MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	BUDGET AUTHORITY		
DATE:	26 FEBRUARY 2015	REPORT NO:	CFO/005/15
PRESENTING OFFICER	KIERAN TIMMINS		
RESPONSIBLE OFFICER:	KIERAN TIMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SMG		
TITLE OF REPORT:	FINANCIAL REVIEW 2014/15 - APRIL TO DECEMBER		

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Purpose of Report

1. To review the financial position, revenue and capital, for the Authority for 2014/15. 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 2014.

Recommendation

2. That Members;

   a Note the potential £0.4m favourable revenue position identified within this report ,

   b Approve the utilisation of the £0.4m favourable revenue position to increase the capital investment reserve in light of the future station merger programme and Service investment needs, and

   c Instruct the Deputy Chief Executive to continue to work with budget managers to maximise savings in 2014/15.

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 whilst minimising the impact of the cuts.

The Authority is on target to deliver the approved 2014/15 budget savings and is progressing well with the required structural changes in its workforce to maintain the required savings on a permanent basis. 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. Overall this report has identified that in cash terms the Authority is £0.4m ahead of its saving plan target. Members are asked to approve utilising this saving to fund an increase in the capital investment reserve in order to provide funding towards the future station merger initiative. The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2014/15.

The total budget requirement remains at the original budget level of £64.356m, (appendix A1 – A4 outlines in detail all the revenue budget and reserve movements).

Capital:

The capital programme planned spend has reduced by £0.580m, of which £0.490m relates to the reduction in smoke alarm spend arising from the Authority policy of offering free smoke alarms to those households most at risk or those properties not yet visited. The revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:

The general balance remains unchanged at £2.000m. 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 and 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 2014/15 (April – December 2014).

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 – 2014/15

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:

7. Budget Movements: The attached Appendix A1 – A4 to this report summarises the movements in the revenue budget. The net budget requirement remains at £64.356m which is consistent with the original budget.

8. 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 in line with previously agreed Authority decisions. The net use of reserves for the period was £0.033m, of which £0.021m was the allocation from the reserves to fund severance payments during the year.

9. Update on Budget Savings Implementation: The Authority has approved savings in total of £25.577m as part of the medium term financial plans. These

will take until 2016/17 to deliver in full because operational savings are being achieved by natural retirement rates. Of this total £20.410m was expected to have been implemented by the end of 2014/15. This has mostly been achieved with only £0.303m yet to be formally implemented. Plans are well advanced to deliver these savings and in cash terms the total value of savings will be delivered in the year.

10. The outstanding £0.303m savings options are;

Phase 1 & 2 (2011/12 & 2013/14 Budget Saving Options);

- Estates Savings target £0.075m; the original target was £0.250m and £0.100m has been delivered by reconfiguring the cleaning service and £0.075m as a result of a reduction in management costs. Outsourcing of the facilities management (FM) will deliver the remainder of this saving. The FM outsourcing has been deferred for a number of reasons but it is expected to be concluded during 2014/15.

- Review of ICT Expenditure £0.150m; The Authority set a target saving on ICT expenditure of £0.200m in 2013/14 rising to £0.350m in future years. The £0.150m reflects the required increased saving target as £0.200m of permanent savings were implemented in 2013/14. Officers are currently in negotiations with our external ICT contractors (most ICT is outsourced) on proposals to achieve the additional £0.150m.

- Restructure of the Training and Development Academy (TDA) £0.030m; of the original £0.062m saving target £0.030m remains to be formally actioned. Officers are finalising a restructure that will deliver the remaining saving by the end of the year.

- Search and Rescue Team (SRT) contracts review £0.048m; revised staff contracts will deliver reduced operating costs for the SRT while maintaining the current service standards.

Table A below summarises the progress in implementing the approved saving options at the time of writing this report:

Progress in Implementing Approved Saving Options	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
A) Phase 1 &2 (2011/12 & 2013/14 Budgets) Approved Savings:					
Options formally implemented into budget	-18,957	-18,899	-18,974	-18,974	-18,974
Approved Saving Options yet to be formally implemented:					
Phase 1					
Outsource Estates function	-75	-75	-75	-75	-75
Phase 2					
Review of ICT spend (*part 2 increase in saving £200k to £350k*)	-150	-150	-150	-150	-150
TDA Restructure	-30	-30	-30	-30	-30
SRT amended contracts	-48	-48	-48	-48	-48
Value of Saving Options yet to be formally implemented	-303	-303	-303	-303	-303
Total	**-19,260**	**-19,202**	**-19,277**	**-19,277**	**-19,277**
B) 2014/15 Budget Approved Savings:					
Options formally implemented into budget	-1,150	-1,878	-2,120	-2,000	-2,000
Approved Saving Options yet to be formally implemented:					
Non Employee Budget review	0	0	0	0	0
10% saving on Non Uniform Establishment	0	-450	-900	-900	-900
Operational Response	0	-350	-3,000	-3,400	-3,400
Value of Saving Options yet to be formally implemented	0	-800	-3,900	-4,300	-4,300
Total	**-1,150**	**-2,678**	**-6,020**	**-6,300**	**-6,300**
Total Value of Approved Savings Options (A + B)	**-20,410**	**-21,880**	**-25,297**	**-25,577**	**-25,577**
Total of Approved Savings yet to be formally implemented	**-303**	**-1,103**	**-4,203**	**-4,603**	**-4,603**

