

WYFRA	FINANCE AND RESOURCES COMMITTEE	19 October 2007	ITEM No
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REPORT OF: CHIEF FINANCE OFFICER

PURPOSE OF REPORT: TO PRESENT A QUARTERLY OVERVIEW OF THE
FINANCIAL POSITION OF THE AUTHORITY

RECOMMENDATION: THAT MEMBERS NOTE THE CONTENT OF THE
REPORT

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT DETAILS

Exemption Category: NONE

Contact Officer: G. MAREN
CHIEF FINANCE OFFICER
TEL 01274 655711

Background Papers:

1. **BACKGROUND**

The purpose of this report is to present an overview of the financial performance of the authority of the first six months of the current financial year. The report is split into four sections dealing with revenue expenditure, capital expenditure, treasury management and debtors and creditors.

In addition to the quarterly report to the Finance and Resources Committee reports on revenue and capital expenditure are also prepared for management board, senior managers and cost centre managers to enable them to manage their individual budgets.

SECTION 1 REVENUE EXPENDITURE MONITORING

1. INTRODUCTION

Expenditure is monitored throughout the year against the approved revenue budget with reports being considered by each meeting of the Management Board and each meeting of the Finance and Best Value Committee. The purpose of the report is to monitor progress against the approved revenue budget; provide an early forecast outturn for the financial year; provide an explanation of any major variations, and to show the impact of any variations on the revenue balances of the Authority.

This is the second report of the financial year and is based on expenditure for the first six months of the year. Clearly this is very early in the financial year and forecasts are based on previous years expenditure patterns, as the year progresses it is likely that additional variations will be identified.

2. REVENUE BUDGET

Pay awards

Included within the revenue budget is an amount set aside to provide for pay and price increases arising during the financial year. The major items included within the contingency relate to the annual pay award for support staff and uniformed. The pay award for firefighters has recently been settled at 2.4% with effect from 1 July 2007, as yet the pay award for APT&C staff has not been settled.

One outstanding issue from the firefighters July 2006 pay award is the issue of CPD (compulsory professional development) payments which was finally resolved in September 2007 but will be paid outside the period covered by this report. The estimated cost of these payments including repayment of long service increments is £900k which will be met from within the contingency for pay and prices.

Changes to the Establishment

Personnel and Training Committee approved a number of changes to the establishment which will result in the employment of a number of additional support staff posts with effect from 1 January 2008, these have been reflected in the forecast.

Revenue Virement

Equality and Cultural Audits

Members will be aware that this Authority was the first fire Authority outside London to achieve level 3 of the Equality Standard for Local Government. In order to achieve the next level and also comply with the Framework Document the Authority is required to undergo external assessment and validation at a cost of £16,000 for which there is no provision in the approved revenue budget. Under financial procedure rules the management board can approve virement between budget heads upto £100,000. Management Board therefore approved virement for this expenditure from the underspending on the contingency for pay and prices.

3. EXPENDITURE MONITORING

The overall forecast is that expenditure is for an underspending of £0.57m with the areas of forecast variation detailed below.

	FORECAST	APPROVED BUDGET	VARIANCE
	£000	£000	£000
Wholetime firefighters	£59,160	£59,259	-£99
Fire and rescue staff	£7,650	£7,603	+£47
Capital financing charges	£4,866	£4,959	-£93
Contingency for pay and prices	£1,439	£1,679	-£240
Income	£3,920	£3,720	£200

3.2 Wholetime Firefighters -£99,000

The current forecast is an underspending of £99,000 which is a result of firefighter retirements exceeding the forecast included within the revenue budget. The forecast now includes the cost of the 2007 pay award and the revenue budget has been revised to reflect this.

3.3 Fire and Rescue staff +£47,000

The projected outturn for support staff is an overspending of £47,000 against the approved revenue budget. This overspending is a result of two factors,

- firstly when the budget was prepared the amount removed from the budget to cover savings from vacancies was increased and this is proving challenging
- secondly as mentioned above the Personnel and Training Committee approved the establishment of a number of additional posts to be funded from savings in the uniformed staffing budget. The estimated cost of these is included within the forecast.

3.4 Contingency for pay and prices -£240,000

As mentioned in the report to July Committee the firefighters pay award has been settled at 2.4% which is below the amount included within contingency resulting in an underspending of £286,000. However this saving has been reduced to take account of the costs of completing implementation of rank to role and the other adjustments detailed in section 2.

3.5 Income £200,000 additional income

This a result of a forecast of additional income from the training centre plus an increase in special service charges income.

