

**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 16 November 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

AGENDA

1. **Apologies**
2. **Minutes** of the meeting held on 14 September 2009 attached (Page 1).
3. **Items Requiring Urgent Attention**

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

4. **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

5. **Revenue Budget Monitoring Report 2009/10**

Report of the Treasurer (RC/09/8) attached (page 4)

6. **Personal Preventative Equipment (PPE) Replacement - Integrated Clothing Project (ICP)**

Report of the Head of Physical Assets (RC/09/9) attached (page 12)

7. **Minutes of the Capital Programme Working Party held on 5 November 2009**

The Minutes of the meeting held on 5 November 2009 are attached with this agenda FOR INFORMATION (page 17).

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

Report of the Head of Physical Assets (RC/09/10) attached (page 19)

9. **Treasury Management Performance 2009/10**

Report of the Treasurer (RC/09/11) attached (page 24)

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 (Chair), Yeomans (Vice Chair), Horsfall, Hughes OBE, Smith, Turner and Woodman

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)

14 September 2009

Present:-

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

Apologies:-

Councillor Gordon

***RC/1. Election of Chair**

RESOLVED that Councillor Gordon be appointed as Chair of the Committee until the first meeting after the Annual Meeting of the Authority in 2010.

***RC/2. Election of Vice Chair**

In view of the absence of Councillor Gordon, it was agreed to move item 5 for consideration at this point in the meeting, whereupon it was

RESOLVED that Councillor Yeomans be appointed Vice Chair of the Committee until its first meeting after the Annual Meeting of the Authority in 2010.

In the absence of Councillor Gordon, it was:

RESOLVED that Councillor Yeomans would take the Chair for this meeting.

***RC/3. Minutes**

RESOLVED that the Minutes of the meeting held on 4 February 2009 be signed as a correct record.

***RC/4. Declarations of Interest**

Members were invited 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.

No interests were declared.

RC/5. Budget Monitoring Report 2009/10

The Committee considered a report of the Treasurer (RC/09/4) that set out projections of income and expenditure for the first four months of the financial year (to the end of July 2009) against the approved Revenue Budget for 2009/10 and which detailed significant variations against individual budget lines. The report also contained details of proposed virements within the approved budget and provided a summary of the Authority's forecast performance against its financial targets and its anticipated year end reserve position.

At this stage, it was reported that projected spending would be £0.588million less than the approved budget (equivalent to 0.81%) and that this was attributable largely to the 2009 pay award for uniformed staff which had been settled at 1.25% instead of 2.3% as assumed in the setting of the 2009/10 revenue budget. There was also a number of vacancies held and activity levels for retained firefighters had been lower than anticipated. The Treasurer urged caution at this stage, however, as it was early in the financial year and the position may change.

RESOLVED

- (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 report RC/09/4 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 the report
- (d) That the performance against 2009/2010 financial targets, be noted.

***RC/6. Capital Programme Monitoring 2009/10 to 2011/12**

The Committee considered a report of the Head of Physical Assets (RC/09/5) that set out the current monitoring position for the capital programme for 2009/10 to 2011/12 as approved by the Authority on 16 February 2009.

The Committee was advised that the revisions to the Programme had occurred largely due to slippage on the 2008/09 programme as a result of factors such as late approvals and delays in external factors beyond the Service's control. These revisions did not affect the budgets for individual schemes (which remain as originally approved) but represent a rescheduling in terms of the approved Programme.

Reference was made to the discussions held with the Capital Programme Working Party on 31 July 2009. This provided an opportunity for the Service to engage with Members in respect of the detail on capital schemes at an early stage. It was noted that the Minutes of the meetings would be submitted to the Resources Committee for information in the future.

RESOLVED

- (a) That the revised capital programme as set out in Appendix B of report RC/09/5 be approved.
- (b) That, subject to (a) above, the report be noted.

***RC/7. Specialist Rescue - Payments**

The Committee considered a report of the Assistant Chief Fire Officer (Operations) (RC/09/6) on the current position, following discussions, in relation to the proposed introduction of financial recognition for staff undertaking specialist rescue work at Level 3.

The Assistant Chief Fire Officer (Operations) advised that, nationally, whilst there was clarity that specialist rescue work at Levels 1 and 2 was part of the firefighter role map (and hence did not attract any additional payment), there was at present uncertainty as to whether or not Level 3 was incorporated in the role map.

Pending clarification of this and to enable the Service to progress specialist rescue capability to level 3, a suggested solution (as discussed with representative bodies) was presented which proposed an additional payment to those firefighters undertaking level 3 specialist rescue activities to recognise the technical, physiological and psychological nature of the work. The report outlined the financial implications of implementing this proposal which could be contained from within existing resources in the current financial year but would represent a commitment on the base budget for 2010/11 and beyond should the payments be continued. The proposal had been instigated as a result of decisions taken by other fire and rescue services in the region to recognise additional work at level 3 undertaken in relation to Safety at Height and Confined Space (SHACS) activities.

Following a debate on this issue, Members questioned the requirement for the Service to undertake and fund Level 3 activities, particularly in the light of the lack of clarity regarding inclusion of this in the role map. Councillor Hughes moved (and was seconded by Councillor Mrs Turner):

“that further clarification be sought from the National Joint Council (NJC) as to whether specialist rescue responsibilities (at Level 3) were included within the Role Map for firefighter”.

Upon a vote (6 for, 0 against), the motion was **CARRIED**.

