MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUTHORITY**		
DATE:	**25 FEBRUARY 2016**	**REPORT NO:**	**CFO/007/15**
PRESENTING OFFICER	**TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:			
TITLE OF REPORT:	**FINANCIAL REVIEW 2015/16 - APRIL TO DECEMBER 2015**		

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**
	APPENDIX D:	**DEBTOR WRITE-OFFS**

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 December 2015.

Recommendation

2. That Members;
   - Note the potential £0.650m favourable revenue position identified within this report,
   - Approve the utilisation of the £0.650m favourable revenue position to increase the capital investment reserve in light of the 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 £0.650m 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 station merger programme 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 inclusion of the new St Helens fire station (£5.250m), the reduction in other schemes of £2.342m plus other minor adjustments has led to a net increase of £2.917m in the capital programme since the last report. As the St Helens scheme is funded by non-borrowing resources the required level of borrowing has actually reduced by £2.432m. 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 December of the financial year 2015/16 (April – December 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	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 – 2015/16

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 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.

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 £0.184m and was used to fund projects carried forward from 2014/15 or planned spend in 2015/16.

9. **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.

10. **Actual Expenditure in comparison to Revenue Budget:** The Authority will sustain 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 take effect. After reviewing spend up to the end of December 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 and non-uniform employee budget the expected overall saving on employee costs is £0.250m, equivalent to -1%.

Other Non-Employee Revenue Costs;

The Treasurer is continuing to work with budget holders to maximise savings in 2015/16. The Authority had approved a support services green book saving option of £0.450m in 2015/16 rising to £0.900m by 2016/17. The savings on non-employee elements of this saving are slightly ahead of schedule increasing the saving this year by £0.250m.

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 £0.150m 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 £0.650m. 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 below summarise the revenue year-end forecast position based on spend to the end of December 2015:

Table B: Anticipated Year-End Revenue Position

	FIRE SERVICE BUDGET	Fire Authority	TOTAL BUDGET	ACTUAL as at 31.12.15	FORE-CAST	VARI-ANCE
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs	47,630	406	48,036	33,380	47,786	-250
Premises Costs	2,840	0	2,840	1,780	2,840	0
Transport Costs	1,602	0	1,602	1,036	1,602	0
Supplies and Services	3,960	67	4,027	1,978	3,777	-250
Agency Services	5,605	0	5,605	4,544	5,605	0
Central Support Services	487	94	581	307	581	0
Capital Financing	7,609	0	7,609	0	7,609	0
Income	-7,039	0	-7,039	-4,723	-7,039	0
Net Expenditure	62,694	567	63,261	38,302	62,761	-500
Contingency Pay&Prices	319		319	0	169	-150
Cost of Services	63,013	567	63,580	38,302	62,930	-650
Interest on Balances	-372		-372	-50	-372	0
Movement on Reserves	-1,039		-1,039	0	-1,039	0
Total Operating Cost	61,602	567	62,169	38,252	61,519	-650

Capital Programme Position:

11. The last financial review report (CFO/091/15) approved a 5 year capital programme worth £37.624m. This has now been updated for £2.917m of scheme changes in quarter 3 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 St Helens FS (CFO/059/15)	5,250.0	0.0	4,250.0	1,000.0		
New Gas Tight Suits funded from grant	8.3	8.3				
Re-phasing of schemes between years	0.0	-4,502.3	3,762.3	1,000.0	-260.0	
Review of Scheme profiles & requirements	-2,341.8	-6,249.3	1,473.0	1,718.5	234.0	482.0
	2,916.5	**-10,743.3**	**9,485.3**	**3,718.5**	**-26.0**	**482.0**
Funding						
Borrowing:						
Review of Scheme profiles & requirements	-2,341.8	-6,149.3	373.0	2,718.5	234.0	482.0
Re-phasing of schemes between years	0.0	-4,602.3	4,862.3		-260.0	
Redction in smoke alarm sales/increase in borrowing	90.0		35.0	35.0	35.0	-15.0
Capital Reserve						
New St Helens FS (CFO/059/15)	3,060.0	0.0	2,760.0	300.0		
Reduction in Cap Res Drawdown due to use of full Transformation Grant on 2 station merger schemes	-1,192.0		-1,192.0			
Revenue Contribution to Capital Outlay(RCCO)						
Redction in smoke alarm sales/increase in borrowing	-90.0	0.0	-35.0	-35.0	-35.0	15.0
Capital Grant						
Reduction in Cap Res Drawdown due to use of full Transformation Grant on 2 station merger schemes	1,192.0		1,192.0			
New St Helens FS Transormation Grant	1,490.0	0.0	1,490.0			
New Gas Tight Suits funded from grant	8.3	8.3				
Captial Receipts						
Sale of old St Helens FS	100.0	0.0	0.0	100.0		
Sale of Eccleston	600.0	0.0	0.0	600.0		
	2,916.5	**-10,743.3**	**9,485.3**	**3,718.5**	**-26.0**	**482.0**

12. Although the level of planned expenditure has increased the level of required borrowing has actually reduced by £2.432m. This is because the increase in planned expenditure is being funded by specific resources and planned spend on schemes funded through borrowing has fallen. Details of the planned changes in quarter 3 are outlined below:

- The Authority approved report CFO/094/15 on the proposed new community fire station in St Helens at the meeting on 17th December 2015. The £5.250m scheme has now been included in the approved capital programme and is fully funded from non-borrowing resources.
- Re-phasing of £4.502m from 2015/16 into future years to reflect the latest

scheme delivery times particularly for building and vehicle schemes. The new Prescot fire station has re-phased £2.100m from 2015/16 into 2016/17 due to delays in agreeing the final plans with partners and the planning authority. The Incident Management Unit Vehicle, £0.600m, has been re-phased into 2016/17 while alternative options are being identified and requiring appraisal.

