

**M. Pearson  
CLERK TO THE AUTHORITY**

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**To: The Chair and Members of the  
Devon & Somerset Fire & Rescue  
Authority**

**(see below)**

**SERVICE HEADQUARTERS  
THE KNOWLE  
CLYST ST GEORGE  
EXETER  
DEVON  
EX3 0NW**

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Your ref :  
Our ref : DSFRA/MP/SY  
Website : [www.dsfire.gov.uk](http://www.dsfire.gov.uk)

Date : 19 May 2015  
Please ask for : Steve Yates  
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**DEVON & SOMERSET FIRE & RESCUE AUTHORITY**  
**(Ordinary Meeting)**

**Thursday 28 May 2015**

A meeting of the Devon & Somerset Fire & Rescue Authority will be held on the above date, **commencing at 10:45 hours (or on the conclusion of the preceding Annual Meeting, whichever is later) in the Conference Rooms in Somerset House, Service Headquarters** to consider the following matters.

M. Pearson  
Clerk to the Authority

**A G E N D A**

***PLEASE REFER TO THE NOTES AT THE END OF THE AGENDA LISTING SHEETS***

1. **Apologies**
2. **Items Requiring Urgent Attention**

Items which, in the opinion of the Chair, should be considered at the meeting as matters of urgency.

**PART 1 – OPEN COMMITTEE**

3. **Questions and Petitions by the Public**

In accordance with Standing Orders, to consider any questions and petitions submitted by the public. Questions must relate to matters to be considered at this meeting of the Authority. Petitions must relate to matters for which the Authority has a responsibility or which affects the Authority. Neither questions nor petitions may require the disclosure of confidential or exempt information. Questions and petitions must be submitted in writing or by e-mail to the Clerk to the Authority (e-mail address: [clerk@dsfire.gov.uk](mailto:clerk@dsfire.gov.uk)) **by midday on Friday 22 May 2015.**

4. **Addresses by Representative Bodies**

To receive addresses from representative bodies requested and approved in accordance with Standing Orders.

5. **Questions by Members of the Authority**

To receive and answer any questions submitted in accordance with Standing Orders.

6. **Minutes of Committees**

**(a) Commercial Services Committee**

The Committee Chair, Councillor Healey, to **MOVE** the Minutes of the meeting held on 18 March 2015 attached (page 5).

**RECOMMENDATION** that, in accordance with Standing Orders, the Minutes be adopted.

**(b) Audit & Performance Review Committee**

The Committee Chair, Councillor Radford, to **MOVE** the Minutes of the meeting held on 12 May 2015 attached (page 7).

**RECOMMENDATION** that, in accordance with Standing Orders, the Minutes be adopted.

**(c) Resources Committee**

The Committee Chair, Councillor Dyke, to **MOVE** the Minutes of the meeting held on 14 May 2015 attached (page 11).

**RECOMMENDATIONS**

- (i) that the recommendation at Minute RC/19 (Draft Financial Outturn 2014-15) be considered in conjunction with item 7 below;
- (ii) that, subject to (i) above and in accordance with Standing Orders, the Minutes be adopted.

7. **Provisional Financial Outturn 2014-15**

Report of the Treasurer (DSFRA/15/12) attached (page 15)

8. **Annual Treasury Management Report 2014-15**

Report of the Treasurer (DSFRA/15/13) attached (page 33)

9. **Principal Officer Pay Review 2015**

Report of the Clerk to the Authority (DSFRA/15/14) attached (page 41)

10. **Chairman's Announcements**

11. **Chief Fire Officer's Announcements**

**MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER**

Membership:-

Councillors Ball, Bown, Mrs. Bowyer, Burrige-Clayton, Chugg, Colthorpe, Dyke, Eastman, Edmunds, Ellery, Greenslade, Healey, Hill, Horsfall, Knight, Leaves, Radford, Randall Johnson, Redman, Singh, Way, Woodman and Yeomans

Torbay Council: one vacancy.

<b>NOTES</b>	
<b>1.</b>	<p><b><u>Access to Information</u></b>  Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the "Please ask for" section at the top of this agenda.</p>
<b>2.</b>	<p><b><u>Reporting of Meetings</u></b>  Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chairman - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority. Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.</p>
<b>3.</b>	<p><b><u>Disclosable Pecuniary Interests (Authority Members only)</u></b>  If you have any disclosable pecuniary interests (as defined by Regulations) in any item(s) to be considered at this meeting then, unless you have previously obtained a dispensation from the Authority's Monitoring Officer, you must:</p> <ul style="list-style-type: none"> <li>(a) disclose any such interest at the time of commencement of consideration of the item in which you have the interest or, if later, as soon as it becomes apparent to you that you have such an interest;</li> <li>(b) leave the meeting room during consideration of the item in which you have such an interest, taking no part in any discussion or decision thereon; and</li> <li>(c) not seek to influence improperly any decision on the matter in which you have such an interest.</li> </ul> <p>If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have a disclosable pecuniary interest of a sensitive nature. You must still follow (b) and (c) above.</p>
<b>4.</b>	<p><b><u>Part 2 Reports</u></b>  Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.</p>
<b>5.</b>	<p><b><u>Substitute Members (Committee Meetings only)</u></b>  Members are reminded that, in accordance with Standing Order 35, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.</p>

**COMMERCIAL SERVICES COMMITTEE**  
(Devon and Somerset Fire and Rescue Authority)

18 March 2015

Present:-

Councillors Healey (Chair), Ball, Dyke, Edmunds, Randall Johnson and Woodman

Apologies:-

Councillor Leaves

**\*CSC/25.     Minutes**

**RESOLVED** that the Minutes of the meeting held on 15 January 2015 be signed as a correct record.

**\*CSC/26.     Exclusion of the Press and Public**

**RESOLVED** that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A (as amended) to the Act, namely information relating to the financial and business affairs of the Authority and other companies.

**\*CSC/27.     Commercial Update February 2015**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded from the meeting).

The Committee received, for information, a report of the Commercial Services Manager (CSC/15/4) on commercial leads and opportunities currently being progressed.

**\*CSC/28.     Financial Update**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded from the meeting).

The Senior Finance Manager reported, for information, on the financial performance of the commercial activities for the period April 2014 to January 2015. Although turnover was below the budgetary target for the current financial year, it was greater than for the same period in the previous financial year. Gross profit was in excess of the target for the current financial year, with expenses below the budgeted amount.

**\*CSC/29. Commercial Business Plan 2015-15**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded from the meeting).

The Committee considered a report of the Director of People and Commercial Services (CSC/15/5) to which was appended a proposed commercial business plan for the forthcoming (2015-16) financial year. The plan outlined the proposed business trading activities, initiatives and opportunities for the Devon & Somerset Fire & Rescue Service both directly and through its trading vehicle, Red One Ltd. The Plan identified, amongst other things, the sales revenue target for the forthcoming 2015-16 financial year together with the projected minimum contribution of sales back to the Authority.

**RESOLVED** that the commercial business plan for the 2015-16 financial year, as appended to report CSC/15/5, be approved.

**\* DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 09:30hours and finished at 10.32hours.

**AUDIT AND PERFORMANCE REVIEW COMMITTEE**  
(Devon and Somerset Fire and Rescue Authority)

12 May 2015

Present:-

Councillors Radford (Chair), Edmunds, Healey, Horsfall, Randall Johnson and Singh

Apologies:-

Received from Councillor Way

**\*APRC/22. Minutes**

**RESOLVED** that the Minutes of the meeting held on 6 February 2015 be signed as a correct record.

**\*APRC/23. Grant Thornton Update**

The Authority's External Auditor, Grant Thornton, had prepared a number of reports for the information of the Committee covering the following matters:

- (a) Update for the year ended 31 March 2015 covering the auditors progress in delivering its responsibilities as the Authority's external auditor, including a summary of emerging national issues and developments and a number of related questions;
- (b) The External Audit Plan for 2015-16;
- (c) A letter setting out the planned Audit Fee for 2015-16, and;
- (d) (i) ISA240 Letter – Chair's response;  
(ii) ISA240 Letter – Treasurer's response.

David Bray and Peter Barber, representing Grant Thornton, were present at the meeting to present their reports. In addition to the reports circulated, David Bray referred to the appointment of a new national lead on employment tax issues who would be introduced to the Service early in May 2015. Grant Thornton had also undertaken a local government governance review and a copy of the associated report was made available at the meeting for information.

Reference was made in particular to legislation that had been passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. It was noted that the timetable for the preparation of the financial statements and the subsequent audit would be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September).

In response to a question, David Bray stated that the Authority was capable of preparing its accounts to the new deadline but needed an action plan to be in place to indicate how it was going to achieve this. Grant Thornton would be issuing a national report after the audit of the 2014/15 accounts had been completed in September 2015 setting out how the required changes might be achieved.

The Treasurer indicated that the Authority had time to prepare for the forthcoming changes and acknowledged that an action plan would be needed to address this. Peter Barber added that all local authorities were in the same position and a transitional approach over the next 3 years was proposed.

It was noted that the external audit fee for 2015/16 had been reduced to £33,820 representing a 25% decrease on 2014/15. This was as a result of a combination of the Audit Commission putting out further work to external agencies together with there being a balance left in its accounts on its demise which had been redistributed.

**\*APRC/24. Group Accounts for Devon and Somerset Fire and Rescue Authority and Red One**

The Committee received for information a report of the Treasurer (APRC/15/04) that set out the Treasurer's view on the position on materiality in respect of the preparation of group accounts and specifically with regard to Red One Ltd.

The Treasurer advised that, in his opinion, the activities of Red One Ltd were not material to the Authority's Statement of Accounts and therefore it was noted that the accounts for 2014/15 would not be consolidated.

**\*APRC/25. 2014-15 Internal Audit Year End Report**

The Committee received for information a report of the Audit and Review Manager (APRC/15/05) that set out the outturn position on the combined work of the Authority's Audit and Review team and the Devon Audit Partnership (DAP) for 2014/15. The report also set out the progress that had been made against the 2014/15 Internal Audit Plan and provided assurance statements for the work completed.

The Audit and Review Manager introduced Jane Quick, the new auditor for DAP. He stated that the key audit findings set out within the report had been grouped into three areas, namely:

- Financial controls;
- Change management, and;
- Areas for improvement.

The Committee commented that there appeared to be a lot of audits showing "improvements required". The Audit and Review Manager replied that the role of the Audit Team was to help the organisation to improve continuously and that the audits provided a way of conducting this in an organised and transparent way. An Assurance Tracker had been instigated in addition for the purpose of managing all recommendations made together with agreed actions coming out of key assurance activities. The Assurance Tracker was available to all employees through the Service Information Point (SIP). As at April 2015, the Assurance Tracker held 985 recommendations of which:

- 270 had been closed;
- 413 had been completed, and;
- 302 remained open.



The question was raised as to when the 302 recommendations that were open would be cleared. The Audit and Review Manager replied that the Service had a risk based approach to dealing with these. Those recommendations which were deemed to be the highest risk were given priority. He added that, based on the work that had been undertaken in 2014-15 and from work in previous years, Devon and Somerset Fire & Rescue Service demonstrated a good level of internal control overall.

**\*APRC/26. 2015-16 Internal Audit Approach and 2015-16 Internal Audit Plan**

The Committee considered a report of the Audit and Review Manager (APRC/15/06) upon the proposed approach to internal audit activities in 2015/16.

The Audit and review manager reported that the audit activity would be split into three main areas of work, namely:

- Strategic audits – 50% Of the work;
- Service health checks – 25%, and;
- Compliance audits – 25%.

The Audit Plan was also being aligned more closely to corporate performance and risk management to further develop the Service's risk register and to help embed the control framework.

**RESOLVED**

- (a) That the proposed approach to internal audit activities to apply for the 2015-16 financial year as set out in report APRC/15/6 be endorsed;
- (b) That the 2015-16 Internal Audit Plan as appended to report RC/15/6 be approved.

