REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY BUDGET AUTHORITY MEETING**
DATE:	**26 FEBRUARY 2013**
REPORT NO.	**CFO/124/13**
REPORTING OFFICER:	**KIERAN TIMMINS, DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**IAN CUMMINS, HEAD OF FINANCE, EXTN. 4244**
OFFICERS CONSULTED:	
SUBJECT:	**FINANCIAL REVIEW 2012/13 – April to December**

APPENDIX A1: TITLE "Revenue Budget Movements Summary"
APPENDIX A2: TITLE "Budget Movement on Reserves 2012/2013"
APPENDIX A3: TITLE "Fire Service Revenue Budget Movement Summary"
APPENDIX A4: TITLE "Corporate Services Revenue Budget Movements Summary"
APPENDIX B: TITLE "Capital Programme 2012/2013"
APPENDIX C: TITLE "Current Capital Programme for 2012/2013 – 2016/2017"
APPENDIX D: TITLE "Bad Debt Write-Offs in Quarter 3"

ATTACHED – HARD COPY

Purpose of Report

1. To review the financial position, both revenue and capital, for the Authority for 2012/13. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to December 2012.

Recommendation

2. That Members;

   a) Approve the 2012/13 budget variations and allocation of capital reserves as set out in this report; and

   b) Instruct the Deputy Chief Executive to continue to work with budget managers to maximise savings in 2012/13; and

   c) Note the potential £2.500m favourable revenue position and its addition to reserves, and

   d) Delegate authority to the Deputy Chief Executive to award appropriate contracts for finance/payroll/HR ICT systems subject to it being contained within the current budget.

Executive Summary (if report 3 pages or more long)

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 mission of achieving Safer Stronger Communities – Safe Effective Firefighters
- To deliver the required savings through efficiencies of which most are employee related, with the aim of avoiding compulsory redundancies if possible by using natural retirement rates and if required Voluntary Early Retirement/Voluntary Severance.

The total budget requirement remains at the original budget level of £69.748m, (appendix A1 – A4 outlines in detail all the revenue budget and reserve movements).

The Authority has made good progress in implementing the approved budget saving options and required organisational structure changes. Only two saving options remain to be formally implemented.

The firefighter/control room staff pay award of 1% will require extra savings of £0.4m. This does not require immediate action but can be included in decision making around next years budget, because costs can be contained within the overall employee budget as firefighter retirements and other green book savings ensures the service continues to deliver in "cash" terms the required saving target.

Overall this report has indicated that in line with its strategy the Authority is £2.500m "ahead of target" saving by the year-end. The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2012/13.

Capital:

The capital programme planned allocation has reduced by £1.646m, mainly as a result of the deletion of the contingency provision of £1.679m, built into the programme in light of some significant risks around the potential volatility of some of the major schemes. Overall the borrowing requirement has reduced by £4.167m following the adjustment for the contingency provision above and the receipt of £2.488m of general capital grant from CLG for 2013 – 2015. The revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:

The general fund balance remains unchanged at £4.684m. All movements in reserves are outlined in Appendix A2. A review of the current earmarked reserves has been carried out by the Deputy Chief Executive and is being considered within the Budget and Financial Plan report, **CFO/025/13**, elsewhere on the agenda.

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.

Introduction & Background

3. The purpose of this report is to enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.

4. This report is the review of the Authority's position up to the end of the December of the financial year 2012/13 (April – December 2012).

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 – 2012/13

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 Position:

Revenue Budget Movements:

7. The attached **Appendix A** to this report summarises the revenue budget movements since the last financial review report. The net budget requirement remains at £69.748m which is consistent with the original budget.

8. There have been a number of budget adjustments with no net impact, because they are budget increases financed by reserves. They total £1.334m with the major elements being as follows:

   - Allocation of £0.270m from the severance reserve to fund voluntary severance/voluntary early retirement payments to staff who have left during the year;
   - Allocation of £0.946m from the capital investment reserve to fund approved capital investment contained within the current capital programme.

   The remaining drawdown from reserves is to fund projects carried forward from 2011/12.

9. Update on 2012/13 Elements of Financial plan yet to be Achieved:

   Three savings were approved as part of the Authority's medium term financial plan (MTFP) that have not yet been fully delivered;

   - Revised Duty System at Whiston – members considered report CFO/091/12 at the Authority meeting on 3rd July 2012, and approved in principle the creation of a combined blue light centre at Prescot, with the two pump fire station element to replace the one pump stations at Huyton and Whiston. Although the scheme is unlikely to reach fruition until late 2014 the required savings of £0.300m will be delivered in any case (in cash terms) as firefighter retirements continue in line with that expected. This is expected to be achieved late this year.
   - Outsourced Estates function - Final Tender documents were sent to the remaining 5 bidders on the 18th July 2012. The next step is an open day with potential bidders to outline the service's needs. The process has been deferred slightly because of :-
     (a) Internal restructuring of the cleaning services team, which are already delivering permanent savings of £0.1m per annum.

