AGENDA ITEM:

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY BUDGET MEETING**
DATE:	**18TH FEBRUARY, 2010**
REPORT NO.	**CFO/012/10**
REPORTING OFFICER:	**EXECUTIVE DIRECTOR OF RESOURCES**
CONTACT OFFICER:	**KIERAN TIMMINS, EXTN. 4108**
OFFICERS CONSULTED:	
SUBJECT:	**FINANCIAL REVIEW 2009/10 - APRIL TO DECEMBER REVIEW**

APPENDIX	**A1**	**TITLE:**	**"REVENUE BUDGET MOVEMENTS SUMMARY"**
APPENDIX	**A2**	**TITLE:**	**"BUDGET MOVEMENT ON RESERVES 2009/10"**
APPENDIX	**A3**	**TITLE:**	**"FIRE SERVICE BUDGET MOVEMENTS"**
APPENDIX	**A4**	**TITLE:**	**"CORPORATE SERVICE REVENUE BUDGET MOVEMENTS SUMMARY"**
APPENDIX	**B**	**TITLE:**	**"CAPITAL PROGRAMME 2009/10"**
APPENDIX	**C**	**TITLE:**	**"UPDATED 2009/10 – 2013/2014 CAPITAL PROGRAMME"**
APPENDICES	**D1-3**	**TITLE:**	**"INTERNAL AUDIT REPORTS"**
APPENDIX	**E**	**TITLE:**	**"BAD DEBT WRITE-OFFS IN QUARTER 3"**

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***A GLOSSARY OF TERMS HAS BEEN PROVIDED AT THE END OF THIS REPORT FOR YOUR REFERENCE**

Purpose of Report

1. To review the financial position, both revenue and capital, for the Authority for 2009/10. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period up to December 2009.

Recommendation

2. That:

   (a) Members note the report and approve the 2009/10 budget variations identified in this report; and

(b) Members note the potential £0.250m revenue saving outlined in the report; and

(c) Members instruct the Executive Director of Resources to work with budget holders to maximise savings in 2009/10 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.

Executive Summary

Revenue:

The Authority has a detailed medium-term financial plan. The key principles behind this are:-

- To control Council Tax;

- Continue with its modernisation programme and deliver the Authority's vision 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 approved a balanced budget in 2009/10. To achieve this, a number of options were required to deliver the full budget saving target in 2009/10 of £3.872m rising to £4.647m by 2013/14, as outlined in the current Medium Term Financial Plan (MTFP). Once the required consultation has been completed each saving option is implemented and the relevant budget accounts amended. The vast majority of budget decisions have been approved and implemented.

Earmarked reserves of £0.419m to cover project work taking place over 2 financial years have been drawndown since the last review report. A number of self-balancing virements have also been actioned to realign budgets to reflect planned expenditure or the successful award of grants and contributions to deliver various projects. The total budget remains at the original level of £72.110m, (Appendices A1-A4 outline in detail all the revenue budget and reserve movements).

The forecast actual spend for the year indicates a broadly neutral position. The Executive Director of Resources will continue to work with budget holders to maximise savings in 2009/10 as part of the continuing strategy of building up reserves to provide a temporary buffer to balance future budgets and avoid compulsory redundancies.

Capital:

Overall the 2009/10 - 2013/14 capital programme remains at the level approved, £39.5m, (a small net increase of 1% or £0.555m since the last financial review report, of which £0.334m relates to new grant or revenue funded schemes). The

report identifies some timing changes to the capital programme including £2.794m of re-phasing of schemes from 2009/10 to future years. The revised Capital Programme is outlined in detail in Appendices B and C.

Reserves & Balances:

The general balance remains unchanged at £2.543m (equivalent to 3.5% of the budget). 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.

Internal Audit:

Internal audit have prepared 3 reports on procurement, budgetary control and income since this quarter. All systems were found to be robust and reliable.

Financial Processes:

Performance in Financial processes remains strong.

Introduction & Background

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 December of the financial year 2009/10.

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

Financial Review Structure

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

D	Financial Process Monitoring/Performance Indicators

(A) Current Financial Year - 2009/10

6. The purpose of the Financial Review Report is to provide Members with an assurance that the approved budget remains robust and that the current forecast of expenditure can be contained within the available resources. If actual expenditure or income for the year is inconsistent with the current budget then the report will, if necessary, identify the appropriate corrective action.