**\*APRC/27. Devon and Somerset Fire and Rescue Service Performance Report: April 2014 to March 2015**

The Committee received for information a report of the Director of Operations (APRC/15/07) that detailed the Service's performance for the period April 2014 to March 2015 against the measures set out within the Corporate Plan for 2013/14 to 2014/15.

In terms of performance, the following key points were noted:

- Measure 1 (fire deaths where people live): there had been a significant increase in fire fatalities in the last quarter of 2014/15 from 2 to 8 but an annual decrease of 33.3% as compared to 2013/14. There had previously been an increasing trend for three years so this reduction was welcomed.
- Measure 2 (fire injuries where people live): there had been 52 dwelling fire injuries occurring in 2014/15 (of which 48 were accidental) as compared with 88 in 2013/14 (of which 73 were accidental) which was a significant decrease at 40.9%.
- Measure 3 (incidents where people live): there had been a decrease in the number of fires to 972 in 2014/15 as compared with 1058 in 2013/14. This was the lowest number of fires recorded since combination in 2007/08. When split into accidental and deliberate fires, each figure was also the lowest since combination with 912 accidental and 60 deliberate fires.

- Measure 4 (fire deaths where people work): there were 2 deaths which had occurred at places where people work and visit in 2014/15, which was no change to the position reported in 2013/14. One death was the result of a deliberate fire and the other was accidental.
- Measure 5 (fire injuries where people work): the statistics showed a decrease in 2014/15 from 38 to 34 injuries in 2013/14. This drop in the number of injuries was due to accidental fire injuries as the number of deliberate fire injuries had stayed the same.
- Measure 6 (incidents where people work): there had been a decrease in the number of incidents reported to 1352 in 2014/15 as compared with 1394 in 2013/14, with both deliberate and accidental fires decreasing. Deliberate fires dropped more noticeably from 357 to 323 despite an increase in the “non-domestic” category.
- Measures 7 & 8 (emergency response standards): Performance had dropped slightly to 68.45% for 1<sup>st</sup> attendance within 10 minutes at dwelling fires and 75.13% for 1<sup>st</sup> attendance within 15 minutes for a road traffic collision. This was an area of performance that was continually monitored.

In terms of sickness, it was reported that the level of absence had increased significantly from 7.79 days or shifts per person in 2013/14 to 9.76 in 2014/15 representing a 42.3% rise. Absence levels had been demonstrating an improving position following combination in 2007/08 up until 2013/14, but this had not been maintained into 2014/15, possibly as a result of a year of considerable changes within the Service with the crewing of 5 whole-time stations changing and other reductions in crewing levels. The Service was taking steps to address this downturn in performance which would be reported in more depth to the Human Resources Management and Development Committee.

**\*APRC/28. New Performance Report - Revised Presentation and Targets**

The Service was committed to a process of continuous improvement. Within this, the measurement of performance played a critical role in tracking progress against priorities, identifying those opportunities for improvement and comparing performance against both internal and external standards.

The Service was constantly seeking to evolve and improve the way it measured and reported on performance and therefore proposed to change the layout of the quarterly performance report as presented to this Committee. The objective was to align performance better to the Service’s key priorities and to ensure that the report reflected the broader range of incidents and activities now covered. However, it was not proposed that the performance measures would be changed at this stage. This would mean that, for some measures, the Service could continue to make comparisons with the previous year, but in the future a different approach on the targets or control tolerances (upper and lower limits) could be adopted.

The Director of Operations reported that Officers would circulate some ideas to the Committee for comments prior to a sample report being submitted to the next meeting.

**\* DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 10.00hours and finished at 12.05hours

## RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

14 May 2015

Present:-

Councillors Dyke (Chairman), Burridge-Clayton, Chugg, Greenslade, Singh and Yeomans

### \*RC/18. Minutes

**RESOLVED** that the Minutes of the meeting held on 10 February 2015 be signed as a correct record.

### RC/19. Draft Financial Outturn 2014-15

*(Councillor Greenslade declared a personal but non-pecuniary interest in this matter, in so far as it related to Exeter Airport, by virtue of his being a non-remunerated, non-Executive Director at Exeter International Airport Ltd. appointed by Devon County Council as its representative).*

The Committee considered a report of the Treasurer to the Authority (RC/15/6) that set out details of the Authority's financial performance during the fourth quarter of 2014-15 as compared with the approved financial targets. The report also provided details of spending against the 2014-15 revenue budget with explanations of the major variations.

The Treasurer highlighted that net spending was £73.741m at the year-end in 2014-15 which was £2.051m less than the approved revenue budget of £75.794m (an amendment to the figure published in report RC/15/6 which had changed slightly from £2.053m). The saving of £2.051m was equivalent to 2.71% of the total budget. This figure was net of the transfer of funds to Reserves and Provisions as follows:

- A transfer of £0.141m to the Grants Unapplied Reserve, as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised;
- A transfer of £0.500m to Earmarked Reserves for 2014-15 Budget Carry Forwards to fund planned projects not completed by 31 March 2015;
- A transfer of £1.088m revenue underspend on Capital to Earmarked Reserve;
- Additional provisions relating to pension liabilities of £0.228m.

The Treasurer outlined the proposals for the utilisation of the underspend which it was anticipated would fund two further transfers into Earmarked Reserves as follows:

- Essential Spending Pressures (£0.506m);
- Comprehensive Spending Review (CSR) (£1.545m).

Reference was made to the Prudential Indicators and the point that external borrowing had exceeded the target of £22.582m with an outturn of £25.944m in Quarter 4 of 2014-15. This figure was lower than the previous quarter, however, due to further principal repayments and was not a cause of concern as this level of borrowing was well within the authorised limit for external debt of £31.120m. Whilst no further external borrowing was planned in the immediate future, it was noted that, given that the Authority may spend £25m on future projects over the next four years which would be part funded from revenue contributions to capital, the need to borrow further to fund this could not necessarily be avoided. This matter would be discussed with the Authority's Treasury Management Advisers, Capita, as appropriate.

Councillor Greenslade requested a separate report on the anticipated levels of debt and borrowing requirements as compared with reserves in the next two to three years be submitted to this Committee for consideration. The Treasurer replied that this matter would be covered within the next Treasury Management report to this Committee.

The Chief Fire Officer referred to three points that had an impact on future borrowing namely:

- Fleet – the Service was moving away from the purchase of larger, more expensive Type B appliances to the Light Rescue Pumps with a cost reduction in the region of £50,000 per appliance;
- Estates – a project had been instigated to review the whole property portfolio working in conjunction with Industry to rationalise and free up capital assets where possible;
- The ratio of debt was historically set out as a percentage of the revenue budget and this may therefore increase as revenue funding for the Authority decreased in future years due to ongoing austerity measures.

The Treasurer added that the current debt ratio was 3.73% due to slippage on the capital programme, which had been anticipated. The Authority had a self-imposed target for debt of 5% of the total revenue budget - but this may need to be reviewed in the future if the level of revenue funding continued to decrease.

Reference was made at this point to the amount of £2m that had previously been set aside in a ring-fenced provision to fund future pension liabilities, including the liability from the Part Time Workers (Prevention of Less Favourable Treatment) Employment Tribunal. All employees eligible for the backdated pension were notified and – if they submitted an expression of interest – were supplied with an estimate of their pension. The Department for Communities and Local Government confirmed that any future liabilities arising from this would be met through employer’s pension contributions by using pension valuations in future years, rather than being repaid as a lump sum as originally anticipated. Consequently, it was anticipated that the Authority’s contribution rate towards pensions would be increased in future years. As a direct result of this, £1.525m of the original provision was no longer needed to repay immediate lump sums and therefore, it was recommended in this report that this sum be transferred to an Earmarked Reserve to fund future pension liabilities. Councillor Chugg enquired as to how many staff would be affected by this and the Treasurer indicated that he would provide this information separately to Members.

The Committee expressed thanks to both operational officers and budget holders for the laudable position that had been achieved on the outturn at the year end, whereupon:

Councillor Burridge-Clayton (seconded by Councillor Yeomans) **MOVED:**

“that the recommendations as set out within report RC/15/6 (subject to amendment to reflect the revised underspend of £2.051m on the 2014-15 revenue budget) be approved”.

This was **CARRIED** unanimously.

## **RESOLVED**

- (a) That the Fire and Rescue Authority, at its meeting on the 28 May 2015, be recommended to approve:

- (i) That the provisional underspend against the 2014-15 revenue budget of £2.051m be utilised to fund the following transfers to Earmarked Reserves, as outlined in paragraph 11.5 of report RC/15/6:
    - A. the transfer of £0.506m to an Earmarked Reserve to be utilised to fund Essential Spending Pressures not included in the 2015-16 base budget (Para 11.5(d));
    - B. the transfer of the remaining £1.545m to the Comprehensive Spending Review (CSR) Reserve (Para 11.5(f));
  - (ii) the reversal of £1.525m from the Provision originally set aside to fund the potential liability for Retained Pension Costs emanating from the Employment Tribunal relating to Part-Time Workers, and that this sum to transferred to a new Earmarked Reserve for Retained Pension Liability (Para 11.5(h));
  - (iii) That following a review of Earmarked Reserve requirements, an amount of £0.079m be transferred from Earmarked Reserves to General Reserve (Para. 11.5i)
- (b) That, subject to (a) above, the following be noted:
- (i) The draft position in respect of the 2014-15 Revenue and Capital Outturn position, as indicated in this report.
  - (ii) That the underspend figure of £2.051m is after:
    - A. A transfer of £0.141m to the Grants Unapplied Reserve, as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised (Para.11.5a)
    - B. A transfer of £0.500m to Earmarked Reserves for 2014-15 Budget Carry Forwards to fund planned projects not completed by 31 March 2015 (Para. 11.5b and 11.5c)
    - C. A transfer of £1.088m revenue underspend on Capital to Earmarked Reserve (Para. 11.5e)
    - D. Additional provisions relating to pension liabilities of £0.228m. (Para. 11.5j)

**\* DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 10.00hours and finished at 11.15hours



REPORT REFERENCE NO.	DSFRA/15/12
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (ORDINARY MEETING)
DATE OF MEETING	28 MAY 2015
SUBJECT OF REPORT	PROVISIONAL FINANCIAL OUTTURN 2014-15
LEAD OFFICER	Treasurer
RECOMMENDATIONS	<p><b>(a) That the Authority approves:</b></p> <p><b>(i) Use of the provisional underspend of £2.051m against the 2014-15 revenue budget to fund the following transfers to Earmarked Reserves, as outlined in paragraph 10.1 of this report:</b></p> <p style="padding-left: 40px;"><b>A. transfer of £0.506m to an Earmarked Reserve to fund Essential Spending Pressures not included in the 2015-16 base budget (Para 10.1(d));</b></p> <p style="padding-left: 40px;"><b>B. transfer of the remaining £1.545m to the Comprehensive Spending Review (CSR) Reserve (Para 10.1(f));</b></p> <p><b>(ii) The reversal of £1.525m from the Provision originally set aside to fund the potential liability for Retained Pension Costs emanating from the Employment Tribunal relating to Part-Time Workers and the transfer of this sum to a new Earmarked Reserve for Retained Pension Liability (Para 10.1(h));</b></p> <p><b>(iii) That, following a review of Earmarked Reserve requirements, an amount of £0.079m be transferred from Earmarked Reserves to General Reserve (Para. 10.1i)</b></p> <p><b>(b) that the capital determinations in relation to funding of the 2014-15 capital programme, as set out in paragraph 17.1 of this report, be approved;</b></p> <p><b>(c) That, subject to (a) and (b) above, the following be noted:</b></p> <p><b>(i) The draft position in respect of the 2014-15 Revenue and Capital Outturn position, as indicated in this report.</b></p> <p><b>(ii) That the underspend figure of £2.051m is after;</b></p> <p style="padding-left: 40px;"><b>A. A transfer of £0.202m to the Grants Unapplied Reserve, as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised (Para.10.1a)</b></p>

