AGENDA ITEM:

REPORT TO: **Meeting of the**	**MERSEYSIDE FIRE & RESCUE AUTHORITY** **POLICY & RESOURCES COMMITTEE**
DATE:	**27TH SEPTEMBER 2012**
REPORT NO.	**CFO/138/12**
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 JUNE 2012**

APPENDIX A1: TITLE “Revenue Budget Movements Summary”

APPENDIX A2: TITLE “Budget Movement on Reserves 2012/2013”

APPENDIX A3: TITLE “Fire Service Revenue Budget Movements Summary”

APPENDIX A4: TITLE “Corporate Service Revenue Budget Movements Summary”

APPENDIX B: TITLE “Capital Programme 2012/2013”

APPENDIX C: TITLE “Updated 2012/2013 – 2016/2017 Capital Programme”

APPENDIX D: TITLE “FIRE & RESCUE SERVICES National Employers - CIRCULAR EMP/11/12”

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 first 3 months of the year (April – June 2012).

Recommendation

2. That Members;
   a) Approve the 2012/13 budget variations identified in this report; and
   b) Grant delegated authority to the CFO to finalise the training requirement at Toxteth to be funded from the capital investment reserve
   c) Instruct the Deputy Chief Executive to continue to work with budget managers to maximise savings in 2012/13; and
   d) Note the potential favourable revenue position identified within this report.

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 VER/VS

The Authority is on target to deliver the 2012/13 budget savings in cash terms and is progressing well with the required structural changes in its workforce to maintain the required savings on a permanent basis.

The 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 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 potential favourable revenue forecast has been identified in this report. However at this early stage in the year and in light of ongoing technical reviews associated with future savings (revenue costs associated with capital spend, inflation) this report recommends members note the potential position. Officers will update members on the latest position in future financial review reports. Officers will continue to work through the remainder of the year to maximise any savings in order to increase reserves.

Capital:

The capital programme planned spend has increased by £6.252m, of which £3.987m relates to the re-phasing of schemes from 2011/12 into 2012/13 (reported to members in the 2011/12 outturn report). The remaining £2.265m increase is funded by specific grant or other non-borrowing funding. Therefore the net increase in borrowing identified in this report, £3.694m is effectively planned borrowing from 2011/12 being rephrased into 2012/13. The revised Capital Programme is outlined in Appendix C and D.

A training need for the city centre stations has been identified and it is proposed to meet that need by development at Toxteth. It is recommended that delegated authority be given to the Chief Fire Officer to finalise the training specification with the costs of this important investment in firefighter safety to be funded from the capital investment reserve.

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

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

Financial Processes:
Performance in Financial processes remains strong.

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 June of the financial year 2012/13 (April – June 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	Final Position 2011/12
B	Current Financial Year Review (Revenue Budget, Capital Programme and movement on Reserves)
C	Treasury Management Review
D	Internal Audit
E	Financial Process Monitoring/Performance Indicators

(A) 2011/2012 Position/Final Accounts

6. Members received a report on the 2011/12 final accounts position at the Authority meeting on 03 July 2012 (report CFO/089/12). The accounts reported the Authority was ahead of its savings target so was able to add to reserves in line with its

strategy. Overall there was an increase in earmarked reserves of £5.118m (of this £1.867m related to phasing of grant funded and specific projects into 2012/13).

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

(B) <u>Current Financial Year – 2012/13</u>

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

<u>Revenue Position:</u>

<u>Revenue Budget Movements:</u>

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

10. The most significant budget adjustment has been the full allocation of savings relating to staff reductions in the Inshore Rescue team (£0.075m) and MACC (£0.400m) following Authority approval.

11. The required staffing reductions in the Inshore Rescue team have been achieved without compulsory redundancy. At the time of writing this report the required reductions in staffing numbers at MACC have not yet been achieved but a number of staff have expressed interest in VER/VS.

12. In addition there has been the drawdown from earmarked reserves of £0.161m to fund projects that have been re-phased from 2011/12.

