AGENDA ITEM:

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY**
DATE:	**29TH NOVEMBER, 2011**
REPORT NO.	**CFO/145/11**
REPORTING OFFICER:	**DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**IAN CUMMINS, HEAD OF FINANCE, EXTN. 4244**
OFFICERS CONSULTED:	
SUBJECT:	**FINANCIAL REVIEW 2011/12 – April to September**

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 "Bad Debt Write-Offs in Quarter 2"

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A Glossary of Terms has been provided at the end of this report for your reference.

<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 6 months of the year (April – September 2011).

<u>Recommendation</u>

3. That Members
   a. approve the 2011/12 budget variations identified in this report; and

b. note that the savings delivery plan is slightly ahead of schedule and approve the use of the resultant forecast underspend of £1.000m to increase reserves as outlined in the report, and
c. instruct the Deputy Chief Executive to continue to work with budget managers to maximise savings in 2011/12; and

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 achieving Safer Stronger Communities – Safe Effective Firefighters (Currently part of the IRMP 2012-2015 Consultation).
- 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. However the full cash savings will not be delivered until 2013 because of natural turnover rates of staff being low.

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).

The Authority has a strategy of maximising savings and delivering its savings plan as early as possible in order to increase reserves as a hedge against the future financial challenges. A favourable revenue forecast has been identified of £1.000m, and Appendix B outlines how the Authority is ahead of schedule in its financial strategy. This report recommends allocating this £1.000m saving to increase specific reserves. Officers will continue to work through the remainder of the year to maximise any savings in order to increase reserves.

Capital:

Amendments to the capital programme have resulted in an increase of £0.256m in spend, however as this is mostly from reserves and revenue, the level of borrowing has only increased by £0.080m (and most of this is due to a £0.060m reduction in the market value of capital receipts). 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. New long term borrowing of £2.0m has been arranged.

Financial Processes:
Performance in Financial processes remains strong.

Reason for Report

4. 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.

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

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

Financial Review Structure

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

(A) Current Financial Year – 2011/12

7. The purpose of the financial review report is to provide Members with an assurance on the overall financial health of the Authority, 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:

8. 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.

9. 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

10. During the period the Authority has made good progress in delivering savings.

11. At the Authority meeting on 21st July, 2011, Members confirmed their support 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 into negotiations with the unions and staff and it is hoped these discussions will conclude in the very near future.

12. The Authority has also considered a report and approved on the implementation of the Dynamic Reserve savings option,(£2.950m) CFO/074/11.

13. Members will note that whilst challenging budget decisions have been made the full saving will not be delivered in cash terms until staff have left the organisation. Because the natural turnover rate for firefighters is relatively low at present this is not expected to be achieved until 2013. 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.

14. The programme of VER/VS has continued and earmarked reserves of £0.366m has been used fund severance and early retirement costs

15. Other calls on reserves have been for the refurbishment of Southport CFS Tower, £0.100m, and in relation to calling on monies set aside to support projects extending over two financial years

16. **Update on 2011/12 – 2013/14 Approved Saving Options**

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

Table A below summarises the savings plan for the Authority. For the purposes of this table 'finalised' means fully allocated to specific budget lines

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
Manage dynamic reserve more effectively	-1,800	-2,300	-2,950	-2,950	-2,950
	-5,100	-6,100	-6,750	-6,750	-6,750
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
Flexible Shift Patterns at Whiston		-300	-300	-300	-300
Flexible Shift Patterns at Marine 1		-75	-100	-100	-100
	-400	-2,425	-2,450	-2,450	-2,450
TOTAL	-5,500	-8,525	-9,200	-9,200	-9,200

Revenue Forecast Position:

17. 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

18. 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.

19. 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 savings in line with the forecast profile for eventually delivering the full saving by 2013.

20. The support services establishment has been reduced by approximately 30 WTE posts (deletion of 14 WTE vacant posts and 16 WTE VER/VS approvals). This together with support service non-employee savings has achieved the approved £1.300m support service saving in the current financial plan. Including the deletion of grant funded posts and short term contracts 57 people have left the non-uniformed payroll in the last 12 months.

21. The overall employee forecast spending for the year is **£0.200m (or -0.4%) below budget** and this one-off saving is due to a combination of green book vacancies and staff not being at the budgeted top of the grade.

