MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUTHORITY		
DATE:	17 DECEMBER 2015	REPORT NO:	CFO/091/15
PRESENTING OFFICER	TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:			
TITLE OF REPORT:	FINANCIAL REVIEW 2015/16 - APRIL TO SEPTEMBER		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE SERVICE REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A3:	AUTHORITY REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A4:	MOVEMENTS ON RESERVES
	APPENDIX B:	CAPITAL PROGRAMME 2015/16
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2015/16 – 2019/20

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 first 6 months of the year (April – September 2015).

Recommendation

2. That Members;
   - Note the potential £0.814m favourable revenue position identified within this report,
   - Approve the utilisation of the £0.814m favourable revenue position to increase the capital investment reserve in light of the future station merger programme and Service investment needs, and
   - 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 the future financial challenges. Overall this report has identified that in cash terms the Authority is £0.814m 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 and Service investments. The Treasurer is continuing to work with budget holders to maximise savings in 2015/16.

The total budget requirement remains at the original budget level of £62.169m, (appendix A1 – A4 outlines in detail all the revenue budget and reserve movements).

Capital:
The capital programme planned spend has increased by £2.236m, of which £2.250m relates to the approved increase in the new Prescot Fire Station scheme (CFO/083/15). The £0.014m decrease relates to small adjustments in a number of approved schemes. Overall the changes have resulted in a reduction in required borrowing of £0.013m in 2015/16. 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 September of the financial year 2015/16 (April – September 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

Section	Content
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 so was able to add to reserves in line with its strategy. Overall there was an increase in earmarked reserves of £2.698m (of this £1.511m related to phasing of grant funded and specific projects into 2015/16).

7. Grant Thornton have now completed the audit of the accounts and confirmed the position as reported.

(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 A 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 firefighters pay award was agreed at 1% and £0.263m was drawn down from the inflation provision to reflect that outcome. The net use of reserves for the period was £0.254m and was used to fund projects carried forward from 2014/15 or planned spend in 2015/16.

11. **Update on Budget Savings Implementation:** The Authority has approved savings in total of £25.577m as part of the medium term financial plan. These savings will take until 2016/17 to deliver in full because operational savings are being achieved by natural retirement rates. Of this total £21.880m of saving options have been implemented in 2015/16 which is consistent with the approved budget plan. These savings will be delivered in cash terms and the Service is progressing well with the station merger programme to deliver the required structural changes in its workforce to maintain the savings on a permanent basis.

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

Table A

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	-19,202	-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	**-21,880**	**-25,297**	**-25,577**	**-25,577**	**-25,577**
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	**0**	**0**	**0**	**0**	**0**

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

12. **Actual Expenditure in comparison to Revenue Budget:** The Authority is expecting further grant cuts in 2016/17 and 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 to allow the Service time to implement the restructuring to deliver the required savings and manage risk as the full scale of grant reductions becomes clear. After reviewing spend up to the end of September 2015 Officers have identified the following 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 therefore these costs are monitored extremely closely. Firefighter retirements are slightly ahead of schedule compared to the forecast profile adopted for the financial strategy. After taking account of other small employee variances on the uniform employee budget the expected overall saving on firefighter employee costs is £0.400m, equivalent to -1%.

Other Non-Employee Revenue Costs;

Additional one-off savings have been identified as outlined below;

- Premises – small savings on building maintenance and repair costs combined with savings on other areas have resulted in a £0.030m saving forecast.
- Supplies and services – minor supply budget savings in accounts such as administrative, training, cleaning supplies, travel subsistence, and subscriptions have contributed to a forecast saving of £0.100m.

Contingency for 2015/16 Pay & Price Increases;

All pay awards for 2015/16 have been settled and are in line with the 1% assumed in the financial plan. Officers are continuing to control the allocation of the non-employee inflation provision to determine if any efficiencies can be identified in light of the forthcoming financial challenge. At this point in time a saving of £0.284m is anticipated.

The Treasurer is continuing to work with budget holders to maximise savings in 2015/16 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 structural changes.