Revenue Budget Movements:

7. Appendices A1 - A4 attached to this report summarise the revenue budget movements since the last financial review report. The net budget requirement remains at £72.110m which is consistent with the original budget.

8. The Authority approved a number of saving options as part of their medium term financial plan (MTFP), £3.872m in 2009/10 rising to £4.647m. The Authority has made fantastic progress in finalising and implementing the majority of the saving options and £3.282m (equivalent to £3.562m in future years) of the approved budget saving options have now been allocated out to the relevant budget heads.

9. At the time of writing this report only £0.510m of the 2009/10 saving target remains to be formally actioned within the budget in 2009/10. The Authority has already made decisions on how to deliver this outstanding target and the consultation & implementation plans are progressing well and should be completed in time to allocate out the remaining savings before the year-end. Table A below summarises the position at the time of writing this report:

TABLE A

Progress on Allocating Out the Budget Saving Options Approved in the 2009/10 - 2013/14 MTFP					
	2009/10	2010/11	2011/12	2012/13	2013/14
	£	£	£	£	£
Budget Resolution - Gross Savings total:	-3,872,000	-4,572,000	-4,597,000	-4,622,000	-4,647,000
Allocated by Qtr3:					
Ill Health Saving	200,000	350,000	350,000	350,000	350,000
Procurement / Efficiency Target	200,000	250,000	250,000	250,000	250,000
CFO/215/09 Review of Firefighter posts within RRT	1,332,000	1,332,000	1,332,000	1,332,000	1,332,000
CFO/216/09 Staffing for Special Appliances at ORCs	280,000	280,000	280,000	280,000	280,000
CFO/217/09 Supervisory Manager Posts within RRT	400,000	400,000	400,000	400,000	400,000
CFO/221/09 LLAR Conversion at Eccleston	300,000	300,000	300,000	300,000	300,000
CFO/211/09 Review of ELT/CLT Management Savings	150,000	150,000	150,000	150,000	150,000
CFO/2108/09 Review of Mgt Structures	250,000	250,000	250,000	250,000	250,000
CFO/220/09 Grey to Green book	170,000	250,000	250,000	250,000	250,000
Allocated Out as at Qtr 3:	3,282,000	3,562,000	3,562,000	3,562,000	3,562,000
Approved Saving Options Yet to be Allocated:					
Reports Considered and Approved by the Authority but awaiting outcome of consultation/ further information:					
CFO/220/09 Grey to Green book - phased in 2010/11 now covered in 2009/10 by cash savings	80,000				
CFO/222/09 Self Rostering- 12month trial	360,000	360,000	360,000	360,000	360,000
Approved Budget Saving Proposals being worked on:					
Reduce Non Uniform Support Costs	150,000	150,000	150,000	150,000	150,000
Engineering Centre of Excellence		150,000	150,000	150,000	150,000
Income Generation through social enterprise		175,000	200,000	225,000	250,000
Apply Retirement Rengagement		175,000	175,000	175,000	175,000
To be Allocated Out:	590,000	1,010,000	1,035,000	1,060,000	1,085,000
Anticipated total allocated saving options:	3,872,000	4,572,000	4,597,000	4,622,000	4,647,000

10. The Service revenue budget has been increased by £0.073m for the cost of non-employee related price inflation, and this adjustment has been funded from the approved price provision.

11. The budget has also been amended to reflect the use of £0.419m of earmarked reserves to cover project work taking place over 2 financial years, of which £0.250m related to the Beacon peer project. Also a number of self-balancing budget virements have been actioned to realign budgets to adhere to planned spend or to reflect the successful award of grants and contributions to deliver various projects in 2009/10, (these are set out in Appendices A1 - A4)

    The total budget remains at the original budget level of £72.110m.

(B) Revenue Forecast Position:

12. Each month budget managers receive a statement on the actual spend against budget for the year and an assessment is made on the potential year-end position.