RESOLVED that further clarification be sought from the National Joint Council (NJC) as to whether specialist rescue responsibilities (at Level 3) were included within the Role Map for firefighter.

***RC/8. Treasury Management Performance 2008/09 and 2009/10 (to July 2009)**

The Committee received for information a report of the Treasurer (RC/09/7) that provided details of the Authority's borrowing and investment activities during 2008/09 and which compared this performance against the approved Treasury Management Strategy. The report also included details of performance relating to the first four months of 2009/10 (to the end of July 2009).

The Authority's treasury management adviser, Mark Swallow, was in attendance at the meeting to present the report and he highlighted two points, namely:

- That the Authority's debt was being managed well, with a reduction in the cost of borrowing having been achieved through reprofiling during the year;
- An average investment outturn for 2008/09 of 3.84% (from a benchmark return of 3.69%) had been achieved. This was more than the average return for 7 day short term investments and therefore a positive position for the Authority given the current market.

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

The meeting started at 10.00hours and concluded at 12.50hours.

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/09/8
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	16 NOVEMBER 2009
SUBJECT OF REPORT	REVENUE BUDGET MONITORING REPORT 2009/2010
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<p>(a) <i>That it be recommended to the Devon and Somerset Fire and Rescue Authority that, from the total projected underspend of £0.875m, an earmarked reserve of £0.357m be established to part fund the costs associated with the replacement Personal Preventative Equipment (PPE) Project under the Integrated Clothing Project (ICP).</i></p> <p>(b) <i>That the performance against 2009/2010 financial targets, be noted;</i></p> <p>(c) <i>That, subject to (a) and (b) above, the budget monitoring position as outlined in this report be noted.</i></p>
EXECUTIVE SUMMARY	<p>This report provides a further update of the budget monitoring position for the current financial year, based upon spending to the end of October 2009.</p> <p>At this stage, projections indicate that spending will be £0.875m less than budget, equivalent to just 1.20%. It should be noted that of this figure an amount of £0.490m relates to the fact that the 2009 pay award, for both uniformed and non-uniformed staff, has been settled at a lower rate than had been budgeted.</p> <p>This report also provides a summary of the authority's forecast performance against its financial targets.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.

APPENDICES	<p>Appendix A – Summary of Forecast Performance against 2009/2010 Financial Targets.</p> <p>Appendix B – Subjective Analysis of 2009/2010 Revenue Spending. .</p>
LIST OF BACKGROUND PAPERS	<p>Capital Programme Monitoring 2009/10 to 2011/12 report RC/09/5, as reported to the meeting of Resources Committee held on the 14 September 2009.</p>

1. INTRODUCTION

- 1.1 This report provides an updated 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 £71.784m, as compared to an approved budget of £72.659m, representing an underspend of £0.875m, equivalent to just 1.20% of the total budget. It should be emphasised that, of this figure, an amount of £0.490m relates to the fact that the 2009 pay award for uniformed and non-uniformed staff has recently been settled at 1.25%, and 1.0% respectively, compared to the 2.3% provision that had been included in the budget. Aside from the pay award saving, additional net savings of £0.385m are forecast from other areas of spending. 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 6 below.
- 2.2 The projections are based upon the spending position at the end of October 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 this underspend position it is a recommendation of this report that an amount of £0.357m be utilised to part fund the proposed introduction of the Integrated Clothing Project (ICP), proposals for which are reported separately elsewhere on the agenda.

3. EMPLOYEE COSTS

Wholetime Staff

- 3.1 Spending against wholetime pay costs is anticipated to be £0.238m less than budget, equivalent to just 0.72% of the total wholetime pay budget, as a result of the impact of the lower pay award.

Retained Staff

- 3.2 At this stage it is projected that spending against this budget heading is projected to be underspent by £0.279m, 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.

Training Expenses

- 3.4 At this stage, it is anticipated that savings of £0.066m will be achieved against the training budget, as a consequence of some delays in the delivery of planned courses. .

4. PREMISES RELATED COSTS

Energy Costs

- 4.1 At this stage it is projected that spending on energy costs will be £0.067m less than anticipated primarily as a consequence of a refund of charges relating to previous years.

5. CAPITAL FINANCING COSTS

- 5.1 As a consequence of slippage in spending against the 2008/2009 capital programme, as reported to the meeting of Resources Committee held on the 14 September 2009 (report RC/09/5 Capital Programme Monitoring 2009/10 to 2011/12 refers), and also slippage against the current year programme, it is projected that debt charges for 2009/2010 will be £0.145m less than budget.

6. OTHER INCOME

- 6.1 It is projected that income targets for the year will be exceeded by an amount of £0.301m, primarily from additional training income as a consequence of the Service securing orders to deliver firefighter recruit training to other fire and rescue authorities i.e. Royal Berkshire, Cornwall, Dorset and the States of Jersey.

7. PROPOSED TRANSFER TO EARMARKED RESERVES

- 7.1 Elsewhere on the agenda for this meeting is a separate report providing detailed proposals relating to the procurement of Personal Protective Equipment (PPE), through the Integrated Clothing Project (ICP). If Members are minded to approve this proposal then it is estimated that an additional cost of £0.357m will be incurred in 2010/2011 over and above figures already included in medium term financial planning.
- 7.2 It is proposed that from this years underspend an amount of £0.357m be transferred to an earmarked reserve to fund this additional cost in 2010/2011. This course of action would assist the budget setting process for the next financial year in so much as it would avoid the need to increase the base budget for 2010/2011 by this amount, as the additional costs, when they fall, will be met from the earmarked reserve.
- 7.3 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). It is therefore a recommendation of this report that the next meeting of the Fire and Rescue Authority be asked agree this proposed transfer of £0.357m.