Overall the latest forecast has identified a revenue saving of £0.814m. Members are asked to approve the utilisation of this saving to fund an increase in the capital investment reserve in order to provide funding towards the future station merger initiative and Service investments. Table B overleaf summarise the revenue year-end forecast position based on spend to the end of September 2015:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	Fire Authority	TOTAL BUDGET	ACTUAL as at 30.09.15	FORE-CAST	VARI-ANCE
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs	47,695	402	48,097	22,450	47,697	-400
Premises Costs	2,877	0	2,877	1,215	2,847	-30
Transport Costs	1,576	0	1,576	806	1,576	0
Supplies and Services	4,015	66	4,081	1,335	3,981	-100
Agency Services	5,557	0	5,557	3,243	5,557	0
Central Support Services	486	94	580	194	580	0
Capital Financing	7,600	0	7,600	0	7,600	0
Income	-6,842	0	-6,842	-3,029	-6,842	0
Net Expenditure	62,964	562	63,526	26,214	62,996	-530
Contingency Pay&Prices	684		684	0	400	-284
Cost of Services	63,648	562	64,210	26,214	63,396	-814
Interest on Balances	-372		-372	-19	-372	0
Movement on Reserves	-1,669		-1,669	0	-1,669	0
Total Operating Cost	61,607	562	62,169	26,195	61,355	-814

Capital Programme Position:

13. The last financial review report (CFO/074/15) approved a 5 year capital programme worth £35.388m. This has now been updated for scheme additions and changes during quarter 2 of £2.236m which are summarised in the table below:

TABLE C

Movement in the 5 Year Capital Programme	Total Cost	2015/16	2016/17	2017/18	2018/19	2019/20
Expenditure	£'000	£'000	£'000	£'000	£'000	£'000
Amendments to Approved Schemes;						
New Prescot Firestation - increase (CFO/83/15)	2,250.0	0.0	2,250.0			
New ICT hardware funded from Revenue	2.2	2.2				
Reduction in SHQ museum budget following withdrawal of NWAS funds	-35.0	-35.0				
Reduction in Prime Mover replacement costs	-13.3	-13.3				
Increase in Time Resource Mgt System costs	32.5	32.5				
	2,236.4	**-13.6**	**2,250.0**	**0.0**	**0.0**	**0.0**
Funding						
Borrowing:						
Reduction in Prime Mover replacement costs	-13.3	-13.3				
Capital Reserve (ICT Hardware)						
Increase in Time Resource Mgt System costs	32.5	32.5				
New Prescot Firestation - increase (CFO/83/15)	1,550.0	0.0	1,550.0			
Revenue Contribution to Capital Outlay(RCCO)						
New ICT hardware funded from Revenue	2.2	2.2				
Capital Grant						
Reduction in SHQ museum budget following withdrawal of NWAS funds	-35.0	-35.0				
Merseyside Police contribution for Prescott FS	600.0	0.0	600.0			
NWAS contribution for Prescott FS	100.0	0.0	100.0			
	2,236.4	**-13.6**	**2,250.0**	**0.0**	**0.0**	**0.0**

14. Although the level of planned expenditure has increased the level of required borrowing has actually reduced by £0.013m. This is because the increase in planned expenditure is being funded by specific resources. Details of the planned changes in quarter 2 are outlined below:

- Members received an update report on the progress of the proposed new community fire station at Prescot (CFO/083/15) at the Authority meeting on 20th October 2015. Members approved the request to increase the scheme costs from £3.100m to £5.350m to reflect the build requirement of Merseyside Police, a training house, and the increase in build costs since the initial proposal had been considered. The additional cost is to be funded from external contributions of £0.700m and an increase in the drawdown from the capital investment reserve of £1.550m.
- The Service has implemented a new Time and Resources Management (TRM) system to assist with the dynamic management of staff and the staffing of appliances. Additional funds in the capital investment reserve had been earmarked to finance any further development of the new TRM system. Officers identified such development opportunities in 2014/15 and £0.032m has been drawn-down from the reserve to increase the capital programme in 2015/16 to finance the enhancement to the system.
- The approved programme included a scheme for the development of the Heritage Centre (Fire Museum) located behind the headquarters building. Originally North West Ambulance Service (NWAS) had offered to contribute £0.035m towards the scheme in return for some space within the museum. NWAS are reviewing the situation pending a review of NWAS property commitments. Therefore the scheme has been reduced by £0.035m to reflect the potential loss of NWAS funds.
- A reduction in the cost of replacing the prime movers, £0.013m, and additional ICT hardware funded from revenue £0.002m are the only other amendments to the capital programme in this quarter.

15. 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.