13. Based on expenditure up to the end of December 2009, the overall actual forecast has identified a potential small favourable variance of £0.250m (equivalent to -0.3% of the budget), and is summarised in **Table B** below:

TABLE B

Forecast Revenue Position Based on April 09 - December 2009 Review			
	Budget	**Forecast Actual**	**Forecast Net Position**
	£m	**£m**	**£m**
Forecast Revenue Position:			
Employee Costs			
To be allocated saving option	-0.590	0.000	0.590
Uniform direct salaries	43.691	43.651	-0.040
Non-Uniform direct salaries	12.525	11.875	-0.650
Pension & Other Employee Costs	3.549	3.549	0.000
Employee Costs	59.175	59.075	-0.100
Contingency for Pay & Price Increase	0.120	0.070	-0.050
Other non-employee costs	12.815	12.715	-0.100
Forecast Overall Variance	**72.110**	**71.860**	**-0.250**

14. **Overall the Authority is well on line to deliver its budget saving options by 2011/12.** The following paragraphs outline those areas considered to be at risk of possible significant variation to the current budget.

Employee Costs

15. Employee costs make-up over 82% of the Authority's revenue budget and it is from this budget that £3,672m or 95% of the 2009/10 savings are to come from, see **Table A**. This is the most risk critical area of the financial plan and it is therefore monitored extremely closely.

16. Only two approved employee saving options remain to be implemented, £0.150 non-uniformed saving (currently being finalised), and £0.360m self-rostering saving (a 12-month trial is close to being commenced). To ensure the employee costs in the year can deliver the required budget saving in cash terms the employee actual expenditure is monitored in great detail. Uniform staff retirements have continued at a high level and are in line with expectations. The net current forecast on the uniformed staff budget is a net underspend of £0.040m.

17. The approved saving option to re-classify some posts from "grey to green" has resulted in an increase of £0.630m in the green book employee budget (note that the overall employee budget change was a net reduction of £0.170m this year and £0.250m in future years). Due to the timing of actual staff movement

this change will result in a substantial forecast underspend in 2009/10. The non-uniform budget is prepared on the basis of providing for all posts in the approved establishment at the top of the post grade. Due to staff turnover a number of posts remain vacant for parts of the year and not all staff will be at the top of their relevant grade. It is reasonable to assume a similar level of saving to previous years for this variation. Overall the net forecast on the non-uniformed staff budget is a net underspend of £0.650m.

18. Overall the employee position is summarised below:

	£'m
• Employee saving options to be allocated	0.590
• Uniform employee forecast cash saving	(0.040)
• Non-Uniform forecast cash saving	(0.650)
Employee forecast over/(under)spend	(0.100)

Contingency for 2009/10 Pay & Price Increases

19. Members will recall that the last financial review report identified a permanent saving on the employee pay contingency of £0.400m as a result of the lower than anticipated 2009/10 pay awards. This has now been taken into account in the revised MTFP. The 2009/10 budget included a provision of 2% for price increases. However, due to the current economic climate and the funding of some price increase from within service budgets a small £0.050m saving on the price inflation provision is forecast. This saving will also be permanent and built into the revised MTFP.

Other Non-Employee Revenue Costs

20. The Executive Director of Resources is continuing to work with budget holders to maximise savings in 2009/10 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 will materialise at the year-end, potentially exceeding £0.100m, but this can not be confirmed until the accounts have closed. Officers will continue to monitor all costs and work with the Executive Director of Resources to maximise any savings.

Other Potential Issues:

Home Fire Safety Checks, (HFSC)

21. Performance on the HFSC programme is expected to continue to be outstanding and the Authority will continue its longstanding policy to charge the costs of the alarms and their installation costs to the capital programme. The Authority has in the past funded these capitalised salary costs through borrowing. However, the policy has been reviewed in the light of changing legislation as the Government has introduced amendments to the capital regulations regarding the determination of the prudential MRP (the minimum amount to repay debt) and it is now recommended over the long term to finance

this capitalised cost through a revenue contribution to capital, (£1m of capitalised salaries funded through unsupported borrowing is likely to result in a £1.6m debt repayment & interest charge to revenue over a 10year period). Therefore the current capital programme has assumed capitalised HFSC salaries are to be funded by the revenue saving following the capitalisation of HFSC salaries. The Executive Director of Resources will consider at the year-end if, in light of the worsening public financial position if, the option of funding the capitalised installation costs via borrowing is worthy of contemplation in the short term as part of an overall financial strategy.

Private Finance Initiative (PFI)

22. The Government's Project Review Group has given an unconditional approval for the North West Project to proceed to market and authorised the release of PFI Credits to the value of £66.4m. The contribution required from the Authority remains consistent with the amount assumed in the financial plan and financial models. The Competitive Dialogue process has now concluded and Final Tenders have been received from the remaining two Bidders. These have now been evaluated and the Final Business Case for the Project together with a recommendation of appointment of Preferred Bidder, will be presented to the special meeting of the Authority scheduled for 25th February 2010.