     (b) The volume of building work especially in relation to Joint Control.

   - Assumed Pay Bill Freeze 2012/13. The approved budget assumed a pay bill freeze in 2012/13 that would save the Authority £1.000m. However firefighters and control staff have received a 1% pay increase with effect from July 2012. The full year cost of this award is estimated at £0.400m. All other things being equal, this will require additional savings in the medium term. However, in the short term, because of the overall £2.500m favourable in year forecast position and the level of reserves, the Deputy Chief Executive recommends that decisions on where those additional savings come from considered alongside the "MFRA Budget and Financial Plan 2013/2014 – 2017/2018" report, CFO/025/13, elsewhere on the agenda.

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.

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

Table A

Progress in allocating out Phase 1 Approved Saving Options				
	2012/13	**2013/14**	**2014/15**	**2015/16**
	£'000	**£'000**	**£'000**	**£'000**
2011/12 Approved Savings:	**-8,525**	**-9,200**	**-9,200**	**-9,200**
Complete:				
Assume Pay Bill Freeze 2010/11	-1,000	-1,000	-1,000	-1,000
Assume Pay Bill Freeze 2011/12	-1,000	-1,000	-1,000	-1,000
Assume Pay Bill Freeze 2012/13	-1,000	-1,000	-1,000	-1,000
Reduction in Support Service Costs	-1,300	-1,300	-1,300	-1,300
Review of Capital Programme Financing	-400	-400	-400	-400
Rephasing of Vehicles Capital Programme	-100	-100	-100	-100
Manage dynamic reserve more effectively	-2,300	-2,950	-2,950	-2,950
Reduce Senior Management Costs	-400	-400	-400	-400
MACC Review	-400	-400	-400	-400
Flexible Shift Patterns at Marine 1	-75	-100	-100	-100
	-7,975	-8,650	-8,650	-8,650
Approved Saving Options yet to be finalised:				
Outsource Estates function	-250	-250	-250	-250
Flexible Shift Patterns at Whiston	-300	-300	-300	-300
	-550	-550	-550	-550
TOTAL	-8,525	-9,200	-9,200	-9,200

<u>Revenue Forecast Actual Position:</u>

10. The Authority is expecting future large scale financial challenges and therefore as part of its strategy it has directed officers to maximise savings in the year to contribute towards building up reserves. Such reserves can then be used as part of an implementation strategy and to manage risk as the full scale of grant reductions becomes clear.

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. It is therefore monitored extremely closely.

Firefighter retirements have continued in line with the forecast profile adopted for the financial strategy. Staff turnover within some green book posts has resulted in short term vacancies and this combined with post-holders not being at the top of their budgeted grade has resulted in a small forecast underspend on the employee budget. The cost of the 1% firefighter and control room staff pay award is estimated at £0.300m in 2012/13. Overall the net forecast position is for an underspend of £0.250m. In the longer term, the higher than expected pay award will require additional savings.

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 2012/13 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 some additional savings may be delivered through careful management through the year;

- Premises costs – the budget assumes the full year £0.550m budget to meet the cost of the PFI unitary charge. However, the phasing of the building of the PFI stations combined with some technical changes to the charge calculation mean that the full budget will not be required this year. This combined with other smaller savings has resulted in a forecast saving of £0.350m in this year.
- Transport costs – small favourable variances over a number of lines, (insurance/supplies/running costs), is expected to result in a saving of £0.025m.
- Supplies and services – The Service has successfully delivered some of the phase 1 and future business re-engineering initiatives ahead of schedule. This combined with savings on professional services and a number of other variations have resulted in a forecast saving in this year of £0.850m.
- The Authority funds most of its capital expenditure through borrowing and the resulting debt repayments, (Minimum Revenue Provision, MRP), and interest costs are charged to the revenue account. Following the re-phasing of capital schemes from 2011/12 into later years, and Treasury management policies which seek to delay borrowing by minimising investments, a saving on debt and interest payments of £0.800m is likely. In line with the Budget resolution the Deputy Chief Executive is reviewing the capital programme and its financing to identify permanent savings that might contribute to the financial plan. These will be reported in detail through the budget process.

- Interest on Balances - As members may be aware current interest rates on 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 is likely to be a reduced investment income that may be below that assumed in the budget of £0.182m. This variation will be factored into the review discussed above.