	<p><b>B. A transfer of £0.500m to Earmarked Reserves for 2014-15 Budget Carry Forwards to fund planned projects not completed by 31 March 2015 (Para. 10.1b and 10.1c)</b></p> <p><b>C. A transfer of £1.088m revenue underspend on Capital to Earmarked Reserve (Para. 10.1e)</b></p> <p><b>D. Additional provisions relating to pensions liabilities of £0.228m (Para 10.1j)</b></p>
<b>EXECUTIVE SUMMARY</b>	<p><b>This report provides the financial outturn position for 2014-15 for both revenue and capital spending and makes recommendations as to how the underspend against the revenue budget of £2.051m may be utilised.</b></p> <p>This significant saving is largely attributable to the continued implementation of the Corporate Plan changes agreed in July 2013, together with a strategy to work with budget holders to identify in-year savings against budget heads. Members will recall that in setting a revenue budget for 2015-16, at the February budget meeting, an amount of £2.3m was taken from the base budget to reflect further on-going budget savings.</p> <p>There is also an accounting adjustment that is required now that there is more clarity on how the pension liability (relating to Part Time Workers regulations) is to be recovered. This liability will be met from increased employer's pension contributions, via actuarial valuations of the pension schemes, which means that there is no longer a requirement to provide for these sums by way of a Provision. It is therefore necessary to make an accounting entry to release the provision of £1.525m back to the revenue account. However, in order to ensure that this sum continues to be ring fenced for its original purpose, it is proposed that this funding is transferred to a new reserve for Pension Liabilities to offset the impact from increased pension contributions in future years.</p> <p>The figures included in this report are provisional at this stage, subject to external audit of the Accounts during August 2015.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report
<b>EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)</b>	The contents of this report are considered compatible with existing equalities and human rights legislation.
<b>APPENDICES</b>	<p>A. Provisional Revenue Outturn Position 2014-2015.</p> <p>B. Summary of Reserve and Provision Balances at 31 March 2015</p>
<b>LIST OF BACKGROUND PAPERS</b>	Draft Financial Outturn 2014/15 Report to Resources Committee 14 May 2015 (RC/15/6)



## **1. INTRODUCTION**

- 1.1 This report provides the Authority with the final outturn position (subject to audit) for revenue and capital spending for the financial year 2014-15, and makes recommendations as to how the underspend against the revenue budget is to be utilised. The report is in two parts. Section 1 deals with the revenue outturn position while Section 2 deals with the position in relation to capital spending.
- 1.2 The Authority has been informed of the difficult financial climate that local authorities are currently operating under as a result of cuts in government funding. In setting the 2015-16 revenue budget for the Authority in February 2015, consideration of the Medium Term Financial Plan (MTFP), recognised that further recurring savings will be required over the next three years to 2018-19, over above the savings already agreed by the Corporate Plan proposals in July 2013. Further details of savings requirements, forecast within the MTFP targets, are included in paragraph 12 of this report.
- 1.3 Mindful of this difficult outlook the strategy adopted during the last financial year 2014-15 was to secure as much in-year savings as possible with a view to adding to Authority Reserve balances. Budget monitoring reports submitted to meetings of the Resources Committee during the financial year have identified that adoption of this strategy was anticipated to deliver savings against the 2014-15 budget (previous forecast at Quarter 3 was for a saving of £1.130m). The provisional outturn figure for 2014-15, now included in this report, is for an underspend of £2.051m, equivalent to 2.71% of total budget.
- 1.4 This is, of course, a welcome result and provides the opportunity to transfer this amount into Reserve balances to be utilised in the best possible way to assist future budget setting. This is, however, a one-off saving and can therefore be used only once. It is not a sustainable solution to our forecast budget shortfalls. Members will recall that in setting a balanced budget for the current financial year, 2015-16, in February 2015, an amount of £2.3m has already been taken from the base budget to reflect on-going revenue savings.
- 1.5 An earlier version of this report – RC/15/6 - was considered by the Resources Committee at its meeting held on 14 May 2015. While the figures in this report vary slightly from those reported to the Resources Committee, the Committee resolved to recommend that the Authority approve the transfer of underspend to ear-marked reserves as recommended in this report (Minute RC/24 refers).

## **2. SECTION 1 – REVENUE OUTTURN 2014-15**

- 2.1 Total revenue spending in 2014-15 was £73.743m, compared to an agreed budget of £75.794m, resulting in an underspend of £2.051m, equivalent to 2.71% of total budget. A summary of spending is shown in Table 1 overleaf, and Appendix A provides a more detailed analysis of spending against individual budget heads.

**TABLE 1 – SUMMARY OF REVENUE SPENDING 2014-15**

	£m	£m	£m
<b>Approved Budget</b>			<b>75.794</b>
Gross Spending (Appendix A Line 28)	72.425		
Gross Income (Appendix A Line 33)	-4.142		
Net Spending		68.283	
<u>PLUS Transfers to Earmarked Reserves</u>			
- Grants Unapplied (Appendix A Line 35)	0.231		
- Budget Carry forward for Change & Improvement (Appendix A Line 36)	0.399		
- 2014-2015 Carry Forwards (Appendix A Line 37)	0.717		
- Capital Funding (Appendix A Line 38)	2.588		
- Pension Liability Reserve (Appendix A Line 39)	1.525		
Total Transfer to Earmarked Reserves (Appendix A Line 38)		5.460	
<b>TOTAL NET SPENDING</b>			<b>73.743</b>
<b>NET UNDERSPEND</b>			<b>-2.051</b>

- 2.2 These figures are based upon the spending position at the end of March 2015 and whilst they provide a provisional financial performance for the year, are subject to final accounting adjustments and audit scrutiny for the year end.
- 2.3 This significant saving is largely attributable to the continued implementation of the Corporate Plan changes agreed in July 2013, together with a strategy to work with budget holders to identify in-year savings against budget heads. In setting a revenue budget for 2015-16, at the February budget meeting, an amount of £2.3m was taken from the base budget to reflect further on-going budget savings.
- 2.4 In addition all budget managers have been tasked by the Chief Fire Officer and Executive Board to control in-year spending from non-operational budget heads and managers have responded accordingly. These in-year savings form a significant contribution to the £2.051m underspend against the current year revenue budget.
- 2.5 Savings against other budget heads e.g. Uniformed staffing costs, Training Expenses and Capital Financing Costs are also reported. Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 9.

### **3. EMPLOYEE COSTS**

#### ***Wholetime Staff***

- 3.1 Spending on wholetime pay was £28.807m against budget of £29.349m, an under spend of £0.541m due to in year savings as a result of the implementation of the 2014 Corporate Plan and deductions for periods of Industrial Action.
- 3.2 This position includes a provision of £0.085m for future pension liabilities which may arise on allowances following legislation and is intended to supplement the provision made in the 2013/14 accounts.

### ***Retained Pay Costs***

- 3.3 Spend for the 2014-15 year was £0.035m over budget due to Industrial Action cover being funded from the retained budget line. This figure has now been adjusted by £1.525m to reflect the reversal of a provision made in previous financial years against the potential pension costs for Part Time workers and so the net position is for an underspend of £1.490m.
- 3.4 The Authority had previously set aside an amount of £2m in a ring-fenced provision to fund future pension liabilities, including the liability from the Employment Tribunal. All employees eligible for the backdated pension were notified and – if they submitted an expression of interest – were supplied with an estimate of their pension. The individuals who opted in to the Modified pension scheme have now been enrolled.
- 3.5 The Department for Communities and Local Government (CLG) has now confirmed that any future liabilities arising from this will be met through employer's pension contributions by using pension valuations in future years, rather than repaid as a lump sum as originally anticipated. Consequently, it is anticipated that the rate at which the Authority contributes towards pensions will increase in future years. As £1.525m of the original Provision is no longer needed to repay immediate lump sums, it is proposed that the reversal be transferred to an Earmarked Reserve to fund future pension liabilities, as detailed in Paragraph 10.1 (h).

### ***Non Uniformed Pay***

- 3.6 Non uniformed pay is showing an over spend of £0.152m, of which an amount of £0.103m is as a result of increased Community Safety Advocate activity. In setting the budget for the current year this budget line has already been reduced by over £1m as a result of management action taken to reduce the number of support staff by 41.

### ***Training Expenses***

- 3.7 Training expenses are £0.803m against budget of £0.986m due to fewer external courses being run in 2014/15. There have also been savings made due to the decision review promotional training and assessment.

### ***Fire Service Pensions Recharge***

- 3.8 The outturn position of £0.105m over budget includes a provision of £0.143m for back-dated Injury payments.
- 3.9 As a result of national issues regarding the accounting treatment of injury pensions, specifically whether they are funded by Fire Authority pensions or CLG, a full review has been made of backdated pension cases. This Authority has two cases where the treatment will need to be modified, resulting in an additional liability of £0.143m. As the mechanism for repayment of the liability to CLG has still to be agreed, it is recommended that a provision is made from the revenue budget. This charge to the accounts is reflected in Appendix A.

## **4. PREMISES RELATED COSTS**

### ***Repair and Maintenance***

- 4.1 Savings against budget of £0.056m for Repair and Maintenance are due to a number of planned projects which were incomplete due to staffing vacancies in the Estates Department.

### ***Energy Costs***

- 4.2 Energy costs savings of £0.072m are due to weather variations and utility price inflation being lower than budgeted.

### ***Cleaning Costs***

- 4.3 Savings of £0.061m have been made on cleaning costs in 2014-15 due to a change of contract and cleaning arrangements following a procurement exercise.

## **5. TRANSPORT RELATED COSTS**

### ***Repair and Maintenance***

- 5.1 Fleet maintenance costs were £0.097m under budget as a result of a reduction in the volume of repairs and the positive impact of the introduction of Light Response Pump (LRP) on maintenance costs.

### ***Running costs and Insurances***

- 5.2 Savings of £0.059m have been made against this budget line as a result of reduced fuel prices.

### ***Travel and Subsistence***

- 5.3 Travel and Subsistence costs were £1.448m against a budget of £1.524m. The under spend of £0.076m is largely due to significant savings on mileage claims for both uniformed and non-uniformed staff as a consequence of a reduction in travelling levels.

## **6. SUPPLIES AND SERVICES**

### ***Equipment and Furniture***

- 6.1 Spend on Equipment and Furniture was £2.470m against a budget of £2.544m. The underspend of £0.073m is after a £0.236m procurement of smoke alarms for distribution to private landlords, which was funded by a government grant as detailed below in paragraph 9.3. Without the procurement, the under spend would have been £0.309m on this budget line primarily because of delayed payments to a contractor in relation to an essential IT system project.

### ***Communications***

- 6.2 There was an under spend of £0.221m on communications. This is mainly due to significant savings on the Airwave contract which is negotiated at a national level, although the saving is partially offset by a reduction of £0.060m in the reimbursement due from CLG.

### ***Uniforms***

- 6.3 As previously reported, this budget line included provision for the delivery of a major project in relation to the roll-out of the agreed replacement Personal Protective Equipment (PPE) of £0.546m which was transferred to an Earmarked reserve in year. In addition to this, savings of £0.121m have been made against this budget line as a result of improved stock handling and fewer staff.

## **7. ESTABLISHMENT COSTS**

### ***Printing, Stationery and Office Expenses***

- 7.1 Printing, Stationery and Office Expenses are £0.084m lower than budgeted. Following a review of printer contracts completed in 2013 savings have been better than expected. In addition savings have also been made as a result of less reliance on external bodies to conduct consultation processes.