Summary of Revenue Forecast Position:

23. The impact of the variations outlined previously is summarised in Table B of this report. The Authority has made fantastic progress in implementing the approved budget saving options and required organisational structure changes, and only £0.510m worth of approved options remains to be formally actioned in 2009/10. Officers are confident all saving options can be implemented by the year-end. The financial plan remains on track and potential favourable variances of £0.250m have been forecast in this review. However, Members are asked only to note this potential saving at this stage in the year and instruct the Executive Director of Resources to continue to work with budget managers to maximise any savings. Any savings confirmed at the year-end may be used to increase reserves to contribute to the current strategy of building up reserves in order to provide a temporary short term buffer to balance future budgets and avoid compulsory redundancies.

Capital Forecast Position:

24. Attached as **Appendix B** (2009/10 Capital Programme) and **Appendix C** (Updated 2009/10 - 2013/14 Capital Programme) to this report are the latest capital position statements. Since the last financial review report the overall capital programme has increased by £0.551m, or +1%, mainly as a result of approved changes to the programme.

The two major changes were:

- Children's and Young Peoples Information Management System, CFO/274/09, approved by the Authority 17 December, 2009, £0.250m (grant funded); and

- Incident Ground Management System, CFO/279/09, approved by the Authority 10 December, 2009, increasing the current scheme by £0.221m.

The remaining changes reflect minor scheme adjustments.

25. The majority of the changes made to the 5 year capital programme relate to a re-phasing of planned spend, particularly from 2009/10 into 2010/11 of £2.794m. Appendix C outlines the adjustments made to the 5 year capital programme, and they have been summarised in Table C below:

TABLE C

Movement in the 5 Year Capital Programme Since the Last Financial Review						
	Total Cost	2009/10	2010/11	2011/12	2012/13	2013/14
Expenditure	£	£	£	£	£	£
Children's & Young Peoples IMS	250,000	250,000				
Incident Ground Mgt System	221,000	221,000				
Fire Safety Investment	24,100	24,100				
Centre of Excellence	60,000	60,000				
Rephasing of current programme	0	(2,794,100)	2,794,100			
	555,100	**(2,239,000)**	**2,794,100**	**0**	**0**	**0**
Funding						
Borrowing:						
Rephasing of current programme (neutral)	0	(2,794,100)	2,794,100			
Incident Ground Mgt System	221,000	221,000				
Capital Grant						
Children's & Young Peoples IMS	250,000	250,000				
RCCO:						
Centre of Excellence	60,000	60,000				
Fire Safety Investment	24,100	24,100				
	555,100	**(2,239,000)**	**2,794,100**	**0**	**0**	**0**

26. **Building & Land Programme** - A re-phasing of £1.164m of planned station refurbishment or accommodation building work from 2009/10 to 2010/11 has been identified. Delays in finalising plans, getting approval, going out to tender and resolving all legal arrangements has meant expenditure is now expected to be incurred in 2010/11. The final approved drawdown of £0.060m from the capital investment reserve to the Engineering Centre of Excellence scheme has been actioned, together with other self-balancing alignments within the programme to fund other future proofing work on this scheme, particularly the mezzanine office space development.

27. **ICT Programme** - the increase in the programme of £0.471m as a result of the new Children's and Young Peoples Information Management System scheme and an increase in the Incident Ground Management System scheme have already been referred to in this report. The only other notable change are the

re-phasing of £0.125m planned spend from 2009/10 into 2010/11 for work on e-mail retention systems, £0.045m, and Bluetooth/ emerging technologies hardware, £0.080m, schemes.

28. **Vehicles Programme** - the latest phasing of appliance planned completion and delivery dates requires the programme to re-phase £1.305m from 2009/10 into 2010/11.

29. **Other Programmes** - Other re-phasing into 2010/11 of £0.200m

Use of Reserves:

30. The analysis in Appendix A2 outlines the £0.419m movement on reserves during the third quarter of 2009/10. The 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 £2.543m.

Summary:

31. Overall the current budget remains at the same level approved in the original budget, £72.110m. The Authority is on target to deliver in cash terms the approved budget savings.

32. The 2009/10 - 2013/14 capital programme has been amended to reflect the revised phasings of a number of schemes.

33. The Authority's general reserve stands at £2.543m (3% of the revenue budget) and is deemed prudent and realistic in comparison to the current risks faced by the service. Earmarked reserves of £0.419m have been drawndown in quarter 3 to fund costs associated with projects and grant funded schemes taking place over 2 financial years.