22. 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

23. 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. A number of one-off savings have been identified;

- **PFI Costs** – The Authority made full provision in its budget for PFI costings . The spending profile has been reviewed (The service is not required to make any payments for the new PFI stations until they have been completed and are up and running. The payment will be increased as each station “comes on-line”.) The budget provision was based on earlier deliver dates than the final agreement and **therefore a saving of £0.200m in 2011/12 has arisen**. Members will recall that there have been two compensation events relating to the PFI project relating to Asbestos at Kirkdale and Ground conditions at Newton. This cost is estimated at £0.3m (discussions continue to finalise this figure) will be paid for from the capital reserve the Authority prudently established as a hedge against the risks associated with a very large capital programme
- The Authority established a permanent growth provision of £0.500m for the potential costs associated with the national firelink project and potential issues around the regional control room. £0.160m of this resource has been utilised towards the firelink project in 2011/12 (in addition to utilising the £0.145m regionalisation / firelink reserve). The Government currently provides a grant towards the firelink project of c£0.200m, however they have not guaranteed this grant beyond 2012/13. The likelihood therefore is that the £0.500m growth provision will be needed in future years, **however a £0.250m saving has been identified this year against this resource**.
- **Supplies & Services**; **£0.032m saving** – A number of small savings have been identified on various supply lines.
- **Capital Financing**; **£0.450m saving** - The Authority funds most of its capital spend through borrowing and the resulting debt repayments and interest costs are charged to the revenue account. Following the re-phasing of schemes from 2010/2011 into later years (charges in 2011/12 are based on previous years expenditure), and the policy of minimising investments and therefore loans, a **saving on debt and interest payments of £0.450m has been forecast**.
- **Interest on Balances; £0.132m reduced income** – As members may be aware current interest rates on “savings” / investments is extremely low, often less than 0.5% and in line with the Treasury management strategy the Authority seeks to delay borrowing/keep cash holdings as low as possible. Whilst this has contributed to the reduced borrowing costs above it means that there has been reduced **investment income of £0.132m**

24. Officers will continue to monitor all costs and work with the Deputy Chief Executive to maximise any savings. Table B, below, and Appendix B attached to this report, summarise the forecast year-end revenue position for 2011/12;

Table B

Anticipated Year-End Revenue Position

Previous Year Actual		FIRE SERVICES BUDGET	CORP MGT BUDGET	TOTAL BUDGET	ACTUAL as at 30.09.11	FORECAST	VARIANCE
£'000				£'000	£'000	£'000	£'000
	Expenditure						
56,027	Employee Costs (net of dynamic saving)	56,255	389	56,644	27,169	56,444	-200
2,546	Premises Costs	3,424		3,424	1,113	3,174	-450
1,728	Transport Costs	1,616		1,616	865	1,616	0
4,270	Supplies and Services	4,886	67	4,953	1,633	4,921	-32
2,432	Agency Services	2,129		2,129	1,254	2,129	0
237	Central Support Services	241	148	389	136	389	0
5,267	Capital Financing	6,120		6,120	0	5,670	-450
	Income						
-3,163	Fees & other service income	-1,945		-1,945	-1,035	-1,945	0
-1,750	Grants and Contributions	-1,372		-1,372	-852	-1,372	0
72,507	**Net Expenditure**	**71,354**	**604**	**71,958**	**30,283**	**71,026**	**-1,132**
	Contingency for Pay & Prices			**602**	0	602	0
72,507	**Cost of Services**	**71,354**	**604**	**72,560**	**30,283**	**71,628**	**-1,132**
-187	**Interest on Balances**			-182	-20	-50	132
2,814	**Movement to / (from) Reserves**			-2,597	0	-2,597	0
75,134	**Total Operating Cost**	**71,354**	**604**	**69,781**	**30,263**	**68,981**	**-1,000**

25. **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. This financial review report assumes the pay bill freeze will remain in place for at least 2011/12.

Other Potential Issues:

26. **Home Fire Safety Checks, (HFSC); T**he 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.

Summary of Revenue Forecast Position:

27. The Authority has made good progress in implementing the approved budget saving options and required organisational structure changes. However savings will not be fully delivered until 2013 because of low natural turnover rates.

Overall the forecast for the year-end is £1.000m saving, and proposals for this are discussed in the reserve section of this report. 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.

