AGENDA ITEM:

REPORT TO: **Meeting of the**	**MERSEYSIDE FIRE & RESCUE AUTHORITY** **POLICY AND RESOURCES COMMITTE**
DATE:	**26 SEPTEMBER 2013**
REPORT NO.	**CFO/115/13**
REPORTING OFFICER:	**KIERAN TIMMINS, DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**IAN CUMMINS, HEAD OF FINANCE, EXTN. 4244**
OFFICERS CONSULTED:	
SUBJECT:	**FINANCIAL REVIEW 2013/14 – April to June**

APPENDIX A1: TITLE "Revenue Budget Movements Summary"
APPENDIX A2: TITLE "Budget Movement on Reserves 2013/2014"
APPENDIX A3: TITLE "Fire Service Revenue Budget Movements Summary"
APPENDIX A4: TITLE "Corporate Service Revenue Budget Movements Summary"
APPENDIX B: TITLE "Capital Programme 2013/2014"
APPENDIX C: TITLE "Updated 2013/2014 – 2017/2018 Capital Programme"
APPENDIX D: TITLE "Qtr 1 Write-Offs"

ATTACHED – HARD COPY

Purpose of Report

1. To review the financial position, both revenue and capital, for the Authority for 2013/14. 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 2013).

Recommendation

2. That Members note the contents of the report.

Executive Summary

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.

The Authority is on target to deliver the 2013/14 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 £66.721m, (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. At this point in the year a small potential favourable revenue forecast has been identified, however, due to the level of uncertainty in the forecast the report has assumed a neutral financial position. 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 £5.213m, of which £3.460m relates to the re-phasing of schemes from 2012/13 into 2013/14 (reported to members in the 2012/13 outturn report). The remaining £1.753m increase relates to approved amendments in current schemes of which £1.747m is funded by specific grant or other non-borrowing funding. The revised Capital Programme is outlined in Appendix C and D.

Reserves & Balances:
The general balance remains unchanged at £2.894m. All movements in earmarked 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 2013/14 (April – June 2013).

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 2012/13
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) 2012/2013 Position/Final Accounts

6. Members received a report on the 2012/13 final accounts position at the Authority meeting on 27 June 2013 (report CFO/080/13). 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 £3.457m (of this £1.147m related to phasing of grant funded and specific projects into 2013/14).

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) Current Financial Year – 2013/14

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

Revenue Position:

Revenue Budget Movements:

9. The attached **Appendix A** to this report summarises the revenue budget movements since the last financial review report. The net budget requirement remains at £66.721m which is consistent with the original budget.

10. There have been a number of budget adjustments with no net impact because they are either self-balancing virements within department budgets or budget increases financed by reserves. The net drawdown from reserves for the period was £0.305m, of which £0.150 was the allocation from the severance reserve to cover voluntary severance/early retirement costs.

11. Update on 2013/14 Elements of Financial plan yet to be Achieved:

The Authority approved savings in total of £19.3m (Phase 1 & 2) as part of the 2011/12 - 2017/18 financial plans. Of the savings expected to be implemented by 2013/14 (£14.3m) £1.197m have yet to be formally implemented, however plans are well advanced to deliver these savings, and in cash terms the total value of savings will be delivered in the year. The position on the outstanding £1.197m saving options is;

- Estates £0.250m; Outsourcing was anticipated to save £0.250m p.a. The outsourcing has been deferred for a number of reasons. The service has reviewed the in-house cleaning function and has now implemented the revised staffing structure leaving £0.150m to be found from within the remaining employee and facilities management costs. Officers are reviewing these areas and are confident the full saving option can be formally implemented before the end of the year.

- Flexible Shift Patterns at Whiston £0.300m; Whilst the shift pattern at Whiston has not changed the overall restructure of fire cover will deliver additional savings that will meet this target.

- Phase 2 Cuts in Front Line £.305m; this will be delivered as part of the implementation of the grey book staffing model changes and the move to 28 fire appliances as of 9th September 2013, and the subsequent station and watch re balancing.

- Outstanding Phase 2 Cuts in Support Costs £0.342m; Over £1.333m of the required saving has been implemented so far, the balance reflects some outstanding business re-engineering work that is required before the remaining savings can be formally implemented.

Table A below summarises the position in terms of the implementation of the approved savings at the time of writing this report:

Table A

Progress in allocating out Phase 1 Approved Saving Options				
	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
2011/12 Approved Savings:	**-9,200**	**-9,200**	**-9,200**	**-9,200**
Approved Saving Options yet to be formally implemented:				
Outsource Estates function	-250	-250	-250	-250
Flexible Shift Patterns at Whiston	-300	-300	-300	-300
Value of Saving Optons yet to be formally implemented	-550	-550	-550	-550
2013/14 Approved Savings:	**-5,125**	**-10,060**	**-10,002**	**-10,077**
Approved Saving Options yet to be formally implemented:				
Phase 2 Cuts in Front Line	-305	-1,750	-3,100	-3,100
Phase 2 Cuts in Support Savings	-342	-543	-543	-543
Income Generation	0	0	-100	-100
Value of Saving Options yet to be formally implemented	-647	-2,293	-3,743	-3,743
Total Value of Approved Savings Options	**-14,325**	**-19,260**	**-19,202**	**-19,277**
2011/ 12 - 2013/14 Approved Savings yet to be formally implemented:	**-1,197**	**-2,843**	**-4,293**	**-4,293**

Actual staff numbers are continually monitored to ensure the service continues to deliver in “cash” terms the required saving target.

