M. Pearson
CLERK TO THE AUTHORITY

To: The Chair and Members of the Resources Committee (see below)

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RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

Monday 14 September 2009

A meeting of the Resources Committee will be held on the above date, **commencing at 10.00 hours in Conference Room A in Somerset House, Service Headquarters** to consider the following matters.

M. Pearson
Clerk to the Authority

A G E N D A

1. **Election Of Chair**

2. **Apologies**

3. **Minutes** of the meeting held on 4 February 2009 attached (Page 1).

4. **Items Requiring Urgent Attention**

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

5. **Election Of Vice-Chair**

6. **Declarations of Interest**

   Members are asked to consider whether they have any **personal/personal and prejudicial interests** in items as set out on the agenda for this meeting and declare any such interests at this time. *Please refer to the Note 2 at the end of this agenda for guidance on interests.*

PART 1 – OPEN COMMITTEE

7. **Budget Monitoring Report 2009/10**

Report of the Treasurer (RC/09/4) attached (Page 5).

8. **Capital Programme Monitoring 2009/10 to 2011/12**

Report of the Head of Physical Assets (RC/09/5) attached (Page 14).

9. **Specialist Rescue - Payments**

Report of the Assistant Chief Fire Officer (Operations) (RC/09/6) attached (Page 23).

10. **Treasury Management Performance 2008/09 and 2009/10 (to July 2009)**

Report of the Treasurer (RC/09/7) attached (Page 28).

PART 2 – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PRESS AND PUBLIC

Nil

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Gordon, Horsfall, Hughes OBE, Smith, Turner, Woodman and Yeomans.

Substitute Members

Members are reminded that, in accordance with Standing Order 36, the Clerk (or his representative) MUST be advised of any substitution prior to the start of the meeting.

NOTES

1. ACCESS TO INFORMATION

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Sam Sharman on the telephone number shown at the top of this agenda.

2. DECLARATIONS OF INTERESTS BY MEMBERS

What Interests do I need to declare in a meeting?
As a first step you need to declare any personal interests you have in a matter. You will then need to decide if you have a prejudicial interest in a matter.

What is a personal interest?
You have a personal interest in a matter if it relates to any interests which you must register, as defined in Paragraph 8(1) of the Code.

You also have a personal interest in any matter likely to affect the well-being or financial position of:-

(a) you, members of your family, or people with whom you have a close association;
(b) any person/body who employs/has employed the persons referred to in (a) above, or any firm in which they are a partner or company of which they are a director;
(c) any person/body in whom the persons referred to in (a) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
(d) any body of which you are a Member or in a position of general control or management and which:-
- you have been appointed or nominated to by the Authority; or
- exercises functions of a public nature (e.g. a constituent authority; a Police Authority); or
- is directed to charitable purposes; or
- one of the principal purposes includes the influence of public opinion or policy (including any political party or trade union)

more than it would affect **the majority** of other people in the Authority's area.

Anything that could affect the quality of your life (or that of those persons/bodies listed in (b) to (d) above) either positively or negatively, is likely to affect your/their "well being". If you (or any of those persons/bodies listed in (b) to (d) above) have the potential to gain or lose from a matter under consideration – to a **greater extent** than **the majority** of other people in the Authority's area - you should declare a personal interest.

What do I need to do if I have a personal interest in a matter?
Where you are aware of, **or ought reasonably to be aware of**, a personal interest in a matter you must declare it when you get to the item headed "Declarations of Interest" on the agenda, or otherwise as soon as the personal interest becomes apparent to you, UNLESS the matter relates to or is likely to affect:-

(a) any other body to which you were appointed or nominated by the Authority; or
(b) any other body exercising functions of a public nature (e.g. membership of a constituent authority; other Authority such as a Police Authority);

of which you are a Member or in a position of general control or management. In such cases, provided you do not have a prejudicial interest, you need only declare your personal interest if and when you speak on the matter.

Can I stay in a meeting if I have a personal interest?
You can still take part in the meeting and vote on the matter unless your personal interest is also a prejudicial interest.

What is a prejudicial interest?
Your personal interest will also be a **prejudicial** interest if **all** of the following conditions are met:-

(a) the matter is not covered by one of the following exemptions to prejudicial interests in relation to the following functions of the Authority:-
- statutory sick pay (if you are receiving or entitled to this);
- an allowance, payment or indemnity for members;
- any ceremonial honour given to members;

- setting council tax or a precept; **AND**

(b) the matter affects your financial position (or that of any of the persons/bodies as described in Paragraph 8 of the Code) or concerns a regulatory/licensing matter relating to you or any of the persons/bodies as described in Paragraph 8 of the Code); **AND**

(c) a member of the public who knows the relevant facts would reasonably think your personal interest is so significant that it is likely to prejudice your judgement of the public interest.

What do I need to do if I have a prejudicial interest?

If you have a prejudicial interest in a matter being discussed at a meeting, you must declare that you have a prejudicial interest (and the nature of that interest) as soon as it becomes apparent to you. You should then leave the room unless members of the public are allowed to make representations, give evidence or answer questions about the matter by statutory right or otherwise. If that is the case, you can also attend the meeting for that purpose.

You must, however, leave the room **immediately after you have finished speaking (or sooner if the meeting so decides)** and you cannot remain in the public gallery to observe the vote on the matter. Additionally, you must not seek to **improperly influence** a decision in which you have a prejudicial interest.

What do I do if I require further guidance or clarification on declarations of interest?

If you feel you may have an interest in a matter that will need to be declared but require further guidance on this, please contact the Clerk to the Authority – preferably before the date of the meeting at which you may need to declare the interest. Similarly, please contact the Clerk if you require guidance/advice on any other aspect of the Code of Conduct.

RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

4 February 2009

Present:-

Councillors Gordon (Chair), Fry, Healey, B. Hughes, Lewis, Way and Yeomans

In attendance:-

Councillor Mochnacz

***RC/17. Minutes**

RESOLVED that the Minutes of the meeting held on 8 December 2008 be signed as a correct record.

***RC/18. Declarations of Interest**

Members of the Committee were asked to consider whether they had any personal/personal and prejudicial interests in any items to be considered at the current meeting in accordance with the Authority's approved Code of Conduct.

No interests were declared.

At this point, the Chairman stated that he felt that the agenda should be re-ordered to take the item on the Capital Programme 2009/10 to 2011/12 and associated Prudential Indicators prior to the report on the 2009/10 Revenue Budget and Council Tax level. The Committee was in agreement with this action.

RC/19. Capital Programme 2009/10 To 2011/12 and Associated Prudential Indicators

The Committee considered a joint report of the Head of Physical Assets and the Treasurer (RC/09/2) that set out proposals to review and update the existing capital programme to include projects and schemes which had been deemed essential for either normal replacement of assets or for major business development in line with structured asset management planning. The proposal set out the inclusion of replacement appliances within the fleet and equipment programme, together with the reprofiling of the debt charges associated with slippage on the existing programme.

Reference was made to the funding that had been secured from the Department for Communities and Local Government (CLG) in the sum of £2 million over two years on a debt free basis to address primarily equality and diversity issues on stations. This took the total expenditure on the Capital Programme in 2009/10 to £8.7 million, of which only £1.7 million was funded by central government. Whilst this had been welcomed, the point was made that the Authority still had capital investment pressures and, as the largest non metropolitan fire and rescue authority in the country, the CLG had not addressed its concerns in respect of sparsity factors which had been raised on numerous occasions.

The Committee noted that the revised programme was affordable in accordance with its prudential indicators and was recommended for approval.

RESOLVED that the Authority be recommended to approve the revised Capital Programme 2009/12 to 2011/12 and the associated Prudential Indicators as set out in report RC/09/2.

RC/20. 2009/2010 Revenue Budget and Council Tax Level

The Committee considered a joint report of the Treasurer and the Chief Fire Officer (RC/09/1) that set out the necessary financial background in order that the Committee could give due consideration to an appropriate level of Revenue Budget and Council Tax for 2009/10 and to make a recommendation to the Fire and Rescue Authority accordingly.

The Treasurer made reference to the following information in presenting the report:

a. details of the local government finance settlement for 2009/10 (which was part of the three year grant settlement covering the years 2008/09 to 2010/11);
b. details of the commitments that had been included on the draft revenue budget for 2009/10;
c. the Medium Term Financial Plan (MTFP) 2009/10 to 2011/12;
d. the precept consultation for 2009/10;
e. the levels of reserves and balances;
f. options for setting the 2009/10 revenue budget.

The Treasurer stated that, to set a budget at £73.039 million (a 3.9% increase on the approved 2008/09 budget), would require an increase in the council tax of 4.9% over the 2008/09 level. Whilst this was unlikely to be a figure that would result in capping, it would represent one of the highest percentage increases of all fire and rescue authorities and therefore had not been pursued as an option.

The four options put forward, however, were summarised as follows:

Option	**Council Tax increase %**	**Budget increase %**	**Council Tax for a Band D Property £ p**	**Increase over 2008/2009 £ p**	**Reduction required in 2009/2010 draft Revenue Budget £m**
A	4.5	3.7	£69.58	£3.00	(0.140)
B	3.9	3.4	£69.18	£2.60	(0.380)
C	3.5	3.1	£68.92	£2.34	(0.540)
D	3.0	2.8	£68.59	£2.01	(0.740)

The report set out the implications of setting the council tax at each of these levels, together with a risk assessment and a forecast of the impact of each on budget setting for the following two financial years, namely 2010/11/and 2011/12.

The Treasurer made reference to the position in respect of reserves and stated that the Authority had agreed that the minimum level of reserves should be 5% of the total revenue budget. He commented that he was anticipating an increase in reserves to around 6.9% as a result of the underspend in 2008/09 although this was still not the optimum position for the Authority. This would still position the Authority in the bottom quartile in terms of the level of reserves held.