4. IMPACT ON REVENUE BALANCES

Description	General Reserve
Balance at 1 April 2007	£5.195
Approved use of balances	-£0.800m
Impact of forecast	£0.570m
Forecast balance at 31/3/2008	£4.965m

2007/2008 REVENUE EXPENDITURE MONITORING October 07

EXPENDITURE	PAYMENTS TO DATE	EXPEND FORECAST	REVISED BUDGET	FORECAST VARIANCE
	£000	£000	£000	£000
Wholetime firefighters	£24,801	£59,160	£59,259	-£99
Retained firefighters	£1,173	£2,360	£2,360	£0
Firefighters pensions		£1,659	£1,659	£0
Brigade control	£952	£2,338	£2,393	-£55
Support staff	£3,132	£7,650	£7,603	£47
Other employee expenses	£360	£968	£937	£31
Premises expenses	£1,446	£2,383	£2,421	-£38
Transport costs	£730	£1,951	£1,880	£71
Supplies and services	£1,388	£3,644	£3,624	£20
Insurance		£941	£955	-£14
Lead authority charges		£275	£275	£0
Capital financing charges		£4,866	£4,959	-£93
Provision for pay award		£1,439	£1,679	-£240
Total Expenditure		£89,631	£90,004	-£370
Training income	£93	£243	£139	£104
Fire Safety Income	£18	£55	£53	£2
Grants	£498	£2,290	£2,290	£0
Other Income	£408	£1,332	£1,238	£94
Total Income		£3,920	£3,720	£200
Net expenditure		£85,711	£86,284	-£570

SECTION 2 CAPITAL EXPENDITURE MONITORING

INTRODUCTION

At its meeting on 16th February 2007, the Authority approved a three year capital programme of £32.8m which included schemes to the value of £9.528m for the current financial year.

1 SCHEMES SLIPPED BETWEEN FINANCIAL YEARS AND CAPITAL VIREMENT

The nature of major capital schemes means that expenditure often straddles a number of financial years, particularly the case in major building schemes and the development of major information systems. The original capital plan of £9.893m was revised at the last meeting of this Committee to £12.779m to include schemes which had slipped from the previous financial year. In addition the committee subsequently approved an additional scheme of £153k which has now been incorporated within the overall plan increasing the plan to £12.932m

2 CAPITAL PAYMENTS 2007/2008

The actual capital payments to date total £2.363m which represents just over 18% of the revised capital plan. As you would expect the majority of the expenditure is on property schemes although there has yet to be any progress on the major building schemes. There has been reasonable progress in all areas of the plan. The capital expenditure monitoring group meets monthly to monitor progress on all capital schemes and reports to each meeting of the Management Board. Details of expenditure on individual schemes is included in appendix 1.

5 APPROVALS UNDER FINANCIAL PROCEDURE 3.11

Under financial procedures 3.11 the Management Board can approve expenditure on schemes in the approved capital plan up to an amount of £100,000. This approval is subject to approvals being reported to the Finance and Resources Committee. Details of schemes approved by the Management Board is attached in appendix 2.

SECTION 3 TREASURY MANAGEMENT

TREASURY MANAGEMENT

At its meeting on 16th February the Authority approved a three year treasury management strategy as part of the overall Revenue Budget and Capital Planning process. This strategy sets out how the Authority will deal with its cash flows arising from the capital investment plan and revenue budget. The strategy sets out both the Borrowing Strategy and Investment Strategy that the Authority will follow for the period. The purpose of this section of the report is to monitor performance against this strategy.

1 BORROWING

This section deals with the Authorities debt portfolio and monitors the performance indicators related to the size of the Authorities debt along with the make up between fixed rate loans and variable rate loans and long term and short term borrowing.

The actual performance on each of the indicators is shown graphically in appendix 3.

1.1 Overall Borrowing Limits

The first graph provides a forecast of total debt outstanding and compares this with the limits set by the Authority in February 2007. The graph shows that it is forecast that the Authorities borrowing should remain within the limits approved by the Authority.

1.2 Comparison of Fixed and Variable Interest Loans

The approved strategy on interest rates is that fixed interest loans should make up between 60% and 100% of the total debt outstanding. The graph shows that the forecast for the year is 97% will be fixed rate, which is within the strategy. This means that variable loans will make up 3% of the debt portfolio, which is well inside the maximum limit of 40%.

1.3 Interest Rates

The final two graphs in this section compare the rates that the Authority has been able to borrow money at with the 7day LIBID rate for temporary borrowing and Short Term Borrowing.

The first graph shows that for short term and temporary borrowing the Authority has, for the last 12 months, been borrowing at a marginally lower rate than the 7 Day LIBID rate.