Revenue Forecast Position:

12. The Authority is expecting further grant cuts in 2015/16 and 2016/17 (as reported to Members at 3rd September 2013 Authority meeting, CFO/103/13) and therefore as part of its strategy it has directed Officers to maximise savings in the year to contribute towards the building up reserves. Such reserves can then be used as part of an implementation and risk management strategy to deliver savings.

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 is expected to deliver a small favourable variance by the end of the year, however at this point a neutral position has been assumed.

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 2013/14. The latest indications are that some additional savings may be delivered through careful management through the year.

Contingency for 2013/14 Pay & Price Increases

Members will recall that the budget made a 1% provision for pay bill increases in 2013/14. Pay awards for all staff have now been settled and have been consistent with the 1% budget assumption. In addition Officers are reviewing the current inflation provision to determine if any efficiencies can be identified in light of the coming financial challenge.

Summary of Revenue Forecast Position:

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

Four 2013/14 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 some potential savings, however at this point in the year a neutral financial position has been assumed. 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 2013:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	CORP MGT BUDGET	TOTAL BUDGET	ACTUAL as at 30.06.13	FORE-CAST	VARI-ANCE
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs (net of o/s savings)	51.413	0.401	51.814	12.392	51.814	0.000
Premises Costs	2.996	0.000	2.996	0.398	2.996	0.000
Transport Costs	1.620	0.000	1.620	0.628	1.620	0.000
Supplies and Services	4.309	0.069	4.378	0.556	4.378	0.000
Agency Services	4.513	0.000	4.513	1.435	4.513	0.000
Central Support Services	0.241	0.129	0.370	0.112	0.370	0.000
Capital Financing	7.931	0.000	7.931	0.000	7.931	0.000
Income	-5.339	0.000	-5.339	-0.765	-5.339	0.000
Net Expenditure	67.684	0.599	68.283	14.756	68.283	0.000
Contingency Pay&Prices	0.792		0.792	0.000	0.792	0.000
Cost of Services	68.476	0.599	69.075	14.756	69.075	0.000
Interest on Balances	-0.367		-0.367	0.042	-0.367	0.000
Movement on Reserves	-1.987		-1.987	0.000	-1.987	0.000
Total Operating Cost	66.122	0.599	66.721	14.798	66.721	0.000

Capital Forecast Position:

13. Members approved a 5 year capital programme worth £36.697m at the Authority Budget meeting on 26 February 2013, (CFO/025/13). This has now been updated for the approved 2012/13 year-end re-phasing of projects into 2013/14 of £3.460m as reported to the Authority on 27 June 2013.

14. Members have considered and approved a reports on the Joint Control Centre (JCC) proposal (report CFO/047/13 and CFO/081/13), and the full scheme funding has now been incorporated into the current capital programme. In addition the capital programme has been updated for the Authority's JCC specific ICT requirements as reported in CFO/077/13.

15. Officers have also re-phased some schemes following a revision of implementation dates;
    - £0.004m was incurred in 2012/13 ahead of the original planed 2013/14 spend,
    - £0.200m has been brought forward from 2014/15 in order to allow a possible early replacement of Breathing Apparatus because of technology changes.

16. The programme has also been increased by £0.010m to include purchase of E-recruitment hardware funded from approved revenue budgets

17. Overall the revised capital programme has increased by £5.213m. The capital programme changes are summarised in Table C below. The revised detailed capital programme is attached as **Appendix B** (2013/14 Capital Programme) and **Appendix C** (2013/14–2017/18 Capital Programme) to this report.

TABLE C

Movement in the 5 Year Capital Programme	Total Cost	2013/14	2014/15	2015/16	2016/17	2017/18
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2012/13 re-phasings (net)	3,456.0	3,456.0				
JCC Build Variations	815.0	815.0				
JCC ICT scheme	932.0	932.0				
E-recruitment Hardware	10.2	10.2				
	5,213.2	**5,213.2**	**0.0**	**0.0**	**0.0**	**0.0**
Funding						
External Contributions						
M'side Police	815.0	815.0				
Grant						
CLG Capital Grant for JCC ICT	700.0	700.0				
RCCO						
ICT schemes	10.2	10.2				
Other						
Capital Reserve for JCC ICT scheme	232.0	232.0				
Borrowing:						
Impact of re-phasing of schemes	3,456.0	3,456.0				
	5,213.2	**5,213.2**	**0.0**	**0.0**	**0.0**	**0.0**

Use of Reserves:

18. The analysis in Appendix A2 outlines the £0.305m movement on reserves during the first quarter of 2013/14 to fund costs associated with voluntary severance and projects taking place over two financial years. The general revenue reserve has remained unchanged at £2.894m.