During a debate on this matter, the suggestion was made that the Authority should utilise reserves to support a lower council tax in 2009/10 on the basis that it was likely that an underspend would occur again and this would still enable the minimum level of 5% of reserves to be retained. This suggestion was not supported widely by the Committee.

Reference was made to factors that were unknown to the service at this point such as the pay settlement in 2009, pension provision, the move to the Regional Control Centre and the impact of the Working Time Directive, all of which could have an adverse impact on the budget in 2009/10.

The Chief Fire Officer stated that officers were acutely aware of the need to set a level of council tax that was as low as possible but there were a number of points to take into account in doing so. These were:

- that setting a disproportionately low figure would inevitably impact on the position for 2010/11;
- decisions to make savings should be taken on the basis of risk rather than on the need to set a balanced budget;
- if the option of 3.5% was the preferred option, this would result in a potential increase in council tax of 4.5% in 2010/11 which would be insufficient to meet all of the demands and commitments at that time.

Whilst there was support for recommending that the level of council tax be set at 3.9%, there was concern expressed that this meant that there may be community safety prevention activity that would be lost as a result. The Deputy Chief Fire Officer gave an assurance, however, that this work could still be picked up in the event that a level of 3.9% was subsequently agreed.

In view of this, Councillor B Hughes proposed (and was seconded by Councillor Healey):

“that the Devon and Somerset Fire and Rescue Authority be recommended to approve Option B (as set out in report RC/09/1) as the level of revenue budget and council tax in 2009/10”.

Upon a vote (4 for, 1 against and 2 abstentions), the motion was carried.

RESOLVED that the Devon and Somerset Fire and Rescue Authority be recommended to approve Option B (as set out in report RC/09/1) as the level of revenue budget and council tax in 2009/10.

***RC/21. <u>Revenue Budget Monitoring Report 2008/09</u>**

The Committee received for information a report of the Treasurer (RC/09/3) that set out projections of income and expenditure for the first nine months of the financial year (to the end of December 2008) against the approved Revenue Budget for 2008/09 and which detailed any significant variations against individual budget lines.

At this stage, it was projected that spending would be £0.665m less than the approved Revenue Budget, equivalent to 0.95%. The main reasons for this position were as a consequence of a higher number of vacancies than had been anticipated resulting in a saving on pay costs, coupled with a reduction in incident activity levels which had impacted on retained pay lines.

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

The meeting started at 14.00hours and finished at 15.25hours.

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/09/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**14 SEPTEMBER 2009**
SUBJECT OF REPORT	**BUDGET MONITORING REPORT 2009/2010**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***(a) That the current projection of an underspend of £0.588m, against the current year revenue budget be noted;*** ***(b) That, in accordance with Financial Regulations, budget virement 2 as set out in the table at paragraph 6.1 of this report be approved;*** ***(c) That, in accordance with Financial Regulations, the Authority be recommended to approve budget virement 1 as set out in the table at paragraph 6.1 of this report*** ***(d) That the performance against 2009/2010 financial targets, be noted.***
EXECUTIVE SUMMARY	This report provides the first budget monitoring statement for the current financial year, based upon spending to the end of July 2009. At this stage, projections indicate that spending will be £0.588m less than budget, equivalent to just 0.81%. It should be noted that of this figure an amount of £0.378m relates to the fact that the 2009 pay award for unformed staff has been settled at 1.25%, which is lower than the 2.3% provision that had been assumed in setting the 2009/2010 revenue budget. This report also provides a summary of the authority's forecast performance against its financial targets and its anticipated year end reserve position.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has revealed that there are no equality issues arising from this report.
APPENDICES	A. Summary of Forecast Performance against 2009/2010 Financial Targets.

	B. Subjective Analysis of 2009/2010 Revenue Spending. C. Reserves
LIST OF BACKGROUND PAPERS	

1. INTRODUCTION

1.1 This report provides the first budget monitoring report for the current financial year. As well as providing projections of spending against the 2009/2010 revenue budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators. Appendix A to this report provides a summary of performance against each of our targets. The key issues relating to our forecast performance against each of these targets are explained within this report.

2. REVENUE BUDGET 2009/2010

2.1 Current projections are for total revenue spending in 2009/2010 to be £72.071m, as compared to an approved budget of £72.659m, representing an underspend of £0.588m, equivalent to just 0.81% of the total budget. It should be emphasised that, of this figure, an amount of £0.378m relates to the fact that the 2009 pay award for uniformed staff has recently been settled at 1.25%, compared to the 2.3% provision that had been included in the budget. Aside from the pay award saving, further net savings of £0.210m are forecast from other areas of spending.

2.2 This projection is based upon the spending position at the end of July 2009, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year, in particular retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report.

2.3 Given that we are still at an early stage in the financial year, this report does not make any recommendation as to how this underpsend may be utilised. Regular monitoring reports will continue to be presented to this Committee throughout the course of the financial year, to provide an update on the spending position, together with consideration of appropriate management action, where significant variations have been highlighted.

2.4 Appendix B provides an analysis of projected spending against each of the subjective budget headings, and explanations of the more significant variations from budget are explained below in paragraphs 3 to 5 below.

3. EMPLOYEE COSTS

Wholetime Staff

3.1 Spending against wholetime pay costs is anticipated to be £0.364m less than budget, equivalent to just 1.10% of the total wholetime pay budget, of which an amount of £0.243m relates to the impact of the lower pay award. The remaining savings are primarily as a consequence of staff vacancies.

Retained Staff

3.2 At this stage it is projected that spending against this budget heading is projected to be underspent by £0.291m, of which an amount of £0.117m reflects the impact of the lower pay award. This projection is based upon spending to date and an assumption that activity levels in the remainder of the financial year are consistent with the average for the same period for the last two financial years. It should be emphasised that by its very nature retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

Non-Uniformed Staff

3.3 The forecast spending on non-uniformed pay includes the costs associated with the Community Safety Action Teams (CSAT) engaged as part our prevention activities to reduce the number of fire calls. These costs are to be self funding from savings on retained pay costs.

4. PREMISES RELATED COSTS

Energy Costs

4.1 At this stage it is projected that spending on energy costs will be £0.091m more than anticipated primarily as a consequence of utility cost increases being more than had been budgeted.

4.2 Rent and Rates

It is anticipated that rates costs will be less than had been budgeted following confirmation from the Valuation Office of new rateable values, which in the event have proved to lower than had been anticipated.

5. CAPITAL FINANCING COSTS

5.1 As a consequence of slippage in spending against the 2008/2009 capital programme, as reported elsewhere on the agenda, it is projected that debt charges for 2009/2010 will be £0.171m less than budget.

6. BUDGET VIREMENTS

6.1 Table 1 below shows details of proposed budget transfers between subjective budget headings. Financial Regulations require that in-year virements between subjective budget lines in excess of £50,000 require the approval of the Resources Committee, and the full Authority where the amount exceeds £150,000 (Regulations A19 and A20 refers). The budget figures in Appendix B include the impact of these virements.

TABLE 1 – VIREMENTS IN EXCESS OF £50,000

	Budget Line	**From £**	**To £**	
1.	Grants and Reimbursements	(626,900)		To reflect the award of New Burdens grant funding from the Department of Communities and Local Government (CLG) relating to the Regional Control Centre (RCC) project, to fund the staffing costs of additional control room operators, required as part of the Initial Staffing Pool (ISP), and additional staffing required to form the RCC transition team.
	Employee Costs – Wholetime Uniformed Staff		89,200	
	Employee Costs – Control Room Staff		332,200	
	Employee Costs – Non-uniformed Staff		205,500	

	Budget Line	From £	To £	
2.	Employee Costs - Wholetime Uniformed Staff Employee Costs – Retained	(74,400)	 74,400	To reflect that Continuing Professional Development (CPD) covers both wholetime & retained staff

7. EFFICIENCY SAVINGS

7.1 The authority's forward looking Annual Efficiency Statement, required to be submitted to the CLG annually, has targeted additional cashable savings of £0.906m to be achieved in 2009/2010. The majority of these savings are to be delivered from the implementation of the dual crewing of aerial appliances, reductions in fire calls, further savings from the combination of ex-Devon and ex-Somerset FRS, and from better procurement. At this stage of the year monitoring has indicated that we are on course to achieve this saving target.

7.2 In relation to the cumulative savings to be achieved from the combination, including savings to be achieved in 2009/2010, the current forecast is that total savings of £3.6m will be achieved by the year 2012/2013, which exceeds the original target figure of between £1.6m and £3.0m.

8. RESERVES

8.1 The authority has a number of reserves which are available to fund expenditure. In order to demonstrate a complete outturn position, Appendix C provides details of the anticipated year end situation for each of these reserves.

9. PRUDENTIAL INDICATORS (INCLUDING TREASURY MANAGEMENT)

9.1 Elsewhere on the agenda to this meeting are two separate papers relating to capital monitoring and treasury management performance in the current year. Appendix A to this report includes the impact on the Prudential and Treasury Management Indicators from the key issues highlighted in each of those reports.

9.2 The main issue to report in relation to the prudential indicators is that, with the exception of the CFR, none of the agreed prudential indicators are forecast to be breached. Actual external borrowing as at July 2009 stood at £20.874m, forecasting to rise to £28.879m by 31 March 2010, which is well below the authorised limit for external debt of £36.628m (the absolute maximum that the Authority has agreed as affordable).

9.3 In relation to investment returns, it is forecast that the income target of £0.105m will not be achieved as a consequence of the falling interest rates since the budget was set. The current estimate is that an amount of £0.075m will be achieved. An average return of 1.22% has been achieved to the end of July 2009, as compared to the average LIBID 7 day rate (industry benchmark), for the same period of 0.48%.

9.4 Current external borrowing has been taken at an average borrowing rate of 4.00%. This compares with a target of 4.18% assumed in setting the debt charges budget for 2009/2010.