## **Insurances**

- 7.2 Savings of £0.075m against the budget for Establishment Insurances have been possible due to an insurance pooling arrangement with other FRSs.

## **8. CAPITAL FINANCING COSTS**

### **Capital charges**

- 8.1 Spending on Capital Charges is £3.830m representing a saving of £0.521m. This is primarily as a consequence of slippage in capital spending in 2013-14 and 2014-15, resulting in a reduction in debt charges, along with a reduction to lease charges.

### **Revenue contribution to Capital Spending**

- 8.2 As a result of slippage to the capital programme in 2014-15, there will be an under spend of £1.088m against this budget line. This amount is required to be transferred in to the Direct Funding to Capital Reserve to be used against ongoing projects.

## **9. INCOME**

### **Treasury Management Income**

- 9.1 As a result of slippage on the Capital Programme cash balances have been higher than anticipated which along with stronger yields has meant that investment income for the year was £0.186m, £0.086m better than budgeted.

### **Grants and Re-imbursements**

- 9.2 The outturn position for Grant income is £0.418m greater than budgeted which is due to CLG Funding for smoke alarms and NNDR Business Rates Relief income from central government.
- 9.3 New legislation to apply from October 2015 will require increased provision of smoke alarms in private rental properties. As a result the CLG has awarded grants to Fire Services at a national level to provide alarms free of charge to landlords. The Service was in a position to purchase on behalf of three other FRSs against an existing procurement contract and therefore secured £0.241m of this funding. The smoke alarms have been purchased and will be distributed to each service according to Chief Fire Officers Association (CFOA) allocation.
- 9.4 *Surplus income has increased by £62k since reported to Resources committee, an amount which relates to Business Rates Relief income received from central government in excess of that budgeted. It is therefore recommended that this amount be transferred to the Grants unapplied Earmarked Reserve and as such has no effect on the net underspend position.*

### **Other Income**

- 9.5 Income targets from this budget head have been exceeded by £0.337m, of which £0.091m relates to overachievement against commercial income targets. The remainder primarily relates to unbudgeted income from a seconded officer to another local authority, vehicle sales and successful recovery of court costs relating to investigations pursued by the Risk and Insurance Team.
- 9.6 Included is also additional income of £0.031m relating to successful recovery of monies due from Brown's Coachworks, who went entered administration in 2013/14.

**10. CONTRIBUTION TO EARMARKED RESERVES**

10.1 A summary of predicted balances on Reserves and Provisions is shown in Appendix B to this report. These figures include those proposed transfers to Earmarked Reserves and provision outlined in this report and referenced in Appendix B which are recommended for approval:

a. **Grants Unapplied (£0.202m)** - under IFRS accounting arrangements, any unused grants at the year-end, which are not subject to repayment, are to be identified and carried forward to 2015-16. An analysis of such grants is shown in the table below.

*Please note that this figure has increased since reported to Resources committee due to the inclusion of £0.062m for Business Rates Relief as shown below:*

<b>Grant Received From</b>	<b>£m</b>	<b>Purpose of Grant</b>
Department of Communities and Local Government (CLG)	0.092	To fund Urban Search and Rescue (USAR) activities.
Plymouth Community Homes	0.010	To address Antisocial behaviour in Western Command
Insure the Box (£15k) and Devon County Council (£20k)	0.035	Learn to Live programme
Department of Communities and Local Government (CLG)	0.004	Balance of funding from Smoke Alarms for Procurement
Department of Communities and Local Government (CLG)	0.062	Business Rates Relief Section 31 Grant
<b>NET TRANSFER</b>	<b>0.202</b>	

The Authority has already approved the transfer of £0.029m to Reserves relating to USAR as part of the budget for 2014/15. In addition to these transfers, a recent review of historic Reserve balances has meant that a figure of £79k is no longer required for Breathing Apparatus (BA) Cylinder Valves and therefore can be returned to the General Fund. The net effect of these changes is for a transfer of £152k.

b. **2014-15 Budget Carry forwards for Change and Improvement Programme (£0.399m)** - A number of committed projects planned to be delivered by the end of March 2015 have not been completed and therefore budget carry forwards are required to enable the completion of those projects in 2015-16. These include Training Records, Procurement Technology, Financial Information System and Systems review.

c. **Budget Carry Forwards (£0.101m)** - In addition to the £0.070m and the £0.546m for PPE already approved in year, budget carry forwards for revenue items are requested for items where budget was provided in 2014/15 but the purchase or procurement was delayed beyond 31 March 2015. These are identified as follows:

Description	£m
Purchase of station Alerters	0.021
Committee Management Software	0.023
Mosaic Software Licencing	0.038
Equipment for Rapid Intervention Unit Pilot	0.019
<b>TOTAL TRANSFER</b>	<b>0.101</b>

d. **Essential Spending Pressures (£0.506m)** - It is recommended that the Authority be minded to approve the following spending pressures which have not been provided for in the 2015/16 budget:

Type	£m	Description
Red One Income	0.091	Contribution to service expenses from Red One to be invested in Capital as previously agreed by the Authority in principle
Underspend to Capital	0.084	Containers to support training at the Exeter Airport site
Underspend to Capital	0.031	Brake Testing equipment for vehicle maintenance
Revenue Underspend	0.300	Invest-to-Save funding to support the planning and scoping of Estates rationalisation and industry led improvements.
<b>TOTAL TRANSFER</b>	<b>0.506</b>	

e. **Direct funding to Capital (£1.294m)** - In addition to the £0.206m of new projects Identified above, an amount of £1.088m relating to the underspend against revenue contributions to capital, as reported in paragraph 8.2 of this report, requires a budget carry forward transfer to fund capital commitments in 2015-16. This is in addition to the £1.5m revenue contribution towards capital to be funded from the 2014-15 revenue underspend, as agreed at the meeting of Resources Committee held on 20 November 2014.

f. **Comprehensive Spending Review Reserve (£1.545m)** – The CSR Reserve has been established to provide additional financial contingency during the period of austerity. Given that government austerity measures are expected to continue until at least 2017-18 and the risk that budget savings required will exceed those savings targets included in the Medium Term Financial Plan, it is recommended that the Authority approve the remaining underspend of £1.545m be transferred to this Reserve in order to further protect the service budget from future austerity measures.

As well as providing this additional contingency, given the ongoing need to implement staff reductions arising from the changes within the Corporate Plan, this Reserve will be utilised over the period of austerity measures to fund the necessary changes to staffing models, including voluntary and/or compulsory redundancy costs, where required.

g. **Uniform and Personal Protective Equipment (PPE)** - Members have already approved a transfer of £0.546m for a replacement PPE project

h. **Pension Liability Reserve (£1.525m)** - As detailed in Paragraph 3.5 above, there is now more clarity on how the pension liability is to be recovered. Given that the liabilities relating to Part Time Workers regulations will be recouped from authorities via actuarial valuations of the pension schemes, there is no longer a requirement to provide for these sums by way of a Provision. It is therefore necessary to make an accounting entry to release the provision of £1.525m back to the revenue account as shown in Table 2 under Retained Staffing costs. However, in order to ensure that this sum continues to be ring fenced for its original purpose it is proposed that this funding is transferred to a new reserve for Pension Liabilities in order to protect service budgets from increased pension contributions in future years.

i. **General Fund Balance (£0.079m)** - It has been identified that the balance of £0.079m on the Earmarked Reserve for Breathing Apparatus (BA) Cylinders and Valve replacements is no longer required and therefore this can be returned to the General fund for alternative use.

j. **Provision for Firefighters pension schemes** - As detailed elsewhere in this report, it is necessary to release some of the Provision made for pension liabilities for Part Time Workers. Further enhancements are recommended as follows.

## **11. PROPOSALS FOR UTILISATION OF THE UNDERSPEND**

11.1 The provisional outturn position was considered by the Resources Committee at its meeting on 14 May 2015. The Committee resolved to recommend to the Authority that the underspend figure of £2.051m be used to fund two further transfers into Earmarked Reserves, as detailed in Paragraph 10:

(a) **Essential Spending Pressures 2015-16 (£0.506m)**

(b) **Transfer to Comprehensive Spending Review Reserve (£1.545m)**

11.2 A summary position of Reserves and Provisions as at 31 March 2015, including the recommendations included in this report, is included as Appendix B to this report.

### ***Provisions***

11.3 Included in Appendix B is a summary of the Provision balances as at 31 March 2015. As part of the year-end process the Authority is required to review the adequacy of Provision balances and consider whether any changes during the year require additional amounts to be set aside. As a result of the most recent review it has been assessed that an additional charge of £0.228m should be set aside in Provisions and that £1.525m of the existing provision should be transferred to an Earmarked Reserve. This results in net movement of -£1.297m therefore reducing the balance as at 31 March 2015 to £0.784m. The additional £0.228m relates to two items:



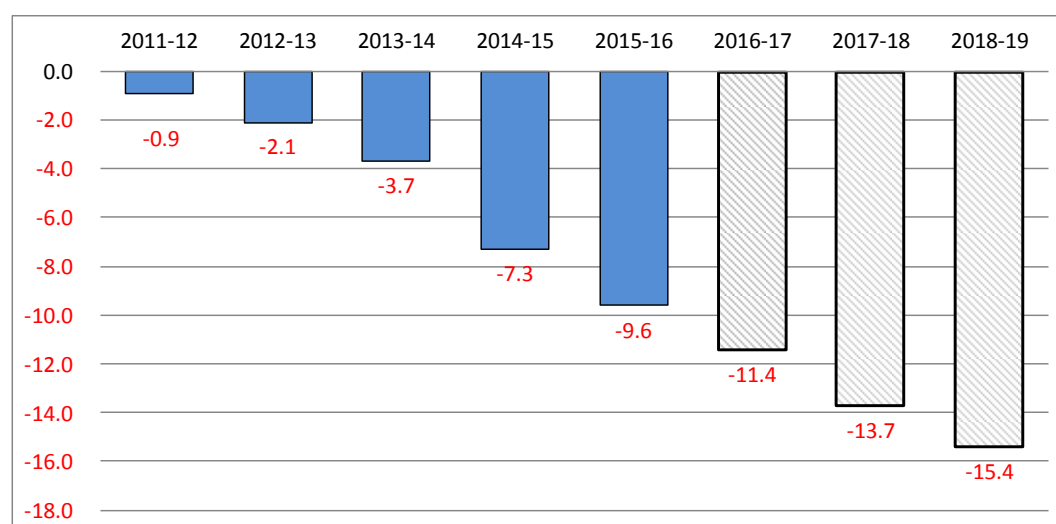
Description	£m
Pensionable allowances 2014/15 element (Para 3.2)	0.085
Monies due to DCLG for injury pensions (Para 3.8)	0.143
Release of Provision to Revenue Account (Para 3.5)	-1.525
<b>NET TRANSFER</b>	<b>-1.297</b>

## 12. IMPACT ON MEDIUM TERM FINANCIAL PLANNING

12.1 The Authority has previously been informed of the difficult financial climate currently being faced by local authorities as a result of significant reductions in government funding. The most recent Local Government Grant Settlement in December 2014 confirmed that DSFRA funding would reduce by £2.9m in 2015-16, but did not provide any indication of the settlement figure for future years. This means that the Authority has suffered total reductions of £8.7m over the three years to 2015-16. Looking beyond 2015-16, the Chancellors' Autumn Statement in December 2014 confirmed that the austerity measures to reduce the structural deficit will need to continue until at least 2017-18. This means that the Medium Term Financial Plan (MTFP) needs to be planning for further significant reductions beyond 2015-16.

12.2 So far, the Authority has responded well, since 2011 a total of £9.6m of recurring efficiency savings have been identified and used to enable balanced budgets to have been set, including an amount of £2.3m in setting the budget for 2015-16. However the MTFP forecasts that a further £5.8m of on-going savings will be required over the next three years to 2018-19. Chart 1 overleaf provides a summary of savings delivered to date (2015-16) and forecast savings required over the next three years 2016-17 to 2018-19.

