with that planned. The PFI agreement assumed ground conditions for building works would be reasonable, but if any exceptional unforeseen complications were identified then the risk would lie with the relevant authority. The Authority recognised this inevitable risk with large scale building projects and created a Capital/PFI reserve of £2m prior to

commencement of the project based broadly upon 10% of the capital cost of the building project being undertaken. Two potential calls on that reserve have been identified;

(a) Asbestos has been found under the demolished Kirkdale Fire Station site requiring specialist removal works to make the site safe and healthy for the future. It was not possible to spot this in testing prior to commencement because it was located under the building.

(b) Soft ground thought to be because of an old filled in pond at the Newton-le-Willows site requires additional foundation work. Again It was not possible to spot this in testing prior to commencement because it was located under the building. The land does not cause an issue with the current station because it is only one storey high and building regulations have become tougher since the original building was erected.

Final costings have yet to be confirmed but £100k to £250k (or less than 1% of the capital building cost) is the current estimate for these additional works. The reserve will be used as intended to fund these costs when they are confirmed.

Summary of Revenue Forecast Position:

The Authority has made good progress in implementing the approved budget saving options and required organisational structure changes. £2.2m worth of approved options remains to be formally actioned in 2011/12, of which £1.8m relates to the management of dynamic reserve and this has now been approved for implementation at the Authority meeting 21st July 2011. Officers are confident all saving options can be implemented by the year-end.

Overall the initial forecast based on the first 3 months of the year has indicated revenue expenditure will be within the approved budget. Some potential additional savings may materialise but it is too early in the year to forecast these savings with any certainty. The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2011/12 in order to contribute to the current strategy of building up reserves in order to provide a temporary short term buffer to balance future budgets. Appendix B and the Table B overleaf summarise the revenue year-end forecast position based on spend to the end of June 2011:

TABLE B

Previous Year Actual		TOTAL BUDGET	ACTUAL as at 30.06.11	FORECAST	VARIANCE
£'000		£'000	£'000	£'000	£'000
	Expenditure				
56,027	Employee Costs(net of dynamic saving)	56,529	13,863	56,529	0
2,546	Premises Costs	3,525	504	3,525	0
1,728	Transport Costs	1,581	554	1,581	0
4,270	Supplies and Services	4,250	760	4,250	0
2,432	Agency Services	2,129	759	2,129	0
237	Central Support Services	389	126	389	0
5,267	Capital Financing	5,886	0	5,886	0
	Income				
-3,163	Fees & other service income	-1,859	-351	-1,859	0
-1,750	Grants and Contributions	-1,399	-401	-1,399	0
72,507	**Net Expenditure**	**71,031**	**15,814**	**71,031**	**0**
	Contingency for Pay & Prices	**613**	0	613	0
72,507	**Cost of Services**	**71,644**	**15,814**	**71,644**	**0**
-187	**Interest on Balances**	-182	-8	-182	0
2,814	**Movement to / from Reserves**	-1,681	0	-1,681	0
75,134	**Total Operating Cost**	**69,781**	**15,806**	**69,781**	**0**

Capital Forecast Position:

16. Members approved the £31.953m 2011/12 – 2015/16 5 year capital programme at the Authority Budget meeting on 17th February 2011, report CFO/016/11. This has now been updated for the approved 2010/11 year-end re-phasings into 2011/12 of £1.280m as reported to the Authority on 30th June 2011 in the year-end report CFO/066/11.

17. Members have considered and approved further amendments to the capital programme in 2011/12 as outlined below:

    (a) CFO/039/11, Strategic Assets Committee 28th April 2011, approved the Toxteth Firefit Hub, £5.453m, (and removing the need for the replacement Toxteth Community Firestation scheme, £2.100m)
    (b) at the same Committee approved report CFO/034/11 that extended the Water Tender Ladder appliance life from 10 to 12 years and reduced the vehicle capital programme by £2.450m.
    (c) CFO/027/11, Community Protection Committee 21st April 2011, approved the £0.063m water rescue equipment & vehicle flood response scheme funded from a grant from DEFRA (Dept for Environment, Flood & Rural Affairs).

18. Officers have also re-phased three minor schemes between 2011/12 and 2012/13 but this has had no financial impact on the programme. After reviewing the current assumption over ancillary vehicle life, mainly cars, the life has been increased from 5 to 8 years and has resulted in a reduction of £0.133m in the current capital programme.