(C) Treasury Management

19. 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 2013/14.

20. **Prospects for Interest Rates**

There has been a distinct shift towards optimism in growth forecasts and a modest and sustained recovery over the next three years is indicated by the Bank of England. In addition, there was a lowering of the inflation forecast to now hit the 2% target within two years. However, this is still a long way away from a strong recovery and given the generally weak outlook for economic growth, the prospects for any increase in Bank Rate before 2015 are limited. In consequence, 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.

It was expected that there would be upward pressure on longer term rates due to a high volume of debt issuance and improved prospects of a return to economic growth.

Long term PWLB rates rose by 0.25% during the first quarter and forecasts are for higher PWLB rates as a result of the stronger economic recovery.

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 2013/14. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

21. **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 2013/14. Current market conditions continue to be unfavourable for any debt rescheduling.

22. **Annual Investment Strategy**

The investment strategy for 2013/14 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 2013 the average rate of return achieved on average principal available was 0.85%. This compares with an average seven day deposit (7 day libid) rate of 0.36%.

The Authority had investments of £19.3m as at 30 June 2013, (most of which is due to the carry forward of £17.4m of investments from 2012/13):

ANALYSIS OF INVESTMENTS END OF JUNE 2013

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Ignis Liquidity Fund	AAA	3,000,000		
Prime Rate	AAA	1,300,000		
Natwest Term Deposit	A	4,000,000		
Close Brothers	A	1,000,000		
West Bromwich B Soc	Unrated	1,000,000		
HBOS 12 Month FTD	A		2,000,000	
Nationwide BS	A		2,000,000	
Skipton Building Society	Unrated		1,000,000	
Newcastle Building Society	Unrated		1,000,000	
Nottingham Building Soc	Unrated		1,000,000	
HBOS 12 Month FTD	A		2,000,000	
Totals		10,300,000	9,000,000	
Total Current Investments				19,300,000

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

23. **External Debt Prudential Indicators**

The external debt indicators of prudence for 2013/14 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £82 million
Operational boundary for external debt: £48 million

Against these limits, the maximum amount of debt reached at any time in the first quarter of the financial year 2013/14 was £45.1 million.

24. **Treasury Management Prudential Indicators**

The treasury management indicators of prudence for 2013/14 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 2013/14 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 2013/14 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	80%	0%	3%	2%
12 months and within 24 months	50%	0%	3%	3%
24 months and within 5 years	50%	0%	9%	9%
5 years and within 10 years	50%	0%	10%	10%
10 years and above	80%	0%	77%	75%

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 2013/14. No such investments have been placed during 2013/14.

(D) Internal Audit

25. 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 2013 no new internal audit reviews have been completed.

(E) Monitoring of Financial Progress

26. 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

27. 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.

28. 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.

29. A comparison of first quarter performance over previous years confirms that system improvements continue to enable the Authority to pay invoices (some 2,007 in the quarter ended June 2013) promptly.

2009/10	99.4%
2010/11	99.9%
2011/12	99.9%
2012/13	100.0%
2013/14	100.0%

30. The target for prompt payment in 2013/14 is 100%. The first quarter's results confirm the Service continues to respond quickly and efficiently to requests for payment from suppliers with 2,007 out of 2,007 invoices being paid within the required timeframe.

31. We have continued to ensure discounts due from the prompt payment of invoices are vigorously pursued. During the quarter a total of 73 invoices that attracted prompt payment discounts were paid generating savings of £2,435. 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.

32. 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 2013. 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.

33. 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 35 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)

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

	2009/10	2010/11	2011/12	2012/13	2013/14
SIRF Generation	63%	72%	80%	84%	82%
Sales invoice production	97%	100%	100%	100%	100%

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

36. The Age Profile of Outstanding Debt

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

Number of debts 60 days+

	2009/10	2010/11	2011/12	2012/13	2013/14
April	95	63	38	32	40
May	91	63	34	50	43
June	101	65	44	41	38

Value of debts 60 days+

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
April	311	101	81	79	131
May	255	107	62	180	136
June	293	148	149	127	45

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 2013/14 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.

38. Debtor accounts under £5,000 may be written off by the Deputy Chief Executive. One account was partially written-off under delegated powers ,totalling £268 (excl. VAT) following advice from the litigation service.

Equality & Diversity Implications

39. There are no equality and diversity implications contained within this report.

Staff Implications

40. None directly related to this report.

Legal Implications

41. None directly related to this report.

Financial Implications & Value for Money

42. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

43. None arising from this report.

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

44. 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/025/13 "MFRA Budget and Financial Plan 2013/2014-2017/2018" Authority 26th February 2013.

Report CFO/080/13 "Revenue Outturn 2012-2013" Authority 27 June 2013.

***Glossary of Terms**

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