8. EFFICIENCY SAVINGS

- 8.1 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.
- 8.2 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.

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 key issue to report in relation to the prudential indicators is that none of the agreed prudential indicators are forecast to be breached. Actual external borrowing as at September 2009 stood at £24.222m, forecasting to rise to £28.429m 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 0.88% has been achieved to the end of September 2009, as compared to the average LIBID 7 day rate (industry benchmark), for the same period of 0.45%.
- 9.4 Current external borrowing has been taken at an average borrowing rate of 3.90%. 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 30 September 2009, an amount of £48,413 was due from debtors relating to invoices that are more than 85 days old, equating to 14.49% of the total debt outstanding. Efforts will be increased in the remainder of the year to improve this position back to below our target level of 10.0%.

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 99.26%, compared to our target figure of 98.00%. 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 Whilst we are only seven months into the financial year and the forecasts of financial performance will inevitably change during the course of the year, at this stage, I am confident that spending will be well within agreed budget figures.

11.2 The proposed transfer to earmarked reserves of £0.357m is considered a prudent use of the underspend, given that it will assist next years budget planning process. Further monitoring reports will be presented to each meeting of the Resources Committee during the course of the financial year, including proposals for further prudent management action, where necessary.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/09/8

FINANCIAL PERFORMANCE INDICATORS 2009/2010

Revenue Budget	Forecast £m	Target £m	Variance (favourable) /adverse %
Forecast Spending	71.784	72.659	(1.20)%
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	9.249	10.121	(8.62)%
Capital Financing Requirement (CFR)	27.882	28.673	(2.76)%
Authorised limit for external debt	28.429	36.628	(22.38)%
Operational boundary for external debt	28.429	33.761	(15.79)%
Investment Income	0.075	0.105	28.57%
	Actual (30 Sept 2009) %	Target %	Variance (favourable) /adverse %
Investment Return	0.88%	0.45%	(0.43)%
Cost of Borrowing	3.90%	4.18%	(0.28)%

Prudential Indicators and Treasury Management Indicators	Actual (30 Sept 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%	(30.00)%
Maturity structure of borrowing limits				
Under 12 months	4.07%	10.00%	0.00%	(5.93)%
12 months to 2 years	4.26%	15.00%	0.00%	(10.74)%
2 years to 5 years	12.03%	30.00%	0.00%	(17.97)%
5 years to 10 years	6.29%	50.00%	0.00%	(43.71)%
10 years and above	73.35%	100.00%	50.00%	(26.65)%

Other Indicators	Actual (30 Sept 2009) %	Target %	Variance (favourable) /adverse %
Aged Debt over 85 days	14.49%	10.00%	4.49%
Payments to Suppliers within 30 days	99.26%	98.00%	(1.26)%

APPENDIX B TO REPORT RC/09/8

REVENUE BUDGET MONITORING REPORT 2009/10

Line No		2009/10 Budget £000 (1)	Year to Date Budget £000 (2)	Spending to Month 7 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/(under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	33,006	19,077	18,997	32,768	-238
2	Retained firefighters	12,180	6,660	6,586	11,901	-279
3	Control room staff	2,225	1,284	1,249	2,175	-50
4	Non uniformed staff	8,383	4,876	5,560	8,611	228
5	Training expenses	1,154	673	527	1,088	-66
6	Fire Service Pensions recharge	1,955	1,362	1,279	1,905	-50
		58,903	33,932	34,198	58,448	-455
	PREMISES RELATED COSTS					
7	Repair and maintenance	922	538	690	932	10
8	Energy costs	513	299	157	446	-67
9	Cleaning costs	390	227	186	366	-24
10	Rent and rates	1,301	759	741	1,318	17
		3,126	1,823	1,774	3,062	-64
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	587	343	203	597	10
12	Running costs and insurances	1,194	730	345	1,197	3
13	Travel and subsistence	1,292	676	637	1,310	18
		3,073	1,749	1,185	3,104	31
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,138	1,247	1,358	2,184	46
15	Hydrants-installation and maintenance	168	98	60	141	-27
16	Communications	1,115	794	604	1,097	-18
17	Uniforms	861	502	623	862	1
18	Catering	137	80	114	168	31
19	External Fees and Services	98	57	26	87	-11
20	Partnerships & regional collaborative projects	128	74	30	128	0
21	USAR Equipment	25	15	1	25	0
		4,670	2,867	2,816	4,692	22
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	418	258	223	413	-5
23	Advertising	75	44	39	74	-1
24	Insurances	377	310	201	377	0
		870	612	463	864	-6
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	637	345	235	606	-31
		637	345	235	606	-31
	CAPITAL FINANCING COSTS					
26	Capital charges	4,655	1,774	1,861	4,510	-145
27	Revenue Contribution to Capital spending	0	0	0	25	25
		4,655	1,774	1,861	4,535	-120
28	TOTAL SPENDING	75,934	43,102	42,532	75,311	-623
	INCOME					
29	Treasury management investment income	-105	-61	-39	-75	30
30	Grants and Reimbursements	-2,201	-1,100	-1,801	-2,182	19
31	Other income	-901	-526	-753	-1,202	-301
32	Internal Recharges	-68	-39	-33	-68	0
33	Contribution to/from Reserves	0	0	0	0	0
34	Earmark Reserve	0	0	0	0	0
35	TOTAL INCOME	-3,275	-1,726	-2,626	-3,527	-252
36	NET SPENDING	72,659	41,376	39,906	71,784	-875

