

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	17 SEPTEMBER 2015	REPORT NO:	CFO/074/15
PRESENTING OFFICER	IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC MANAGEMENT GROUP		
TITLE OF REPORT:	FINANCIAL REVIEW 2015/16 - APRIL TO JUNE		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A3:	CORPORATE SERVICE REVENUE BUDGET MOVEMENTS
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Purpose of Report

1. To review the financial position, revenue and capital, for the Authority for 2015/16. 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 June 2015.

Recommendation

2. That Members;
 - a) note the contents of the report, and
 - b) Instruct the Treasurer to continue to work with budget managers to maximise savings in 2015/16.

Executive Summary

Revenue:

The Authority has a detailed medium-term financial plan. The key elements of this are :-

- To control Council Tax
- To 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 2015/16 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 future financial challenges. At this point in the year this report has identified that spend is forecast to be consistent with the approved budget. Officers will continue to work through the remainder of the year to maximise any savings in order to increase reserves.

The total budget requirement remains at the original budget level of £62.169m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between April and June 2015.

Capital:

The capital programme planned spend has increased by £8.120m of which £3.836m relates to the re-phasing of schemes from 2014/15 into 2015/16 (reported to members in the 2014/15 outturn report). The remaining £4.284m increase relates to approved amendments in current schemes, of which £4.200m relates to the proposed Saughall Massie Fire Station scheme (CFO/058/15). 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 A4.

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 June of the financial year 2015/16 (April – June 2015).
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

<u>Section</u>	<u>Content</u>
A	Final Position 2014/15
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) 2014/2015 Position/Final Accounts

6. Members received a report on the 2014/15 final accounts position at the Authority meeting on 30th June 2015 (report CFO/061/15). The accounts reported that the Authority was ahead of its savings target and was therefore able to add to reserves in line with its strategy. The Authority underspent on its revenue services budget by £2.698m. However £1.511m was as a result of timing issues for projects, grant funded schemes and specific earmarked reserves were created to cover the phasing of this expenditure. The remaining net underspend of £1.187m (less than a 2% variance on the budget) reflected the continuing drive to maximise savings in the year in light of the financial challenge ahead. The £1.187m was used to increase the capital investment reserve in order to contribute to the station merger capital costs.
7. At the time of writing this report Grant Thornton (external auditors) have not yet completed the audit of the accounts, but the Treasurer is not aware of any areas of concern that will alter the reported position and is confident Audit will approve the accounts without qualification.

(B) Current Financial Year – 2015/16

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:

9. Budget Movements: The attached Appendix A1 – A4 to this report summarises the movements in the revenue budget. The net budget requirement remains at £62.169m 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 in line with previously agreed Authority decisions. The net use of reserves for the period was £0.186m, of which £0.084m was the allocation from reserves to fund amendments in the capital programme outlined further on in this section.
11. 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 2017 to deliver in full because operational savings are being achieved by natural retirement rates. Of this total £21.880m is expected to have been fully implemented by the end of 2015/16. As at the end of June 2015 only £0.078m has 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.
12. The outstanding £0.078m savings options are;

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

- Restructure of the Training and Development Academy (TDA) £0.030m; Officers are finalising a restructure that will formally implement the required budget changes by the next financial review report.
- Search and Rescue Team (SRT) contracts review £0.048m; revised staff contracts are currently being finalised by the People and Organisational Development Directorate that will deliver the reduced operating costs for the SRT whilst maintaining the current service standards.

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

Progress in Implementing Approved Saving Options					
	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
A) Phase 1 & 2 (2011/12 & 2013/14 Budgets) Approved Savings:					
Options formally implemented into budget	-19,124	-19,199	-19,199	-19,199	-19,199
Approved Saving Options yet to be formally implemented:					
Phase 2					
TDA Restructure	-30	-30	-30	-30	-30
SRT amended contracts	-48	-48	-48	-48	-48
Value of Saving Options yet to be formally implemented	-78	-78	-78	-78	-78
Total	-19,202	-19,277	-19,277	-19,277	-19,277
B) 2014/15 Budget Approved Savings:					
Options formally implemented into budget	-2,678	-6,020	-6,300	-6,300	-6,300
Total	-2,678	-6,020	-6,300	-6,300	-6,300
Total Value of Approved Savings Options (A + B)	-21,880	-25,297	-25,577	-25,577	-25,577
Total of Approved Savings yet to be formally implemented	-78	-78	-78	-78	-78

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

13. Actual expenditure in comparison to Revenue Budget: The Authority is expecting further grant cuts over the period 2016/17 – 2019/20 and therefore as part of its strategy it has directed the Chief Fire Officer to maximise savings in the year to contribute towards the building up of 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 75% 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. Non-firefighter employee costs are in line with the approved budget. At this point employee costs are expected to be in line with budgets.