19. The Government announced that within the Local Government settlement for 2011 – 2015 it had set aside an additional £280m in total (£70m per year) for

Fire and Rescue Authorities in England for funding of a Fire Capital Grant. The method of allocation for years 2012-2015 is currently under review by CLG and a number of options are under consideration including an 'innovation/incentive fund', administered via a bidding process. For 2011/12, funding in this first year has been allocated via a pro-rata distribution using a method relating to population figures and the Authority has received notification it will receive £1.736m. As one would expect with the nature of capital schemes stretching over 5 years either expenditure estimates or specific funding assumptions are subject to change as they are beyond the control of the Service, (additional scheme requirements, funding such as capital receipts varies to that estimated or available grants being amended due to pressures on public finances). Therefore the current capital programme has not made any assumption over the use of the £1.736m capital grant. Officers will report back appropriately on how this resource might be used.

20. Overall the revised capital programme has increased by £3.850m however due to the increased level of specific funding and revised asset lives the required level of borrowing has actually reduced by £1.153m. The capital programme changes are summarised in Table C below. The revised detailed capital programme is attached as **Appendix C** (2011/12 Capital Programme) and **Appendix D** (2011/12–2015/16 Capital Programme) to this report.

TABLE C

Movement in the 5 Year Capital Programme Since the Last Financial Review

	Total Cost	2011/12	2012/13	2013/14	2014/15	2015/16
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2010/11 year-end re-phasings	1,280.0	1,280.0				
CFO/039/11Toxteth Firefit Hub	5,453.0	4,119.0	1,334.0			
CFO/039/11Toxteth CFS	-2,100.0	-600.0	-1,500.0			
CFO/034/11 Water Tender Ladder appliance life	-2,450.0	-980.0	245.0	-490.0	-490.0	-735.0
CFO/027/11water rescue equipment & vehicles	63.0	63.0				
2011/12 Identified Re-phasings	0.0	-23.0	23.0			
Ancilliary vehicles (cars) increased life	-132.8	-107.9	74.7	16.6	-16.6	-99.6
CLG Capital Grant funding resource	1,736.3	1,736.3				
	3,849.5	**5,487.4**	**176.7**	**-473.4**	**-506.6**	**-834.6**
Funding						
Grants;						
Toxteth Hub - My Place	2,300.0	1,887.0	413.0			
Toxteth Hub - Sport England	753.0	753.0				
Water Rescue - DEFRA Grant	63.0	63.0				
CLG Capital Grant	1,736.3	1,736.3				
Cap Receipts - reduction in Old Workshop estimate	-150.0	-150.0				
Other						
Toxteth Hub Liverpool CC contribution	300.0	150.0	150.0			
Borrowing:	-1,152.8	1,048.1	-386.3	-473.4	-506.6	-834.6
	3,849.5	**5,487.4**	**176.7**	**-473.4**	**-506.6**	**-834.6**

21. The majority of schemes are on target to be completed on time and on budget. Officers are looking to site the hovercraft and jet skis at the new Inshore Rescue Service development and, as this was not in the original plan, a

potential increase in costs may be required. However Officers are in discussion with Merseytravel about the availability of additional funds and are looking at the scheme costs in order to contain the scheme within the current budget. At this point no additional costs have been built into the current programme. The Authority has approved the project, the Toxteth Firefit Hub, £5.453m, on the basis that the bid for Sport England funding of £0.753m might be successful. It is recognised that if this is unsuccessful then Officers would look to reduce scheme costs through a "value engineering process" (reviewing the specification for the scheme) to offset any loss of grant. If this is not possible then the Authority will use some of the CLG capital grant (£1.736m) to cover any funding shortfall.

22. Future review reports will update Members in more detail on the progress of schemes and any funding changes within the approved programme and consider the current phasing of planned expenditure.

Use of Reserves:

23. The analysis in Appendix A2 outlines the £0.244m movement on reserves during the first quarter of 2011/12. £0.171m has been drawndown from the severance reserve to cover the cost of the 15 support service staff (14 WTE) VER/VS approvals. The remaining £0.053m drawdown is required to fund costs associated with projects and grant funded schemes taking place over two financial years. The general revenue reserve has remained unchanged at £4.684m.

Treasury Management

24. The Authority continues to "buy in" Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to June 2011/12.

25. **Prospects For Interest Rates**

Short-term rates have remained at 0.5% in line with the forecast for them to remain on hold in the early part of the year because recovery in the economy was expected to be weak and protracted. However, some increase from the current 0.5% may be necessary later in 2011/12 to counter the effects of external inflation pressure. This increase is not expected to be more than 1.0% over the financial year 2011/12.