06/11/2009 13:07

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/09/9
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	16 NOVEMBER 2009
SUBJECT OF REPORT	PERSONAL PROTECTIVE EQUIPMENT (PPE) REPLACEMENT – INTEGRATED CLOTHING PROJECT (ICP)
LEAD OFFICER	Head of Physical Assets
RECOMMENDATIONS	<i>That, pending approval for utilisation of £357,000 from the indicative underspend on the 2009/10 budget, the Authority be recommended to approve the replacement of personal protective equipment (PPE) by a Purchase Managed Service (PMS) “as needed” basis (Option 2, Appendix A to this report) under the Integrated Clothing Project and funded in accordance with the model as set out in Section 4 of this report.</i>
EXECUTIVE SUMMARY	This report represents an update to the report to the Authority dated 23 October 2008 whereby the proposed method of PPE implementation has changed as a result of ICP contractual issues, revised operational considerations and a differing funding envelope becoming available.
RESOURCE IMPLICATIONS	Additional sum of £357,000 in 2010/11 – see Budget Monitoring Report elsewhere on agenda for today’s meeting.
EQUALITY IMPACT ASSESSMENT	The PPE, work wear and other clothing items are specifically designed and tested for tailored use by all genders and cultures, with full interoperability of garments for the individual wearer.
APPENDICES	A. PPE funding options appraisal
LIST OF BACKGROUND PAPERS	Report DSFRA/08/27 “Provision of Personal Protective Equipment” to the Devon and Somerset Fire and Rescue Authority dated 23 October 2008.

1. **INTRODUCTION**

- 1.1 This report is intended to update the Authority on developments in relation to securing replacement personal protective equipment (PPE) following approval by the Authority, at its meeting on 23 October 2008, to adopt the national Integrated Clothing Project (ICP) contract for the provision of Personal Protective Equipment (PPE) (Minute DSFRA/23 refers). The PPE clothing in the contract is gold in colour and referred to as PBi Gold. Although not specifically in the recommendation, it was stated within the earlier report to the Authority that the Fully Managed Service (FMS) leasing option would be adopted and the additional costs for this were factored into the following three years' financial commitments (Minute DSFRA/53. refers). These costs were £64,000 in 2009/10, £264,000 in 2010/11 and £209,000 in 2011/12.
- 1.2 The ICP contract offers a range of clothing provision as follows:
- 3 layer Structural PPE (Tunic, Over Trousers, Helmet, Fire Hood, Leather Boots, Rubber Boots, Gloves)
 - 2 layer Technical Rescue PPE
 - 1 layer Wildland PPE
 - USAR PPE garments
 - Non operational PPE, station wear, sports wear, corporate wear
 - Ceremonial wear
- 1.3 Due to the developments in technical rescue and wildland fire-fighting, it would be desirable to provide some bespoke, more suitable, PPE for these environments in future.

2. **BACKGROUND TO IMPLEMENTATION DIFFICULTIES**

- 2.1 Following the Authority approval, the full ICP contract, which could not be made available without an access agreement signature, was passed to DSFRA's legal advisors. The contract was very complex and the legal opinion doubted that either party would know if they were in breach of the contract. There were additional concerns over the 15 year term and the inability to terminate the contract for convenience without penalty, the legality of the contract and the requirement to forcibly purchase from the contract all clothing items already in use, including non PPE. Lastly, a legal challenge had been lodged by a competitive supplier concerning the manner in which the contract had been let.
- 2.2 In these circumstances it would have been foolhardy to ignore the legal advice and in the knowledge that this was going to take some time to resolve, a decision was made to bolster existing navy blue Nomex stock. There was no conclusive outcome from the protracted legal discussions, but a more readily understood layman's version of the contract was produced which, whilst being quite useful, would not have had any legal standing. Moreover concerns still remained over the long term lock in of the contract.

2.3 Whilst this legal interchange was progressing, it was noticed that there was a lack of take up of the ICP contract by FRAs for similar contractual doubts and also some doubts concerning the proposed method of operation. The original FMS contract allowed for one garment ensemble per fire-fighter and a pool to be held on each station to act as a back up uniform. This proposed methodology was unproven and brigades began to question whether it would be a foolproof method of working. Although the risk conceptually lay with the supplier, in the event of a catastrophe Authority's reputation would be at risk. DSFRS became increasingly concerned with this methodology and there was also an issue of storage space on stations for the pool.

2.4 A further consideration developed in terms of funding the PPE. As is reported elsewhere on the agenda for this meeting, it is anticipated that there will be significant savings against the current year revenue budget. In this event, there was a possibility that PPE kit could be purchased 'up front' with lesser expenditure being required in later years when budgets may well be tighter. The ICP contract allowed for two purchasing options, namely:

- Purchased Managed Service (PMS) and;
- Purchase Only (PO).

2.5 The additional advantage with the purchasing options was that there was no contractual lock in, albeit that the managed services element (laundry and repair) required a minimum five year term.

2.6 A further recent development occurred whereby the ICP contract would allow for the provision of two dedicated garments per firefighter under the FMS option, albeit at greater expense. This was in direct response to general concerns from brigades.