**CHART 1 – SUMMARY OF SAVINGS (CUMULATIVE) 2011 - 2019 - £15.4 MILLIONS**



←—————→ ←-----→  
£9.6m Budget Savings 2011-2016      Forecast Further Savings of £5.8m 2016-2019

- 12.3 The Corporate Plan for 2013-14 to 2014-15 was approved by the Authority at its meeting on 10 July 2013. The Plan included a range of proposals which when fully implemented will deliver total on-going savings of £6.8m.
- 12.4 The underspend of £2.051m achieved in the previous financial year 2014-15 is of course most welcome and is as a result of the strategy to deliver in-year savings to be available to increase Reserve balances. It is, though, a one-off saving and can be used only once, so it does not provide a sustainable solution to the forecast budget shortfall. In setting, in February of this year, a balanced budget for the current (2015-16) financial year, £2.3m was taken out of the base budget to reflect the delivery of on-going budget savings.
- 12.5 The recommendation in this report, to provide a one-off contribution to the CSR reserve of £1.545m, will enable the Authority to better respond to future austerity measures.

### **13. SUMMARY OF REVENUE SPENDING**

- 13.1 Budget monitoring reports considered during the financial year have highlighted the strategy to seek in-year savings wherever possible which can be transferred at year end to the Authority Reserve balances. It is pleasing therefore that this strategy has resulted in a final underspend position of £2.051m. This report makes proposals as to how this underspend can best be utilised and the Authority is invited to consider these with a view to approving the recommendations of the Resources Committee made at its recent meeting.

### **14. SECTION 2 – CAPITAL OUTTURN 2014-15**

- 14.1 The 2014-15 capital programme was originally set at £7.827m at the budget setting meeting held on the 24 February 2014. This programme figure has reduced during the financial year to £7.614m, as a result of slippage in spending from the previous year being offset by a previous decision made by members to transfer £2m of Capital budget in to 2015-16. There have also been some minor changes to the programme in year due to new capital spending items to be funded from grant income or revenue contributions. As has been reported to the Resources Committee during the year, whilst these changes represent a change in the 2014-15 programme they do not represent any increase to the previously agreed borrowing requirement.
- 14.2 Table 2 overleaf provides a summary of the provisional outturn position against the agreed 2014-2015 capital programme. Against a final capital programme of £7.614m, capital spending in year was £2.797m, with £4.817m of slippage in to 2015-16.

**TABLE 2 – SUMMARY OF CAPITAL SPENDING IN 2014-15**

<b>Capital Programme 2014/15</b>			
<b>Item PROJECT</b>	<b>2014/15</b>	<b>2014/15</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Budget</b>	<b>Projected outturn</b>	<b>Variation to budget</b>
<b>Estate Development</b>			
1 SHQ major building works	58	0	(58)
2 Major Projects - Training Facility at Exeter Airport	320	16	(305)
3 Minor improvements & structural maintenance	1,062	168	(893)
4 Projects funded from Revenue & Reserves	667	396	(270)
5 Minor Works slippage from earlier years	680	626	(54)
<b>Estates Sub Total</b>	<b>2,786</b>	<b>1,207</b>	<b>(1,579)</b>
<b>Fleet &amp; Equipment</b>			
6 Vehicles Slippage from 13/14	504	431	(73)
7 Equipment - Slippage from 13/14	415	92	(323)
8 Vehicle Replacement	2,557	768	(1,789)
9 Equipment	1,070	179	(891)
10 Projects funded from Reserves	271	111	(160)
11 Vehicles funded from revenue	11	9	(2)
<b>Fleet &amp; Equipment Sub Total</b>	<b>4,827</b>	<b>1,590</b>	<b>(3,238)</b>
<b>Overall Capital Totals</b>	<b>7,614</b>	<b>2,797</b>	<b>(4,817)</b>
<b>Programme funding</b>			
Main programme	850	-	(850)
Revenue funds	4,939	1,166	(3,773)
Earmarked Reserves	427	233	(194)
Grants	1,398	1,398	-
	<b>7,614</b>	<b>2,797</b>	<b>(4,817)</b>

***Slippage in Capital Spending 2014-15***

- 14.3 This Authority has a three year rolling capital programme, reviewed annually. This reflects changes in circumstances within individual projects and slippage that will occur from time to time. This has particularly been the case in relation to the appliance replacement programme which has suffered from delays in delivery of chassis resulting from changes to safety regulations. Those projects that have slipped into 2015-16 will be reassessed and any potential savings identified.

15. **FINANCING THE 2014-15 CAPITAL PROGRAMME**

15.1 Table 3 below provides an analysis of how the 2014-15 capital spending of £2.797m is to be financed.

**TABLE 3 – SUMMARY OF CAPITAL FINANCING IN 2014-15**

	<b>Actual Financing £m</b>
<b><u>External Borrowing</u></b>	<b>0</b>
<b><u>Other Financing Sources</u></b>	
<u>Revenue Contribution to Capital Spending per programme</u>	0.748
Contribution from Earmarked Reserves	0.233
Purchase of 60 Crownhill Road	0.345
Axminster Station rebuild	0.038
Community Safety vehicles	0.009
Purchase of leased vehicles	0.026
<b>Sub Total – Direct Revenue Funding/Earmarked Reserve</b>	<b>1.399</b>
<u>Capital/Revenue Grants</u>	
CLG Grant to support capital spending	1.398
<b>Sub Total - Capital/Revenue Grants</b>	<b>1.398</b>
<b>Total Financing</b>	<b>2.797</b>

***Borrowing***

15.2 The amount of external borrowing at the beginning of the financial year stood at £26.214m. No new borrowing was taken out during the year and an amount of £0.270m has been repaid, resulting in an overall reduction of external borrowing to £25.944m as at 31 March 2015. This level of borrowing is well below the agreed (revised) maximum borrowing figure of £31.021m allowed under the Prudential Code.

## 16. **DRAFT PRUDENTIAL INDICATORS**

16.1 The prudential indicators at this time can only be regarded as provisional subject to the completion of the Statement of Accounts and resultant audit scrutiny.

### ***Capital Expenditure***

16.2 This prudential indicator reports actual capital spending for the year against the approved programme. Spending has proved to be £4.817m less than anticipated predominantly as a consequence of delays on progressing capital projects.

Approved Indicator	£7.614m
Actual Expenditure	£2.797m
Variance	(£4.817)m

### ***Capital Financing Requirement (CFR) – External Borrowing***

16.3 The CFR reflects the underlying need to borrow for capital purposes. Given that spending is £4.8m less than programmed, the need to borrow to fund capital spending has also reduced.

Approved CFR	£23.430m
Revised CFR	
(Based on actual spending)	£22.582m
Variance	(£0.848)m

16.4 As is reported in paragraph 16.2 actual external borrowing was £25.944m as at 31 March 2015. Whilst this level exceeds the revised CFR figure of £22.582m, which reflects that borrowing of £3.362m has been taken out in advance of spending, this does not represent a breach of prudential indicators as borrowing is permitted up to what is called the Authorised Limit i.e. £31.021m (see para 17.6 below).

### ***Capital Financing Requirement (CFR) – Other Long Term Liabilities***

16.5 This CFR reports long term financing liabilities other than external borrowing, e.g. Private Finance Initiative (PFI) and Finance Leases, which under accounting rules are required to be reported alongside traditional borrowing liabilities.

Approved CFR	£1.509m
Actual CFR	£1.509m
Variance	(£0.000) m

### ***Authorised Limit and the Operational Boundary for External Debt***

16.6 Actual external debt as at 31 March 2015 was £25.944m. This is within the revised authorised limit (absolute maximum borrowing approval) and operational boundary of £31.021m and £29.892m respectively, and therefore neither was breached.

### ***Ratio of Financing Cost to Net Revenue Stream***

16.7 This ratio aims to show the percentage of revenue resources which are applied to financing debt. The Authority's estimate was that 3.85% would be applied and the actual figure is 0.23 base points (bp) below that estimate.

Capital Financing Costs	£2.927m
Interest on investments	(£0.186)m
Net Financing Costs	£2.741m

Net Revenue Stream	£75.794m
Percentage	3.62%
Estimated	3.85%
Variance	(0.23) bp

**17. DETERMINATION OF CAPITAL FINANCE**

17.1 The Authority is required to determine its use of capital finance as defined by capital control legislation. The following use of capital finance resources is proposed;

- That an amount of £1.398m is capitalised and funded from external grant.
- That an amount of £1.399m is capitalised and funded from revenue contributions to capital spending, either directly from the 2014-15 revenue budget or from balances in Earmarked Reserves.

**KEVIN WOODWARD**  
**Treasurer**

**SUBJECTIVE ANALYSIS OF REVENUE SPENDING**

<b>DEVON &amp; SOMERSET FIRE AND RESCUE AUTHORITY</b>		<b>2014/15</b>	<b>Spending to</b>	<b>Projected</b>	<b>Projected</b>
<b>Revenue Budget Monitoring Report 2014/15</b>		<b>Budget</b>	<b>Month 12</b>	<b>Outturn</b>	<b>Variance</b>
<b>Line</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>over/</b>
<b>No</b>	<b>SPENDING</b>	<b>(1)</b>	<b>(3)</b>	<b>(4)</b>	<b>(under)</b>
					<b>£000</b>
					<b>(5)</b>
	<b>EMPLOYEE COSTS</b>				
1	Wholetime uniform staff	29,349	28,722	28,807	(541)
2	Retained firefighters	12,444	12,479	10,954	(1,490)
3	Control room staff	1,630	1,636	1,636	6
4	Non uniformed staff	9,146	9,298	9,298	152
5	Training expenses	986	803	803	(183)
6	Fire Service Pensions recharge	2,211	2,173	2,316	105
		<b>55,765</b>	<b>55,111</b>	<b>53,814</b>	<b>(1,950)</b>
	<b>PREMISES RELATED COSTS</b>				
7	Repair and maintenance	1,430	1,374	1,374	(56)
8	Energy costs	624	552	552	(72)
9	Cleaning costs	443	382	382	(61)
10	Rent and rates	1,617	1,604	1,604	(14)
		<b>4,114</b>	<b>3,912</b>	<b>3,912</b>	<b>(202)</b>
	<b>TRANSPORT RELATED COSTS</b>				
11	Repair and maintenance	612	515	515	(97)
12	Running costs and insurances	1,329	1,270	1,270	(59)
13	Travel and subsistence	1,524	1,448	1,448	(76)
		<b>3,464</b>	<b>3,233</b>	<b>3,233</b>	<b>(231)</b>
	<b>SUPPLIES AND SERVICES</b>				
14	Equipment and furniture	2,544	2,471	2,471	(73)
15	Supplies Internal Recharges	0	36	36	36
16	Hydrants-installation and maintenance	128	107	107	(22)
17	Communications	1,987	1,766	1,766	(221)
18	Uniforms	630	509	509	(121)
19	Catering	152	186	186	34
20	External Fees and Services	69	77	77	9
21	Partnerships & regional collaborative projects	123	131	131	8
		<b>5,633</b>	<b>5,284</b>	<b>5,284</b>	<b>(349)</b>
	<b>ESTABLISHMENT COSTS</b>				
22	Printing, stationery and office expenses	346	262	262	(84)
23	Advertising	32	28	28	(4)
24	Insurances	372	297	297	(75)
		<b>750</b>	<b>587</b>	<b>587</b>	<b>(163)</b>
	<b>PAYMENTS TO OTHER AUTHORITIES</b>				
25	Support service contracts	601	598	598	(3)
		<b>601</b>	<b>598</b>	<b>598</b>	<b>(3)</b>
	<b>CAPITAL FINANCING COSTS</b>				
26	Capital charges	4,351	3,830	3,830	(521)
27	Revenue Contribution to Capital spending	2,254	1,166	1,166	(1,088)
		<b>6,605</b>	<b>4,996</b>	<b>4,996</b>	<b>(1,609)</b>
28	<b>TOTAL SPENDING</b>	<b>76,932</b>	<b>73,722</b>	<b>72,425</b>	<b>(4,507)</b>
	<b>INCOME</b>				
29	Treasury management investment income	(100)	(186)	(186)	(86)
30	Grants and Reimbursements	(2,370)	(3,059)	(2,787)	(418)
31	Other income	(773)	(1,111)	(1,111)	(337)
32	Internal Recharges	(40)	(58)	(58)	(18)
33	<b>TOTAL INCOME</b>	<b>(3,283)</b>	<b>(4,414)</b>	<b>(4,142)</b>	<b>(859)</b>
34	<b>NET SPENDING</b>	<b>73,649</b>	<b>69,308</b>	<b>68,283</b>	<b>(5,366)</b>
	<b>TRANSFERS TO EARMARKED RESERVES</b>				
35	Grants Unapplied	29	0	231	202
36	Change & Improvement	0	0	399	399
37	2014-15 Budget Carry forwards	616	616	717	101
38	Capital Funding	1,500	1,500	2,588	1,088
39	Pension Reserve	0	0	1,525	1,525
38		<b>2,145</b>	<b>2,116</b>	<b>5,460</b>	<b>1,588</b>
39	<b>NET SPENDING</b>	<b>75,794</b>	<b>71,424</b>	<b>73,743</b>	<b>(2,051)</b>