Longer term rates have not changed significantly during the first quarter as forecast in the strategy. They have been suppressed by decelerating activity and demand for UK gilts. However, a very heavy programme of gilt issuance is required to fund the government deficit and the increased supply could push gilt yields higher later in the year. The effect would be upward pressure on longer-term Public Works Loans Board (PWLB) rates which could rise by around 0.25% to 5.50% by the end of the year.

The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2011/12. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

26 Capital Borrowings and the Portfolio Strategy

The Authority's net capital borrowing requirement for 2011/12 was estimated at £10 million. In accordance with the strategy, no new long term borrowing has been arranged and investments have been minimised.

26. **Annual Investment Strategy**

The investment strategy for 2011/12 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with CLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

27. Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 June 2011 the average rate of return achieved on average principal available was 0.73%. This compares with an average seven day deposit (7 day LIBID) rate of 0.46%.

The Authority held no investments as at 30th June 2011.

28. **External Debt Prudential Indicators**

The external debt indicators of prudence for 2011/12 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£63 million
Operational boundary for external debt:	£58 million

Against these limits, the maximum amount of debt reached at any time in the first quarter of the financial year 2011/12 was £43.1 million.

29. **Treasury Management Prudential Indicators**

The treasury management indicators of prudence for 2011/12 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures:

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

The maximum that was reached in the first quarter of the financial year 2011/12 was as follows:

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

b) Maturity Structure of Borrowing:

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the first quarter of the financial year 2011/12 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	30%	0%	5%	5%
12 months and within 24 months	30%	0%	6%	2%
24 months and within 5 years	30%	0%	5%	1%
5 years and within 10 years	30%	0%	3%	3%
10 years and above	90%	0%	86%	86%

c) Total principal sums invested for periods longer than 364 days:
The limit for investments of longer than 364 days was set at £2 million for 2011/12. No such investments have been placed during 2011/12.

Internal Audit

30. The Authority continues to "buy in" Internal Audit services from Liverpool City Council. Most audit work is carried out in the second part of the year to fit in with the service work demands and provide relevant data for the year. At the end of June 2011 only an outstanding report from 2010/11 on Treasury Management had been finalised. The report is attached to this report for m Members information as **Appendix E,** and audit found controls met the highest standard and no proposed system changes were required.

Monitoring of Financial Progress

27. To ensure the internal financial processes of the Authority are operating effectively, for example payroll, debt collection and the payment of invoices, a suite of performance indicators have been developed that now feed into the financial review. At present indicators relate to:

(a) Payment of invoices,
(b) Discounts obtained from prompt payments;
(c) Debtors

28. Prompt Payment of Invoices
Prompt payment of invoices was previously a statutory indicator under the Best Value legislation. While there is no longer a requirement for the Authority to report its prompt payment performance under BVPI8, the number of undisputed invoices paid within 30 days of receipt continues to be analysed to assess the effectiveness of the various Accounts Payable systems and procedures. Information about the prompt payment of invoices has now been incorporated with the suite of local performance indicators (LPI128) and is reported monthly through the Authority's management information system (OWLe).

29. In July 2009 the Authority joined the Prompt Payment Code (PPC). The PPC gives notice to suppliers of the Authority's commitment to pay promptly. In the current economic climate the Government is keen for all businesses and local

authorities to pay suppliers promptly. By paying promptly the Authority is able to make its contribution to improving the cashflow position of its supplier base, particularly small businesses, that rely on payments made promptly to keep them in business. Consistent with that objective, considerable effort has been made to develop a range of administrative processes to enable the Authority to comply with its obligations under the PPC which is deemed to be best practice. As evidence of the effectiveness of the various prompt payment mechanisms the quarter saw the Authority awarded 'Rating 1' by Dunne & Bradstreet as recognition of '*the highest level of creditworthiness, minimum risk of failure*'.

30. A comparison of first quarter performance over previous years confirms that system improvements continue to enable the Authority to pay invoices (some 2,888) in the quarter ended June 2011) promptly.

2007/08	100.0%
2008/09	100.0%
2009/10	99.4%
2010/11	99.9%
2011/12	99.9%

31. The target for prompt payment in 2011/12 is 100%. The first quarter's results confirm the Service continues to respond quickly and efficiently to requests for payment from suppliers with 2,886 out of 2,888 invoices being paid within the required timeframe.