34. This report has identified a potential small saving on the revenue budget. Members are asked only to note this potential saving at this point, and

    - instruct the Executive Director of Resources to continue to work with budget managers to maximise any savings in 2009/10, and

    - continue to utilise any saving to contribute to the current strategy of building up reserves in order to provide a temporary short term buffer to balance future budgets and avoid compulsory redundancies.

35. The Executive Director of Resources is currently reviewing the key assumptions in the approved medium term financial plan to assess in light of the current position on public finances what impact this may have on the level of required future years savings.

(C) 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 December 2009/10.

37. Treasury Management processes are designed to manage treasury management risks. The Authority has approved a treasury management strategy that balances the level of risk taken between **security** of investments, **liquidity** of cash being available when required, and the **yield** of investment income expected. The Authority's Treasury Management Practices dictate that "the Treasury Manager remains alert for any financial disturbance or world event that may trigger extraordinary action that may need to be taken". The global financial crisis is being closely monitored for impacts on interest rates, borrowing and investments.

New Treasury Management & Prudential Codes

38. The reporting of Treasury Management activity and the Treasury Management Prudential Indicators meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

39. On 27th November 2009 CIPFA published revised editions of both Codes. The Treasury Management Code of Practice has been revised as a result of the review into Treasury Management in local authorities following the Icelandic banking crisis. The Prudential Code revision primarily takes into account changes in the accounts as a result of migration to IFRS (International Financial Reporting Standards).

40. In addition to the new Codes, the government is expected to issue new Investment Guidance early in 2010 following consultation on changes to the capital finance system.

41. The impact of the changes on the treasury management function will be assessed and implemented in 2010/11 and will be reflected in the Treasury Management Strategy for 2010/11 which will be considered by the Authority as part of budget setting.

Prospects For Interest Rates

42. The strategy statement for 2009/10 predicted that falling inflation would enable the Bank of England Monetary Policy Committee (MPC) to reduce Bank Rate to 1% or below. The very low rates were forecast to continue throughout 2009/10. Bank Rate stood at 0.5% at the start of the financial year following 0.5% reductions at both the February and March MPC meetings. It has remained at this level and is not expected to change during this financial year.

43. Long-term interest rates would be driven by conflicting forces but with an overall upward tendency. Longer-term Public Works Loans Board (PWLB) rates were expected to rise from 4.5% to perhaps 5% by the end of the year. The PWLB 50 year rate rose during the early part of the financial year reaching a maximum of 4.8% before falling to a low point of 4.25% at the end of September 2009. It has subsequently risen to 4.50% in mid December 2009. A further increase is expected later in the financial year.

44. The strategy indicated that the money market would be volatile but the overall structure of interest rates whereby short term rates are lower than long-term rates was expected to remain throughout 2009/10. In this scenario, the strategy is to reduce investments and borrow for short periods and possibly at variable rates when required.

Capital Borrowings and the Portfolio Strategy

45. The Authority's net capital borrowing requirement for 2009/10 was estimated at £6.7 million. In accordance with the strategy, no new long term borrowing has been arranged and investments have been reduced. As part of this process, PWLB loans with a total value of £4 million at interest rates above 4% were prematurely repaid to PWLB. The transaction generated a discount of £140,000. Any borrowings required for cash flow purposes as a result have been for short periods at rates below 1%. This has generated net interest savings of £120,000 in addition to the discount.

Annual Investment Strategy

46. The investment strategy for 2009/10 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with ODPM 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.

47. 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 December 2009 the average rate of return achieved on average principal available was 0.56%. This compares with an average seven day deposit (7 day libid) rate of 0.37%.

48. As at 31 December, 2009 the Authority had investments of £2.000m with the institutions outlined below:

MFRS Investments at 31/12/09				
Institution	**Principal**	**Maturity**	**Category**	**Rating**
	£			
HBOS Instant Access Account	1,000,000	ongoing	Bank	AA-
Yorkshire Bank Instant Access Account	1,000,000	ongoing	Bank	AA-
Total	**2,000,000**			

External Debt Prudential Indicators

49. The external debt indicators for 2009/10 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £66 million
Operational boundary for external debt: £56 million

Against these limits, the maximum amount of debt reached at any time in the first half of the financial year 2009/10 was £46 million.