**APPENDIX B TO REPORT DSFRA/15/12**

**SUMMARY OF RESERVES AND BALANCES AS AT 31 MARCH 2015**

<b>RESERVES AND PROVISIONS</b>						
		<b>Balance as at</b>	<b>Approved</b>	<b>Proposed</b>	<b>Spending to</b>	<b>Proposed</b>
	<b>Note</b>	<b>1 April 2014</b>	<b>Transfers</b>	<b>Transfers</b>	<b>P12</b>	<b>Balance as at</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>31 March</b>
						<b>2015</b>
						<b>£000</b>
<b>RESERVES</b>						
<b>Earmarked reserves</b>						
Grants unapplied from previous years	a	2,503	-	152	887	1,769
Change & improvement programme	b	739	-	399	200	938
Budget Carry Forwards	c/d	304	70	401	48	727
Commercial Services		211	-	-	19	192
Direct Funding to Capital	d/e	4,099	1,500	1,294	12	6,881
Comprehensive Spending Review*	f	3,389	-	1,545	-	4,934
Community Safety Investment		405	-	-	190	215
PPE & Uniform Refresh	g	450	546	-	-	996
Pension Liability reserve	h	-	-	1,525	-	1,525
<b>Total earmarked reserves</b>		<b>12,100</b>	<b>2,116</b>	<b>5,316</b>	<b>1,355</b>	<b>18,177</b>
<b>General reserve</b>						
General fund balance	i	<u>5,191</u>		79	0	<u>5,270</u>
Percentage of general reserve compared to net budget						6.95%
<b>TOTAL RESERVE BALANCES</b>		<b><u><u>17,291</u></u></b>				<b><u><u>23,447</u></u></b>
<b>PROVISIONS</b>						
Fire fighters pension schemes	j	2,084		(1,297)	3	784
PFI Equalisation		295		-		295
<b>TOTAL PROVISIONS</b>		<b>2,379</b>		<b>(1,297)</b>	<b>3</b>	<b>1,079</b>



<b>REPORT REFERENCE NO.</b>	<b>DSFRA/15/13</b>
<b>MEETING</b>	<b>DEVON &amp; SOMERSET FIRE &amp; RESCUE AUTHORITY (Ordinary Meeting)</b>
<b>DATE OF MEETING</b>	<b>28 MAY 2015</b>
<b>SUBJECT OF REPORT</b>	<b>ANNUAL TREASURY MANAGEMENT REPORT 2014-2015</b>
<b>LEAD OFFICER</b>	<b>Treasurer</b>
<b>RECOMMENDATIONS</b>	<i>That the performance in relation to the treasury management activities of the Authority for 2014-2015, as set out in this report, be noted.</i>
<b>EXECUTIVE SUMMARY</b>	<p>The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted.</p> <p>The report includes a performance report relating to the 2014-15 financial year.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated within the report.
<b>EQUALITY RISK AND BENEFIT ASSESSMENT (ERBA)</b>	An initial assessment has not identified any equality issues emanating from this report.
<b>APPENDICES</b>	A. Prudential indicators 2014-15.
<b>LIST OF BACKGROUND PAPERS</b>	Treasury Management Strategy (including Prudential and Treasury Indicators) Report to budget meeting held on the 24 February 2014 DSFRA/14/3

## 1. **INTRODUCTION**

1.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014-15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The Authority fully complies with the primary requirements of the Code, which includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
- The receipt by the Authority of an annual strategy report for the year ahead, a mid-year treasury update report and an annual review report of the previous year.
- The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 The Treasury Management Strategy for the Authority has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) 2011 Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code.

1.5 Treasury management in this context is defined as:

*"The management of the local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

## 2. **THE ECONOMY AND INTEREST RATES**

2.1 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was heavily dependent on buoyant consumer demand. In mid-October inflation in the UK was going to head towards zero in 2015 and possibly even turn negative.

- 2.2 In turn, this made it clear that the Monetary Policy Committee would have great difficulty in starting to raise Bank Rate in 2015 started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the European Central Bank was going to do too little too late to ward off the threat of deflation and recession in the Eurozone.. By the end of 2014, it was clear that inflation was around zero and so market expectations for the first increase receded back to around Quarter 3 of 2016.
- 2.3 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the Eurozone had been disproved.
- 2.4 Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election [then] due in May 2015.

### 3. **OVERALL TREASURY POSITION AS AT 31 MARCH 2015**

- 3.1 The Authority's debt and investment position at the beginning and the end of the year was as follows:

SUMMARY	31st March 2014 Principal	Rate/ Return	31st March 2015 Principal	Rate/ Return
Total Debt - PWLB	£26.214m	4.231%	£25.944m	4.231%
CFR	£24.382m		£22.582m	
Over/(under) borrowing	£1.832m		£3.362m	
Total Investments	£25.107m	0.61%	£30.956m	0.49%
NET DEBT	£1.107m		£(5.012)m	

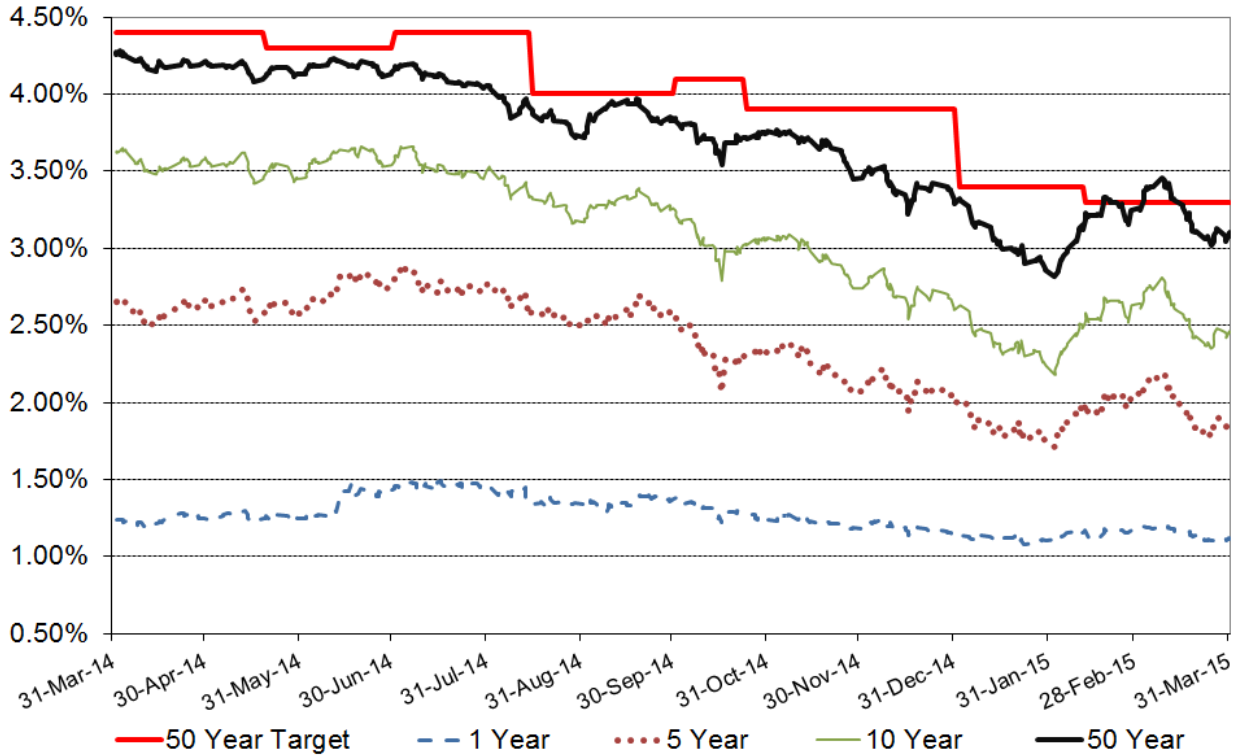
### 4. **STRATEGY FOR 2014-15**

- 4.1 The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 4.2 In this scenario the strategy was to postpone borrowing to avoid the cost of holding higher levels of investment and to reduce counterparty risk.

5. **BORROWING**

***Public Works Loan Board (PWLB) borrowing rates 2013-2014***

5.1 The graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



***DSFRA Borrowing Strategy***

**Prudential Indicators**

5.2 It is a statutory duty for the Authority to determine and keep under review the “Affordable Borrowing Limits”. The Authority’s approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.

5.3 During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

***Authority borrowing during and at the end of 2014-2015***

5.4 No new borrowing was taken out in 2014-15 to support capital spending and therefore, because repayments of £0.270m loan principal have been made in year, the value of loans outstanding has decreased since the end of 2013-14. A summary of the loan (debt) position of the Authority is given in the table overleaf. All existing borrowing has been taken out at Fixed Interest Rates.

5.5

It is noted that external borrowing was above the CFR at end of March 2015 but the Authority will increase the Capital Financing Requirement over the next three financial years. Consideration has been given to whether it would be advantageous for the Authority to repay some of its debt early. The effect of early repayment penalties would negate any immediate savings to the revenue budget and therefore would not represent best value for money at this time. Officers will continue to consult with Capita Treasury Management Services regarding the efficient use of cash and loan balances in order to be able to advise members of changes to rates which may make debt repayment beneficial.