- Contingency provision for pay and prices – as staff numbers reduce and demand for non-employee items shrinks combines with a policy of pro-actively managing spend has resulted in the ability of individual budget lines to absorb inflationary price increases. The estimated saving on the contingency for pay and prices provision in 2012/13 is £0.407m

Other Potential Issues:

11. **Home Fire Safety Checks, (HFSC); The Authority continues to have a largescale programme of installing smoke alarms and carrying out home fire safety checks.** The Authority has a long standing policy to charge the costs of the alarms and their installation costs to the capital programme in line with Government guidance. 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 or other means is worthy of contemplation in the short term as part of an overall financial strategy.

Summary of Revenue Forecast Position:

12. The Authority has made good progress in implementing the approved budget saving options and required organisational structure changes.

    The 1% firefighter/control room staff pay award will require extra savings of £0.4m. This will be included in the 2013/14 budget process. Two budget options remain to be fully completed in budgetary terms. However these issues can be contained within the overall budget due to firefighter retirements and other green book savings the service continues to deliver in “cash” terms the required saving target.

    Overall the forecast based on spend to December 2012 has indicated a potential £2.500m saving by the year-end. The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2012/13. Table B below summarise the revenue year-end forecast position based on spend to the end of September 2012:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	CORP MGT BUDGET	TOTAL BUDGET	ACTUAL as at 31.12.12	FORE-CAST	VARI-ANCE
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Expenditure						
Employee Costs	54.434	0.429	54.863	38.532	54.613	-0.250
Premises Costs	3.649	0.000	3.649	1.828	3.299	-0.350
Transport Costs	1.620	0.000	1.620	1.120	1.595	-0.025
Supplies and Services	5.299	0.056	5.355	2.341	4.505	-0.850
Agency Services	2.283	0.000	2.283	2.913	2.283	0.000
Central Support Services	0.240	0.129	0.369	0.262	0.369	0.000
Capital Financing	7.773	0.000	7.773	0.000	6.973	-0.800
Income	-3.648	0.000	-3.648	-4.314	-3.648	0.000
Net Expenditure	71.650	0.614	72.264	42.682	69.989	-2.275
Contingency Pay&Prices	0.645		0.645	0.000	0.238	-0.407
Cost of Services	72.295	0.614	72.909	42.682	70.227	-2.682
Interest on Balances	-0.232		-0.232	-0.030	-0.050	0.182
Movement on Reserves	-2.929		-2.929	0.000	-2.929	0.000
Total Operating Cost	69.134	0.614	69.748	42.652	67.248	-2.500

Capital Forecast Position:

13. Members approved an updated 5 year capital programme (2012/13 – 2016/17) when they considered the last financial review report, CFO/160/12, totalling £42.268m. This has now been updated for scheme additions and changes during quarter 3 of -£1.646m which are summarised in the table below:

TABLE C

Movement in the 5 Year Capital Programme

	Total Cost	2012/13	2013/14	2014/15	2015/16	2016/17
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2012/13 re-phasings	0.0	-2,488.8	2,488.8			
New Schemes:						
Wireless rollout	27.0	27.0				
Mini Buses funded from Princes Trust	50.0	50.0				
Buildings; Energy conservation	42.8	42.8				
Deletion of grant funded contingency provision	-1,678.9	-1,678.9				
Reduction in Scheme costs	-87.0	-12.0		-25.0	-25.0	-25.0
	-1,646.1	**-4,059.9**	**2,488.8**	**-25.0**	**-25.0**	**-25.0**
Funding						
Grants;						
CLG Capital Grant	2,488.0		1,244.0	1,244.0		
RCCO						
New	119.8	119.8				
Other						
Borrowing:						
Impact of re-phasing of schemes	0.0	-2,488.8	2,488.8			
CLG capital grants 2012/13, 2013/14 & 2014/15	-4,166.9	-1,678.9	-1,244.0	-1,244.0		
Reduction in Scheme costs	-87.0	-12.0		-25.0	-25.0	-25.0
	-1,646.1	**-4,059.9**	**2,488.8**	**-25.0**	**-25.0**	**-25.0**

14. Late in 20111/12 the Authority received a capital grant from CLG, £1.7m. Rather than apply it immediately to the capital programme funding it was held as a contingency against future expenditure increases. Now the capital expenditure is more certain the contingency is no longer required (so expenditure can be reduced) and the grant can be used to reduce the Authority's borrowing totals.

15. The overall level of borrowing has reduced by £4.254m, of which £4.167m is due to the use of the CLG capital grant mentioned above and the use of the general CLG capital grant for 2013/14 and 2014/15 announced in the 2013/14 budget settlement. Other small amendments to the capital programme totalling £0.033m make up the remaining adjustments outlined in table C above.