3. CURRENT POSITION

3.1 As a result of all the emerging factors, DSFRS decided to formally review the options again. The Purchase Only (PO) option was discounted as the Service had a long history of successfully using managed services. Consequently, the Purchased Managed Service (PMS) offering was considered. Two garments would be procured for each firefighter. Two options were considered:

- replacement en bloc, and;
- replacement according to need.

3.2 Both the one garment and the new two garment FMS options were considered. For comparative purposes the status quo Nomex kit was also considered, although there was an overriding wish to move to PBi Gold due to the increased interoperability, quality of garments and extensive research and testing that had been undertaken prior to adoption as the national contract. It should also be noted that the status quo was not an option as such, since the Service would have needed to formally procure from contract at costs that would have been higher than traditional costs. A business case to CLG would also be required. The status quo did, however, serve as a base cost comparator.

- 3.3 The estimated costs of all these options over a seven year period are given in Appendix A of this report. The FMS options effectively eliminated themselves as the one garment option was potentially too risky and the two garment option was too expensive. This left the two PMS options. It was clear that the PMS option which would be introduced according to need over a three year period would provide significant savings over the seven year period, by making optimum use of existing Nomex stock. It was considered that this outweighed the disadvantage of having mixed colour uniform on stations during the three year period. It was also considered that this option would potentially fit well with the current and future funding expectations.
- 3.4 As a result of the considerable savings that the proposed PMS option would have over the whole term, it would be desirable to introduce some measure of technical rescue and wildland PPE at an appropriate time, but this would only follow successful trials on a limited basis. There may also be some self-funding aspects to these approaches where a full second set of full structural PPE could be replaced in certain circumstances.

4. FUNDING MODEL

- 4.1 The PMS option now proposed - to replace all kit as needed over an initial three year period - represents a saving of £1,439,506 over a seven year term as against the proposal originally approved by the Authority in October 2008. £64,000 was secured in 2009/10 for the project and an additional £200,000 factored into the Medium Term Financial Plan (MTFP) for 2010/11 arising from the Authority's earlier approval. The PMS option now proposed requires in total a further £621,000 in 2010/11, leaving a net additional funding requirement of £357,000. The budget monitoring report elsewhere on the agenda for today's meeting outlines a proposal to fund this additional £357,000.
- 4.2 In terms of the project as a whole, it is proposed that a rolling earmarked reserve be established to assist in project funding over its seven-year duration. This will enable the expenditure peaks and troughs to be smoothed out over the duration of the project and will also secure funds that can be used towards any procurement refresh needed at the end of the seven year period. This earmarked reserve will be monitored by the Resources Committee on an ongoing basis in the same way as other earmarked reserves. This funding model is, therefore, commended as the most effective and efficient method of resourcing the project over its total lifespan.

5. CONCLUSION

- 5.1 The PMS option to introduce the new PPE kit as needed over an initial three year period, funded in accordance with the funding model outlined above, is seen as the most cost-effective option of introducing the ICP contract into DSFRS. It also has the advantage of avoiding long-term contractual lock in. It is, therefore, commended for approval.

DEREK WENSLEY
Head of Physical Assets

APPENDIX A TO REPORT RC/09/9

PPE PROJECTIONS

Option No.		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Total cost
1	PMS replace en bloc	2,056,051	366,998	486,426	657,038	1,083,566	401,120	571,732	5,622,931
2	PMS replace as need	1,168,872	657,038	657,038	401,120	401,120	486,426	401,120	4,172,734
3	FMS 1.6 sets	810,320	800,320	800,320	800,320	800,320	800,320	800,320	5,612,240
4	FMS 2 sets	907,920	897,920	897,920	897,920	897,920	897,920	897,920	6,295,440
5	Current cost FMS & PMS	547,677	547,677	547,677	547,677	547,677	547,677	547,677	3,833,739

CAPITAL PROGRAMME WORKING PARTY
(Devon and Somerset Fire and Rescue Authority)

5 November 2009

Present:-

Councillors Fry, Smith, Wallace and Woodman.

***CPWP/4. Minutes**

RESOLVED that the Minutes of the meeting held on 31 July 2009 be signed as a correct record.

CPWP/5. Asset Management Considerations 2009/10 to 2012/13

The Working Party considered a report of the Head of Physical Assets (CPWP/09/2) that reviewed the current Capital Programme and the issues surrounding the setting of the future 2010/11 to 2012/13 capital budget. The report set out various emerging issues that may influence this budget setting process.

In terms of the existing Programme for 2009/10, the Head of Physical Assets advised that both of the Exeter stations had been completed and were in operational use. Exeter Middlemoor Station had been runner up in the South West Eco Awards and a presentation was to be made to a representative of the Service shortly. Members would be advised of the details in due course. It was noted that Exeter Middlemoor had been completed approximately £500,000 under budget and that consideration would need to be given to how this impacted on the Capital Programme in due course.

The Head of Physical Assets advised that there were a number of projects that had been identified as requiring implementation and that these were subject to bids for funding in accordance with the Medium Term Financial Plan (MTFP) process (in view of the impact of the debt charges on the Revenue Budget). These included:

- Bridgwater Training Facility
- Co-responder garaging
- Camels Head
- Foam Training
- Carbon Management Plan Project.

Reference was made to the position in respect of Brixham station, whereupon it was suggested that it may be appropriate for a site visit to be arranged in order that Members of the Working Party could gain information at first hand. The Head of Physical Assets stated that Brixham station was not included within the schemes in the Capital Programme for 2009/10. There were issues of affordability in addition and these were discussed further in conjunction with Minute CPWP/6 below. He added that he could see the merit in visits being organised but suggested that this should be widened to encompass other stations such as Buckfastleigh, Camels Head and Plymstock for example. This would then enable any issues in respect of future Capital Programme priorities to be considered holistically.