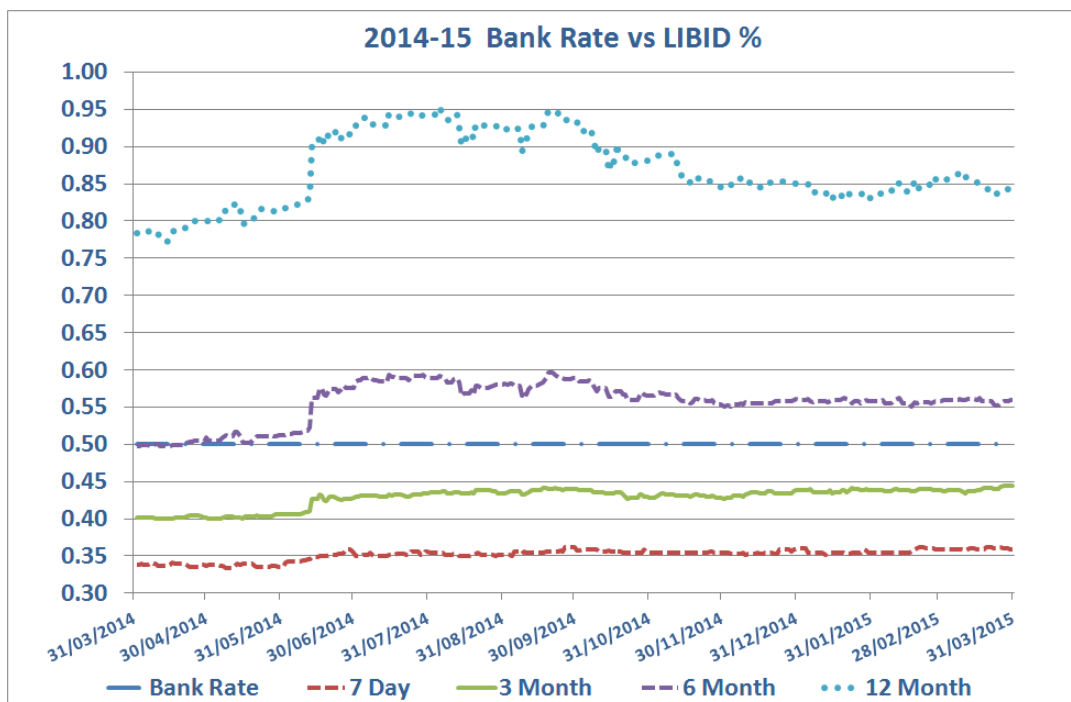
<b>Summary of loan movements during 2014-15</b>			
		<b>Amount £m</b>	
	<b>Value of loans outstanding as at 1/4/2014</b>	<b>26.214</b>	
	Loans taken during 2014-2015	0.00	
	Loans repaid upon maturity during 2014-15	(0.270)	
	Loans rescheduled during 2014-15	0	
	<b>Total value of loans outstanding as at 31/3/2015</b>	<b>25.944</b>	

## 6. INVESTMENTS

### *Investment rates in 2014-15*

6.1

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at Quarter 1 2015 but then moved back to around Quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year primarily due to the effects of the Funding for Lending Scheme.



### **Authority Investment Strategy**

6.2 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity

6.3 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using our Treasury Management Advisors (Capita) suggested creditworthiness matrices, including Credit Default Swap overlay information provided by Sector. In addition to this approach the Authority has the ability to use building societies under specified and non-specified investments.

### **Authority Investments during and at the end of 2014-2015**

6.4 No institutions in which investments were made during 2014-2015 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.5 A full list of investments held as at 31 March 2015 are shown in the table below:

<b>Investments as at 31 March 2015</b>					
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	5.000	2.100	T	1 yr	1.000%
		1.400	T	1 yr	1.000%
		1.500	T	6 mths	0.700%
Goldman Sachs	5.000	5.000	T	3 mths	0.475%
Barclays	8.000	3.000	T	6 mths	0.610%
		2.500	T	6 mths	0.600%
		2.000	T	6 mths	0.600%
Clydesdale Bank	2.000	1.000	T	3 mths	0.510%
		1.000	T	3 mths	0.510%
Leeds Building Society	2.000	2.000	T	3 mths	0.500%
Nationwide Building Society	2.000	2.000	T	6 mths	0.660%
Svenska Handelsbanken	5.000	0.010	C	Instant Access	Variable
Black Rock Money Market Funds	5.000	0.446	C	Instant Access	Variable
Barclays - FIBCA	2.000	2.000	C	Instant Access	Variable
Ignis Sterling Liquidity Money Market Fund	5.000	5.000	C	Instant Access	Variable
<b>Total invested as at 31st March 2015</b>		<b>30.956m</b>			

- 6.6 Funds available for investment are on a temporary basis, the level of which are dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Average level of funds available for Investment	Benchmark Return	Authority Performance	Investment Interest Earned
3 month	£34.488m	0.42%	0.49%	£0.186m

- 6.7 The amount of investment income earned of £0.186m has exceeded the target by £0.086m as a result of levels of fund available for investment during the year being higher than anticipated.

## 7. **SUMMARY**

- 7.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2014-2015. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken during the year, with priority being given to liquidity and security over yield.
- 7.2 Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments continued to be dominated by risk considerations resulting in relatively low returns compared to borrowing rates. Even so, the Authority is able to report that its returns are above the London Inter Bank Bid Rate 3 month rate, the benchmark return for this type of short term investments.

**KEVIN WOODWARD**  
Treasurer

**APPENDIX A TO REPORT DSFRA/15/13**

<b>PRUDENTIAL INDICATOR</b>	<b>2013-14 £m actual</b>	<b>2014-15 £m approved</b>	<b>2014-15 £m actual</b>
<b>Capital Expenditure</b>			
Non - HRA	3.853	7.614	2.797
HRA (applies only to housing authorities)	0	0	0
<b>TOTAL</b>	<b>3.853</b>	<b>7.614</b>	<b>2.797</b>
<b>Ratio of financing costs to net revenue stream</b>			
Non - HRA	3.75%	3.85%	3.62%
HRA (applies only to housing authorities)	0%	0%	0%
<b>Capital Financing Requirement as at 31 March (borrowing only)</b>			
Non - HRA	24.382	23.430	22.582
HRA (applies only to housing authorities)	0	0	0
<b>TOTAL</b>	<b>24.382</b>	<b>23.430</b>	<b>22.582</b>
<b>Annual change in Cap. Financing Requirement</b>			
Non - HRA	(1.952)	(0.975)	(1.823)
HRA (applies only to housing authorities)	0	0	0
<b>TOTAL</b>	<b>(1.952)</b>	<b>(0.975)</b>	<b>(1.823)</b>
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase/(decrease) in council tax (band D) per annum	(£0.34)	(£0.42)	£(0.49)
<b>TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>			
<b>Authorised Limit for external debt - borrowing</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
other long term liabilities	32.770	31.021	31.021
<b>TOTAL</b>	<b>1.520</b>	<b>1.509</b>	<b>1.509</b>
	<b>34.290</b>	<b>32.530</b>	<b>32.530</b>
<b>Operational Boundary for external debt - borrowing</b>	32.739	29.948	29.948
other long term liabilities	1.509	1.374	1.374
<b>TOTAL</b>	<b>34.248</b>	<b>31.322</b>	<b>31.322</b>

	Actual 31 <sup>st</sup> March 2015	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	100%	70%
Limits on borrowing at variable interest rates	0%	30%	0%
<b>Maturity structure of fixed rate borrowing during 2014-15</b>			
Under 12 months	0.49%	30%	0%
12 months and within 24 months	0.36%	30%	0%
24 months and within 5 years	1.08%	50%	0%
5 years and within 10 years	8.22%	75%	0%
10 years and above	89.86%	100%	50%



<b>REPORT REFERENCE NO.</b>	DSFRA/15/14
<b>MEETING</b>	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
<b>DATE OF MEETING</b>	28 May 2015
<b>SUBJECT OF REPORT</b>	PRINCIPAL OFFICER PAY REVIEW 2015
<b>LEAD OFFICER</b>	Clerk to the Authority
<b>RECOMMENDATIONS</b>	<p><i>The Members Working Group recommends that the Authority:</i></p> <p><i>(a). Sets the salary of the Chief Fire Officer at £146,031 with effect from 1 April 2015;</i></p> <p><i>(b). Subject to a) above, restores the percentages of the Chief Fire Officer's salary to set the salaries of the other Principal Officers to the [lower] levels previously determined by the Authority, as follows:</i></p> <p><i>(i) Director of Operations at 75% - £109,523;</i></p> <p><i>(ii) Director of Corporate Services at 68.75% of 5/6th – £83,664;</i></p> <p><i>(iii) Director of People &amp; Commercial Services at 68.75% of 5/6th – £83,664</i></p> <p><i>(c). Gives permission for the Chief Fire Officer, and other Principal Officers, to undertake roles outside of the Service, subject to:</i></p> <p><i>(i). any such work being undertaken whilst on annual leave;</i></p> <p><i>(ii). there being no conflict of interest with the business of the Authority, Red One Ltd. or any company or other body that the Authority might establish from time to time;</i></p> <p><i>(iii). compliance with the requirements of the Local Government Act 1972 in relation to the recording of interests in contracts; and</i></p> <p><i>(iv). in addition to (iii), all roles outside the Service being recorded in a register of interests kept for that purpose.</i></p>
<b>EXECUTIVE SUMMARY</b>	<p>The salary structure for Principal Officers (the Chief Fire Officer and other Executive Board members) is determined by the Authority and, in accordance with the National Conditions of Service (the Gold Book), the Authority is required to conduct an annual review of the remuneration of the Chief Fire Officer. Any locally determined changes in the Chief Fire Officer's remuneration are subject to full Authority approval.</p>

	<p>Under section 38(1) of the Localism Act 2011, the Authority is required to prepare a Pay Policy Statement. The Authority’s Pay Policy Statement states that the annual review will: “be conducted by way of a report to a full Authority meeting which will contain such relevant data as to enable the Authority to reach a determination on levels of appropriate remuneration” and also “consider the level of pay awards made for other groups of employees and the relationship between the remuneration of the Chief Fire Officer and the remuneration of other employees”.</p> <p>In consultation with the Authority Chairman, it was agreed that a Members Working Group should be established to consider initial benchmark data and determine whether additional data was required with a view to agreeing a final report to the full Authority. It was also agreed that the Hay Group would be commissioned to evaluate the Chief Fire Officer’s role and undertake independent benchmarking with a view to providing a summary report that compares the Service’s current remuneration level with the market and provide advice on options for consideration.</p> <p>This report sets out the findings of this benchmarking work and the conclusions of the Members Working Group that formed the basis for the recommendations above.</p>
<b>RESOURCE IMPLICATIONS</b>	£32,441 per annum which can be met from within existing budgets.
<b>EQUALITY RISKS AND BENEFITS ANALYSIS</b>	The contents of this report are considered compatible with existing equalities and human rights legislation.
<b>APPENDICES</b>	<p>A. Additional Benchmarking Data</p> <p>B. Chief Fire Officer Bench Marking Review – Report by Hay Group (page numbered separately).</p>
<b>LIST OF BACKGROUND PAPERS</b>	<p>Devon and Somerset Fire &amp; Rescue Authority Pay Policy Statement 2014-15</p> <p>National Joint Council for Brigade Managers of Fire and Rescue Services (the Gold Book)</p>

## **1. INTRODUCTION**

- 1.1 The salary structure for Principal Officers (the Chief Fire Officer and other Executive Board members) is determined by the Authority and is subject to annual reviews in accordance with the Constitution and Scheme of Conditions of Service of the National Joint Council for Brigade Managers of Fire and Rescue Services (the Gold Book). At a national level, the employers' side considers annual cost of living increase claims for all those covered by the national agreement and determines any pay settlement. All other decisions about pay levels and remuneration are taken locally by the full Authority.
- 1.2 Under section 38(1) of the Localism Act 2011, the Authority is required to prepare a Pay Policy Statement. The Authority is responsible for ensuring that the pay policy sets out the issues relating to the pay of the workforce and in particular the senior officers and the lowest paid employees. This ensures that there is appropriate accountability and transparency regarding the salaries of the Authority's senior staff. In accordance with the statutory obligations, the Authority approved its current Pay Policy Statement in February 2015 and published it on the Authority's website.
- 1.3 Any locally determined changes in the Chief Fire Officer's remuneration are subject to full Authority approval. In accordance with the conditions within the Gold Book, the Authority is required to conduct an annual review of the remuneration afforded to members of the Executive Board.
- 1.4 The Authority's Pay Policy Statement states that the annual review will: "be conducted by way of a report to a full Authority meeting which will contain such relevant data as to enable the Authority to reach a determination on levels of appropriate remuneration" and also "consider the level of pay awards made for other groups of employees and the relationship between the remuneration of the Chief Fire Officer and the remuneration of other employees".
- 1.5 To ensure that the process of producing such a report remained Member led, in consultation with the Authority Chairman, it was agreed that a Members Working Group should be established to consider initial benchmark data and determine whether additional data was required with a view to agreeing a final report to the full Authority. Accordingly, a Working Group of six Authority Members was established that comprised the Chairman and Vice Chairman of the Authority together with the Chairmen of the Authority's Committees.
- 1.6 The Members Working Group met on 16 December 2014 and considered a broad range of data analysis for Chief Fire Officer pay levels in England. It was decided at that meeting that the Group would meet again in May 2015 with a view to reporting to the full Authority at the end of May 2015. In consultation with the Chairman, it was subsequently agreed that the Hay Group – which has extensive experience in advising on senior executive remuneration including experience with a number of fire and rescue services – would be commissioned to:
- Evaluate the Chief Fire Officer's role using the Hay Group Method of Evaluation.
  - Undertake remuneration market benchmarking using Hay Group's Public and Not for Profit data base and analyse and include where appropriate the data about Chief Fire Officer pay that had been obtained by the Service from internet research using published Pay Policy Statements and Annual Statements of Accounts.
  - Provide a summary report that compares the Service's current remuneration level with the market and provide advice on options for consideration.

