M. Pearson
CLERK TO THE AUTHORITY

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

(see below)

SERVICE HEADQUARTERS
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Your ref :
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RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

Friday 28 January 2011

A meeting of the Resources Committee will be held on the above date, **commencing at 10:00 hours in Conference Room B in Somerset House, Service Headquarters** to consider the following matters.

M. Pearson
Clerk to the Authority

A G E N D A

1. Apologies

2. Minutes of the meeting of the Committee held on 29 November 2010 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.*

National Training Awards

PART 1 – OPEN COMMITTEE

5. **Financial Performance Report 2010/11**

Report of the Treasurer to the Authority (RC/11/1) attached (page 4)

6. **2011/12 Revenue Budget and Council Tax Level**

Report of the Treasurer and Chief Fire Officer (RC/11/2) attached (page 16)

7. **Capital Programme 2010/11 to 2012/13**

Report of the Director Of Service Support, And Treasurer (RC/11/3) attached (page 30)

8. **Treasury Management Performance 2010/11**

Report of the Treasurer (RC/11/4) attached (page 40)

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. <u>ACCESS TO INFORMATION</u>

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. <u>DECLARATIONS OF INTERESTS BY MEMBERS</u>

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)

29 November 2010

Present:-

Councillors Gordon (Chairman), Healey (vice Woodman), Hughes OBE, Smith, Turner and Yeomans

Apologies:-

Councillors Horsfall and Woodman

***RC/15. Minutes**

RESOLVED that the Minutes of the meeting held on 21 October 2010 be signed as a correct record.

***RC/16. Death of Councillor David Viney**

(An item taken in accordance with Section 100B(4)(b) of the Local Government Act 1972).

The Chairman determined that this item should be taken as a matter of urgency so that the Committee could pay its respects to Councillor David Viney, a Member of the Devon and Somerset Fire and Rescue Authority and a former Member of this Committee.

Councillor Viney passed away suddenly on Saturday 27 November 2010 and the Committee undertook a minutes silence as a mark of respect. The Committee expressed its condolences to the family of Councillor Viney at this sad and difficult time.

***RC/17. Declarations of Interest**

Members of the Committee were asked to consider whether they had 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.

No interests were declared.

RC/18. Revenue Budget Monitoring Report 2010/11

The Committee considered a report of the Treasurer (RC/10/17) that set out the indicative projected outturn against the approved 2010/11 Revenue Budget based upon the spending position up to the end of October 2010.

Projections indicated that revenue spending would be £0.991m (1.32%) less than total budget. This projection was net of a transfer of £0.726m to an Earmarked Reserve (CSR 2010 Budget Strategy Reserve) from savings in the current year (2010/11) as approved by the Authority at its meeting on 3 November 2010 (Minute DSFRA/35(c) refers).

The report provided explanations for the more significant variations against the budget in terms of underspends, including wholetime pay costs [£0.400m]; retained staff [£0.104m]; non-uniformed staff [0.114m]; training expenses [£0.096m]; recovery of overpaid injury award pensions [£0.111m]; vehicle repair and maintenance costs [£0.077m] and greater income on investment than initially projected (£0.076m).

The report also highlighted two proposed virements in excess of £150,000 which, in accordance with Financial Regulations, required Authority approval. The proposed virements related to:

- The increase in the Communications Budget line by £0.293million to fund the cost of Firelink charges (£0.506m) over and above the existing budget as a result of changes to the charging arrangements which has resulted in individual Fire and Rescue Authorities being charged for their share of the regional Service Fees. This virement will be offset by a corresponding increase in the Grants and Reimbursements income budget, and;
- the transfer of £0.258m from the ICT Equipment budget line to External Fees and Services to reflect the changes in how the original allocation for the business transformation programme is to be spent (the total sum for business transformation allocated by the Fire and Rescue Authority remains the same).

The Treasurer advised the Committee that there were no further recommendations at this time on how the projected underspend should be utilised. This would be further considered at the budget meeting of the Committee and again at year-end once the final outturn position was known.

Councillor Yeomans drew attention to the need for training for Members of the Committee in advance of the budget setting process in terms of the new requirements of the International Financial Reporting Standards (IFRS) which the Treasurer undertook to pursue.

Reference was made to the projected overspend of £0.291m in respect of Uniforms and what level of budget was to be set for this in 2011/12 bearing this in mind. The Treasurer reported that there had been a longstanding issue in respect of the implementation of new Personal Protective Equipment (PPE) but that the funding model had previously been agreed by the Authority. The Chief Fire Officer added that, as the national Integrated Clothing Project contract was not mandatory, other options for the provision of PPE and work wear were being considered to ensure best value was obtained. He indicated that any alternative options would be delivered within funding already approved by the Authority and that Members would be kept informed as to the outcome.