10. OTHER INDICATORS

Aged Debt Analysis

10.1 As at 31 July 2009, an amount of £48,302 was due from debtors relating to invoices that are more than 85 days old, equating to 7.12% of the total debt outstanding. Whilst this is within the set target of 10% total debt, efforts will be increased in the remainder of the year to improve this position further.

Payment of Supplier Invoices within 30 days

10.2 The ratio of supplier invoices paid within 30 days (or other agreed credit terms) is that 98.91%, compared to our target figure of 98.0%. It should also be noted that the majority of suppliers are now being paid within 20 days, as a result of a Service decision to make a temporary change to the payment period down from 30 days to 20 days during the period of the recession, to assist smaller suppliers, in particular, with their cash flow position.

11. SUMMARY

11.1 We are still relatively early in the financial year and the forecasts of financial performance will inevitably change during the course of the year, particularly in relation to spending against the revenue and capital budgets. Further monitoring reports will be presented to each of meeting of the Resources Committee during the course of the financial year, including proposals for management action, where necessary.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/09/4

FINANCIAL PERFORMANCE INDICATORS 2009/2010

Revenue Budget	Forecast £m	Target £m	Variance (favourable) /adverse %
Forecast Spending	72.071	72.659	(0.81)%
Efficiency Savings to be achieved in 2009/2010	0.906	0.906	0.00%
Cumulative Efficiency Savings from Combination by 2012/1013	3.600	3.000	(0.20%)

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse %
Capital Expenditure	10.121	10.121	0.00%
Capital Financing Requirement (CFR)	28.731	28.673	0.20%
Authorised limit for external debt	28.879	36.628	(21.16)%
Operational boundary for external debt	28.879	33.761	(14.46)%
Investment Income	0.075	0.105	28.57%
	Actual (31 July 2009) %	Target %	Variance (favourable) /adverse %
Investment Return	1.22%	0.48%	(0.74)%
Cost of Borrowing	4.00%	4.18%	(0.18)%

Prudential Indicators and Treasury Management Indicators	Actual (31 July 2009) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	0.00%
Maturity structure of borrowing limits				
Under 12 months	4.53%	10.00%	0.00%	(5.47)%
12 months to 2 years	4.53%	15.00%	0.00%	(10.47)%
2 years to 5 years	13.15%	30.00%	0.00%	(16.85)%
5 years to 10 years	5.11%	50.00%	0.00%	(44.89)%
10 years and above	72.68%	100.00%	50.00%	(27.32)%

Other Indicators	Actual (31 July 2009) %	Target %	Variance (favourable) /adverse %
Aged Debt over 85 days	7.12%	10.0%	(2.88)%
Payments to Suppliers within 30 days	98.91%	98.00%	(0.91)%

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY **APPENDIX B**

Revenue Budget Monitoring Report 2009/10

Line No		2009/10 Revised Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 4 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/(under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	33,061	10,807	10,777	32,697	-364
2	Retained firefighters	12,175	3,600	3,593	11,884	-291
3	Control room staff	2,225	725	709	2,185	-40
4	Non uniformed staff	8,353	2,770	2,743	8,477	124
5	Training expenses	1,140	379	345	1,145	5
6	Fire Service Pensions recharge	1,955	927	6,649	1,955	0
		58,909	**19,208**	**24,816**	**58,343**	**-566**
	PREMISES RELATED COSTS					
7	Repair and maintenance	920	306	363	970	50
8	Energy costs	513	171	79	604	91
9	Cleaning costs	390	130	63	393	3
10	Rent and rates	1,301	433	464	1,249	-52
		3,124	**1,040**	**969**	**3,216**	**92**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	587	195	113	587	0
12	Running costs and insurances	1,194	492	232	1,194	0
13	Travel and subsistence	1,289	352	378	1,289	0
		3,070	**1,039**	**723**	**3,070**	**0**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,156	721	896	2,171	15
15	Hydrants-installation and maintenance	168	56	43	168	0
16	Communications	1,114	515	513	1,112	-2
17	Protective Clothing	861	286	413	861	0
18	Catering	137	45	63	151	14
19	External Fees and Services	80	26	20	111	31
20	Partnerships & regional collaborative projects	153	51	7	153	0
		4,669	**1,700**	**1,955**	**4,727**	**58**
	ESTABLISHMENT COSTS					
21	Printing, stationery and office expenses	418	166	121	411	-7
22	Advertising	75	25	35	84	9
23	Insurances	377	269	186	377	0
		870	**460**	**342**	**872**	**2**
	PAYMENTS TO OTHER AUTHORITIES					
24	Support service contracts	637	186	140	628	-9
		637	**186**	**140**	**628**	**-9**
	CAPITAL FINANCING COSTS					
25	Capital charges	4,655	102	699	4,484	-171
26	Revenue Contribution to Capital spending	0	0	0	25	25
		4,655	**102**	**699**	**4,509**	**-146**
27	**TOTAL SPENDING**	**75,934**	**23,735**	**29,644**	**75,365**	**-569**
	INCOME					
28	Treasury management investment income	-105	-35	-25	-75	30
29	Grants and Reimbursements	-2,201	-550	-1,658	-2,201	0
30	Other income	-901	-300	-358	-950	-49
31	Internal Recharges	-68	-22	-1	-68	0
32	**TOTAL INCOME**	**-3,275**	**-907**	**-2,042**	**-3,294**	**-19**
33	**NET SPENDING**	**72,659**	**22,828**	**27,602**	**72,071**	**-588**

APPENDIX C TO REPORT RC/09/4

RESERVES – predicted outturn

RESERVE	Available balance as at 1/4/2009 £000	Spending to month 4 £000	Predicted outturn £000	Anticipated Balance 31/3/2010 £000
Lundy	25	0	25	0
Postive pressure ventilation training	17	2	5	13
Mobilisation equipment	117	9	117	0
Working at heights	6	0	5	1
GIS	15	0	0	15
Decommission analogue radio	175	68	150	25
Improvements to Topsham station	26	0	26	0
Spend to save initiatives	46	0	46	0
General fund	4,453	0	0	4,453
Risk management work	4	0	4	0
Risk reduction initiatives	3	0	3	0
Document management	25	0	25	0
Corporate communication strategy	4	2	4	0
Corporate branding	6	0	6	0
KPMG benchmarking	16	0	16	0
Body cameras	13	0	13	0
Fireboat refit	10	2	10	0
Fireboat engines	27	14	27	0
Crownhill/Chelston building alts	20	19	20	0
Asset tracking	20	2	20	0
Logistics & Transportation Review	25	0	22	3
ORIS system development	12	0	12	0
Devon House heating	40	0	40	0
HSE building works	300	0	300	0
	5,405	118	896	4,510

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/09/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**14 SEPTEMBER 2009**
SUBJECT OF REPORT	**CAPITAL PROGRAMME MONITORING 2009/10 to 2011/12**
LEAD OFFICER	**Head of Physical Assets**
RECOMMENDATIONS	***(a) That the revised capital programme in Appendix B be approved.*** ***(b) That, subject to (a) above, the report be noted.***
EXECUTIVE SUMMARY	This report represents the current monitoring position for the capital programme 2009/10 to 20011/12 as approved by the Authority at its meeting on 16 February 2009.
RESOURCE IMPLICATIONS	Financial details are contained within the report.
EQUALITY IMPACT ASSESSMENT	There is no specific impact in the report, although many of the asset schemes involve improvements to equality of service provision.
APPENDICES	A. Capital Programme 2009/10 to 2011/12 approved 16 February 2009. B. Revised Capital Programme 2009/10 to 2011/12.
LIST OF BACKGROUND PAPERS	

1. INTRODUCTION

1.1 This report represents a monitoring position against the capital programme 2009/10 to 2011/12 approved by the Devon and Somerset Fire and Rescue Authority (DSFRA) at its meeting on 16 February 2009. The approved capital programme is reproduced in Appendix A. Revisions to the capital programme to take account of 2008/09 actual outturn and current status, are included in Appendix B. The impact of the revised capital programme as it affects the prudential indicators is included elsewhere on the agenda.

2. BACKGROUND

2.1 At its meeting on 16 February 2009 DSFRA approved the capital programme for 2009/10 to 2011/12. This was approved against a background of spending pressures on the capital programme resulting from the combination of a large property and fleet portfolio.

2.2 Due to overall budgetary pressures facing the authority, it was recognised that any new capital building projects would need to be put in abeyance until such time that they would become affordable in terms of revenue debt charges arising from additional borrowing. A debt free capital government grant of £2m over two years, however, does enable the programme of welfare and facilities improvements to stations to be progressed. Due to the significant and increasing backlog of appliance replacement, it was decided to fund an additional £6m over three years to partially address this backlog. The previously approved annual programmes supporting ‘building ring fenced maintenance’ and ‘equipment replacement’ were maintained.

3. CURRENT POSITION

Estate Development

Exeter Middlemoor

3.1 The new station is due to be live from 9 September for the designated operational staff relocating from Danes Castle. The support staff are scheduled to move from Pynes Hill on 21 September.

Exeter Danes Castle

3.2 The new appliance bay has been taken possession of in order that the temporary facility may be removed and external works carried out. The operational staff are due to move from their temporary facility into the new building on 14 September. This will enable the remainder of the temporary station to be removed and external works completed by November. The support staff are scheduled to move from Pynes Hill on 21 September.

Ring Fenced Maintenance / Grant Assisted Projects

3.3 The list of proposed works across both these budgets was presented to the Authority on 16 February 2009. The table below shows progress against these improvement works.