13. <u>Update on 2012/13 Elements of Financial plan yet to be Achieved:</u>
Three further 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 2013/14 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 18th July 2012, and an open day is planned in the very near future with potential bidders to outline the service's needs. The tender submission return date is likely to be before the end of 2012, with a

planned date for an Authority Report on the outcome of bids before the end of 2012/13. If members approve the acceptance of any bid it is hoped a contract start date would be in early 2013/14. In the interim officers are looking are achieving the required saving target, £0.250m, via a combination of managing vacancies, restructuring the cleaning service and controlling premises maintenance and other costs.

- Assumed Pay Bill Freeze 2012/13. The approved budget assumed a pay bill freeze in 2012/13 that would save the Authority £1.000m. Although no formal offer has yet to be made from the Employers side the NJC Executive Council has indicated some sympathy to a potential pay increase for firefighters of 1%. This would reduce any Pay Bill Freeze saving by approximately £0.500m. As no formal offer has yet to be made officers will continue to monitor the situation and update members in future financial review reports on the outcome of any negotiations and the impact if any on the financial plan.

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
	-14,500	-15,850	-15,850	-15,850
TOTAL	-22,475	-24,500	-24,500	-24,500

<u>Revenue Forecast Position:</u>

14. The Authority is expecting a 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. Such reserves can then be used as part of an implementation strategy 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 and 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 the their budgeted grade has resulted in a small forecast underspend on the employee budget.

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 and report back in more detail on savings that are ahead of target as the year progresses.

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;

- Supplies and services – At present there are a number of forecast underspendings as volumes of activities and purchases have been controlled.
- 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 is likely. In line with the Budget resolution the Deputy Chief Executive is reviewing the capital programme and its financing to identify 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 "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 is likely to be a reduced investment income that may be below that assumed

in the budget. This variation will be factored into the review discussed above

15. **Contingency for 2012/13 Pay & Price Increases**
Members will recall that the budget made no provision for pay bill increases in 2012/13. No pay offer has been made to firefighting staff this year although early indications are that the national employers organisation (NJC) for firefighters may want to consider the possibility of some sort of pay award. The latest circular from the employers is attached as Appendix D. There has been no offer to non-uniform staff. Every 1.0% point would approximately £0.5m to the Authority's pay bill. This financial review report assumes the pay bill freeze will remain in place for 2012/13. In addition officers are reviewing the currently inflation provision to determine if any efficiencies can be identified in light of the coming financial challenge.

Other Potential Issues:

16. **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:

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

Three budget options remains to be fully completed in budgetary terms however due to firefighter retirements and other green book savings the service continues to deliver in "cash" terms the required saving target.

Overall the initial forecast based on the first 3 months of the year has indicated savings may be delivered ahead of target. Risks exist around the assumption of a pay freeze. The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2012/13 and will report in more detail in future financial reviews. Table B below summarise the revenue year-end forecast position based on spend to the end of June 2011:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	CORP MGT BUDGET	TOTAL BUDGET	ACTUAL as at 30.06.12	FORE-CAST	VARI-ANCE
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs	53.632	0.387	54.019	12.980	53.769	-0.250
Premises Costs	3.343	0.000	3.343	0.571	3.343	0.000
Transport Costs	1.579	0.000	1.579	0.522	1.579	0.000
Supplies and Services	4.978	0.109	5.087	0.639	4.887	-0.200
Agency Services	2.240	0.000	2.240	1.109	2.240	0.000
Central Support Services	0.241	0.086	0.327	0.004	0.327	0.000
Capital Financing	6.375	0.000	6.375	0.000	5.575	-0.800
Income	-3.283	0.000	-3.283	-1.111	-3.283	0.000
Net Expenditure	69.105	0.582	69.687	14.714	68.437	-1.250
Contingency Pay&Prices	0.945		0.945	0.000	0.945	0.000
Cost of Services	70.050	0.582	70.632	14.714	69.382	-1.250
Interest on Balances	-0.232		-0.232	0.005	-0.150	0.082
Movement on Reserves	-0.652		-0.652	0.000	-0.652	0.000
Total Operating Cost	69.166	0.582	69.748	14.719	68.580	-1.168

Capital Forecast Position:

18. Members approved a £30.272m 5 year capital programme (2012/13 – 2016/17) at the Authority Budget meeting on 16 February 2012, (CFO/033/12). This has now been updated for the approved 2011/12 year-end re-phasing of projects into 2012/13 of £3.987m as reported to the Authority on 3 July 2012 in the year-end report (CFO/089/12).