RESOLVED

(a) that, in accordance with Financial Regulations, the Authority be recommended to approve those budget virements described in paragraph 8.1 of report RC/10/17 and illustrated in the Appendix to these Minutes;

(b) That, subject to (a) above, the budget monitoring position in relation to projected spending against the 2010/2011 revenue budget be noted.

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

The meeting started at 10.00hours and finished at 10.47hours.

APPENDIX TO THE MINUTES OF THE MEETING OF THE RESOURCES COMMITTEE HELD ON 29 NOVEMBER 2010

Minute RC/18(a) – Virements requiring Authority approval in accordance with Financial Regulations

Budget Line	From £m	To £m	Reason
Grants and Reimbursements Communications	(0.293)	 0.293	Up until June 2010 the Department of Communities and Local Government (CLG) have paid for the annual Service Fees associated with the usage of the new national radio system (Firelink). From July 2010 the charging arrangements have changed so as individual FRSs will now be charged for their share of the regional Service Fees. For 2010-11 the total charge for DSFRA will be £0.506m. The CLG will fund the difference between this cost and the cost of legacy radio systems, which are already included in the base budget, through New Burdens grant. For DSFRA the amount of New Burdens grant has been announced as £0.293m, This proposed virement is to increase the Communications budget line by £0.293m to fund the cost of Firelink charges over and above existing budget, with a corresponding increase in the Grants and Reimbursements income budget.
Furniture and Equipment External Fees and Services	(0.258)	 0.258	Included in the base budget for this financial year is an allocation of £0.555m to fund the initial costs associated with the business transformation programme. This proposed virement is to move an amount of £0.258m from the ICT Equipment budget line to External Fees and Services to reflect the change in how the original allocation for the business transformation programme is to be spent. The total sum for business transformation allocated by the Fire Authority remains the same.

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/11/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**28 JANUARY 2011**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2010/2011**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That the budget monitoring position in relation to projected spending against the 2010/2011 revenue and capital budgets be noted.*** ***(b) That the performance against the 2010/2011 financial targets, be noted.***
EXECUTIVE SUMMARY	This report provides an updated forecast of the Authority's forecast performance against the agreed financial targets for the current financial year, based upon the position at the end of the third quarter i.e. as at 31 December 2010. In particular, the report provides an indication of projected spending against the 2010/2011 revenue budget. At this stage, projections indicate that revenue spending will be £1.363m less than budget, equivalent to 1.81% of the total budget. It should be emphasised that this projection is **net** of a proposed transfer of £0.726m to an Earmarked Reserve, to be set aside to provide some financial contingency towards budget setting during the next four years (CSR 2010 period), as the Authority formulates its strategy to manage the impact of reductions in government grant levels over the CSR period. This report also provides a summary of the Authority's forecast performance against its financial targets.
RESOURCE IMPLICATIONS	As indicated in the report.

EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Forecast Performance against 2010/2011 Financial Targets. Appendix B – Subjective Analysis of 2010/2011 Revenue Spending. Appendix C – Capital Monitoring Statement 2010/2011.
LIST OF BACKGROUND PAPERS	Budget Monitoring Report 2010-11 (RC/10/17) to Resources Committee 21 November 2010 Financial Performance Report 2010-2011 (RC/10/15) to Resources Committee 21 October 2010.

1. INTRODUCTION

1.1 This report provides the third financial performance report for the current financial year. As well as providing projections of spending against the 2010/2011 revenue budget, the report also includes forecast performance against other financial performance indicators, e.g. external borrowing and treasury management indicators.

1.2 The report is presented in three sections;

SECTION A – Revenue Budget 2010/2011.
SECTION B – Capital Budget and Prudential Indicators 2010/2011.
SECTION C – Other Financial Indicators.

1.3 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 each section of this report.

2. SECTION A - REVENUE BUDGET 2010/2011

2.1 Current projections are for total revenue spending in 2010/2011 to be £73.772m, as compared to an approved budget of £75.135m, representing an underspend of £1.363m (previous projection of £0.991m), equivalent to 1.81% of the total budget. The Chief Fire Officer and Senior Management Board have instructed budget holders that only essential spending should be undertaken in year. This has resulted in budget managers trimming back spend across the whole organisation, significantly contributing to the underspend in year. This is in addition to the money allocated within the 2010/11 budget for pay awards which are not as high as forecasted within the budget setting process

2.2 It should be emphasised that the projected underspend figure includes the impact of a proposed transfer of £0.726m to an Earmarked Reserve (CSR 2010 Budget Strategy Reserve), to provide some financial assistance towards the strategy to be adopted to manage the impact of the expected reduction in government grants over the next four years.