Scheme	Detail	Current status	£
Taunton	Phase 2 of internal refurbishment	Contractor on site 3 Aug. Due for completion Dec 09.	150,000
Yeovil	Phase 2 of internal refurbishment	Estimated to be on site on 7 Sept for completion Nov 09.	100,000
New drill towers	Select from: Teignmouth, Exmouth, Dulverton, Totnes, Shepton Mallet or Crownhill	Awaiting operational assessment and decision as to how to progress.	60,000
Station extensions	Ivybridge	Estimated to be on site end of Sept for completion Feb 2010.	160,000
	Dawlish	Estimated to be on site Oct for completion Feb 2010.	160,000
	Street	Estimated to be on site Nov for completion March 2010.	160,000
	Bovey Tracey	Estimated to be on site end of Sept for completion Feb 2010.	160,000
DDA, DAW, BA, Drying Room, Community access works	Honiton	Completed.	60,000
	Lynton	Estimated to be on site Oct for completion Feb 2010.	100,000
	Martock	Completed.	30,000
	Chumleigh plus new roof	Planning approval awaited. Due for completion March 2010.	60,000
	Sidmouth	Planning approval awaited. Due for completion March 2010.	120,000
	STC Phase 2	Completed.	65,000
Torquay	Phase 2 of training structure	Currently on site. Due for completion Oct 09.	175,000
New boiler	Crownhill, Camels Head or Torquay	TBA	45,000
TOTAL			**1,605,000**

<u>2008/09 Slippage</u>

3.4 Due to residual additional work resulting from combination, late approvals and delays in external factors beyond our control, there was rather more slippage than normal from 2008/09. It is the firm intention to complete these works within the current financial year. Overall project costs have not increased, but the consequential debt charges will occur later than originally forecast, which gives rise to some savings in the current year's revenue budget. Although it is difficult to complete all capital schemes in line with financial year end, it is considered at this stage that slippage from 2009/10 to 2010/11 should be significantly less than in the previous two years, but overall project costs will not increase in any event.

3.5 The following projects were subject to slippage from 2008/09, but are now either completed or in hand.

- Shepton Mallet extension
- Bridgwater internal refurbishment
- Crownhill internal refurbishment

- STC internal works
- Williton internal works
- Yeovil internal refurbishment
- SHQ infrastructure works

HSE investigation

3.6 Following the HSE report concerning lack of shower and other facilities on some retained stations, the Authority, at its meeting of 27 May 2009, approved a transfer of £300,000 from the 2008/09 underspend to facilitate full availability of showers and acceleration of the improvement programme for welfare and standard facilities on stations. In addition to the shower installations, Hatherleigh's full extension refurbishment has been brought forward. All these works are scheduled for completion in the current financial year.

Fleet and Equipment

Replacement Appliances

3.7 Of the nine pumping appliances procured from the 2007/08 approved capital programme, five have been delivered and the remaining four are imminent. Five aerial appliances have also been procured from this programme and these are due for delivery commencing at the end of this year.

3.8 Three appliances have been ordered from the 2009/10 approved programme and these are due for delivery late this year.

3.9 Preparations are in progress to order two targeted response vehicles and a further batch of pumping appliances as part of the approved programme and taking account of more favourable market conditions.

Specialist Operational Vehicles

3.10 Due to their bespoke nature, there have been a range of difficulties and delays associated with specialist vehicles from previously approved capital programmes as follows:

- Special Rescue appliance(s) – No offers were received from the market when these were tendered and a new procurement has now begun.
- Tele-hoist load handler – Diverse quotations have been received, but formal tendering is required to complete the procurement.
- Community Safety information / education Unit – The specification is now with Firebuy for tendering, following adjustments for disabled access to the vehicle. Due to framework timescales, a shorter procurement route is being investigated.
- Fire-ground feeding Unit - This project is currently on hold as the Service Delivery function is reviewing its requirements and options.

Equipment

3.11 This programme is intended for the ongoing replacement of vital operational equipment in order to maintain currency, legislative and health and safety obligations. Due to harmonisation issues following combination, there were delays in prioritising needs in this area and slippage from 2007/08 amounted to £400,000. Equipment purchased during 2008/09 cut the slippage carried forward to 2009/10 to £250,000. At this stage it is anticipated that he full 2009/10 programme, including slippage, will be commissioned by the end of the financial year.

2008/09 Slippage

3.12 As indicated above, slippage has occurred in the delivery of pumping appliances and equipment procurement. Overall project costs have not increased, but the consequential debt charges will occur later than originally forecast, which gives rise to some savings in the current year's revenue budget. Although it is difficult to complete all capital schemes in line with financial year end, it is considered at this stage that slippage from 2009/10 to 2010/11 should be significantly less than in the previous two years, but overall project costs will not increase in any event.

3.13 The asset tracking system, MIQUEST, has been slower to implement than planned, but is now firmly under way with two marking technicians specifically employed in temporary roles. The reading hardware is being carefully considered to be accommodated within the budget allocation available, but this will not allow for full capability hardware across all DSFRS stations and compromises will have to be made.

4. PROGRAMME REVISION AND IMPACT ON CAPITAL FINANCING COSTS

4.1 Following from the publication of the 2008/09 financial outturn position in the DSFRA report approved on 25 June 2009, the capital programme has been revised to take account of actual capital spend for 2008/09 rather than the previously estimated spend. This particularly affects slippage carried forward and some smaller capital projects wholly supported by grant and revenue funds previously agreed by the Authority. The revised programme is illustrated in Appendix B.

4.2 **It should be noted that none of these revisions have any affect on the individual scheme budgets, which remain as originally approved.** The table in Appendix B therefore merely represents a re-scheduling of the schemes originally approved in the Appendix A table and not an increase in the programme.

Impact on Capital Financing Costs

4.3 As debt charges are dependent on the time that borrowing is incurred, there are some changes in this respect. With more slippage from 2008/09 than anticipated, the debt charges incurred in 2009/10, following from the previous year's borrowing, will be less than previously estimated. The impact on the 2009/10 revenue programme is included in the revenue budget monitoring report, elsewhere on the agenda.

4.4 As scheme totals remain unchanged and borrowing is less this year, the programme remains comfortably contained within the approved prudential indicators, which have been set by the Authority to provide assurance that capital spending plans are prudent, sustainable and affordable. The prudential Indicator full report appears elsewhere on the agenda.

5. CONCLUSION

5.1 It is anticipated that slippage from the current years' capital programme will be significantly less than last year and nothing has been currently planned in this respect.

5.2 Financial spend is in accordance with budget setting throughout and no overall overspend is anticipated. An updated capital monitoring position will be presented to the Resources Committee in due course.

5.3 The limited three year funding for appliances and equipment, together with the two year government grant for station improvements, has allowed progress against a range of smaller projects. The overall pressures on the asset portfolio remain, however, some of which were highlighted to the Capital Programme Working Party in July 2009. These pressures will need consideration alongside competing pressures and efficiency programmes in order to arrive at affordable capital plans for the future in the 2010/11budget setting round and further reports will be presented to the Resources Committee for consideration at the appropriate time.

DEREK WENSLEY
Head of Physical Assets

Approved Capital Programme (2009/10 - 2011/12)

PREV YEARS (£000)	2008/09 (£000)	PROJECT	2009/10 (£000)	2010/11 (£000)	2011/12 (£000)	Project Total incl. prev years (£000)
		Estate Development				
661	1,522	Exeter Middlemoor	1,769	150		4,102
61	1,187	Exeter Danes Castle	1,692	103		3,043
	469	Other Projects				
		Funded Capital grant	870	1,193		2,063
		Allocation			1,000	1,000
	483	Maintenance ring fenced	750	750	750	2,733
		2008/09 slippage	231			231
	624	2007/08 slippage				
	4,285	**Estates Sub Total**	**5,312**	**2,196**	**1,750**	
		Fleet & Equipment	**-**			
	1,155	Appliance replacement	1,675	880		3,710
	200	Specialist Operational Vehicles	368			568
		Vehicle replacement programme	870	3,140	2,000	6,010
	259	Equipment	319	319	319	1,216
26	55	Asset Management Plan (Miquest) software	144			225
		2008/09 slippage	50			50
	400	2007/08 slippage				
	170	BA cylinder replacement				
	2,239	**Fleet & Equipment Sub Total**	**3,426**	**4,339**	**2,319**	
	6,524	**Overall Capital Totals**	**8,738**	**6,535**	**4,069**	

Revised Capital Programme (2009/10 - 2011/12)

PREV YEARS (£000)	2009/09 (£000)	PROJECT	2009/10 (£000)	2010/11 (£000)	2011/12 (£000)	Project Total incl. prev years (£000)
		Estate Development				
661	1,589	Exeter Middlemoor	1,702	150		4,102
61	1,023	Exeter Danes Castle	1,856	103		3,043
	245	Other Projects				
		Funded Capital grant	870	1,193		2,063
		Allocation			1,000	1,000
	415	Maintenance ring fenced	750	750	750	2,665
		Welfare facilities on stations	300			300
		Diversity & Equality grant	34			34
		USAR training facility enhancement	35			35
		2008/09 slippage	530			530
	624	2007/08 slippage				
	3,896	**Estates Sub Total**	**6,077**	**2,196**	**1,750**	
		Fleet & Equipment	-			
	930	Appliance replacement	2,034	880		3,844
	267	Specialist Operational Vehicles	392			659
		Vehicle replacement programme	870	3,140	2,000	6,010
	81	Equipment	319	319	319	1,038
26	22	Asset Management Plan (Miquest) software	177			225
		2008/09 slippage	252			252
	400	2007/08 slippage				
	170	BA cylinder replacement				
	1,870	**Fleet & Equipment Sub Total**	**4,044**	**4,339**	**2,319**	
	5,766	**Overall Capital Totals**	**10,121**	**6,535**	**4,069**	

KEY:

The increase in the 2009/10 total from 8,738 to 10,111 between the February and latest report is constituted as follows:

(67) - Reduced 2008/09 slippage on Middlemoor scheme

164 - Increased 2008/09 slippage on Danes Castle scheme

300 - Welfare facilities funded from 2008/09 approved transfer.