Capital Forecast Position:

28. Members approved an updated 5 year capital programme when they considered the last Financial Review report, CFO/094/11, totalling £35.803m. This has now been updated for some small amendments, totalling £0.256m which are detailed in the table below. In addition there has been re-phasing from 2011/12 into future years of £1.853. Current Market valuations are reflected in the anticipated level of capital receipts for Low Hill Fire station and the old Speke Workshops

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**
2011/12 re-phasings	0.0	-1,852.6	1,852.6			
Purchase of Mobile Shelter Units	10.0	10.0				
Southport CFS Refurbished Tower	100.0	100.0				
Energy Conservation Work (Salix)	120.9	120.9				
ICT Hardware	24.9	4.9	10.0	10.0		
	255.8	**-1,616.8**	**1,862.6**	**10.0**	**0.0**	**0.0**
Funding						
Cap Receipts - reduction in estimated receipts	-60.0	-60.0				
RCCO	235.8	235.8				
Borrowing:	80.0	-1,792.6	1,862.6	10.0		
	255.8	**-1,616.8**	**1,862.6**	**10.0**	**0.0**	**0.0**

29. The increases in the capital programme are :
    - Replacement mobile search and rescue shelter units are required and are to be funded from external income generated from the Watersave project.
    - The tower at Southport Fire Station was in need of a major refurbishment and a new scheme for £0.100mhas now been included in the 2011/12 programme for this work. It is being funded from a contribution from the £2.000m PFI / Capital reserve because it was required to support the PFI project at that station.
    - Additional energy conservation schemes, £0.121m, have been identified and are commencing with funding from the energy reserve that was established from a government (Salix) grant (this resource must be used for energy saving schemes)
    - ICT Hardware – additional service hardware needs of £0.005m have been identified by departments and these are being funded by a revenue contribution from the specific department revenue budget. The ICT programme had assumed a saving of £0.010m reduction in hardware replacement in 2012/13 & 2013/14 because it was expected that the national RCC project would take responsibility

– the expenditure has been added back to the programme following the demise of the national project..

30. The majority of schemes are on target to be completed on time and on budget.

31. Private Finance Initiative (PFI). The planned demolition and building work are 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 £200k to £400k (or less than 2% of the capital building cost) is the current estimate for these additional works. The PFI / Capital reserve will be used as intended to fund these costs when they are confirmed. 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.

Reserves:

32. The analysis in Appendix A2 outlines the £0.916m movement on reserves during the second quarter of 2011/12.
    - £0.366m has been drawndown from the severance reserve to cover the cost of VER/VS approvals.
    - £0.221m relates to the funding of the Southport Fire Station tower and energy conservation new capital schemes discussed in the capital section of this report.
    - £0.145m related to the drawdown of the Firelink / Regionalisation reserve to contribute towards the Firelink scheme outlined in the revenue section of this report.
    - The remaining £0.184m 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.

33. The approved 2011/12 and indicative 2012/13 budget rely upon a drawdown from the costs smoothing reserve of £1.457m and £0.805m respectively. This is because

the full savings plan can not be delivered immediately by using natural turnover rates alone. This reserve provides the main resource to underpin the current strategy of using reserves to provide a temporary short term buffer to balance future budgets.

34. This report also identifies the drawdown of £0.100m from the £2.000m PFI/Capital reserve, as well as a potential further drawdown of £0.400m to cover the unforeseen ground works at two of the PFI stations.

35. **The Deputy Chief Executive would recommend to members that the forecast £1.000m revenue savings identified in this report be used a) to replenish the Capital reserve by £0.500m following the calls from the PFI compensation event and b) to increase the smoothing reserve by £0.500m in light of the financial challenge ahead.**

(B) Treasury Management

36. 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.

37. **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. No increase from the current 0.5% is now expected until 2013.

Longer term rates have fallen from 5.25% by around 0.5% in the first half of the financial year as a result of decelerating activity and high 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 back to around 5.00% later in 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.

Capital Borrowings and the Portfolio Strategy

38. The Authority's net capital borrowing requirement for 2011/12 was estimated at £10 million. It was decided to undertake some fixed rate borrowing because cash flow forecasts indicated that borrowing would be required later in the year and interest rates had reached a low point. New borrowing of £2 million was arranged from the Public Works Loans Board to replace a loan that would reach maturity later in the year. The original loan had an interest rate of 4.55%. The replacement loans have an average rate of 2.67%.