2.3 The figure of £0.726m has been generated from efficiency savings identified by the officer-led Service Improvement Group (SIG). In anticipation of reductions in government grant levels over the next four years from CSR 2010, an exercise to identify in-year savings of 10% from non-salary budget heads has been undertaken by SIG. This exercise involved all budget managers throughout the organisation scrutinising their local budgets and making proposals to SIG for reductions of 10% savings. Each of the proposals were then risk assessed by the Senior Management Board to assess the impact of each proposal against the Corporate Plan and Service Delivery.

2.4 The range of proposals varies from the smaller savings from better local management of costs e.g. travel, utilities, equipment, conference/seminars attendance, to the larger savings from cessation of non-essential work programmes or deferral of projects e.g. savings on leasing costs from the extension of the life of existing vehicles and equipment.

2.5 The overall projection is based upon the spending position at the end of December 2010, historical trends, and information from budget managers on known commitments and savings. 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. 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 7 below.

3. EMPLOYEE COSTS

Wholetime Staff

3.1 At this stage spending against wholetime pay costs is anticipated to be £0.329m less than budget. This projection includes the impact of a zero pay increase from July 2010, as compared to the 1.0% provision that had been made in setting the 2010/2011 budget.

Retained Staff

3.2 Spending is forecast to be £0.103m under budget primarily from assumed savings from a zero per cent pay award. In making this projection an assumption has also been made that activity levels in the remainder of the financial year are consistent with the average for the same period for the last three financial years.

Part-Time Workers (Prevention of Less Favourable Treatment) Regulations – Employment Tribunal Cases

3.3 It should be emphasised that the final spending position on retained staffing costs will be impacted by the result of negotiations between the National Joint Council for Local Authority Fire and Rescue Authorities (NJC) and the Fire Brigades Union (FBU), relating to the Employment Tribunal case ruling made in 2010 under the Part-Time Workers (Less than Favourable Working Conditions) Regulations. Members will recall that the Tribunal eventually ruled in favour of retained firefighters not enjoying the same rights as their named comparators (wholetime firefighters) in relation to access to pension and sickness absence.

3.4 Since this ruling considerable work has been undertaken at a national level, with legal representatives, to identify a mechanism to facilitate withdrawal of the approximately 12,000 (Fire Brigades Union) ET cases across the UK, which will accommodate the needs of both fire and rescue authorities and the Fire Brigades Union.

3.5 The most recent Circular issued by the NJC (Circular NJC/11/1) advises that agreement is imminent and that it is hoped that compensatory payments can be made in the current financial year.

3.6 For Devon and Somerset FRA, as the largest employer of retained firefighters in the UK, the financial impact of this ruling will be significant, particularly as the ruling includes backdated payments to the year 2000. The Authority has prudently already set aside funds of £0.949m into a Provision from previous years underspends to fund these payments. This figure was based on 'in principle' agreements that had previously been reached during early 2010. However should negotiations lead to more generous payments being made resulting in this figure being exceeded, then any additional amount would need to be funded from this year's budget.

Non-Uniformed Staff

3.7 The saving of £0.199m against non-uniformed pay costs again includes the impact of a zero pay award from April 2010. Further savings from this budget line result from the Senior Management restructure which resulted in the deletion of two non-uniformed posts.

Training Expenses

3.8 A projected underspend of £0.085m from training costs is as a result of an anticipated slippage in the delivery of courses.

Fire Service Pension Costs

3.9 It is anticipated that Fire Service Pension costs will be £0.156m less than budget as a result of the recovery of overpaid pensions relating to injury awards payments in previous years.

4. PREMISES RELATED COSTS

Energy Costs

4.1 It is anticipated that energy costs will be £0.122m less than budget primarily as a result of refunds in gas payments relating to previous years. The impact of carbon management initiatives introduced during 2010 e.g. installation of smart meters into stations to monitor usage, is also resulting in reducing utility costs.

Rent and Rates

4.2 The projected overspend on this budget line relates to the budget for non domestic rates charges being understated in relation to the two new Exeter fire stations.

4.3 At the last meeting of Resources Committee held on the 29 November 2010, a request was made for more information on rented properties. Table 1 below provides an analysis of the main leased properties i.e. rent £5,000 or above per annum.