34 - Diversity & Equality grant, fully funded by grant to enable enhancements

35 - USAR training enhancement, fully funded by revenue & grant

299 - Increased 2008/09 slippage on Estates schemes

359 - Increased 2008/09 slippage on Appliance deliveries

24 - Increased 2008/09 slippage on Special operational vehicles

33 - Increased 2008/09 slippage on Asset software project

202 - Increased 2008/09 slippage on Equipment schemes

1,383 - Total increase. 8,738 + 1,383 = 10,121

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/09/6**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**14 SEPTEMBER 2009**
SUBJECT OF REPORT	**SPECIALIST RESCUE - PAYMENTS**
LEAD OFFICER	**ASSISTANT CHIEF FIRE OFFICER (OPERATIONS)**
RECOMMENDATIONS	***(a) that the introduction of payments relating to specialist rescue activities, to be funded from within existing resources in the current financial year, be noted;*** ***(b) that, at this stage, the Authority be asked to recognise that funding to facilitate continuation of the payments in 2010/11 and beyond will constitute a commitment on the base budget for future years.***
EXECUTIVE SUMMARY	This reports sets out the current position in relation to discussions with Representative Bodies on the introduction of financial recognition for undertaking specialist rescue work. The Fire and Rescue Authority supported a proposal to introduce the integration of water and rope rescue provision into a single capability known as 'Specialist Rescue', strategically located at four stations. Funding for equipment and training was reported to the Fire and Rescue Authority at the 2008/09 budget meeting on 15 February 2008. (Appendix B, 'Essential Spending Pressures', to report DSFRA/08/4 refers). As a consequence, expenditure was approved in support of this proposal (Minute Reference DSFRA/79/(a) refers). However, phased implementation was deferred pending the outcome of discussions with the Fire Brigades Union (FBU) on the introduction of some form of enhanced payment in recognition of the technical, physiological and psychological nature of the work. These discussions are now by and large complete and a proposal has been developed for payment which has the support of the FBU. While the additional costs associated with implementation of this proposal can be contained from within existing resources for the current financial year it will be necessary to include an appropriate amount in the base budget for 2010/11 and thereafter to facilitate continuation of the payments.

RESOURCE IMPLICATIONS	As set out in Section 3 of this report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has revealed that there are no equality issues arising from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

1.1 The recommendation to introduce Specialist Rescue Teams was agreed by the Devon and Somerset Fire and Rescue Authority (DSFRA) on 15 February 2009 (Appendix B, 'Essential Spending Pressures', to report DSFRA/08/4 refers). The following recommendations were approved:

- To train level 2 and level 3 water rescue instructors as a priority
- To train all operational staff within DSFRS to water rescue level 2 standard
- To establish a Service-wide level 3 water rescue capability through the establishment of Specialist Rescue Teams (incorporating both water rescue and rope rescue) at Camels Head, Barnstaple, Bridgwater and Special Ops
- To select and train Technical Rescue Officers in the management of major flooding events including search and rescue coordination

1.2 The project commenced in March 2008 and a progress report was submitted to the Community Safety and Corporate Planning Committee on the 6 November 2008 (Report CSCP/08/4 - Operations and Resilience Summary Update).

1.3 Whilst good progress has been made, commencement of the phased implementation of the project, to commence in January 2009, was deferred pending the outcome of discussions with the Fire Brigades Union (FBU) on the introduction of some form of appropriate financial recognition linked to the technical, physiological and psychological nature of the work.

1.4 This reports sets out the current position in relation to these discussions.

2. RESOLUTION OF OUTSTANDING ISSUES

2.1 Whilst a great deal of progress has been made with the project, there remains a number of outstanding issues that still require resolution prior to implementation. These include:

- Specialist instructor payments/benefits;
- Additional Responsibilities Allowance (ARA); and
- Specialist rescue duties forming part of the firefighter role on designated stations, with some form of financial recognition associated with this.

2.2 The first two issues are both linked to the payment of an additional allowance for instructional staff for which the Service has an agreed process. This will be dealt with through the current Service policy on Additional Responsibility Allowances, which were provided for by the current terms and conditions of service for firefighters (the "Grey Book").

2.3 In respect of the third issue, however, the following agreements have been reached with the Fire Brigades Union:

- FBU support the introduction of specialist rescue within DSFRS
- This undertaking is too be considered compulsory for personnel currently serving on any of the identified Specialist Rescue (SR) stations

- Those considered as not having the aptitude (physiological & psychological) for the role will be transferred to another non-SR station and this may involve compulsory transfers.

- Safety at Height and Confined Space (SHACS) activity at level 1 and 2 is within the FF role map based on the existing parameters set out for this activity

- Water Rescue at level 1 and 2 is within the FF role map based on the existing parameters set out for this activity

2.4 Linked to these agreements, the Service has also agreed, in principle, payment of an interim Special Activity Allowance (SAA) of £550 per person per annum for those individuals undertaking specialist rescue activities. This is subject to the outcome of national discussions aimed at clarifying whether this activity is included within the Role Map and to inclusion of funding to facilitate continuation of the payments within the base budget for 2010/11 and onwards. Implementation of the payment, however, supports the central Fire and Rescue Service guidance regarding the additional technical training required and the physiological and psychological attributes to undertake this type of work.

3. FINANCIAL AND OTHER IMPLICATIONS

3.1 In proposing this payment, the Service considered the fact that the national picture remains unclear as to whether or not this activity is within the Firefighter Role Map. This situation remains unresolved at present.

3.2 If subsequently deemed to be outside of the Role Map, the Service would almost certainly need to consider payment based on its current Additional Responsibility Allowance (ARA) policy. This would delay implementation of the project and could lead to increased costs, particularly in terms of training.

3.3 The costs associated with introduction of the Special Activity Allowance (SAA) of £550 per person per annum (for those individuals undertaking specialist rescue activities) are based on a position of there being specialist rescue stations with a total of 140 operatives (124 from Barnstaple, Bridgewater and Camels Head; and 16 from Special Ops (Stn 60)). On this basis, the total annual cost of providing the payment will be £77,000. However, a case has been made to train the members of the 'call back' team at Stn 60. This increases the overall total number of operatives to 154 and the associated total full annual cost to £91,500 (including on-costs).

3.4 The part-year cost of £68,600 associated with implementation of the payment for the remainder of the current financial year can be met from within existing resources. It will, however, be necessary to include an appropriate amount in the base budget for 2010/11 and thereafter to facilitate continuation of the payments.

4. CONCLUSION

4.1 Following lengthy negotiations with the FBU, a Special Activity Allowance of £550 per person per annum (for those individuals undertaking specialist rescue activities) has been agreed. This represents a lesser cost to the Service than if payment had been based upon the current Additional Responsibility Allowance and it is contended represents a pragmatic solution to facilitate implementation of the specialist rescue initiative given the current uncertainty as to whether or not this activity features as part of the Role Map. Consequently, the Committee is commended to approve implementation of the payments, with the costs being borne from within existing resources for the current financial year but with a recognition that this will represent an on-going commitment on the base budget for 2010 and subsequent years.

TREVOR STRATFORD
Assistant Chief Fire Officer (Operations)

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/09/7**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**14 SEPTEMBER 2009**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2008/2009 AND 2009/2010 (TO JULY 2009)**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority, for both 2008/2009 and 2009/2010 (to date), be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report of the treasury management activities for the previous financial year. This report provides information relating to the performance of the Authority for 2008/2009, in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted. The report also includes a performance report relating to the current financial year, as at July 2009.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has revealed that there are no equality issues arising from this report.
APPENDICES	A. Investments held as at 31 March 2009. B. Investments held as at 31 July 2009
LIST OF BACKGROUND PAPERS	Treasury Management Policy – as approved at the meeting of the Shadow DSFRA meeting held on the 16 March 2007. Revision to the Treasury Management Policy, as approved at the DSFRA meeting held on the 31 March 2009.

1. INTRODUCTION

1.1 The Treasury Management Strategy for Devon and Somerset Fire and Rescue Authority (DSFRA) had been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2001. The Code was originally adopted by the Shadow Authority at its meeting on 16 March 2007 (Minute SDSFRA/52 refers), with the most recent revision being approved by the Authority at its meeting on 31 March 2009 (Minute DSFRA/89 refers). 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 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.

1.2 Treasury management in this context is defined as:

"The management of the local authority's 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. "

1.3 CIPFA issued an interim Treasury Management guidance document in March 2009, highlighting Best Practice recommendations for Local Authorities to follow. The document suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's recommendations. It is expected that CIPFA will issue an updated Treasury Management Code of Practice in the autumn of 2009. The report is split into two parts, Section 1 reports on the performance of the authority's treasury management activities in relation to 2008/2009, and Section 2 reports on the performance so far in the current financial year, based upon the position at the end of July 2009.

SECTION 1

2. TREASURY MANAGEMENT PERFORMANCE FOR 2008/2009

2.1 This Annual Treasury Report includes:

- the Authority's treasury position as at 31 March 2009;
- the strategy for 2008/09;
- the economy in 2008/09;
- borrowing and investment rates in 2008/09;
- the borrowing outturn for 2008/09;
- compliance with treasury limits and Prudential Indicators;
- investment outturn for 2008/09;
- debt rescheduling;

3. THE CURRENT TREASURY POSITION

3.1 The Authority's debt and investment position at the beginning and the end of the year is shown in Table 1 below:

TABLE 1 – SUMMARY OF DEBT AND INVESTMENT POSITION FOR 2008/2009

	31st March 2009 Principal		Rate/ Return	Average Life yrs	31st March 2008 Principal	Rate/ Return	Average Life yrs
BORROWING							
Fixed Rate Funding:							
- Public Works Loan Board (PWLB)	£19.281m				£16.223m		
- Market	£0.000m	£19.281m	4.212%	18.2	£0.000m	4.423%	35.5
Variable Rate Funding:							
- PWLB	£0.000m				£0.000m		
- Market	£0.000m	£0.000m	0.000%		£0.000m	0.000%	
Total Debt		***£19.281m***	***4.212%***	***18.2***	***£16.223m***	***4.423%***	***35.5***
INVESTMENTS							
Investments:							
- In-House	£3.010m		3.836%		£5.200m	5.683%	
Total Investments		***£3.010m***	***3.836%***		***£5.200m***	***5.683%***	

3.2 The above figures illustrate that the average borrowing rate has reduced from 4.423% to 4.212%, whilst the average investment rate has reduced, from 5.683% to 3.836%.