Contingency for 2015/16 Pay & Price Increases;

Members will recall that the budget made a 1% provision for pay bill increases in 2015/16. Non-uniform staff received a 2% two year pay award in 2014/15 that was phased so it equated to a 1% annual pay award in 2014/15 and 2015/16. The Firefighters’ 2015/16 pay award has recently been agreed at 1%. Therefore the actual pay awards are consistent with the 2015/16 budget assumption and within the overall pay inflation provision. Officers are continuing to control the allocation

of non-employee inflation. In the first instance any inflationary pressure is expected to be absorbed from within the relevant budget line.

The Treasurer 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 as the year progresses.

Other Non-Employee Revenue Costs;

The Treasurer is continuing to work with budget holders to maximise savings in 2015/16. At this point in time expenditure is forecast to be in line with budgeted levels.

14. 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 delivered in budgetary terms, however due to Firefighter retirements and other savings the Service continues to deliver in “cash” terms the required saving target.

At present expenditure is forecast to be in line with the budget. The Treasurer is continuing to work with budget holders to maximise savings in 2015/16 and will report in more detail in future financial reviews. Table B below summarises the revenue year-end forecast position based on expenditure to the end of June 2015:

Table B: Anticipated Year-End Revenue Position						
	FIRE SERVICE BUDGET	CORP MGT BUDGET	TOTAL BUDGET	ACTUAL as at 30.06.15	FORECAST	VARIANCE
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs	45,825	392	46,217	11,225	46,217	0
Premises Costs	2,868	0	2,868	698	2,868	0
Transport Costs	1,567	0	1,567	557	1,567	0
Supplies and Services	5,151	76	5,227	659	5,227	0
Agency Services	5,457	0	5,457	1,811	5,457	0
Central Support Services	456	94	550	113	550	0
Capital Financing	7,641	0	7,641	0	7,641	0
Income	-6,583	0	-6,583	-1,881	-6,583	0
Net Expenditure	62,382	562	62,944	13,182	62,944	0
Contingency Pay&Prices	1,012		1,012	0	1,012	0
Cost of Services	63,394	562	63,956	13,182	63,956	0
Interest on Balances	-372		-372	-7	-372	0
Movement on Reserves	-1,415		-1,415	0	-1,415	0
Total Operating Cost	61,607	562	62,169	13,175	62,169	0

Capital Programme Position:

15. Members approved a 5 year capital programme worth £27.268m at the Authority Budget meeting on 26th February 2015, (CFO/014/15). This has now been updated for the approved 2014/15 year-end re-phasing of projects into 2015/16 of £3.836m as reported to the Authority on 30th June 2015.
16. The capital programme has also been updated for scheme additions and changes during quarter 1 of £4.284m. Members have considered and approved the build of a new community fire station at Saughall Massie, (CFO/058/15) at an initial estimated cost of £4.200m. In addition two new schemes have been included totalling £0.084m. Both schemes contribute towards delivering a safe effective environment for firefighters and are being funded from approved earmarked reserves. These schemes are the replacement of CCTV on appliances at £0.040m and the purchase of a Teletruck vehicle for the TDA at £0.044m. Also following the early release of updated breathing apparatus equipment officers have brought forward the approved budget for this equipment, £0.085m, from 2017/18 into 2015/16. All of these approved changes have been incorporated into the current capital programme.
17. Overall the revised capital programme has increased by £8.120.4m. The capital programme changes are summarised in Table C below. The revised detailed capital programme is attached as Appendix B (2015/16 Capital Programme) and Appendix C (2015/16–2019/20 Capital Programme) to this report.

TABLE C

Movement in the 5 Year Capital Programme						
	Total Cost	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
2014/15 re-phasings	3,836.4	3,836.4	0.0	0.0	0.0	0.0
Future years re-phasings (BA equip)	0.0	85.0		-85.0		
Amendments to Approved Schemes;						
Saughall Massie FS New Build (CFO/058/15)	4,200.0	100.0	4,100.0	0.0	0.0	0.0
Replace CCTV Equipment on appliance	40.0	40.0				
Teletruck Handler vehicle required for TDA	44.0	44.0				
	8,120.4	4,105.4	4,100.0	-85.0	0.0	0.0
Funding						
Borrowing:						
Re-phasing of approved schemes	2,546.4	2,631.4	0.0	-85.0	0.0	0.0
Sale of West Kirby LLAR hse	-400.0		-400.0			
Sale of Allerton CFS/hse	-400.0		-400.0			
Capital Receipts						
Re-phasing of Derby Rd and Formby LLAR hse	790.0	790.0				
Saughall Massie FS sale of Upton FS	350.0		350.0			
Saughall Massie FS sale of West Kirby FS	200.0		200.0			
Sale of West Kirby LLAR hse	400.0		400.0			
Sale of Allerton CFS/hse	400.0		400.0			
Capital Reserve (ICT Hardware)						
Replace CCTV Equipment on appliance	40.0	40.0				
Teletruck Handler vehicle required for TDA	44.0	44.0				
Saughall Massie FS	2,160.0		2,160.0			
Capital Grant						
Saughall Massie - Transformation Grant	1,490.0	100.0	1,390.0			
Police Grant (JCC)	500.0	500.0				
	8,120.4	4,105.4	4,100.0	-85.0	0.0	0.0

Use of Reserves:

18. The analysis in Appendix A4 outlines the £0.186m movement on reserves during the first quarter of 2015/16. 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.