TABLE 1 – ANALYSIS OF RENTED PROPERTY

Leased Property	**Type of Use**	**Annual Rental £**
Chiltern House, Taunton	Office Accommodation	65,000
Chelston Meadow	Mechanical Workshops	100,000
ICT Building, Service Headquarters	Office Accommodation	7,000
Hestercombe House, Taunton	Control Room	12,413
Exeter Airport	BA Training Facility	5,000
		£189,413

5. SUPPLIES AND SERVICES

Uniforms and Personal Protective Equipment

5.1 At its meeting on 16 November 2009, this Committee considered a monitoring report outlining, amongst other things, proposals in relation to procuring replacement Personal Protective Equipment (PPE) though the Integrated Clothing Project (ICP). The Committee resolved, amongst other things, to commend to the Authority that, from the total projected underspend for 2009/10, an amount of £0.357m be set aside to part fund the total additional costs associated with this approach (Minute RC/11(a) refers). This was subsequently approved by the Authority at its meeting on 14 December 2009 (Minute DSFRA/33(c)(i) refers). In the event, the final outturn position for 2009/2010 did not provide sufficient underspend for this total amount to be set aside, and only £0.066m was able to be set aside, leaving the project £0.291m short of its implementation plan. The projections included in this report provide for this shortfall to be funded from the 2010/2011 revenue budget.

6. CAPITAL FINANCING COSTS

Capital Charges

6.1 It is forecast that debt charges and leasing costs will be underspent by £0.101m primarily as a consequence of anticipated slippage in capital spending in the year and the consequent reduction in the need to borrow to fund capital spending.

7. INCOME

Treasury Management Investment Income

7.1 At this stage it is anticipated that investment income will be £0.091m more than budgeted for, as a result of an improved cash flow position following early borrowing in the financial year when borrowing rates were particularly low.

Grants and Reimbursements

7.2 It is forecast that additional grant income of £0.110m will be achieved over and above that budgeted, primarily from Community Fire Safety activities e.g. delivery of Learn 2 Live Road shows, and partnerships with ROSPA to fit smoke alarms into vulnerable homes.

Other Income

7.3 It is anticipated that income targets are unlikely to be achieved this financial year as a result of the economic downturn.

7.4 At the last meeting of Resources Committee held on the 29 November 2010, the budget monitoring report had forecast that other income would be short of targets by £174,000. A request was made for further analysis of income streams to be brought back to the next meeting. Table 2 below provides an analysis of the main types of income and and forecast shortfalls.

TABLE 2 – ANALYSIS OF INCOME FORECAST 2010-11

Forecast Income Shortfall against Other Income Targets			
	2010-11 Budget	2010-11 Projection	Forecast Shortfall Month 7
	£	£	£
Accomodation	(4,600)	-	4,600
Fire Service Training Income	(570,200)	(529,000)	41,200
Meals Income	(118,200)	(87,800)	30,400
Special Services Charge	(7,500)	(2,400)	5,100
Rents Houses	(14,600)	(14,400)	200
Private Telephone Calls	(100)	(600)	(500)
Miscellaneous Income	(172,600)	(68,800)	103,800
AFA Licences	(1,600)	(3,200)	(1,600)
Site Sharing Income	(35,600)	(37,200)	(1,600)
Equipment Sales	(4,100)	(1,700)	2,400
Sale of Vehicles	(21,900)	(15,600)	6,300
Private Miles - Pool Cars	(5,500)	(4,200)	1,300
Co-Responder Income	(66,200)	(84,200)	(18,000)
TOTALS	(1,022,700)	(849,100)	173,600

8. CONTRIBUTION TO/FROM RESERVES

8.1 As is stated in paragraph 2.2 of this report an exercise carried out through SIG to identify 10% savings from non-salary budget heads has identified an amount of £0.726m savings from in-year budgets. At the meeting of the Fire and Rescue Authority meeting, held on the 3 November 2010, it was approved that this total saving of £0.726m be transferred to an Earmarked Reserve, to be called 'CSR 2010 Budget Management Reserve', to be utilised to provide some financial contingency towards the budget strategy to be adopted in response to the reductions in government grants over the CSR period.

9. SUMMARY OF REVENUE SPENDING

9.1 Given the announcement within the Comprehensive Spending Review (CSR 2010), that fire and rescue authorities can expect a 25% reduction in government grants over the next four years, it is pleasing that the Authority has already secured savings of £0.726m from in-year savings which has been set aside to an Earmarked Reserve, to be utilised to assist budget planning over the next four years.