Actual staff numbers are continually monitored to ensure the Service continues to deliver in "cash" terms the required saving target.

11. Actual Expenditure in comparison to Revenue Budget**:** The Authority is expecting further grant cuts in 2015/16 and in future years 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 approximately 80% of the Authority's revenue budget and is the most risk critical area of the financial plan. As a result these costs are monitored extremely closely.

Firefighter retirements have continued in line with the forecast profile adopted for the financial strategy. As a consequence of the current national firefighter dispute the take-up of additional voluntary hours has reduced significantly. After taking account of other small savings on the uniform employee budget the expected overall saving on firefighter employee costs is £0.100m.

Contingency for 2014/15 Pay & Price Increases;

Members will recall that the budget made a 1% provision for pay bill increases in 2014/15. The outstanding 2014/15 pay award settlement for MFRA staff has now been agreed. Green book staff have been awarded a 2.2% increase with effect from January 2015 and covers the period from April 2014 up to 31st March 2016. The two year deal equates to 0.8% in 2014/15 rising to 2.2% in future years. The cost of this award can be contained within the overall pay inflation provision. Officers are continuing to control the allocation of the non-employee inflation. In the first instance any inflationary pressure is expected to be absorbed, at least in the first instance, from within the relevant budget line. As a consequence the estimated saving on the contingency for price inflation provision in 2014/15 is £0.225m.

Other Non-Employee Revenue Costs;

The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2014/15. Additional one-off savings have been identified as outlined below;

- Supplies and services – the Authority set a non-employee saving target of £0.150m in 2014/15 rising to £0.275m in future years. Officers have managed to deliver the full saving target this year. In addition small one-off savings on a variety of other supplies and services budgets has resulted in a forecast additional saving of £0.035m.
- Agency Services – some minor service issues have resulted in a saving on the budgeted unitary charge payments at the PFI stations, saving £0.030m.
- Central Support Services – a small one-off saving is anticipated on the finance application contract of £0.010k due to a slight delay in moving to a new scanning application.

The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2014/15 and will continue to monitor actual staff numbers during the year to ensure the Service continues to deliver in “cash” terms the required saving target.

Summary of Revenue Forecast Position: The Authority has made good progress in implementing the approved budget saving options and required organisational structure changes.

A small number of budget options remain to be fully completed in budgetary terms, however due to Firefighter retirements and other service savings the Service continues to deliver in “cash” terms the required saving target.

Overall the latest forecast has identified a revenue saving of £0.400m. The Deputy Chief Executive is continuing to work with budget holders to maximise savings in 2014/15. Table B below summarise the revenue year-end forecast position based on spend to the end of December 2014:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	CORP MGT BUDGET	TOTAL BUDGET	ACTUAL as at 31.12.14	FORE-CAST	VARI-ANCE
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs	51,193	391	51,584	35,920	51,484	-100
Premises Costs	3,066	0	3,066	2,022	3,066	0
Transport Costs	1,589	0	1,589	1,150	1,589	0
Supplies and Services	4,018	68	4,086	2,169	4,051	-35
Agency Services	4,947	0	4,947	3,915	4,917	-30
Central Support Services	382	94	476	304	466	-10
Capital Financing	7,741	0	7,741	0	7,741	0
Income	-6,608	0	-6,608	-4,244	-6,608	0
Net Expenditure	66,328	553	66,881	41,236	66,706	-175
Contingency Pay&Prices	549		549	0	324	-225
Cost of Services	66,877	553	67,430	41,236	67,030	-400
Interest on Balances	-97		-97	-59	-97	0
Movement on Reserves	-2,977		-2,977	0	-2,977	0
Total Operating Cost	63,803	553	64,356	41,177	63,956	-400

Capital Programme Position:

12. The last financial review report (CFO/113/14) approved a 5 year capital programme worth £37.111m. This has now been updated for scheme additions and changes during quarter 3 of (£0.580m) which are summarised in the table below:

Movement in the 5 Year Capital Programme						
	Total Cost	2014/15	2015/16	2016/17	2017/18	2018/19
Expenditure	£'000	£'000	£'000	£'000	£'000	£'000
2015/16 re-phasings	0.0	-2,891.6	2,991.6	-200.0	50.0	50.0
Amendments to Approved Schemes;						
Realignment / Amendment to Veh Cap Prog.	-108.7	71.4	-137.3	-17.8	16.0	-41.0
Reduction in Smoke Alarm Spend	-490.0	-490.0				
ICT Hardware increase	14.8	14.8				
Ops Equip - Methods of Entry	4.0	4.0				
	-579.9	**-3,291.4**	**2,854.3**	**-217.8**	**66.0**	**9.0**
Funding						
Borrowing:						
Re-phasing of approved schemes into future yrs	0.0	-2,891.6	2,991.6	-200.0	50.0	50.0
Realignment / Amendment to Veh Cap Prog.	-108.7	71.4	-137.3	-17.8	16.0	-41.0
Reduction in Smoke Alarm Spend	-250.0	-250.0				
Capital Reserve (ICT Hardware)	8.5	8.5				
Capital spend funded from the Revenue Budget						
Smoke Alarm installation	-240.0	-240.0				
ICT Hardware	6.3	6.3				
Ops Equip -Methods of Entry	4.0	4.0				
	-579.9	**-3,291.4**	**2,854.3**	**-217.8**	**66.0**	**9.0**

13. The reduction in the capital programme of £0.580m has resulted in a reduction in required borrowing of £0.359m. The reduction in the capital programme can be explained by;

- Officers have reviewed major schemes planned expenditure and have revised the phasing of some schemes in light of this review. As a consequence £2.892m planned 2014/15 spend has been re-phased into future years. In addition some small realignment of operational equipment spend in future years has also been actioned following a review of equipment needs.
- A review of the vehicle ancillary fleet has been carried out and the number of cars and vans in the programme has now been reduced by 25 and replaced by 13 '4x4' vehicles that are more suitable to meeting operational needs. In addition the vehicle programme has been amended in light of the latest vehicle purchase costs. The net impact is an overall reduction of £0.109m in the programme.
- The current fire safety capital programme is based on the delivery of approximately 100,000 HFSCs and the installation of 70,000 free smoke alarms a year. In recent years the spend on smoke alarms and installation has reduced as a consequence of the Authority policy of offering free smoke alarms to only those households most at risk and those not previously visited. Smoke alarm spend and installation is expected to be £0.250m and £0.240m lower than budget.
- The remaining amendments reflect small increases in the ICT and Operational Equipment budgets that are being funded by revenue or reserve budgets.

14. The revised detailed capital programme is attached as Appendix B (2014/15 Capital Programme) and Appendix C (2014/15–2018/19 Capital Programme) to this report.

Use of Reserves:

15. The analysis in Appendix A2 outlines the £0.033m movement on reserves during the third quarter of 2014/15. The drawdown from reserves is required to fund approved projects and some severance costs incurred in the year. The general revenue reserve has remained unchanged at £2.000m.

16. It is recommended that the £0.400m revenue saving identified in this report is allocated to increase the capital investment reserve. The capital investment reserve will provide a funding stream to support the proposed future station merger programme and to support the Authority strategy of aiming to minimise borrowing costs.

(C) Treasury Management

17. 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 2014/15.

18. **Prospects For Interest Rates;**

Growth prospects remain strong for the rest of 2014/15 and unemployment is expected to fall. The Monetary Policy Committee (MPC) was forecast to hold bank rate at 0.5% throughout 2014 but with the possibility of an increase in early 2015 should the recovery prove stronger than expected. However, the sharp fall in UK inflation and further weakening in the Eurozone indicates that any move will be delayed until later in 2015. Base rate is expected to remain at 0.5% for the rest of the financial year 2014/15.

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. However, this has been offset by a continued demand for safe haven instruments whilst there is political unrest in various places around the world. Long term PWLB rates fell by 0.4% during the first half of the year. Since then, benign prospects for inflation and base rate changes have resulted in a further fall by 0.5% to the end of December 2014.

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 2014/15. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

19. **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 2014/15. Current market conditions continue to be unfavourable for any debt rescheduling.

20. **Annual Investment Strategy;**
The investment strategy for 2014/15 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2014/15 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

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 31st December 2014 the average rate of return achieved on average principal available was 0.66%. This compares with an average seven day deposit (7 day libid) rate of 0.35%.