16. The revised detailed capital programme is attached as **Appendix B** (2012/13 Capital Programme) and **Appendix C** (2012/13–2016/17 Capital Programme) to this report.

Use of Reserves:

17. The analysis in Appendix A2 outlines the £1.334m movement on reserves during the third quarter of 2012/13 mainly to fund costs associated with VER/VS and funding of capital schemes. The level of total earmarked reserves stands at £14.197m. The Deputy Chief Executive has undertaken a review of these reserves to determine if any reserve funding can be freed up and considered as part of the future budget challenge. The "MFRA Budget and Financial Plan 2013/2014 – 2017/2018" report, CFO/025/13, elsewhere on the agenda, includes a recommendation on the use of these reserves.

(B) Treasury Management

18. 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 2012/13.

19. **Prospects For Interest Rates**

    Short-term rates have remained at 0.5% in line with the forecast for them to remain on hold for the rest of the financial year. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a double-dip recession. The crisis in the euro-zone, the prospects of tight economic policies at home and weak consumer confidence means that any recovery in the economy is set to be weak and protracted.

    Longer term rates have fallen by 0.25% during the three quarters. They have been suppressed by investor concerns over Eurozone sovereign debt, decelerating activity, demand for safe haven instruments and the Bank of England's operations in the market. However, a very heavy programme of gilt issuance is required to fund the government deficit and, ultimately, the increased supply could push gilt yields higher. The effect would be upward pressure on longer-term Public Works Loans Board (PWLB) rates though this may not now happen in 2012/13.

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 2012/13. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

22. Capital Borrowings and the Portfolio Strategy

The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2012/13. Current market conditions continue to be unfavourable for any debt rescheduling.

23. Annual Investment Strategy

The investment strategy for 2012/13 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.

The diversity of investments has been expanded by the use of Certificates of Deposit with high rated banks and deposits with the larger Building Societies. These deposits combined with investments with the “nationalised” banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 31 December 2012 the average rate of return achieved on average principal available was 1.35%. This compares with an average seven day deposit (7 day libid) rate of 0.41%.

The Authority had investments of £19.8m as at 28 December, (most of which is due to the receipt of firefighter pension grant payment of £21.471m in July 2012 and other Government grants in advance of spend, PFI £1.8m; Control Room £1.8m; CLG Capital Grant £1.7m):

ANALYSIS OF INVESTMENTS END OF DECEMBER 2012

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Deutsche Global Liquidity Series (Fund)	**AAA**			
Goldman Sachs - SLRF	**AAA**			
Ignis liquidity Fund	**AAA**	3,000,000		
Morgan Stanley	**AAA**	1,800,000		
Prime Rate	**AAA**	1,000,000		
HBOS Corporate A/c.	**A**		2,000,000	
HBOS Masters Deposit	**A**		2,000,000	
Close Brother	**A**		1,000,000	
Schroders	**A**			
Nat West	**A**		4,000,000	
Leeds BS	**A**			1,000,000
Principality BS	**Unrated**			1,000,000
Nationwide	**A**			2,000,000
West Brom BS	**Unrated**			1,000,000
Totals		5,800,000	9,000,000	5,000,000
Total Current Investments				**19,800,000**

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

24. External Debt Prudential Indicators

The external debt indicators of prudence for 2012/13 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £82 million
Operational boundary for external debt: £50 million

Against these limits, the maximum amount of debt reached at any time in the first three quarters of the financial year 2012/13 was £46.1 million.

25. Treasury Management Prudential Indicators

The treasury management indicators of prudence for 2012/13 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 2012/13 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 three quarters of the financial year 2012/13 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	80%	0%	5%	2%
12 months and within 24 months	50%	0%	3%	0%
24 months and within 5 years	50%	0%	12%	9%
5 years and within 10 years	50%	0%	11%	9%
10 years and above	80%	0%	75%	74%

c) Total principal sums invested for periods longer than 364 days

The limit for investments of longer than 364 days was set at £2million for 2012/13. No such investments have been placed during 2012/13.

(C) Internal Audit

26. The Authority continues to "buy in" Internal Audit services from Liverpool City Council. Most audit work is carried out in the later part of the year to fit in with the service work demands and provide relevant data for the year-end audit of systems.

27. At the end of December 3 audits for this year had been completed. A high level of assurance was awarded in all audits bar the audit of the TDA Canteen Income controls which were found to be limited although the risk to the Authority was deemed negligible. Since the report on the TDA was produced officers have acted quickly to implement the recommendations of the report to ensure the relevant controls are now in place. A report outlining the detailed findings of the Audit work has been considered by the Audit Sub-Committee on the 14th February 2013.