9.2 Even after this transfer the revenue position is still one of a forecast underspend position of £1.363m (including the impact of a zero pay award). This underspend will provide a buffer against any other unforeseen spending during the remainder of the year e.g. outcome of negotiations relating to the Part-Time Workers (Less than Favourable Working conditions) Employment Tribunal Case. This Committee will be asked to consider how the final underspend position is to be utilised at its meeting to be held in May 2011, after the year-end.

9.3 Further updates of forecast spending will be provided at each future meeting of Resources Committee, together with any proposed actions in relation to significant variations from budget.

10. SECTION B – CAPITAL PROGRAMME 2010/2011 AND PRUDENTIAL INDICATORS

Monitoring of Capital Spending in 2010/2011

10.1 Appendix C to this report provides a summary of the projected spend against the revised 2010-11 capital programme. This indicates that overall spending will be £3.188m, as compared to a revised programme of £7.499m, resulting in slippage of spending of £4.311m.

10.2 The 2010-11 capital programme total has been increased by £0.023m to £7.499m. This change relates to capital spending of £0.020m in respect of Chard fire station, and £0.003m in respect of vehicle lease buy outs. This additional spending is to be funded from revenue contributions and therefore do not incur any additional borrowing.

10.3 Elsewhere on the agenda is a separate report which proposes a revised capital programme for the years 2011-12 to 2013-14, which includes provision for the majority of this slippage in capital spending to be carried forward to support those projects which have not been completed in 2010-11.

10.4 Also included in Appendix C are details of how the projected spending of £3.188m is to be financed.

Prudential Indicators (including Treasury Management)

10.5 As a consequence of capital spending being forecast to be well below the capital programme targets none of the agreed prudential indicators will be breached. Actual external borrowing as at 31 December 2010 stood at £29.380m, forecasting to fall to £28.609m by 31 March 2011, which is well below the authorised limit for external debt of £40.488m (the absolute maximum that the Authority has agreed as affordable).

10.6 Investment returns from short–term investments of daily working balances are forecast to exceed the income target of £0.070m as a consequence of better than anticipated working balance levels available for short-term investment. The current estimate is that an amount of £0.161m will be achieved. An average return of 0.77% has been achieved to the end of December 2010, as compared to the average LIBID 7 day rate (industry benchmark), for the same period of 0.43%.

10.7 Current external borrowing has been taken at an average borrowing rate of 4.24%, which is slightly more than the 4.09% which had been assumed in setting the debt charges budget for 2010/2011. However as the borrowing requirement in 2010-2011 is well below original forecasts, due to slippage in capital spending, debt charges costs will be within the capital financing budget.

11. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Efficiency Savings

11.1 The Authority's forward looking Annual Efficiency Statement for 2010/2011 was submitted to the Department of Communities and Local Government (CLG) in July 2010. This return has targeted additional cashable savings of £1.223m to be achieved in 2010/2011. These savings primarily relate to further on-going savings from the combination of ex-Devon FRS and ex-Somerset FRS, vacancy management, a reduction in call activity and better procurement. At this stage of the financial year monitoring has indicated that we are on course to achieve this saving target.

11.2 In relation to the savings to be achieved from the combination, the original business case had identified that cumulative savings of between £1.6m and £3.0m would be achieved by the year 2011/2012. Actual savings achieved to the end of 2009/2010 was £1.5m, with a further £2.1m forecast in the next two years resulting in forecast savings of £3.6m by 2011/2012.

Aged Debt Analysis

11.3 As at 31 December 2010, an amount of £50,023 (£48,000 as at 30 September 2010) was due from debtors relating to invoices that are more than 85 days old, equating to 7.34% (16.97% as at 30 September 2010) of the total debt outstanding. Table 3 below provides a summary of all debt outstanding as at 31 December 2010.

TABLE 3 – OUTSTANDING DEBT AS AT 31 DECEMBER 2010

	Total Value £	%age
Within 28 days	546,960	80.32%
29-56 days	46,278	6.80%
57-84 days	37,728	5.54%
Over 85 days	50,023	7.34%
Total Debt Outstanding as at 31 December 2010	**680,991**	**100.00%**

11.4 Whilst the latest figures show an improvement in percentage terms, and keeps this ratio within the agreed 10% target, it should be noted that the actual value of debt more than 85 days old has shown a small increase from the position at the end of the last quarter (September 2010).