The Chief Fire Officer stated that there were other considerations including the outcome of the fundamental review of service delivery that was ongoing currently. This would not be completed until 2010/11 at the earliest and may impact on both the Revenue and Capital Budgets in 2011/12 therefore, it would not be prudent to take any decisions on major new capital schemes at this stage pending the outcome.

AGREED that the current position regarding the projects identified in Section 3.2 of Report CPWP/09/2 be noted at this stage and the issue be revisited by the Working Party as part of its consideration of proposals for inclusion in the 2010/11 Capital Programme.

CPWP/6. Affordable Capital Investment Plans 2010/11 to 2011/12

The Working Party received for information a report of the Treasurer (CPWP/09/3) that highlighted the affordability issues relating to any increase above the existing levels in the Capital Programme as already approved by the Devon and Somerset Fire and Rescue Authority (DSFRA).

The Treasurer drew attention to the point that the existing agreed capital spending was £20.725m for 2009/10 to 2011/12. This was still some way short of the total funding needed to provide a fully subscribed programme for estates and vehicle and equipment replacement for this period.

Reference was made in particular to the introduction of the Prudential Code in 2004 and the impact of this on local authorities. The fundamental objective was the consideration of affordability of capital schemes in terms of the associated debt charges that emanated and the impact on the Revenue Budget. There were 3 affordability prudential indicators, namely:

- Ratio of financial costs to net revenue stream;
- Capital financing requirements;
- Change in Band D equivalent Council Tax.

Whilst the current ratio of financing costs to revenue stream was 3.23% in 2009/10, this increased to 4.46% in 2011/12, which was under the notional ceiling of 5% but the Authority would need to bear this in mind when considering the affordability of any future capital schemes.

The Working Party considered whether it would be appropriate to reprofile the existing priorities within current resources in the light of the economic position or whether it was viable to extend the Capital Programme to add new schemes to bridge the gap on works needed. It was suggested that extension of the Capital Programme may not be affordable at this stage given the associated debt charges and forthcoming budgetary restrictions and that further consideration should be delayed pending the outcome of the fundamental service review (Minute CPWP/ 5 above refers).

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

The meeting started at 10.00hours and finished at 12.00hours.



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	RC/09/10
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	16 NOVEMBER 2009
SUBJECT OF REPORT	CAPITAL PROGRAMME MONITORING 2009/10 to 2011/12
LEAD OFFICER	Head of Physical Assets
RECOMMENDATIONS	<i>That the report be noted.</i>
EXECUTIVE SUMMARY	This report represents the current monitoring position for the capital programme 2009/10 to 2011/12 as originally approved by the Authority at its meeting on 16 February 2009 with revisions approved at the Authority meeting of 28 September 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 28 September 2009.
LIST OF BACKGROUND PAPERS	None

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. Revisions to the capital programme to take account of 2008/09 actual outturn and current status were approved by the Authority on 28 September 2009. The revised schedule appears as Appendix A.
- 1.2 As referred to earlier in the agenda for this meeting, the Capital Programme Working Party met on 5 November 2009 and considered the current capital programme and the issues surrounding the setting of the future 2010/11 to 2012/13 capital budget.

2. CURRENT PROJECTS 2009/10

(a) Estate Development - Exeter Stations

- 2.1 Both stations are now operational in line with planned dates with only the removal of the temporary station and some external works being carried out at Danes Castle until November. Good feedback has been received for both stations and the projects have gone well. Danes Castle is within budget and Middlemoor has been completed with significant savings to the budget. The Pynes Hill office accommodation has been vacated and staff have relocated to the two stations. The backup Devon Control centre has been moved from Pynes Hill to Hestercombe and the Pynes Hill accommodation is officially due to be released in November.

(b) Other Projects/Ring-Fenced Maintenance

- 2.2 At its budget meeting on 16 February 2009 the Authority approved a total budget of £1.62m for Other Projects and Ring Fenced Maintenance in 2009/10 as follows:

Budget Heading	£
Other Projects ¹	870,000
Ring-fenced Maintenance	750,000
TOTAL	1,620,000
1. The £870,000 represents the proportion of the two-year government capital grant, totalling £2m, allocated for use in 2009/10	

- 2.3 Projects to be funded from these combined budgets were reported to the Authority meeting on 16 February 2009 as follows:

Scheme	Detail	£
Taunton	Phase 2 of internal refurbishment	150,000
Yeovil	Phase 2 of internal refurbishment	100,000
New drill towers	Teignmouth, Exmouth, Dulverton, Totnes, Shepton Mallet or Crownhill	60,000
Station extensions	Ivybridge	160,000
	Dawlish	160,000
	Street	160,000
	Bovey Tracey	160,000
DDA, DAW, BA, Drying Room, Community access works	Honiton	60,000
	Lynton	100,000
	Martock	30,000
	Chumleigh plus new roof	60,000
	Sidmouth	120,000
	STC Phase 2	65,000
Torquay	Phase 2 of training structure	175,000
New boiler	Crownhill, Camels Head or Torquay	45,000
TOTAL		1,605,000