Use of Reserves:

16. The analysis in Appendix A4 outlines the £0.254m movement on reserves during the second quarter of 2015/16. The drawdown is from earmarked reserves to fund planned expenditure in 2015/16. £0.118m relates to the planned use of the capital investment reserve to fund the TRM investment and other committed schemes from 2014/15. £0.082m has been drawn down from the severance reserve to cover voluntary redundancies in 2015/16 approved as part of approved saving options. The balance relates to the planned spend in specific projects carried forward from 2014/15. The general revenue reserve has remained unchanged at £2.000m.

17. It is recommended that the £0.814m 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

18. The Authority continues to “buy in” Treasury Management from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period April to September 2015.

19. **Prospects For Interest Rates;**
The Bank of England MPC has continued to vote to hold bank rate at 0.5% although one member has voted for an increase. Inflation is unlikely to rise in the near future as strongly and as quickly as previously expected. There are also major concerns around the slowdown in Chinese growth, the impact of falling oil and commodity prices and the volatility in equity and bond markets. The lack of inflation pressures allied to weaker than expected growth has seen market expectations of a rate hike put no earlier than the middle of 2016.

Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend is for longer term rates to rise when economic recovery is firmly established. This upward 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 PWLB rates rose by 0.3% during the first quarter but fell back again in the second quarter to their original level.

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.

20. **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.

21. **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 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 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, the larger building societies and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30th September 2015 the average rate of return achieved on average principal available was 0.70%. This compares with an average seven day deposit (7 day libid) rate of 0.36%

The Authority had investments of £39.4m as at 25th September 2015, (this included a £24.8m firefighters' pension grant that will be utilised in the year). The table below outlines the breakdown of were the current investments are held:

ANALYSIS OF INVESTMENTS END OF SEPTEMBER 2015

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Ignis Liquidity Fund	AAA	3,000,000		
Aberdeen Liquidity Fund	AAA	3,000,000		
Goldman Sachs	AAA	3,000,000		
Morgan Stanley	AAA	3,000,000		
Deutsche/DGLS/State Street	AAA	3,000,000		
Federated Investors UK	AAA	1,400,000		
LGIM (Legal & General)	AAA	3,000,000		
Handelsbanken Inst Access	A		2,000,000	
Santander UK	A		2,000,000	
Close Brothers	A		2,000,000	
HBOS 12 Month FTD	A		2,000,000	
Sumitomo (SMBCE)	A		2,000,000	
HBOS 12 Month FTD	A		2,000,000	
West Brom B Soc	A			1,000,000
Nationwide B Soc	A			2,000,000
Progressive B Soc	Unrated			1,000,000
Nottingham B Soc	Unrated			1,000,000
Newcastle B Soc	Unrated			1,000,000
Skipton B Soc	Unrated			1,000,000
Principality B Soc	Unrated			1,000,000
Totals		19,400,000	12,000,000	8,000,000
Total Current Investments				**39,400,000**

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

22. **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 half of the financial year 2015/16 was £42.1 million.

23. **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 half 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 half of the financial year 2015/16 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	5%	2%
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

24. The Authority continues to “buy in” Internal Audit services from Liverpool City Council. Since the last financial review report Internal Audit have commenced but not completed any audits. 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.

(E) Monitoring of Financial Processes

25. 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

26. 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).

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

	1st qtr	2nd qtr	3rd qtr	4th qtr
Invoices paid within 30days of receipt	100%	100%		
Number of Invoices processed	3283	3656		

28. The target for prompt payment in 2015/16 is 100%. The second quarter's results confirm the Service continues to respond quickly and efficiently to requests for payment from suppliers with 3,656 out of 3,656 invoices being paid within the required timeframe.

Processing Sales Invoices

29. 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%		
Number of Sales Invoices raised	222	267		

Debt Recovery

30. 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 second quarter can be summarised as follows:

Number of debts 60 days+

	2013/14	2014/15	2015/16
July	41	33	37
Aug	37	31	38
Sept	42	46	44

Value of debts 60 days+

	2013/14 £'000	2014/15 £'000	2015/16 £'000
July	48	76	139
Aug	22	55	43
Sept	70	113	46

31. 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 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.

32. 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 half of this year.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

36. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

37. There are no risk management, health and safety or environmental implications contained within this report.

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

38. 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.
CFO/074/15	"Financial Review 2015/16- April to June" Policy and Resources Committee 17th September 2015.

GLOSSARY OF TERMS

SHQ	Service Headquarters
FM	Facilities Management
ICT	Information and communications technology
MPC	Monetary Policy Committee
CPI	Consumer Price Index
PWLB	Public Works Loans Board
PPC	Prompt payment code
NWAS	North West Ambulance Service