4. THE STRATEGY FOR 2008/2009

4.1 The Sector-recommended treasury strategy for 2008/09 (issued in January 2008) was based on their view of a declining rate of growth of Gross Domestic Product (GDP) in the UK economy from the peak of 3.3% in Q3 2007 to 2% in 2008. Bank Rate was expected to continue falling from 5.75% in November 2007 to reach 5.0% in Q2 2008 and then stay there for the rest of the financial year. This was based around the dilemma facing the Monetary Policy Committee (MPC) of balancing the opposing risks of inflationary pressures driven by spikes in oil prices against concerns around the impact of the credit crunch both on the UK housing market and economy and even more so on the US housing market and economy and the knock on impact on world growth rates.

4.2 The effect on interest rates for the UK was therefore expected to be as follows:

- **Shorter-term interest rates** - The "average" City view anticipated that Bank Rate would be stable in 2008-09 at 5.25% based on a balance of risks around rising inflationary pressures on the one hand and falling growth rates and concerns over the impact of the credit crunch on the other hand.

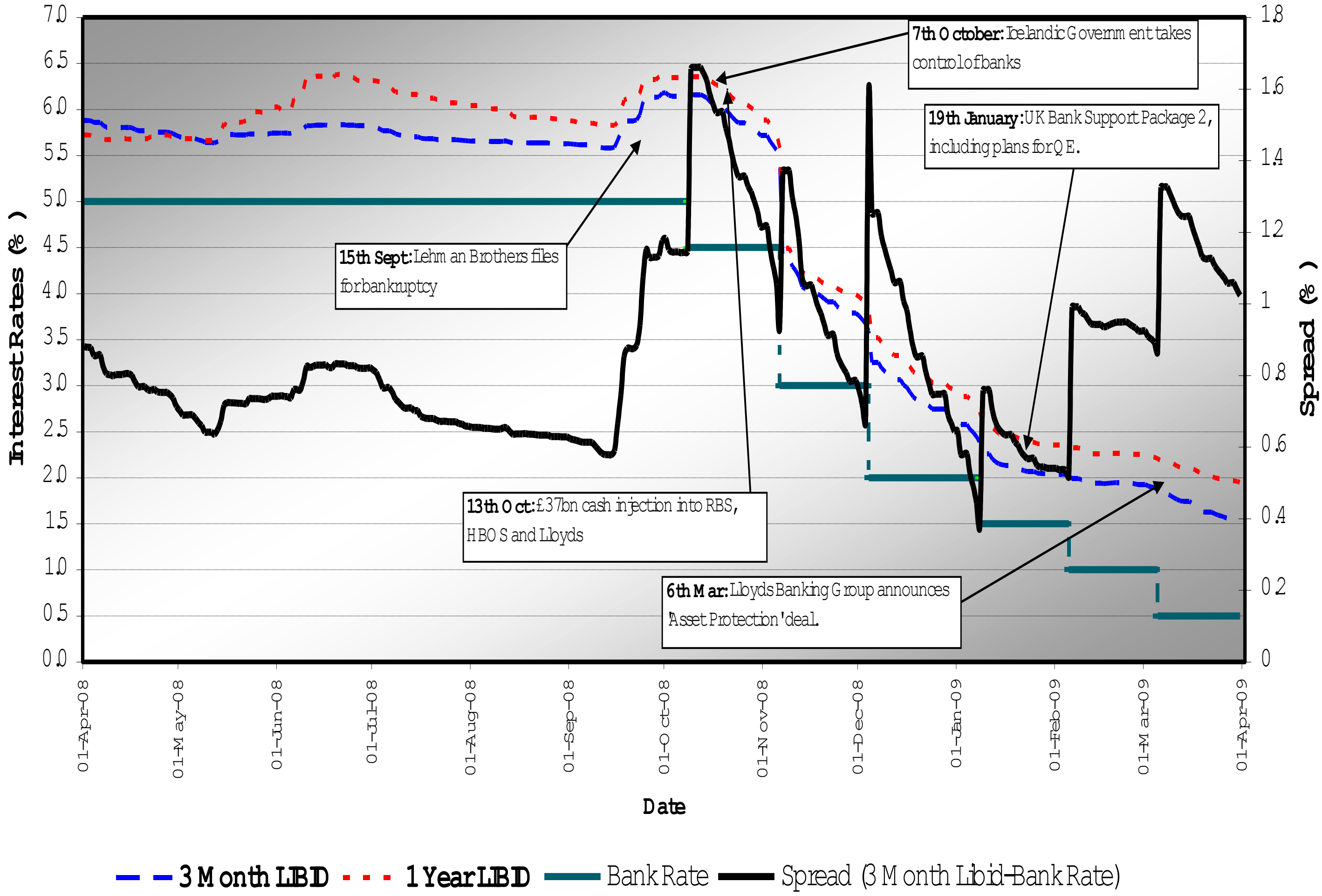
- **Longer-term interest rates** - The view on longer-term fixed interest rates, 50 years, was that they would remain static around 4.45% for the whole of the year. The 25 year rate would also remain flat around 4.50 - 4.55%.

4.3 The Treasury Strategy agreed by the Authority was on the basis that prudence should be adopted to treasury management decisions, and as such priority be given to liquidity and security rather than yield. In addition, as the Authority operated both borrowing and investment portfolios, it was at lower risk from being impacted by a sharp, unexpected rise in short-term variable interest rates. The strategy for the year was therefore to maintain a balance of funding at short-term rates to match short-term investments thus maintaining a balanced treasury risk.

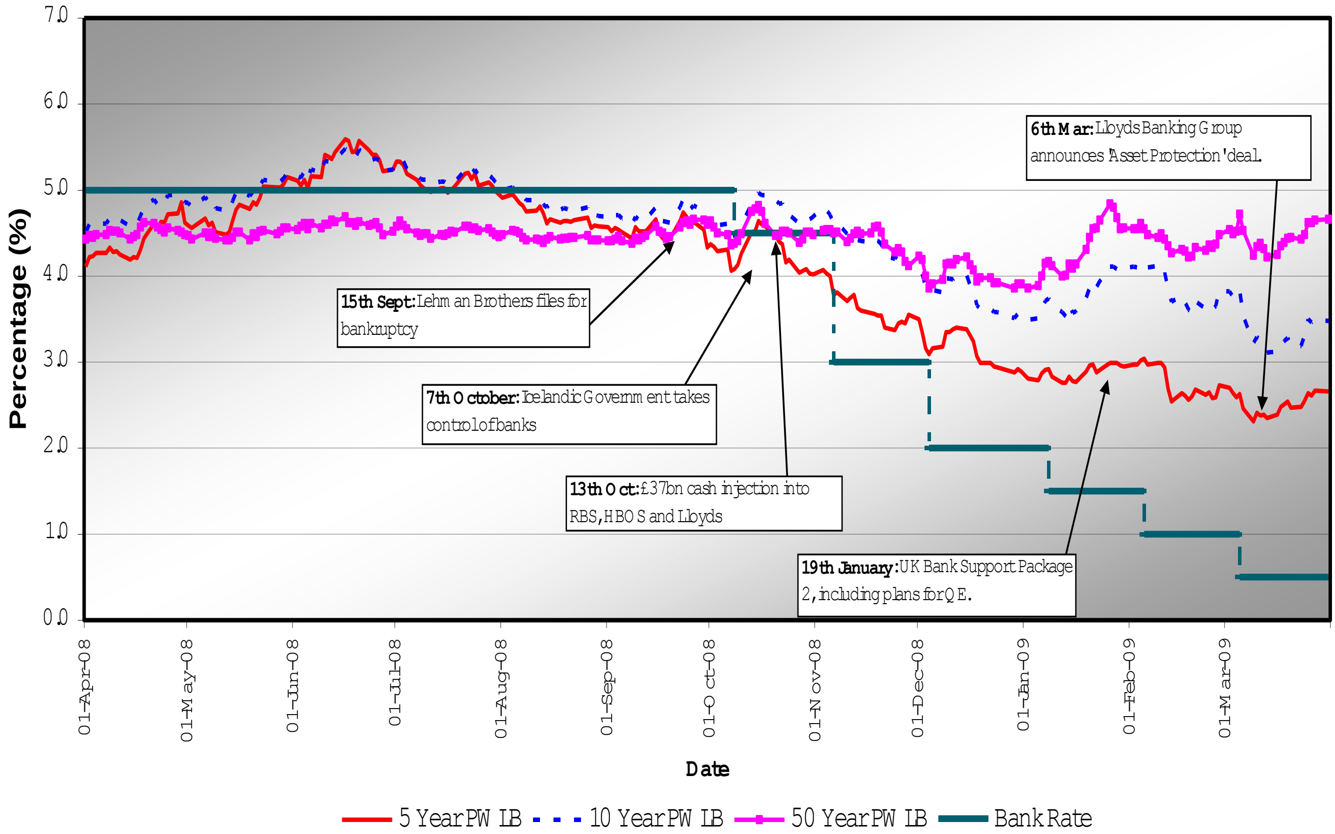
5. THE ECONOMY AND INTEREST RATES

5.1 In a year that can only be described as unparalleled and extraordinary the Annual Treasury Report for 2008/09 is summarised in the graphs below. These graphs show the major events of the financial year and the impact they had on both Public Works Loan Board (PWLB) and investment rates. The financial crisis, commonly known as the ‘credit crunch’, had a major downward impact on the levels of interest rates around the world. Although interest rates initially fell sharply in the US they were followed, eventually, by the Bank of England.