- 2.4 These current year capital projects are well established and in various stages of development and anticipated to be largely completed within the current financial year. Due to uncertainty over the future training strategy, the training drill tower item (£60,000) is being held over currently. The boiler projects (£45,000) would now benefit from being held over until after the winter season.
- 2.5 The Authority has previously been informed of the issues surrounding the lack of welfare facilities and in particular the lack of shower facilities, but also drying rooms and BA servicing facilities, on some retained stations, resulting from an HSE visit to Hatherleigh. An additional sum of £300,000 was approved by the Authority at its meeting on 27 May 2009. The programme of shower installations and the refurbishment of Hatherleigh is progressing largely to plan, excepting Kingston which was known to have particular difficulties.
- 2.6 Funding additional to that currently approved would be required to further accelerate this programme of welfare improvements and it is possible that the HSE would not see the existing timescales as being appropriate to meet these welfare needs in a timely manner.
- 2.7 At its July meeting the Capital Programme Working Party recommended that the current position regarding welfare provision upgrades for fire stations be noted at this stage and the issue be revisited by the Working Party as part of its consideration of proposals for inclusion in the 2010/11 capital programme.

(c) Fleet and Equipment - Replacement Appliances

- 2.8 Eight appliances have been delivered from the 2008/09 approved capital programme and a further one is due in November.
- 2.9 Progress with the five aerial platform appliances ordered from the 2008/09 approved capital programme is on schedule and deliveries are planned to commence early in the new year.
- 2.10 Orders for three fire appliances have been placed from the 2009/10 approved programme and are due for delivery in February 2010. Build slots have been reserved for further orders of two Targeted Response Vehicles (TRV) and seven additional appliances. This is in line with the Service Operational Unit's resource review programme corporate project, whereby the TRVs will be a pilot in consideration of new working concepts towards greater efficiency and effectiveness.

(d) Fleet and Equipment - Specialist Operational Vehicles

- 2.11 From the 2008/09 approved budget, chassis for the two special rescue vehicles have been ordered and the body build is in negotiation. Similarly the tele-hoist is in the tender process. The CFS Education Unit chassis has been ordered and the body build will be by tender for possible delivery in March 2010. The welfare unit is on hold pending further operational consideration of requirements. No specials have been identified from the 2009/10 budget at this time.

(e) Fleet and Equipment - Equipment

- 2.12 The equipment requirements from the 2009/10 budget and the slippage from last year are still awaiting final specification. It is anticipated that the budgets will be fully spent by the year end, however. The hardware equipment for the MIQUEST asset tracking system has been specified and will be ordered shortly.

3. IMPACT ON CAPITAL FINANCING COSTS

- 3.1 Due to the schemes on hold and a relatively small drift over the next year end for estates active schemes, a slippage of £371,800 is currently forecast. It should be emphasised that although the slippage will result in a decrease in debt charges in 2010/11, thereby reducing the revenue budget in that year, there will not be any overall affect on individual scheme budgets, which remain within budget.
- 3.2 A saving of the order £500,000 has been made on the overall scheme for Middlemoor. As a consequence of the overall capital programme affordability issues facing the Authority in future years, it is hoped that this sum will be taken into account in setting the capital programme budget for 2010/11 and beyond and discussions with the Capital Programme Working Party have already begun in this regard.

4. CONCLUSION

- 4.1 Project spend is in accordance with budget throughout and no overall overspend is anticipated. In fact a significant underspend has been reported for the Middlemoor project.
- 4.2 The capital programme budget setting process for 2010/11 is imminent and discussions have already begun with the Capital Programme Working Party. This is a complex area this year due to organisational change, budget issues of affordability and significant pressures on the asset portfolio. Further reports will be presented to the Resources Committee in due course regarding these matters.

DEREK WENSLEY
Head of Physical Assets

APPENDIX A TO REPORT RC/09/10

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)
		<u>Estate Development</u>				
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	
		<u>Fleet & Equipment</u>	-			
	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	

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/09/11
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	16 NOVEMBER 2009
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2009/10
LEAD OFFICER	Treasurer
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the authority for 2009/2010 (to September) be noted;</i>
EXECUTIVE SUMMARY	<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 current financial year, as at September 2009.</p>
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 September 2009.
LIST OF BACKGROUND PAPERS	<p>Treasury Management Policy – as approved at the meeting of the Shadow DSFRA meeting held on the 16 March 2007.</p> <p>Revision to the Treasury Management Policy, as approved at the DSFRA meeting held on the 31 March 2009.</p>

1. **INTRODUCTION**

1.1 The Treasury Management Strategy for Devon and Somerset FRA 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 adoption of the Code was originally made at the meeting of the DSFRA held on the 16th March 2007, with the most recent revision being agreed at the meeting of the DSFRA on the 31st March 2009. 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, following consultations with Local Authorities during the summer. The report provides information on the performance so far in the current financial year, based upon the position at the end of September 2009.

2. **THE ECONOMY**

2.1 The second quarter of the financial year of 2009 saw:

- There are some signs of recovery in the market, with some sectors showing growth
- Concerns remain about the fragile state of any recovery with the impact of rising unemployment, therefore bank rate/investment rates expected to stay lower for longer
- House prices rise at the fastest rate in over five years;
- An extension of the Bank of England's quantitative easing programme...
- ...but have limited success in boosting credit or money supply growth;
- Unemployment continue to rise and pay growth weaken further;

- Inflationary pressures in the economy ease further, but more slowly than had been expected;
- Conditions in financial markets improve further, and equity prices rally strongly;
- The pound fall back, yielding much of the gains made in the first quarter;
- Other major economies exit the recession, including the US.