- The programme has been reviewed and re-assessed based on latest information and service needs. This has resulted in an allocation out from the building central station refurbishment provision into specific station refurbishment schemes and other re-alignments. Spending on building schemes has reduced by £1.376m as required spend on station refurbishment has fallen and the planned purchase of four new fire appliances in 2015/16 is no longer required. Overall planned spend has reduced by £2.342m.
- The Government has awarded the Authority a Marauding Terrorist Firearms Attack (MTFA) asset refresh capital grant of £0.008m, and this is being used to purchase ballistic protection. This scheme has been built into the 2015/16 programme.

13. 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:

14. The analysis in Appendix A4 outlines the £0.184m movement on reserves during the third quarter of 2015/16. The drawdown is from earmarked reserves to fund planned expenditure in 2015/16. £0.174m relates to the use of the severance reserve to fund payments made since the last financial review report. The general revenue reserve has remained unchanged at £2.000m.

15. It is recommended that the £0.650m 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 station merger programme and to support the Authority strategy of aiming to minimise borrowing costs.

(B) Treasury Management

16. 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 2015.

17. **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 to be 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 during the first quarter but fell back again in the second quarter to their original level before resuming upward movement in the third quarter. At the end of December these rates had risen by around 0.2% from the start of the financial 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.

18. **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.

19. **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.

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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 31st December 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 0.36%.The investment strategy for 2015/16 set out the priorities as the security of capital and liquidity of investments.

The Authority had investments of £21.8m as at 31st December 2015. The table below outlines the breakdown of were the current investments are held:

ANALYSIS OF INVESTMENTS END OF QUARTER 3 (31 December 2015) 2015/16

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Ignis Liquidity Fund (Standard Life)	AAA	1,800,000		
Close Brothers	A		2,000,000	
Handelsbanken	A		2,000,000	
HBOS FTD	A		2,000,000	
HBOS FTD	A		2,000,000	
Sumitomo Mitsui Banking Corporation (Japan)	A		2,000,000	
Santander UK	A		2,000,000	
Nationwide B Soc	A			2,000,000
Newcastle B Soc	Unrated			1,000,000
Nottingham B Soc	Unrated			1,000,000
Principality B Soc	Unrated			1,000,000
Progressive B Soc	Unrated			1,000,000
Skipton B Soc	Unrated			1,000,000
West Brom B Soc	Unrated			1,000,000
Totals		**1,800,000**	**12,000,000**	**8,000,000**
Total Current Investments				**21,800,000**

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

20. **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 in the period 1st April to 31st December 2015 was £42.1 million.

21. **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 period 1st April to 31 December 2015 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: -

c) Total principal sums invested for periods longer than 364 days

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	5%	2%
12 months and within 24 months	50%	0%	5%	2%
24 months and within 5 years	50%	0%	4%	2%
5 years and within 10 years	50%	0%	9%	8%
10 years and above	90%	0%	82%	80%

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.

(C) Internal Audit

22. The Authority continues to "buy in" Internal Audit services from Liverpool City Council. Since the last financial review report Internal Audit have commenced two audits but have not yet finalised the fieldwork. A progress report on the approved audit plan was considered by the Audit Sub-Committee on 28th January 2016, and as planned most audits will commence and finish in the last quarter of the year.

(D) Monitoring of Financial Processes

23. 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

24. 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).

25. 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%	100%	
Number of Invoices processed	3283	3656	3,672	

26. 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 3,672 out of 3,672 invoices being paid within the required timeframe.

Processing Sales Invoices

27. 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%	99%	
Number of Sales Invoices raised	222	267	282	

Debt Recovery

28. 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
Oct	38	39	45
Nov	23	40	44
Dec	26	56	44

Value of debts 60 days+

	2013/14 £'000	2014/15 £'000	2015/16 £'000
Oct	61	111	46
Nov	18	42	28
Dec	25	101	61

29. 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.

30. Debtor accounts under £5,000 may be written off by the Treasurer. Two accounts have been approved for write-off under delegated powers totalling £3,340 (excl. VAT) following advice from the litigation service. Details of these accounts can be found in Appendix D.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

34. See Executive Summary.

Risk Management, Health & Safety, and Environmental Implications

35. 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*

36. 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.

CFO/91/15 "Financial Review 2015/16- April to September" Authority 17th December 2015.

GLOSSARY OF TERMS

MPC	Monetary Policy Committee
PWLB	Public Works Loans Board
PPC	Prompt payment code