Payment of Supplier Invoices within 30 days

11.5 In relation to the speed at which we pay our supplier invoices, we are currently on course to out-perform our target that 98% of supplier invoices will be paid within 30 days (or other agreed credit terms). As at the end of December 2010 our performance stood at 98.68%.

KEVIN WOODWARD
Treasurer to the Authority

FINANCIAL PERFORMANCE INDICATORS 2010/2011

Revenue Budget	Forecast £m	Target £m	Variance (favourable) /adverse %
Forecast Spending	73.772	75.135	(1.81)%
Efficiency Savings to be achieved in 2010/2011	1.223	1.223	-
Cumulative Efficiency Savings from Combination by 2012/1013	3.659	3.000	(21.97)%

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse %
Capital Expenditure	3.188	7.499	(57.49)%
Capital Financing Requirement (CFR) - (excluding other long term liabilities)			
- Borrowing	28.009	32.128	(12.82)%
- Other long term liabilities	1.916	1.916	(0.00)%
Authorised limit for external debt	28.609	40.488	(29.33)%
Operational boundary for external debt	28.609	37.276	(23.25)%
Investment Income	0.161	0.070	(130.00)%
	Actual (30 Dec 2010) %	**Target %**	**Variance (favourable) /adverse**
Investment Return	0.77%	0.43%	(0.34) bp
Cost of Borrowing	4.24%	4.09%	0.15 bp

Prudential Indicators and Treasury Management Indicators	Actual (30 Dec 2010) %	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	3.52%	10.00%	0.00%	(6.48)%
12 months to 2 years	5.20%	15.00%	0.00%	(9.80)%
2 years to 5 years	9.62%	30.00%	0.00%	(20.38)%
5 years to 10 years	2.28%	50.00%	0.00%	(47.72)%
10 years and above	79.38%	100.00%	50.00%	(20.62)%

Other Indicators	Actual (30 Dec 2010) %	Target %	Variance (favourable) /adverse %
Aged Debt over 85 days	7.34%	10.00%	(2.66%)
Payments to Suppliers within 30 days	98.68%	98.00%	(0.68%)

SUBJECTIVE ANALYSIS OF REVENUE SPENDING 2010/2011

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY

Revenue Budget Monitoring Report 2010/11

Line No		2010/11 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 9 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	32,568	24,395	24,091	32,239	(329)
2	Retained firefighters	12,150	9,090	8,561	12,047	(103)
3	Control room staff	2,160	1,615	1,513	2,043	(117)
4	Non uniformed staff	9,282	6,961	6,775	9,083	(199)
5	Training expenses	1,186	889	852	1,101	(85)
6	Fire Service Pensions recharge	1,939	1,643	1,677	1,783	(156)
		59,285	**44,593**	**43,469**	**58,296**	**(989)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,062	797	596	1,002	(60)
8	Energy costs	619	464	233	497	(122)
9	Cleaning costs	393	295	213	365	(28)
10	Rent and rates	1,235	1,181	1,026	1,160	(75)
		3,309	**2,737**	**2,068**	**3,024**	**(285)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	674	506	289	649	(25)
12	Running costs and insurances	1,088	815	942	1,068	(20)
13	Travel and subsistence	1,486	1,016	832	1,442	(44)
		3,248	**2,337**	**2,063**	**3,159**	**(89)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,379	1,784	1,523	2,350	(29)
15	Hydrants-installation and maintenance	115	86	68	107	(8)
16	Communications	1,433	1,075	922	1,432	(1)
17	Uniforms	1,060	795	490	1,233	173
18	Catering	244	183	132	199	(45)
19	External Fees and Services	439	329	237	496	57
20	Partnerships & regional collaborative projects	116	87	31	116	-
21	USAR Equipment	25	19	1	25	-
		5,811	**4,358**	**3,404**	**5,958**	**147**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	428	332	233	405	(23)
23	Advertising	54	41	14	30	(24)
24	Insurances	319	288	414	302	(17)
		801	**661**	**661**	**737**	**(64)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	617	426	434	637	20
		617	**426**	**434**	**637**	**20**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,858	2,567	2,392	4,757	(101)
27	Revenue Contribution to Capital spending	0	0	0	64	64
		4,858	**2,567**	**2,392**	**4,821**	**(37)**
28	**TOTAL SPENDING**	**77,929**	**57,679**	**54,491**	**76,632**	**(1,297)**
	INCOME					
29	Treasury management investment income	(70)	(53)	(61)	(161)	(91)
30	Grants and Reimbursements	(2,357)	(1,768)	(3,095)	(2,467)	(110)
31	Other income	(1,025)	(769)	(861)	(890)	135
32	Internal Recharges	(68)	(51)	(44)	(68)	-
33	Contribution to Earmarked Reserve	726	32	0	726	-
34	**TOTAL INCOME**	**(2,794)**	**(2,609)**	**(4,061)**	**(2,860)**	**(66)**
35	**NET SPENDING**	**75,135**	**55,070**	**50,430**	**73,772**	**(1,363)**