Bank Rate vs. Investment Rates 2008-09 and Spread Between 3 Month Libid & Bank Rate



PWLB Borrowing Rates vs. Bank Rate 2008-09



5.2 On the 1 April 2008 Bank Rate was 5.25% and the Bank of England was focused on fighting inflation. Market fears were that rates were going to be raised as the Consumer Price Index (CPI), the Government's preferred inflation target, was well above the 2% target (two years ahead). The money market yield curve reflected these concerns with one year deposits trading well above the 6% level. PWLB rates in both 5 and 10 years edged above Bank Rate during the summer as markets maintained the belief that inflation was the major concern of the monetary authorities. The money markets were reflecting some concerns about liquidity at this time and, as shown in the graph, the spread between Bank Rate and 3 month London Inter-bank Offer Rate (LIBOR) was greater than had historically been the case.

5.3 This phase continued throughout the summer until 15 September when Lehman Brothers, a US investment bank, was allowed to file for bankruptcy in the total absence of any other institution being willing to buy it due to the perceived levels of toxic debt it had. This event caused a huge shock wave in world financial markets and threatened to completely destabilise them. As can be seen from the charts this also led to an immediate spike up in investment rates as markets grappled with the implications this might have on other financial institutions, their credit standing and indeed their viability. On 7 October the Icelandic government took control of their banks and this was followed a few days later by the UK government pumping a massive £37bn into three UK clearing banks, RBS/HBOS/Lloyds, as liquidity in the markets dried up. The Monetary Policy Committee (MPC) meantime had reduced interest rates by 50bp on 9 October. This had little impact on 3 month LIBOR, however, as the spread, or 'disconnect' as it became known, against Bank Rate widened out. On the other hand the short end of the PWLB fell dramatically as investors, very concerned about their counterparty limits post the Icelandic banks' collapse, fled to the quality of Government debt forcing yields lower.

5.4 Market focus now shifted from inflation concerns to concerns about recession, depression and deflation. Although CPI was still well above target it was seen as no barrier to interest rates being cut further. The MPC duly delivered another cut in interest rates in November, this time by an unprecedented 1.5%. Investors continued to pour money into Government securities across the curve, at the front end because of credit concerns and the longer end because of the economic consequences reducing inflation, driving yields in 10 year PWLB temporarily below 4% and 5 years to around 3.5%. In December as the ramifications of the 'credit crunch' became increasingly clear the Bank of England cut interest rates to 2%-a drop this time of 1%. The whole interbank yield curve shifted downwards but the 'disconnect' at the short end remained very wide, negating to some degree the impact of the cuts in Bank Rate. 50 year PWLB rates dropped below 4% at the turn of the year, marking the low point, as it turned out, in this maturity.

5.5 The New Year of 2009 brought little relief to the prevailing sense of crisis and on 8th January the MPC reduced rates by 0.5% to 1.5%, a record low. More Government support for the banking sector was announced on 19 January 2009. The debt markets had a sharp sell-off at this stage as they took fright at the amount of gilt issuance likely to be needed to finance the help provided to the banks. There was also discussion about further measures that could be introduced to kick-start lending and economic activity. These included quantitative easing by the Bank of England, effectively printing money.

5.6 In February 2009 the MPC adopted the traditional method of monetary easing by cutting interest rates again by 0.5% to 1%. Interbank rates drifted down with the spread in the 3 months still well above Bank Rate. In early March Lloyds Banking Group, which now included HBOS, took part in the Government's Asset Protection scheme. The MPC cut interest rates yet again to 0.5% and announced the quantitative easing scheme would start soon. This scheme would focus on buying up to £75bn of gilts in the 5-25 year maturity periods and £10 -15bn of corporate bonds. This led to a substantial rally in the gilt market, particularly in the 5 and 10 year parts of the curve, and PWLB rates fell accordingly. Finally at the end of March it was announced that the Dunfermline Building Society had run into difficulties and its depositors and good mortgages were taken over by Nationwide whilst the Treasury took on its doubtful loans.

5.7 The financial year ended with markets still badly disrupted, the real economy suffering from a lack of credit, short to medium term interest rates at record lows and a great deal of uncertainty as to how or when recovery would take place. Investment income returns have been badly hit but lower borrowing rates in short to medium periods had allowed indebted local authorities to benefit.

6. BORROWING AND INTEREST RATES IN 2008/2009

6.1 12-month bid rates: One year London Inter-bank Bid Rate (LIBID) fluctuated between around 5.7% to 6.4% with two peaks driven by credit crunch fears in June and September. Bank Rate had been held at 5.0% until October 9 when the first of a series of major cuts caused 12 month LIBID in 2008-09 to be on a rapidly falling trend to the end of the financial year, reaching 1.85% at the end.

6.2 Longer-term interest rates – The PWLB 45-50 year rate started the year at 4.43% (25 year at 4.62%) and was then generally within a band of 4.3 - 4.6% (4.6% - 5.0%) until mid October when there was a spike up to 4.84% (5.08%) followed by a plunge down to 3.86% (4.03% late December) in early December. Further spikes of 4.84% (4.86%) and 4.72% (4.69%) occurred in late January and early February with the year closing out at 4.58% (4.28%). It was not uncommon to see rates fluctuating by 40-50 basis points within a few weeks during this year.

7. BORROWING OUTTURN 2008/2009

7.1 Further borrowing of £5.100m was taken out with the Public Works Loan Board (PWLB) during the financial year, as below.

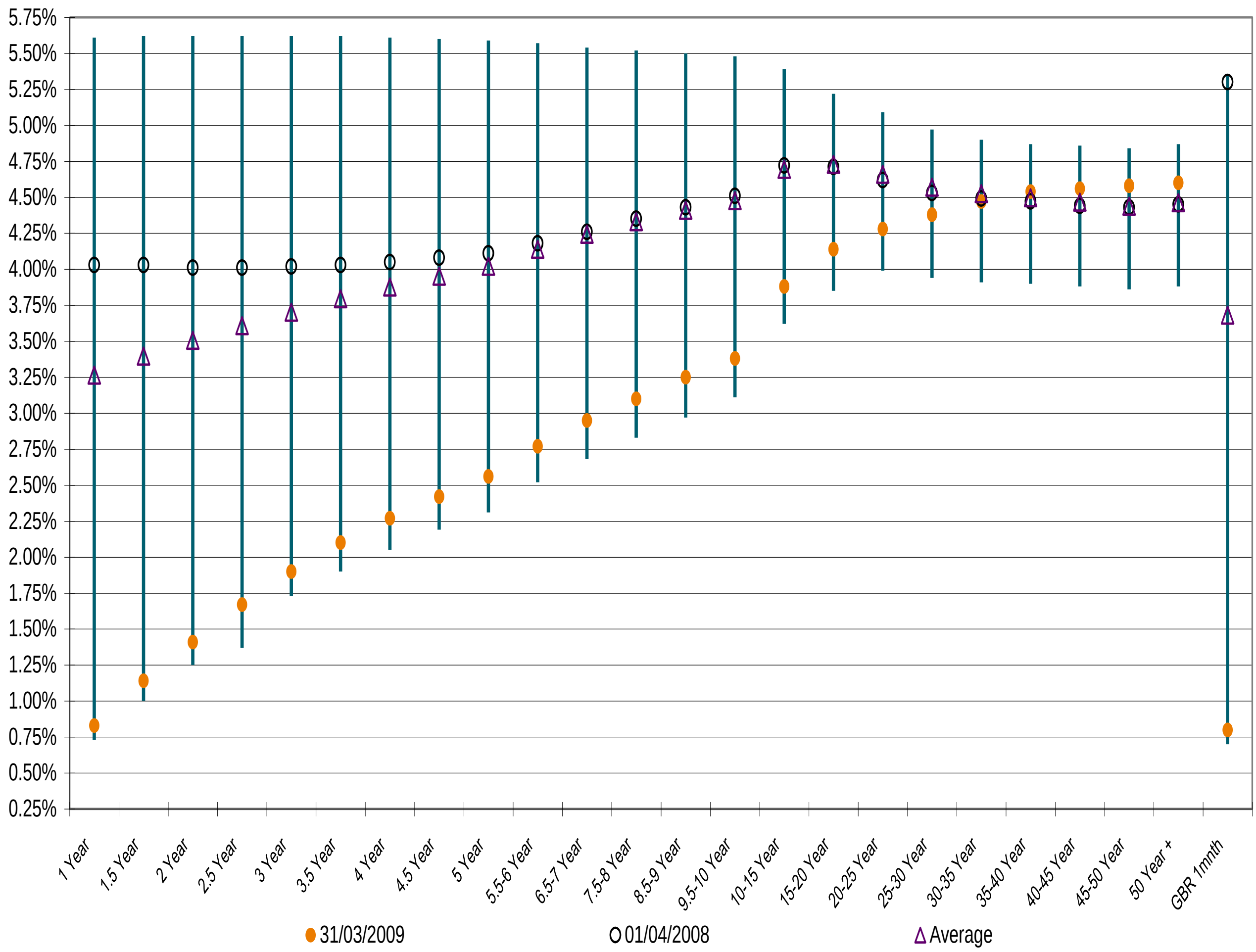
Date of Loan	Amount £m	Life (Years)	Interest Rate
29/08/2008	0.500	4.5	4.57%
17/09/2008	0.500	5.5	4.39%
17/09/2008	0.500	6.5	4.39%
17/09/2008	0.500	7.0	4.39%
17/09/2008	0.500	7.5	4.39%
07/10/2008	0.500	3.5	3.98%
29/10/2008	0.600	5.0	4.04%
05/12/2008	0.500	1.5	1.86%
05/12/2008	0.500	2.5	2.35%
05/12/2008	0.500	3.5	2.74%

7.2 As comparative performance indicators, average PWLB maturity loan interest rates for 2008/09 were:

1 year	3.264%
9.5 - 10 year	4.477%
24.5 - 25 year	4.570%
49.5 - 50 year	4.438%
1 month GBR variable	3.682%

7.3 The following graph shows the range (high and low points) in rates for each maturity period during the year, and individual rates at the start and end of the financial year:

PWLB Borrowing Rates



7.4 As highlighted in Table 1 above the average debt portfolio interest rate has moved over the course of the year from 4.423%% to 4.212%. The approach during the year was to take borrowing at short term rates to minimise any corresponding risk from maintaining short-term investments and to create a more balanced repayment profile.