The Authority had investments of £15.4m as at 31st December 2014:

ANALYSIS OF INVESTMENTS END OF DECEMBER 2014				
Institution	**Credit Rating**	**MM Fund***	**Bank / Other**	**Building Society**
		£	**£**	**£**
Ignis Liquidity Fund	AAA	2,400,000		
Handelsbanken Inst Access	A		2,000,000	
Close Brothers	A		2,000,000	
HBOS 9 Month FTD	A		2,000,000	
Clydesdale Bank	A		2,000,000	
Coventry B Soc	A			2,000,000
Progressive B Soc	Unrated			1,000,000
West Brom B Soc	Unrated			1,000,000
Principality B Soc	Unrated			1,000,000
Totals		2,400,000	8,000,000	5,000,000
Total Current Investments				**15,400,000**
**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*				

21. **External Debt Prudential Indicators;**
The external debt indicators of prudence for 2014/15 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £80 million
Operational boundary for external debt: £44 million

Against these limits, the maximum amount of debt reached at any time in the period 1st April to 31st December was £43.6 million.

22. **Treasury Management Prudential Indicators;**
The treasury management indicators of prudence for 2014/15 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 period 1st April to 31 December 2014 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 period 1st April to 31st December 2014 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%	5%	2%
24 months and within 5 years	50%	0%	8%	4%
5 years and within 10 years	50%	0%	9%	8%
10 years and above	85%	0%	80%	77%

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 2014/15. No such investments have been placed during 2014/15.

(D) Internal Audit

23. The Authority continues to "buy in" Internal Audit services from Liverpool City Council. Most audit work is carried out in the latter part of the year to fit in with work demands and provide relevant data for the year-end audit. Since the last financial review report two project based audits have been completed; a review of the new integrated Payroll/HR process; and, a review of the SHQ JCC agreement between the Authority and Merseyside Police. Some minor recommendations were made, and have been accepted and implemented, in terms of the Payroll/HR processes. Copies of all audit reports will be shared with members at the next Audit Sub-Committee along with any other completed audit reports for member's consideration.

(E) Monitoring of Financial Processes

24. To ensure the internal financial processes of the Authority are operating effectively, a suite of performance indicators have been developed that now feed into the financial review. At present these indicators include:
    - Payment of invoices,
    - Raising Invoices, and
    - Debtors

Prompt payment of invoices

25. 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. Information about the prompt payment of undisputed invoices, paid within 30 days of receipt invoices are reported monthly (LPI128)

26. The performance for this financial year is as follows:

	1st qtr	2nd qtr	3rd qtr	4th qtr
Invoices paid within 30 days of receipt	100%	100%	100%	
Number of Invoices processed	2,323	2,421	2,694	

27. The target for prompt payment in 2014/15 is 100%. The third quarter's results confirm the Authority continues to respond quickly and efficiently to requests for payment from suppliers.

Processing Sales Invoices

28. A key performance indicator in relation to the processing of income generation is the time it takes to generate a sales invoice. The current target is 100% within 2 working days from the request to raise an invoice. The performance for this financial year is as follows:

	1st qtr	2nd qtr	3rd qtr	4th qtr
Sales Invoice production	100%	100%	100%	
Number of Sales Invoices raised	250	211	321	

Debt Recovery

29. A key performance indicator in assessing the service's effectiveness in collecting income due is to review the change in the age and value of debt over a period of time. A comparison of the number and value of aged debts over for the third quarter can be summarised as follows:

Number of debts 60 days+

	2012/13	2013/14	2014/15
October	43	38	39
November	40	23	40
December	36	26	56

Value of debts 60 days+

	2012/13 £'000	2013/14 £'000	2014/15 £'000
October	58	61	111
November	69	18	42
December	50	25	101

30. The Authority 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 month by month and from year to year. It therefore can lead to significant variations when comparing the same month over a period of time. Considerable effort is made to actively engage with customers as part of the drive to improve the aged debt profile of the Authority.

31. Debtor accounts under £5,000 may be written off by Deputy Chief Executive. Four accounts have been approved for write-off under delegated powers totalling £115.56 (excl. VAT) following advice from the litigation service. Details of these accounts can be found in Appendix D.

Equality and Diversity Implications

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

Staff Implications

33. There are no staff implications contained within this report.

Legal Implications

34. None directly related to this report.

Financial Implications & Value for Money

35. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

36. None directly related to this report.

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

37. 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

CFO/011/14 "MFRA Budget and Financial Plan 2014/2015-2018/2019" Authority 27th February 2014.

CFO/097/14 "Financial Review 2014/15- April to June" Policy and Resources Committee 2nd September 2014.

CFO/113/14 "Financial Review 2014/15- April to September" Policy and Resources Committee 27th November 2014.

GLOSSARY OF TERMS

JCC Joint Control Centre

SHQ Service Headquarters

FM	Facilities Management
ICT	Information and communications technology
SRT	Search and Rescue Team
MPC	Monetary Policy Committee
CPI	Consumer Price Index
PWLB	Public Works Loans Board
PPC MFRA	Prompt payment code