APPENDIX C TO REPORT RC/11/1

CAPITAL MONITORING STATEMENT 2010/2011

Item	Capital Programme 2010/2011 PROJECT	2010/11 (£000) Budget	2010/11 (£000) Predicted outturn	2010/11 (£000) Variation to budget	Variation to budget: Slippage (£000)	Savings (£000)	Total variation (£000)
	Estate Development						
1	Exeter Middlemoor	44	(24)	(68)		68	68
2	Exeter Danes Castle	169	44	(125)		125	125
3	SHQ major building	135	35	(100)	100		100
4	Major building works new starts	0	0	-			0
5	Minor improvements & structural maintenance	2,786	882	(1,904)	1,851	53	1,904
6	Welfare facilities 2009/10	127	80	(47)	47		47
7	Diversity & equality	34	34	-			0
8	New Dimensions (USAR) works	150	10	(140)	140		140
							0
	Estates Sub Total	3,445	1,061	(2,384)	2,138	246	2,384
	Fleet & Equipment						
9	Appliance replacement	2,061	1,628	(433)	411	22	433
10	Specialist Operational Vehicles	1,163	344	(819)	619	200	819
11	Vehicles (funded from revenue)	44	44	-			0
12	Equipment	634	98	(536)	125	411	536
13	Asset Management Plan (Miquest) software	152	13	(139)	139		139
	Fleet & Equipment Sub Total	4,054	2,127	(1,927)	1,294	633	1,927
	Overall Capital Totals	7,499	3,188	(4,311)	3,432	879	4,311
	Programme funding						
	Main programme	5,926	1,807	(4,119)			
	Revenue funds	64	64	-			
	Grants	1,377	1,237	(140)			
	Earmarked Reserves	132	80	(52)			
		7,499	3,188	(4,311)			

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/11/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**28 JANUARY 2011**
SUBJECT OF REPORT	**2011/2012 REVENUE BUDGET AND COUNCIL TAX LEVEL**
LEAD OFFICER	**Treasurer and Chief Fire Officer**
RECOMMENDATIONS	***That it be recommended to the the budget setting meeting of the Fire and Rescue Authority, to be held on the 14 February 2011, that;*** ***(i) the level of council tax in 2011-12 for a Band D property be frozen at the 2010-11 level of £71.77, as oultined as Option B in paragraph 4.2 of this report;*** ***(ii) a Net Budget Requirement of £76,235,000 for 2011/2012 be set;***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and council tax by the 1 March each year. The Committee is asked to consider the contents of this report, with a view to making a recommendation of these levels for 2011/2012 to the full Authority budget meeting on 14 February 2011.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	A. Draft Revenue Budget 2011-12. B. Summary of Medium Term Financial Plan (MTFP) Scenario Modelling.
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the 15 council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2011/2012. The purpose of this report is to provide Members with the necessary financial background, in order that consideration can be given as to what would be appropriate levels for the Authority.

1.2 The report proposes that the level of council tax for a Band D property for 2011/2012 is frozen at the 2010/2011 level of £71.77. This would enable the net budget requirement to be set at £76.235m, representing an increase in budget of £1.100m (1.46%) over 2010/2011. The Committee is asked to recommend these levels to the Fire and Rescue Authority meeting to be held on the 14 February 2011.

2. COMPREHENSIVE SPENDING REVIEW 2010 (CSR 2010)

2.1 Members will be well aware of the economic background which has led to the government announcing its plans to reduce the national structural deficit over the next four years by 2014/2015. The Spending Review in October 2010 provided specific details of how public spending would be reduced over the next four years from 2011/2012, including significant reductions in local authority grants over this period.

2.2 For fire and rescue authorities CSR 2010 announced reductions in government grants of 25% by 2014-15, representing a real terms reduction in spending of 13% by 2014-15, bearing in mind that, on average, government grant funding represents 50% of total fire and rescue spending.