8. COMPLIANCE WITH TREASURY LIMITS

8.1 During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in the Authority's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn figures for the Prudential Indicators were reported to the authority as included in the Financial Outturn 2008/2009 Report to the meeting of DSFRA held on the 27 May 2009 (report DSFRA/09/12 refers).

9. INVESTMENT OUTTURN 2008/2009

9.1 The Authority manages its investments in-house and invests with the institutions listed in the Authority approved lending list. The Authority invests for a range of periods from overnight to 364 days, dependent on the Authority's cash flows, its interest rate view and the interest rates on offer. Details of investments held as at 31 March 2009 are included at Appendix A.

9.2 The Authority viewed the market's expectation for Bank Rate as too low, and that short term rates would rise during the year. Investments were, accordingly, kept short, with a view to enabling returns to be compounded more frequently.

9.3 Detailed below in Table 2 are the results of the investment strategy adopted by the authority.

TABLE 2 – INVESTMENT OUTTURN 2008/2009

	Average Investment £	Rate of Return %	*Benchmark Return ** %
Internally Managed Funds	13,032,106	3.84%	3.69%

** Benchmark return used is equivalent to the average 7 day LIBID rate during 2008/2009*

10. DEBT RESCHEDULING

10.1 Due to elevated concerns around the credit crunch at times during the year and near panic in financial markets at key points, there were wild swings in PWLB rates of around 100 basis points in PWLB long term rates within a matter of a few weeks. Advantage was taken of one of the peaks in long term rates in March 2009 to repay £1.665m of 25 to 30 year PWLB debt @ 4.7% to 4.88% and to borrow during 2009/10 3.83% to 4.37% in 12 to 16 year PWLB debt. This switch between longer term debt and short term debt was facilitated by falling short term PWLB rates after the MPC started its series of major cuts in Bank Rate in October 2008. This has enabled the Authority to rebalance its debt portfolio away from being heavy weight in longer term debt to having a better spread of maturity periods.

10.2 Details of debts rescheduled are as follows:-

Date Loan repaid	Amount £m	Life (Years)	Interest	Date of replacement Loan	Amount £m	Life (Years)	Interest
27/03/2009	1.000	30	4.70%	12/05/2009	0.400	15	4.32%
				12/05/2009	0.400	14	4.25%
				12/05/2009	0.200	16	4.37%
31/03/2009	0.500	25	4.75%	09/04/2009	0.500	12	3.83%
31/03/2009	0.165	25	4.88%	12/05/2009	0.165	16	4.37%

SECTION 2

11. TREASURY MANAGEMENT PERFORMANCE FOR 2009/2010

11.1 The first quarter of the financial year of 2009 saw:

- The ‘green shoots’ of recovery emerge;
- GDP contracted by 2.4% during last quarter, the largest fall for over 50 years, an improvement in the output-related data was to be somewhat expected.
- Monetary policy loosened further via the extension of the Bank of England’s quantitative easing programme, but lending growth is still slow;
- Unemployment rise and earnings growth fall;
- Inflation fall further, but oil prices rise;
- Bond yields and equity prices rise in response to the improved economic outlook;
- Sterling appreciate, but only to a level well below its 2007 peak;
- Activity strengthen to a similar extent in the US, but a much weaker extent in Europe.

11.2 The first quarter saw some encouraging signs that the rate of contraction in the economy had eased considerably. Retail sales grew by 1.0% in April, and while they fell back in May, they remained above March’s level. Consumer confidence continued to pick up. Industrial production rose by 0.2% m/m in April, the first rise since November 2007, and the Nationwide house price index rose in May and June, leading to the first quarterly rise since Q4 2007.

11.3 April’s Budget announced an injection of £5.2bn in 2009/10, but a tightening of £5.2bn in 2011/12. The Chancellor forecast that public sector net borrowing would increase to 12.5% of GDP in 2009/10 and that net debt as a percentage of GDP will leap from 41.2% in 2008/09 to 62.9% in 2009/10, before peaking at 94.2% in 2015/16. This may have a significant impact on the UK economy.

11.4 After rapidly cutting official interest rates to a record low of 0.5%, the MPC increased the amount of asset purchases under the Bank’s quantitative easing (QE) programme from £75bn to £125bn in May. The MPC still retains the option to extend these purchases by a further £25bn before having to ask the Chancellor for further authorisation. However, while QE does at least seem to have been successful in improving liquidity in financial markets, its impact on the real economy remains limited.

11.5 Inflationary pressures within the economy continued to reduce in the quarter, although at a slower rate than had been expected. The key factors in this trend are tax rises and increasing oil prices. While the headline rate of CPI inflation fell to 2.2% in May, the reduction was smaller than the consensus expected. RPI inflation fell to -1.1% in May.

Economic Forecast

11.6 The authority Treasury Advisers, Sector, have provided the following forecast;

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
Bank rate	0.50%	0.50%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.75%	4.25%	4.50%	4.75%
5yr PWLB rate	2.70%	2.75%	2.85%	3.10%	3.30%	3.45%	3.75%	4.00%	4.40%	4.70%	4.85%	5.00%
10yr PWLB rate	3.65%	3.70%	3.70%	3.80%	3.95%	4.15%	4.40%	4.65%	4.85%	5.00%	5.05%	5.20%
25yr PWLB rate	4.40%	4.40%	4.50%	4.50%	4.55%	4.70%	4.80%	4.95%	4.95%	5.10%	5.20%	5.30%
50yr PWLB rate	4.55%	4.55%	4.60%	4.65%	4.75%	4.85%	4.95%	5.05%	5.10%	5.25%	5.25%	5.35%

11.7 This indicates that the Bank Rate will remain at an historical low level until mid-way through 2010, by which time the economy is expected to have improved. For the same reason, PWLB rates are expected to increase over time.

12. TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS)

Annual Investment Strategy

12.1 The Authority's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity

12.2 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 the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.

12.3 A full list of investments held as at 30 July 2009 are shown in Appendix B.

12.4 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of funds available for investment purposes in the first four months of 2009/10 was £7.172m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment Interest Earned
7 day	0.48%	1.22%	£29,128

12.5 As illustrated, the authority outperformed the benchmark by 74 bp. The Authority's budgeted investment return for 2009/10 is £0.105m, and performance for the year to date indicates that this figure will not be achieved, as a consequence of the fall in interest rates.

Borrowing Strategy

Prudential Indicators:

12.6 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 TMSS.

12.7 A full list of the approved limits are included in the budget monitoring report, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to July 2009.

12.8 Sector's target rate for new long term borrowing for the first quarter of 2009/10 was 4.50%. As at the end of July 2009, no new external borrowing had been taken out, however, due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), the authority will need to seek new external borrowing during the remainder of the year, the timing of which will be dependent on the cash flow position of the authority, and predictions relating to movements in PWLB/Market rates. As outlined below, interest rates have gradually increased during the quarter across all bands, with the low points in early April and the high points in early to mid June.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.81	2.47	3.3	4.25	4.46
Date	02/04/2009	02/04/2009	02/04/2009	02/04/2009	02/04/2009
High	1.2	3.2	4.06	4.77	4.85
Date	09/06/2009	12/06/2009	12/06/2009	12/06/2009	02/06/2009
Average	0.970819672	2.797540984	3.708852459	4.562295082	4.656557377

13. <u>SUMMARY</u>

13.1 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 2008/2009 and an update on the performance so far in the current financial year. 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. Whilst investment returns have reduced from the previous year, as a consequence of the fall in interest rates, the Authority is still achieving returns above the LIBID 7 day rate which is the benchmark return for this type of short term investments.

KEVIN WOODWARD
Treasurer

Investments as at 31st March 2009 – Appendix A							
	Alliance & Leicester	Nationwide B/S		Total invested	Call or Term	Maturity date if Term	Interest rate
Maximum to be invested	£5,000,000	£2,000,000					
Current amount invested	£1,010,000	£2,000,000		£3,010,000			
Balance available for investment	£3,990,000	£0					
Date							
05/01/2009	£1,000,000				T	30/04/2009	2.55%
19/02/2009		£1,000,000			T	20/05/2009	1.95%
03/03/2009		£1,000,000			T	03/06/2009	1.97%
05/03/2009	£10,000				C		1.20%

Investments as at 31st July 2009 – Appendix B							
	Alliance & Leicester	Bank of Scotland	Principality B/S	Total invested	Call or Term	Maturity date if Term	Interest rate
Maximum to be invested	£5,000,000	£5,000,000	£1,000,000				
Current amount invested	£1,110,000	£350,000	£1,000,000	£2,460,000			
Balance available for investment	£3,890,000	£4,650,000	£0				
Date							
18/06/2009	£815,000				C		0.80%
15/07/2009	£295,000				C		0.80%
16/07/2009			£1,000,000		T	17/08/2009	1.00%
20/07/2009		£350,000			C		0.75%