## **METHODOLOGY**

- 2.1 The Hay Group report, attached as Appendix B, was completed during April 2015 and discussed with the Chairman before being presented to the Members Working Group.
- 2.2 Hay reviewed and analysed the base salary data for other fire and rescue services in England, as provided by Devon and Somerset Fire and Rescue Service. To supplement this information, they used the Hay Group Pay Net database to provide market data for a base salary comparison. The Hay database includes data based on the size of a role, with the size determined by the Hay Group job evaluation method, and uses this basis to link to pay. It is the largest of its kind in the UK and holds data from over 200 Public & Not for Profit Organisations and over 800 organisations in total. As a result it provides robust remuneration data for use in benchmarking and setting policy.
- 2.3 In order to enable remuneration benchmarking using the Hay Group Pay Net database, Hay evaluated the Chief Fire Officer's role using the Hay Group Method of Job Evaluation. This method is widely used throughout the public sector, including with other fire and rescue services.
- 2.4 In addition, the Members Working Group also used the base salary data for other fire and rescue services, which had been obtained by the Service from internet research using published Pay Policy Statements and Annual Statements of Accounts, to establish appropriate benchmarking comparators.

## **FINDINGS**

- 3.1 The Chief Fire Officer's pay on 1 April 2007 (the date of combination) was £132,394, which at that time equated to 4.98 times that of a firefighter. The same ratio at today's values would equate to £144,689. The current pay level of the Chief Fire Officer is £137,392.
- 3.2 Hay's evaluation of the Chief Fire Officer's role, using their method of job evaluation, is 1486 points, which is in line with the evaluations Hay has done for Chief Fire Officers of services of a similar size.
- 3.3 Hay used the Hay Group Pay Net database to provide market data for a base salary comparison. However, they note that in the case of Chief Fire Officers the market place, both from a retention and recruitment perspective, is a closed and small market predominantly comprising officers from other fire and rescue services because of the very specific skills and experience required. Consequently, whilst general market pay data is useful to inform decisions, especially in relation to public perceptions, it is the fire and rescue service specific data that is the most relevant.
- 3.4 Having analysed the data, Hay found that other services with responsibility for a similar population receive higher salaries; the median of the other population Band 4 services is £146,763 (note: having updated data since the Hay report was produced this median figure is now £150,886 – see Appendix A). Whilst caution does have to be exercised when using just one broad metric, such as population, for analysis (because it may not take into account other factors such as complexities caused by the particular demographics of an area), Hay's view, having evaluated the Devon and Somerset Chief Fire Officer's job and based on working with a range of other services, is that the Devon and Somerset role would be equivalent in job size terms to majority of other Chief Fire Officers in population Band 4.

- 3.5 Hay also undertook a comparison of the Chief Fire Officer's base salary against their Industrial & Service market dataset (which is a broad general market that consists of both public sector and private sector organisations but excludes the financial services industry). Hay found that the Chief Fire Officer's role is currently receiving a base salary below the market median rate for base salaries, which is £144,994. However, Hay also found that in practice the difference will be significantly greater, because the use of bonuses in the private sector means that the median figure when including such payments is 17% higher than the figure for base salaries.
- 3.6 The Members Working Group also found that, in comparison to a group of fire and rescue services with a narrower population variation to Devon and Somerset (+/- 0.5m) than the population Band 4 group, that the other services all receive higher salaries; the median being £147,337 - see Appendix A.
- 3.7 A further tightening of the population variation to Devon and Somerset (+/- 0.1m) also found that the other services all receive higher salaries; the average being £146,031 (note, the median is not used here because the small number of other services, just 3, makes it inappropriate for analysis purposes) - see Appendix A.
- 3.8 In line with most other fire authorities, the pay of the three other Principal Officers is set as a percentage of the Chief Fire Officer's salary as part of their contracts of employment. Current percentages are as follows:
- Director of Operations (Assistant Chief Fire Officer) – 75.2%;
  - Director of Corporate Services and the Director of People & Commercial Services both at 68.93%.

The latter two roles are non-uniformed and the salary is calculated by taking five sixths of the Chief Fire Officer's pay (effectively removing the 20% availability pay that is built into operational roles) and then applying the percentage. The current percentages for all three roles were distorted by the last national cost of living increase, which provided for a 1% increase to salaries of less than £100,000 and a flat £1,000 increase to those above £1,000. The percentages for these three roles were previously 75% and 68.75% respectively. Consequently, any increase in the Chief Fire Officer's salary will result in an equivalent percentage increase in the salaries of each of those officers. The effect of this must be factored into the cost of any decision regarding the Chief Fire Officer's salary.

- 3.9 In considering the cost impact of any increase in salary for the Chief Fire Officer, the Members Working Group noted that two restructures of the top management team, in 2010 and 2013, resulted in four positions being deleted saving some £329,000 per annum. In addition, the Members Working Group also identified that the Chief Fire Officer had personally generated circa. £79,200 of income for the Authority, for no personal gain, by virtue of his services as Chief Fire and Rescue Adviser to the Welsh Government.
- 3.10 In addition to salary comparison, the Members Working Group also considered whether the Chief Fire Officer, and other Principal Officers, should be allowed to undertake roles outside the Service. It was noted that the Service policy that relates to securing permission to undertake roles or activity outside the Service is open to all members of staff, including the Chief Fire Officer and other Principal Officers.

- 3.11 Additionally, the Local Government Act 1972 imposes the following two significant restrictions on local authority employees (officers):
- (a). an officer may not receive, by virtue of his employment, any fee or reward other than his proper remuneration; and
  - (b). all officers are required to declare in writing any interests they may have in any contract, or proposed contract, with the Service for the provision of goods or services. Such interests might be direct (i.e. the individual is a party to the contract itself and will receive a monetary payment) or indirect (for example, while the individual may not be a part to or receive any financial benefit from the contract, they are nonetheless an employee, director or partner of the company with which the Service has entered into, or may enter into, a contract). Failure to declare such an interest may result in disciplinary action and/or a fine, on summary conviction, of up to Level 4 on the Standard Scale (currently £2,500).

The Democratic Services Section keeps a register of all interests so declared, which is available for inspection upon request.

#### **4 CONCLUSIONS**

- 4.1 The Chief Fire Officer's role in Devon and Somerset has been evaluated, using an appropriate job evaluation methodology, as being equivalent in job size terms to the majority of other chief fire officers in population Band 4 but the present salary is well below the median salary for fire and rescue services in population Band 4 - £150,886.
- 4.2 The Chief Fire Officer's salary has eroded since 2007 in comparison to that of a firefighter and were the same differential applied today the salary level would be £144,689.
- 4.3 In comparison to a group of fire and rescue services with a narrower population variation to Devon and Somerset (+/- 0.5m) than population Band 4, the Chief Fire Officer's salary is well below that median of £147,337; and even when population variation is reduced further (to +/- 0.1m), the Chief Fire Officer's salary is below the average of that small group, being £146,031. Given:
- the closeness in population size of this latter group;
  - the other similarities of those services to Devon and Somerset;
  - the view of the Hay Group that it is the fire and rescue service specific data that is the most relevant; and
  - the close proximity to the original ratio set in 2007 in relation to the pay of a firefighter,
- the Members Working Group is of the opinion that this latter benchmark is the most relevant in terms of considering the appropriate salary level for the Chief Fire Officer.
- 4.4 Following two restructures of the top management team, in 2010 and 2013, savings of circa £329,000 per annum were achieved and the Chief Fire Officer has personally generated income of approximately £79,200 for the Authority, for no personal gain, by virtue of his services as Chief Fire and Rescue Adviser to the Welsh Government over the last two years.

4.5 The Service policy that relates to securing permission to undertake roles or activity outside the Service is open to all members of staff, including the Chief Fire Officer and other Principal Officers. However, because of the roles and responsibilities of Principal Officers, it would seem appropriate to impose additional conditions, over and above those which would apply to other members of staff, to any such permission for Principal Officers in order to safeguard the interests of the Authority. The suggested conditions are:

- (a). any such work being undertaken whilst on annual leave;
- (b). there not being a conflict of interest with the business of the Authority, Red One Ltd. or any company or other body that the Authority might establish from time to time; and
- (c). compliance with the requirements of the Local Government Act 1972 in relation to the recording of interests in contracts; and
- (d). in addition to c) above, all roles outside the Service being recorded in a register of interests kept for that purpose.

**MIKE PEARSON**  
**Clerk to the Authority**

<b>Population BAND 4</b>					
<b>Brigade</b>	<b>CFO Pay</b>	<b>Type</b>	<b>Population</b>	<b>Pop Band</b>	
<b>Devon and Somerset</b>	£137,392	CFA	<b>1,678,000</b>	4	-
Service A	£143,420	CFA	1,748,000	4	70,000
Service B	£144,474	CFA	1,776,000	4	98,000
Service C	£150,199	CFA	1,741,000	4	63,000
Service D	£151,572	Met	2,241,000	4	563,000
Service E	£161,600	Met	2,763,000	4	1,085,000
Service F	£165,000	Met	2,702,000	4	1,024,000
<b>Average</b>	£152,711				
<b>Median</b>	£150,886				
<b>Population +/- 0.5m of D&amp;S</b>					
<b>Brigade</b>	<b>CFO Pay</b>	<b>Type</b>	<b>Population</b>	<b>Pop Band</b>	<b>Pop Variation</b>
<b>Devon and Somerset</b>	£137,392	CFA	<b>1,678,000</b>	4	-
Service A	£143,420	CFA	1,748,000	4	70,000
Service G	£143,671	Met	1,352,000	3	(326,000)
Service B	£144,474	CFA	1,776,000	4	98,000
Service C	£150,199	CFA	1,741,000	4	63,000
Service H	£153,015	CFA	1,466,000	3	(212,000)
Service I	£170,000	Met	1,386,000	3	(292,000)
<b>Average</b>	£150,797				
<b>Median</b>	£147,337				
<b>Population +/- 0.1m of D&amp;S</b>					
<b>Brigade</b>	<b>CFO Pay</b>	<b>Type</b>	<b>Population</b>	<b>Pop Band</b>	<b>Pop Variation</b>
<b>Devon and Somerset</b>	£137,392	CFA	<b>1,678,000</b>	4	-
Service A	£143,420	CFA	1,748,000	4	70,000
Service B	£144,474	CFA	1,776,000	4	98,000
Service C	£150,199	CFA	1,741,000	4	63,000
<b>Average</b>	£146,031				
<b>Note: all tables sorted on CFO pay</b>					