(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 2015.

20. **Prospects for Interest Rates;**

Base rate is expected to remain at 0.5% for the rest of the financial year 2015/16. The Bank of England Monetary Policy Committee (MPC) has continued to vote unanimously to hold bank rate at 0.5% although two members indicated that the choice was marginal. However, the lack of inflation pressures allied to weaker than expected growth has seen market rate expectations of a rate hike put no earlier than the middle of 2016. It remains unlikely that they will vote to increase base rates before late 2015 or early 2016 as predicted in the strategy statement.

It was expected that there would be upward pressure on longer term rates due to the economic fundamentals of continued growth, falling unemployment and eventually rising inflation. This pressure has been subdued by moderate growth and subdued inflation due to falling oil prices. There has also been considerable volatility because of uncertainties over Greek debt and Chinese markets. Long term Public Works Loan Board (PWLB) rates have risen by 0.3% during the first quarter but this rise may not be sustained later in the year.

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 2015/16. 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 2015/16. Current market conditions continue to be unfavourable for any debt rescheduling.

22. **Annual Investment Strategy;**

The investment strategy for 2015/16 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with the Department for Communities and Local Government (DCLG) Guidance and the Chartered Institute of Public Finance and Accountancy (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 2015/16 are as follows:

UK Government including gilts and the Debt Management Account Deposit Facility, (DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) 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 30th June 2015 the average rate of return achieved on average principal available was 0.69%. This compares with an average seven day deposit (7 day libid) rate of 0.45%.

The Authority had investments of £15.4m as at 30th June 2015:

ANALYSIS OF INVESTMENTS END OF JUNE 2015				
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
<p><i>*MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.</i></p>				

23. **External Debt Prudential Indicators;**

The external debt indicators of prudence for 2015/16 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £65 million

Operational boundary for external debt: £45 million

Against these limits, the maximum amount of debt reached at any time in the first quarter of the financial year 2015/16 was £42.1 million.

24. Treasury Management Prudential Indicators;

The treasury management indicators of prudence for 2015/16 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 2015/16 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 2015/16 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	5%	3%
12 months and within 24 months	50%	0%	5%	5%
24 months and within 5 years	50%	0%	4%	2%
5 years and within 10 years	50%	0%	9%	9%
10 years and above	90%	0%	80%	80%

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 2015/16. No such investments have been placed during 2015/16.

(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 service work demands and provide relevant data for the year-end audit. At the end of June 2015 only the Contract Management & Contract Standing Orders Compliance audit and the Procurement audit which were outstanding from 2014/15 had been completed. The audits determined that the control environment and compliance was good or acceptable. Internal Audit proposed a number of amendments to various processes that officers have accepted and actioned. 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

26. 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

27. 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 of invoices, is reported monthly (LPI128).

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

	<u>1st qtr</u>	<u>2nd qtr</u>	<u>3rd qtr</u>	<u>4th qtr</u>
Invoices paid within 30days of receipt	<u>100%</u>			
Number of Invoices processed	<u>2,112</u>			

29. The target for prompt payment in 2015/16 is 100%. The first quarter's results confirm the Service continues to respond quickly and efficiently to requests for payment from suppliers with 2,112 out of 2,112 invoices being paid within the required timeframe.

Processing Sales Invoices

30. A key performance indicator in relation to 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:

	<u>1st qtr</u>	<u>2nd qtr</u>	<u>3rd qtr</u>	<u>4th qtr</u>
Sales Invoice production	100%			
Number of Sales Invoices raised	222			

31. 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 for the first quarter can be summarised as follows:

Number of debts 60 days+

	2013/14	2014/15	2015/16
April	40	30	34
May	43	29	30
June	38	29	37

Value of debts 60 days+

	2013/14 £'000	2014/15 £'000	2015/16 £'000
April	131	47	35
May	136	55	40
June	45	19	141

32. The Authority raises approximately 1,100 sales invoices per year and this can equate to income of between £2m - £3.5m. The profile of invoices 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. The June 2015 value appears high as two invoices totalling £0.100m were sent to customers who had benefited from services provided by seconded MFRS employees. The customers had requested some additional information before paying the invoice. They have now received this information and made the full outstanding payment. Considerable effort is made to actively engage with customers as part of the drive to improve the aged debt profile of the Authority.
33. Debtor accounts under £5,000 may be written off by the Treasurer. No accounts have been approved for write-off under delegated powers in the first quarter.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

36. There are no legal implications directly related to this report.

Financial Implications & Value for Money

37. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

38. There are no Risk Management, Health & Safety and Environmental implications directly related to this report.

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

39. 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/014/15 "MFRA Budget and Financial Plan 2015/2016-2019/2020" Authority 26th February 2015.

GLOSSARY OF TERMS

PPC	Prompt payment code
SRT	Search and Rescue Team
TDA	Training and Development Academy
CFO	Chief Fire Officer