Treasury Management Prudential Indicators

50. The treasury management indicators for 2009/10 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 half of the financial year 2009/10 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 half of the financial year 2009/10 was as follows:-

Maturity Period	**Upper Limit**	**Lower Limit**	**Maximum**	**Minimum**
Under 12 months	30%	0%	0%	0%
12 months and within 24 months	30%	0%	2%	2%
24 months and within 5 years	30%	0%	13%	13%
5 years and within 10 years	30%	0%	2%	2%
10 years and above	95%	50%	83%	83%

(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 2009/10. No such investments have been placed during 2009/10.

(D) Internal Audit

51. The Authority continues to "buy in" Internal Audit services from Liverpool City Council. Since the last financial review 3 audit reports have been finalised -

- Procurement - highest level of assurance awarded (substantial), nil recommendations,

- Budgetary Control - highest level of assurance awarded (substantial), one small recommendation made and already actioned by the service.

- Income & Debtors - adequate assurance awarded, a number of small amendments suggested mainly around tidying up some of the wording in documents.

For Members information, attached as **Appendix D** is a full copy of the completed audit reports.

Monitoring of Financial Progress

52. In order to ensure that the internal financial processes of the Authority are operating effectively, for example payroll, debt collection and payment of invoices, a suite of performance indicators has been developed and now feed into the financial review. Appropriate performance indicators and the data collection processes for these indicators continue to evolve and their number will grow in future reviews. At present indicators relate to:

- Payment of invoices,
- Discounts obtained from prompt payments;
- Non-Payroll Expenses;
- Petty Cash; and
- Debtors

Prompt Payment of Invoices

53. 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. 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).

54. In July 2009 the Authority applied to join the Prompt Payment Code (PPC). The application is subject to verification of prompt payment performance by key suppliers. Confirmation is currently awaited that the application has been successful. The PPC gives notice to suppliers of the Authority's commitment to pay promptly. The Department for Business Enterprise & Regulatory Reform is

keen for all businesses and local authorities to pay suppliers promptly, particularly in the current economic climate. 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 these payments 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.

55. A comparison of third quarter performance over previous years confirms that system improvements continue to enable the Authority to pay invoices (some 4,499 in the quarter ended December 2009) promptly.

2007/08	99.8%
2008/09	99.9%
2009/10	100%

56. The target for prompt payment in 2009/10 is 100%. The third quarter's results confirm the Service continues to respond quickly and efficiently to requests for payment from suppliers with 11,732 out of 11,756 invoices being paid within the timeframe.

57. The Authority has made payments to suppliers by BACS for a number of years. Where possible, cheques will only be paid to suppliers/employees as a last resort. During the quarter CLT resolved to remove the cheque payments in respect of long service awards. This initiative is consistent with the objective to conduct business electronically in compliance with government targets and to make optimum use of the Authority's fully automated 'procure-to-pay' application that is an integral part of its Financial Management Information System (FMIS). Suppliers are becoming increasingly reluctant to accept cheque payments and the number of cheque payments are being actively reduced. In the period since April 2009 some 98.7% of all invoices/expense claims have been paid electronically. This enables the Authority to respond to a preferred payment method by both its suppliers and employees

58. To further take advantage of the automated processes available within the 'procure-to-pay' application the system has been configured during the quarter to enable Remittance Advice Notes to be emailed to suppliers when payments are made. This represents a significant system enhancement and generates savings in both cost and time.

59. A new indicator was created during the quarter to assess the number and value of discounts that are obtained from suppliers as a direct consequence of making payments promptly. The Finance Department's Internal Service Level Agreement is to obtain 100% of all prompt payment discounts available. During this quarter a total of 30 invoices (100%) that attracted prompt payment discounts were paid generating savings of £1,727. For the year to date some 94 invoices (100%) that attracted prompt payment discounts have been paid generating savings of £3,174. 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.

Processing Petty Cash & Expense Claims

60. Performance indicators have also been developed to monitor the turnaround of employee expense claims and petty cash reimbursements. The purpose of these indicators is to give focus to quality service provision by helping to identify system weaknesses where they exist so that they can then be rectified.