Annual Investment Strategy

39. 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.

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 September 2011 the average rate of return achieved on average principal available was 0.76%. This compares with an average seven day deposit (7 day libid) rate of 0.43%. The Authority had investments of £16.000m as at 30th September 2011, (most of which is due to the receipt of firefighter pension grant which is paid in July to cover the cost of pension payments in 2011/12):

ANALYSIS OF INVESTMENTS END OF SEPTEMBER 2011

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Blackrock	**AAA**	2,200,000	-	-
Fidelity	**AAA**		-	-
Goldman Sachs	**AAA**	1,500,000		-
Ignis SLF	**AAA**	2,300,000	-	
Yorkshire	**A**		-	2,000,000
Nationwide	**AA**			2,000,000
HBOS	**AA**		2,000,000	
Coventry B Soc	**A**			2,000,000
Schroders	**A**	2,000,000		
Totals		8,000,000	2,000,000	6,000,000
rent Investments				16,000,000

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

Members will recall that Dexia the Belgian-French bank is the main funder for the PFI project (Balfour Beatty set up a specific company for the NW project funded by loan funding).

Dexia posted a €4 billion loss for the second quarter, the biggest in its history, after writing down the value of its Greek debt. On 4 October its shares fell 22% to €1.01 in Brussels, cutting its market value to €1.96 billion. Discussions were taking place about a possible breakup, with a plan to place its "legacy" division into a bad bank with government guarantees.

On 10 October, it was announced that the Belgian banking arm will be purchased for €4 billion by the Belgian federal government. Some units such as DenizBank and the Luxembourg retail bank will be put up for sale. Part of its French operations are likely to be purchased by Caisse des dépôts et consignations and La Banque Postale. The remaining troubled assets, including a €95 billion bond portfolio would remain in a "bad bank" that would receive funding guarantees of up to €90 billion provided by the governments of Belgium (60.5%), France (36.5%) and Luxembourg (3%)

No impact is anticipated on the PFI project

40. **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 half of the financial year 2011/12 was £45.1 million.

41. **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%	4%
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%	5%	3%
10 years and above	90%	0%	86%	82%

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.

(C) Internal Audit

42. 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. No audit reports have been finalised in the 2nd quarter of the year.

(D) Monitoring of Financial Progress

43. 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

44. 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).

45. 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 cash flow 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.

46. A comparison of the second quarter performance over previous years confirms that system improvements continue to enable the Authority to pay invoices (some 3,481 in the quarter ended September 2011) promptly.

2007/08	99.8%
2008/09	100.0%
2009/10	99.9%
2010/11	99.8%
2011/12	99.9%

47. 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.

48. We have continued to ensure discounts due to the prompt payment of invoices being vigorously pursued. During the quarter a total of 22 invoices that attracted prompt payment discounts were paid generating savings of £1,246 with total savings for the year to date equating to some £3,001. 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.

49. 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 September 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.

50. Processing Sales Invoices and the Debt Recovery Process
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)

51. 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.

52. 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
July	83	104	86	67	35
Aug	86	101	79	63	36
Sept	105	123	85	70	30

Value of debts 60 days+

	2007/8 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
July	243	207	204	175	118
Aug	260	229	144	131	112
Sept	230	351	145	172	35

53. 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.

54. Debtor accounts under £5,000 may be written off by Deputy Chief Executive. Four accounts totalling £3,054.61 have been approved for write-off by the Deputy Chief Executive following advice from the litigation service. Details of these accounts and the reason for write off can be found in **Appendix E attached** to this report.

Equality & Diversity Implications

There are no equal opportunity implications in this report.

Staff Implications

None directly related to this report.

Legal Implications

None directly related to this report.

Financial Implications & Value for Money

See Executive Summary.

Risk Management, Health & Safety and Environmental Implications

None arising from this report.

Contribution to Our Mission

**"To Achieve Safer Stronger Communities - Safe Effective Firefighters "
** Currently part of the IRMP 2012-2015 Consultation

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.

Report CFO/094/11 "Financial Review 2011/12 – April to June" Audit & Value For Money Scrutiny Panel 9th September 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