19. Members have considered and approved a report on a proposal to build a new accommodation block on the new Formby PFI station site, report CFO/102/12, this decision has now been incorporated into the current capital programme at a cost of £0.535m.

20. Whilst some fire training facilities have been incorporated into the design of the Firefit hub building (ladder gantries on the sports hall for example) a risk issue has been identified around the city centre fire stations. Because of the nature of the buildings and restricted sites there are no traditional comprehensive training facilities (Training Tower/Water pit) at City centre, Kensington or Toxteth at present. In order to improve training arrangements and minimise appliance downtime it is therefore important to add a comprehensive training arrangement to Toxteth for use by all the city centre stations. The Chief Fire Officer is also considering whether further improvements to training capabilities might be achieved by having a more extensive satellite training facility with smoke house and car cutting facilities – making use of the available land at the Toxteth site. The basic building of a training tower and other simple training facilities has an initial provisional cost of £0.150m. (Additional facilities might add to this cost). This investment in firefighter health and safety can be funded from the capital

investment reserve and it is recommended members grant approval to the Chief Fire officer to finalise the training requirements and commission their build on the site

21. The funding for the Firefit hub has been updated to reflect the final agreed contribution from Liverpool City Council

22. Officers have also re-phased some schemes following revised implementation updates;
    - £0.110m was incurred in 2011/12 ahead of the original plan,
    - following an option to procure a 5 rather than the original 3 year licence for the ICT antivirus programmes planned budget was brought forward, and
    - An overall a net saving of £0.183m has been achieved over the current 5 year capital programme.

23. The Government announced that within the Local Government settlement for 2011 – 2015 it had set aside an additional £280m in total (£70m per year) for Fire and Rescue Authorities in England for funding of a Fire Capital Grant. The method of allocation for years 2013/14 -2014/15 is currently being finalised but involves a bidding process for resources. The Authority has submitted a bid to support a potential new fire station in Knowsley. For 2012/13 CLG have confirmed the grant is to be distributed using a method relating to population figures and the Authority has received notification it will receive £1.729m. As one would expect with the nature of capital schemes stretching over 5 years either expenditure estimates or specific funding assumptions are subject to change as they are beyond the control of the service, (additional scheme requirements, funding such as capital receipts varies to that estimated or available grants being amended due to pressures on public finances). Therefore the current capital programme has not made any assumption over the use of the £1.729m capital grant. Officers will report back appropriately on how this resource might be used.

24. Overall the revised capital programme has increased by £6.252m however due to the increased level of specific funding the required level of borrowing has only increased by £3.694m. It is important that the impact of this level of borrowing has in effect been built into the revenue budget as it relates to the re-phasing of expenditure and borrowing from 2011/12 as £3.987m of expenditure has been re-phased from 2011/12 into 2012/13. The capital programme changes are summarised in Table C below. 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.

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**
2011/12 year-end re-phasings	3,987.0	3,987.0	0.0	0.0		
2012/13 Identified Re-phasings	-110.0	-78.0	-32.0	0.0		
CLG Capital Grant funding resource	1,728.9	1,728.9				
Toxteth Firefit Hub	218.0	218.0				
CFO/102/12 New Formby LLAR House	535.0	535.0				
ICT Antivirus re-phase/saving by taking longer licence	-183.0	248.0	-152.0	-279.0		
Workshop Equipment & Other	76.0	76.0				
	6,251.9	**6,714.9**	**-184.0**	**-279.0**	**0.0**	**0.0**
Funding						
Grants;						
CLG Capital Grant	1,728.9	1,728.9				
Cap Receipts - Old Formby LLAR house	350.0	0.0	350.0			
Capital Reserve (Firefighter training work at the Hub & Formby LLAR)	335.0	335.0				
RCCO	76.0	76.0				
Other						
Toxteth Hub Liverpool CC contribution	68.0	68.0				
Borrowing:						
Impact of re-phasing of schemes	3,694.0	4,157.0	-184.0	-279.0		
New LLAR Hse Formby / Cap Receipt impact	0.0	350.0	-350.0			
	6,251.9	**6,714.9**	**-184.0**	**-279.0**	**0.0**	**0.0**