32. We have continued to ensure discounts due to the prompt payment of invoices being vigorously pursued. During the quarter a total of 23 invoices that attracted prompt payment discounts were paid generating savings of £1,756. This is evidence of the robustness of the systems in place that are enabling the Service to take advantage of the financial savings available from suppliers.

33. The publication of payments to suppliers for goods and services over £500 is now fully embedded. Consistent with the Government's drive for transparency in relation to spending by all local authorities, details of payments to suppliers for goods and services over £500 are available on the Authority's website in both PDF and CSV formats for the convenience of those wishing to access and interrogate the information. Payments details are now available for the period from 1st April 2009 to 30th June 2011. Payments for each month are made available as soon as possible following the closure of each accounting period and subject to verification against guidance received from Government.

34. <u>Processing Sales Invoices and the Debt Recovery Process</u>
A number of Performance Indicators have been developed to give drive and focus to improvements to the sundry debtor process and to plot the age profile of outstanding debt. Key Performance Indicators in relation to the processing of income generation type transactions are as follows:

SIRF Generation - 100% in 21 working days from service delivery
Sales invoice production -100% in 2 working days from receipt of SIRF

(Note: SIRF = Sales Invoice Request Form. SIRFs are generated by officers to request that a customer be invoiced for goods\services received)

35. Members will be aware that the Authority's Financial Regulations were amended for 2010/11 to require prepayment for services where possible. It is recognised that there is a correlation between the time taken to request payment for services and payment actually being received. While every effort is made to ensure customers receive their invoice as quickly as possible it is often necessary to wait for key information (e.g. confirmation of course attendees, Payroll data etc) that is to be included with any invoice to enable the customer to make prompt payment. In certain circumstances it is deemed cost effective to wait until all appropriate information is available before issuing a sales invoice rather than it be raised prematurely to remove the potential for a credit note to be raised and an amended invoice reissued.

36. The Age Profile of Outstanding Debt

A comparison of the value of aged debts over 60 days for the first quarter can be summarised as follows:

Number of debts 60 days+

	2007/8	2008/09	2009/10	2010/11	2011/12
April	65	58	95	63	38
May	106	85	91	63	34
June	90	83	101	65	44

Value of debts 60 days+

	2007/8 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
April	162	110	311	101	81
May	219	336	255	107	62
June	219	214	293	148	149

The Service raises approximately 1,200 sales invoices per year and this can equate to income of between £2m - £3.5m. The profile of accounts raised varies significantly month by month and from year to year. It therefore can lead to potential "large" variations when comparing the same month over a five year period. The number of invoices outstanding over 60+ days fluctuates between 5% and 9% of the total raised in a 12 month period. The Authority's debt recovery process commences 25 days after a sales invoice has been raised and the number of write offs anticipated each year is small. The increase in the value of debt in 2008/09 is attributable to success in attracting external funding for WFG08.

Debtor accounts under £5,000 may be written off by Deputy Chief Executive. Only one account for £585.35 has been approved for write-off by the Deputy Chief Executive following advice from the litigation service. The Deputy Chief Executive is also recommending Members approve the write-off of one other account (over the £5,000 limit for delegated powers) for £7,177.54, this relates to repayment of an employee loan. The employee was to repay the loan via monthly deductions from his pay, however the employee asked for a career break overseas and after extending the break several times he then informed the Service he would not be returning to work. He is not contactable and after several attempts to contact the individual and recover the debt litigation services have recommended the debt be written off. Appendix F summarises the proposed account write-offs.

Equality & Diversity Implications

37. There are no equal opportunity implications in this report.

Financial Implications & Value for Money

38. See Executive Summary.

Health & Safety and Environmental Implications

39. None arising from this report.

Contribution to Achieving our Purpose

"To Make Merseyside a Safer, Stronger, Healthier Community"

40. Sound budgetary management and the delivery of services within the approved budget helps the Authority deliver on its corporate aim of operating efficient and effective organisational functions that will support the core functions of the Authority in a way that provides value for money for the communities of Merseyside.

BACKGROUND PAPERS

Report CFO/016/11 "MFRA Budget and Financial Plan 2011/2012-2015/2016" Authority 17th February 2011.
Report CFO/066/11 "Revenue Outturn 2010-2011" Authority 30 June 2011.

Glossary of Terms
HFSC – Home Fire Safety Check

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.

PPC - Prompt Payment Code

PWLB - Public Works Loans Board

WTE – Whole Time Equivalent employee number

VER/VS – Voluntary Early Retirement / Voluntary Severance

PFI - Private Finance Initiative

LIBID – London Interbank Bid Rate