1.4 Overall Performance

Members will be aware of the increase in interest rates and the period of instability following the fallout from the 'sub prime' mortgage market in the USA. The Authority has been able to take advantage of the increased rates over the last few months with significant investments following the receipt of the pensions top up grant and two long term loans taken in July and August. Overall performance shows a forecast underspending on capital financing charges of £73k.

1.4 New Borrowing

During the period the Authority has taken new long term loans of £3.5m to fund the capital plan which takes the total long term borrowing to £33.986m.

(b) Movement in Long-Term Borrowing

Long-Term Borrowing	Rate %	Yrs	Date	£k
Opening Balance 1 April 2007	-	-		30,486
New PWLB loan (493421)	4.85	40.5	3 July 2007	+1,000
New PWLB loan (493622)	4.55	50.0	2 Aug 2007	+1,500
New PWLB loan (493853)	4.45	46.0	23 Aug 2007	+500
New PWLB loan (493854)	4.45	47.0	23 Aug 2007	+500
Balance at 30 September 2007				33,986

1.5 Loan Maturity

Another important factor of treasury management is controlling the maturity of loans to ensure that there year on year there is a smooth maturity pattern to ensure that the Authority does not become hostage to large interest rate increases.

As part of the strategy the Authority set maximum and minimum limits for the proportion of loans that will mature within periods from 12months to over 10 years. The graphs in appendix 2 show that in all cases the loan maturity is well within the approved limits.

2 INVESTMENTS

The final part of this section of the report deals with the Authority's investment strategy. In general the Authority will only invest funds for the following reasons :-

1. to facilitate day to day cash flow variations
2. to temporarily invest funds which have been borrowed from capital purposes in advance of interest rate increases
3. to invest internal funds (e.g. revenue balances) when it is deemed more prudent to do so rather than using them to reduce borrowing.

The two graphs in appendix 3 measure the investment performance of the Authority against the 7 day LIBID rates. It can be seen that in each month of the current financial year and over a longer term the Authority has beaten the rate consistently. In addition a comparison of the investment rate with the borrowing rate for the period shows that the investment rate achieved has exceeded the borrowing rate for the period. The average balance of temporary investment of the last 6 months totals £5.066m.

SECTION 4 DEBTORS AND CREDITORS

The final section of the report deals with the payment of creditors and collection of income from debtors.

Payment of Invoices

The prompt payment of invoices is set down in Best Value legislation and as such the Authority is measured on the payment of invoices by a performance indicator. The Authority is required to pay all undisputed invoices within 30 days of receipt, if not suppliers are within their rights to charge the Authority interest on outstanding bills.

Actual performance on the payment of invoices within 30 days of receipt for the past 3 years and actual to date for 2007/2008 is detailed below:

2004/05 – 99.41%

2005/06 – 97.99%

2006/07 – 97.46%

2007/08 – 98.20% (first 6 months)

The first six months figures show that 7363 invoices have been paid with 7228 being paid within 30 days which is 98.2% of invoices.

To ensure greater efficiency it is Authority policy to pay all invoices by electronic transfer (BACS) rather than by cheque. This method of payment is more cost effective and reduces the risk of fraudulent conversion of payments since no cheques are sent which could be intercepted and altered.

A further improvement to the procurement process is the introduction of a government procurement card. Initially this will be introduced in central stores and transport stores, however if it proves to be successful it is intended to extend its use throughout the Authority.

Outstanding Debt

The Authority receives income for services provided, these include special services, training courses, fire safety certificates, licences for telecom masts on premises. In most cases because of the type of service provided it is not possible to raise a charge in advance of the service and as a consequence debtor accounts are raised.

The level of outstanding debt owed to the Authority to the 30 September 2007 is £254,017 this can be profiled as follows:

Less than 35 days - £197,992

Greater than 35 days - £ 12,143

Greater than 60 days - £ 43,882

The procedure for issuing accounts and debt collection is provided by Kirklees Council under a Service Level Agreement. A summary of the procedure for collecting outstanding debt is detailed below:

21 days first reminder letter

28 days second reminder letter

35 days instigation of debt recovery system

As detailed above, there is currently £56,025 of debt which is at the recovery stage.

Management Board Approvals under financial procedures 3.11 appendix 2
July to September

Odsal Fire Station Modifications.	£10,000
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Property Management Unit Location of Fire Station or other property and description of works	Estimated Cost
CFS publicity trailers	£15,000
Vitalograph Alpha 3 machine	£2,000
Ambulatory BP machine	£2,000
Org Publisher Software	£65,000