(D) Monitoring of Financial Progress

28. 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:

- Payment of invoices,
- Discounts obtained from prompt payments;
- Debtors

29. 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).

30. 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.

31. A comparison of first quarter performance over previous years confirms that system improvements continue to enable the Authority to pay invoices (some 4,000 in the quarter ended December 2012) promptly.

2008/09	99.9%
2009/10	100.0%
2010/11	99.9%
2011/12	99.9%
2012/13	99.8%

31. The target for prompt payment in 2012/13 is 100%. The first quarter's results confirm the Service continues to respond quickly and efficiently to requests for payment from suppliers with 4,000 out of 4,008 invoices being paid within the required timeframe.

32. We have continued to ensure discounts due from the prompt payment of invoices are vigorously pursued. During the quarter a total of 14 invoices that attracted prompt payment discounts were paid generating savings of £2,771 with total savings for the year to date equating to some £6,408. 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 1 April 2009 to 31 December 2012. 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. 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)

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 is 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+

	2008/09	2009/10	2010/11	2011/12	2012/13
October	107	93	57	19	43
November	113	83	60	20	40
December	130	91	38	21	36

Value of debts 60 days+

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
October	299	217	113	25	58
November	436	121	165	65	69
December	406	261	124	67	50

37. The Service raises approximately 1,100 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 significant variations when comparing the same month over a five year period. However, considerable effort has been made to actively engage with customers as part of the drive to improve the aged debt profile of the Authority and the success of that effort is reflected in the data set out above. The significant reduction in the number and value of aged debts in 2012/13 is a reflection of the work undertaken by the Finance and Legal teams to tackle aged debts though active engagement with customers in the drive to maximise income for the Authority. Consistent with that effort the number of write offs each year is small. The increase in the value of debt in 2008/09 is attributable to success in attracting external funding for WFG08

38. Debtor accounts under £5,000 may be written off by Deputy Chief Executive. Three accounts totalling £1,008 (excl. VAT) have been approved for write-off by the Deputy Chief Executive following advice from the litigation service. In addition one account with Asset Co for £5,000 (from 2010/11) needs to be written-off as the firm went into administration and despite numerous attempts to seek reimbursement for this debt it has not proven possible. Details of these accounts and the reason for the write off can be found in **Appendix D** attached to this report.

<u>Current Financial Systems Status & Planned Replacement Project Progress:</u>

39. The Authority was advised on 29 January 2013 that the current ICT financial services provider, 2E2, had gone into administration. The administrators are confident that over the coming weeks a buyer will be found and they do not expect any adverse implications to the service we receive. However, given the crucial nature of the applications involved; payroll; procurement and the accounting system, officers have taken steps to nullify the risk if, in the highly unlikely event, 2E2 was wound up. Regular downloads from the applications are being undertaken and stored on the Authority's ICT, a payroll file has been created to allow a basic pay run for all staff, and BACS payments can be made to suppliers for services provided.

40. The current contract with 2E2 is due to expire in November 2013. Report CFO/116/12 to the Policy and Resources Committee on 27th September 2012 advised on the progress to deliver a replacement contract for the finance systems and in addition seek to procure a computerised HR system that would be integrated with the new payroll application. The project board is due to meet at the end of February, 2013, to agree on the preferred supplier. The timeframe for finalising contract terms and conditions with the preferred supplier; implementing the new system; have a test payroll by early summer 2013; and final go-live payroll and replacement finance systems by September / October 2013 is extremely tight. In light of this, and subject to the cost of the new contract being within the available budget, authority is being sought to delegate power to the Deputy Chief Executive to issue a "Intent to Award Letter" at the earliest possible

time (expected to be the 4th March) and then enter into a contract with the preferred supplier once the evaluation/selection process has been completed.

Equality & Diversity Implications

41. There are no Equality and Diversity implications contained within this report.

Staff Implications

42. None directly related to this report.

Legal Implications

43. None directly related to this report.

Financial Implications & Value for Money

44. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

45. None arising from this report.

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

46. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's Mission.

BACKGROUND PAPERS

Report CFO/033/12 “MFRA Budget and Financial Plan 2012/2013-2016/2017” Authority 16th February 2012.

Report CFO/089/12 “Revenue Outturn 2011-2012” Authority 3 July 2012.

Report CFO/138/12 “Financial Review 2012/13 April to June” Policy & Resources Committee 27 September 2012.

Report CFO/160/12 “Financial Review 2012/13 April to September” Authority 04 December 2012.

***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