2.2 At its meeting in August, the Monetary Policy Committee (MPC) increased the amount of asset purchases under the Bank's quantitative easing (QE) programme by £50bn to £175bn.

2.3 Net lending to businesses increased in August for the first month since March, however, the household sector as a whole reduced unsecured debt in August. Banks are likely to remain reluctant to lend while conditions in the labour market are still deteriorating. The claimant count rose by 25,200 in July and 24,400 in August. While these were smaller rises than in the first quarter, they were enough to take the claimant count above 1.6m, the highest level since Q2 1997.

2.4 Inflationary pressures in the economy eased further in the quarter, although at a slower rate than in the previous quarter, and more slowly than many expected. CPI inflation fell from 1.8% in June to 1.6% in August, largely as a result of falls in the annual rate of food and utility price inflation. However, core inflation rose from 1.6% in June to 1.8% in August – a higher rate than in other advanced economies. The rise most likely reflects the lagged impact of the pound's depreciation last year, and so should prove temporary.

2.5 The most upbeat news was from the housing market. The Nationwide house price index rose 3.8% in Q2, the largest quarterly rise since Q2 2004. House prices by this measure are now only 13.5% below their peak. And while the Halifax measure remained more downbeat, it too posted increases in the quarter. However, the rise in house prices appeared to be largely driven by the scarcity of homeowners putting their homes up for sale, suggesting that the rises may therefore only be temporary.

Economic Forecast

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

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.50%	0.75%	1.25%	1.75%	2.50%	3.00%	3.75%	4.00%	4.25%	4.50%	4.50%	4.50%
5yr PWLB rate	2.80%	2.90%	3.10%	3.20%	3.30%	3.55%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10yr PWLB rate	3.75%	3.80%	3.90%	4.00%	4.15%	4.30%	4.55%	4.75%	4.95%	5.00%	5.10%	5.15%	5.15%	5.15%
25yr PWLB rate	4.35%	4.45%	4.55%	4.60%	4.70%	4.90%	5.00%	5.00%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50yr PWLB rate	4.50%	4.55%	4.70%	4.75%	4.90%	5.00%	5.15%	5.15%	5.20%	5.25%	5.40%	5.40%	5.45%	5.45%

- The forecast is based on moderate economic recovery and moderate MPC concerns about inflation looking 2 years ahead
- The first Bank Rate increase is expected to be in Q2 of 2010/11
- Bank Rate to reach 4.5% in Q2 of 2012/13
- Long term PWLB rates to steadily increase to reach 5.45% by the end of 2012 due to high gilt issuance, reversal of QE and investor concerns over inflation

- There is a high level of uncertainties in all the above forecasts. This is due to the difficulties of forecasting the timing and amounts of QE reversal, fiscal contraction after the general election expected by May 2010, speed of recovery of banks' profitability and balance sheet positions, changes in the consumer saving ratio and rebalancing of the UK economy towards exports.

TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

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

- Security of Capital
- Liquidity

3.2 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.

3.3 A full list of investments held as at 30 September 2009 are shown in Appendix A.

3.4 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 second quarter of 2009/10 was £9.287m. 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	0.62%	0.47%	£14,515

3.5 As illustrated, the authority outperformed the benchmark by 6 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 since the budget was originally set.

Borrowing Strategy

Prudential Indicators:

3.6 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.

3.7 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 September 2009.

- 3.8 Sector's target rate for new long term borrowing for the first quarter of 2009/10 was 4.50%. As at the end of September 2009, due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing of £3.5m was undertaken at the rates indicated in the table below. It is likely that 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.

Date of Loan	Amount £m	Life (Years)	Interest Rate
19/08/2009	0.500	38.5	4.36%
19/08/2009	0.500	39.5	4.36%
19/08/2009	0.500	41.5	4.36%
30/09/2009	0.500	20.0	3.82%
30/09/2009	0.500	21.0	3.87%
30/09/2009	0.500	22.0	3.91%
30/09/2009	0.500	23.0	3.95%

- 3.9 As outlined below, interest rates have gradually decreased during the quarter across all bands, with the low points during August / September and the high points in July. PWLB rates are currently below Sector's new borrowing targets in some maturity bands.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.68	2.7	3.69	4.19	4.2
Date	16/09/2009	26/08/2009	27/08/2009	01/09/2009	18/08/2009
High	1.16	3.29	4.15	4.77	4.74
Date	02/07/2009	28/07/2009	24/07/2009	24/07/2009	24/07/2009
Average	0.94	2.98	3.89	4.43	4.46

4. SUMMARY

- 4.1 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 2009/2010. 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

APPENDIX A TO REPORT RC/09/11

Investments as at 30th September 2009				
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Interest rate(s)
	£m	£m		
Abbey	5.0	1.9	C	0.80%
Alliance & Leicester	5.0	1.21	C	0.64%
Barclays Bank	6.0	1.0	T	0.67%
Bank of Scotland	5.0	0.01	C	0.51%
Clydesdale Bank	5.0	2.2	T	0.46%
Kent Reliance B/S	1.0	1.0	T	1.40%
Norwich & Peterborough B/S	1.0	1.0	T	1.00%
Nottingham B/S	1.0	1.0	T	1.05%
Principality B/S	1.0	1.0	T	1.45%
Skipton B/S	1.0	1.0	T	0.75%
West Bromwich B/S	1.0	1.0	T	1.42%
Total invested as at 30th September 2009		12.32m		