25. Members have approved reports on a proposal for a new station in Prescot, CFO/091/12, and a joint control centre at SHQ, CFO/113/12. Both reports have asked members to note or approve the schemes in principle pending further pieces of work to be reported back in the very near future. The capital programme has not yet been adjusted for these schemes.

26. 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.

<u>Use of Reserves:</u>

27. The analysis in Appendix A2 outlines the £0.161m movement on reserves during the first quarter of 2011/12 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.

(C) <u>Treasury Management</u>

28. 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 2012/13.

29. **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 first quarter. 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.

30. 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.

31. 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.

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 or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 June 2012 the average rate of return achieved on average principal available was 2.20%. This compares with an average seven day deposit (7 day libid) rate of 0.45%.

The Authority had investments of £7.1m as at 30 June 2012, (most of which is due to the carry forward of £9.1m of investments from 2011/12):

ANALYSIS OF INVESTMENTS END OF JUNE 2012

Institution	Credit Rating	MM Fund*	Bank / Other
		£	£
Deutsche Global Liquidity Series (Fund)	**AAA**	1,000,000	
Goldman Sachs - SLRF	**AAA**	500,000	
HBOS Corporate A/c.	**A**		2,000,000
HBOS Masters Deposit	**A**		2,000,000
Nat West	**A**		1,600,000
Totals		1,500,000	5,600,000
Total Current Investments			**7,100,000**

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

32. 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 quarter of the financial year 2012/13 was £46.1 million.

33. 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 quarter 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%	10%	10%
5 years and within 10 years	50%	0%	11%	11%
10 years and above	80%	0%	74%	74%

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 2012/13. No such investments have been placed during 2012/13.

(D) Internal Audit

34. The Authority continues to "buy in" Internal Audit services from Liverpool City Council. Most audit work is carried out in the second part of the year to fit in with the service work demands and provide relevant data for the year. At the end of June 2012 no new internal audit reviews have been completed.

(E) Monitoring of Financial Progress

35. 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

36. 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).

37. 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.

38. A comparison of first quarter performance over previous years confirms that system improvements continue to enable the Authority to pay invoices (some 1,131 in the quarter ended June 2012) promptly.

2008/09	100.0%
2009/10	99.4%
2010/11	99.9%
2011/12	99.9%
2012/13	100.0%

39. 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 1,131 out of 1,131 invoices being paid within the required timeframe.

40. We have continued to ensure discounts due from the prompt payment of invoices are vigorously pursued. During the quarter a total of 41 invoices that attracted prompt payment discounts were paid generating savings of £1,117. 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.

41. 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 30 June 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.

42. <u>Processing Sales Invoices and the Debt Recovery Process</u>

A number of Performance Indicators have been developed to give drive and focus to improvements to the sundry debtor process and to plot the age profile of outstanding debt. Key Performance Indicators in relation to the processing of income generation type transactions are as follows:

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

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

43. 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.

44. 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
April	58	95	63	38	32
May	85	91	63	34	50
June	83	101	65	44	41

Value of debts 60 days+

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
April	110	311	101	81	79
May	336	255	107	62	180
June	214	293	148	149	127

45. 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

46. Debtor accounts under £5,000 may be written off by Deputy Chief Executive. No accounts were written off in the period relating to this report.

Equality & Diversity Implications

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

Staff Implications

48. None directly related to this report.

Legal Implications

49. None directly related to this report.

Financial Implications & Value for Money

50. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

51. None arising from this report.

Contribution to Achieving the Vision:
"To Make Merseyside a Safer, Stronger, Healthier Community"

52. 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 vision.

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.

*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