61. The Finance Department's Internal Service Level Agreement in relation to processing those types of transactions are as follows:

Expense claims	-	100% in 1 working day
Petty cash reimbursements	-	100% in 2 working days

62. Performance against these targets for the equivalent quarter in previous years is as follows: (Cumulative)

	2007/8	2008/09	2009/10
Expense payments	100%	97%	100%
Petty cash reimbursements	100%	100%	100%

63. The targets have proved extremely demanding in the drive for quality service provision. Transactions that fail to meet the 1 or 2-day turnaround target are invariably processed within two days of the required date. Significant improvements have been made to the various administrative processes and this is reflected in the consistently high performance over the period analysed.

64. During this quarter a review of petty cash floats across the Service has been undertaken. The review analysed the frequency and value of float reimbursement claims to ensure compliance with Financial Regulations. There are currently 36 Sub Imprests across the Service. The review saw 27 (75%) reduced, 4 (11%) remaining unaltered and 5 (14%) increased. The review of floats is now programmed to be undertaken on a 4-monthly cycle and is designed to ensure sufficient cash is available for small value purchases and sundry expense claims. This will strike a balance between making cost effective use of staff time and resources in making small value payments while minimising the risk of having unnecessarily large sums of cash available where they are not required.

Processing Sales Invoices and the Debt Recovery Process

65. A number of Performance Indicators have also been developed to give drive and focus to the improvements to the debtor's process and to plot the age profile of outstanding debt. The Finance Department's Internal Service Level Agreement in relation to processing those types of transactions are as follows:

Sales invoice production	-	100% in 2 working days
Reminder letters	-	100% in 3 working day

66. Performance against these targets for the equivalent quarter in previous years is as follows: (Cumulative)

	2007/8	2008/09	2009/10
Sales Invoice Production	90%	91%	97%
Reminders	84%	84%	96%

67. Again, the targets have proved demanding in the drive for quality service provision. Those transactions that fail to meet the 2 or 3-day turnaround target are invariably processed within two days of the required date. Responsibility for processing Sundry Debtor accounts has been reassigned within the Finance Department with effect from January 2010. The re-assignment of duties will enable a greater focus to be placed on the end-to-end Sundry Debtors process from sales invoice initiation to final payment of amounts owed. This will seek to build on the significant improvements that have been made to the debt initiation and recovery processes so that services provided by the Authority are invoiced in a timely manner and pursued with increasing effectiveness, to increase the likelihood of prompt payment.

The Age Profile of Outstanding Debt

68. A comparison of the number and value of aged debts over 60 days for the third quarter can be summarised as follows:

Number of debts 60 days+

	2007/8	2008/09	2009/10
October	113	107	93
November	84	113	83
December	80	130	91

Value of debts 60 days+

	2007/8 £'000	2008/09 £'000	2009/10 £'000
October	207	299	217
November	191	436	121
December	346	406	261

NOTE: *of the 91 / £261k of invoices outstanding indicated in the above as at 31.12.09, 21 / £62k of them are being paid on arrangement in instalments.*
39/ £74k have been referred to the Litigation Team to consider recovery action.

69. The Service raises approximately 1,200 debtor 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 three

year period. The number of invoices over 60+ days fluctuates between 5% and 9% of the total raised in a 12-month period. The Authority's debt recovery process commences 30 days after a debt has been raised and the number of write offs anticipated each year is small.

70. Debtor accounts under £5,000 may be written off by the Executive Director of Resources. Since the last financial review 13 accounts have been written off at a value of £5,097.50, and **Appendix E** provides an analysis of the accounts and the reason for the write off.

Equality & Diversity Implications

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

Financial Implications & Value for Money

72. See Executive Summary.

Health & Safety and Environmental Implications

73. None arising from this report.

Contribution to Achieving the Vision

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

74. 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/021/09 "MFRA Budget and Financial Plan 2009/2010-2013/2014" Authority 26th February 2009.

Report CFO/149/09 "Revenue Outturn 2008-2009 & The Statement of Accounts" Authority 25 June 2009.

Report CFO/198/09 "Financial Review 2009/10 - April to June Review" Authority 17 September 2009.

Report CFO/260/09 "Financial Review 2009/10 - April to September Review" Strategy & Resources Committee 17 December 2009.

Glossary of Terms

ARA - Additional Responsibility Allowances

ECE - Engineering Centre of Excellence

HFSC - Home Fire Safety Check

MFRA - Merseyside Fire & Rescue Authority

MRP - Minimum Revenue Provision - An amount set aside from revenue towards the repayment of loan debt.

PFI - Private Finance Initiative - a central government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

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.