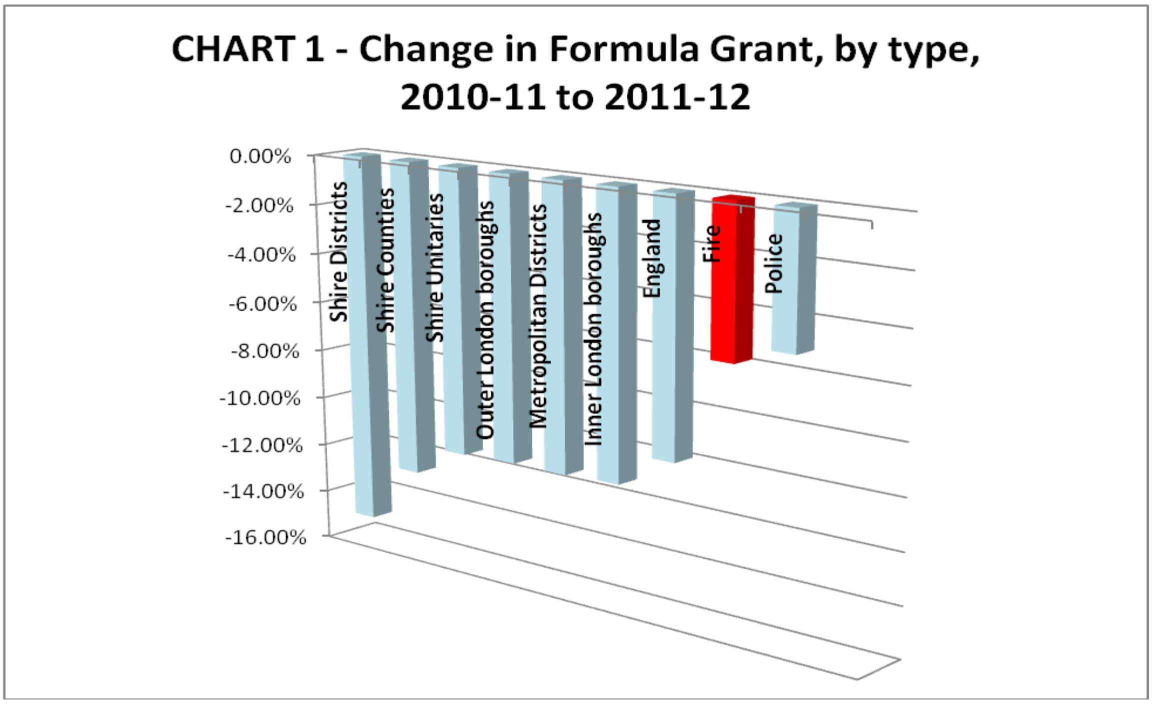
2.3 A 25% reduction in government grants obviously represents a significant reduction in future funding streams and will require fire and rescue authorities to put plans in place to have delivered significant reductions in spending over the CSR 2010 period. However, the Fire Service has been provided with some protection as, unlike other local authorities, the reductions have been weighted so that they are back-loaded to 2013-14 and 2014-15, in order that fire and rescue authorities are given time to implement changes without affecting the quality and breadth of service to communities.

2.4 The CSR announcement also confirmed details of a new grant known as Council Tax Freeze Reward Grant which will be paid to those authorities who set a zero per cent or less, increase in council tax for 2011-12. The amount of grant payable will be equivalent to the amount of precept income that would have been generated from setting a council tax increase of 2.5%. For Devon and Somerset FRA this figure equates to £1.098m. The government have made a commitment to continue to pay this grant for the four year period of the CSR period, but there is no guarantee that this grant will continue beyond 2014-15.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2011-12 AND 2012-13

3.1 The provisional Local Government Finance Settlement for 2011/2012 was announced on the 13 December 2010. This announcement provided local authorities with individual grant allocations for the next two financial years 2011-12 and 2012-13. The reason that grant figures have only been released for the next two years, rather than the whole four-year period of CSR 2010, is that the government has announced its intention to fundamentally change the way local authorities are to be funded from 2013-14. It is expected that details of the changes to be made will be consulted on during 2011.

3.2 The settlement announced average government grant reductions for England in 2011-12 of -9.9% when compared to 2010-11, and reductions of -7.3% in 2012-13 when compared to 2011-12. For fire and rescue authorities, however, the reductions are not so severe, -5.7% in 2011-12 and a further -0.7% in 2012-13. Chart 1 below illustrates the reductions in grant in 2011-12 for Fire as compared to other local authority groups.



3.3 Chart 1 clearly illustrates that Fire will receive lower reductions in funding in 2011-12 than other groups, which is consistent with the government commitment that the larger reductions in Fire funding will be back-loaded to 2013-14 and 2014-15.

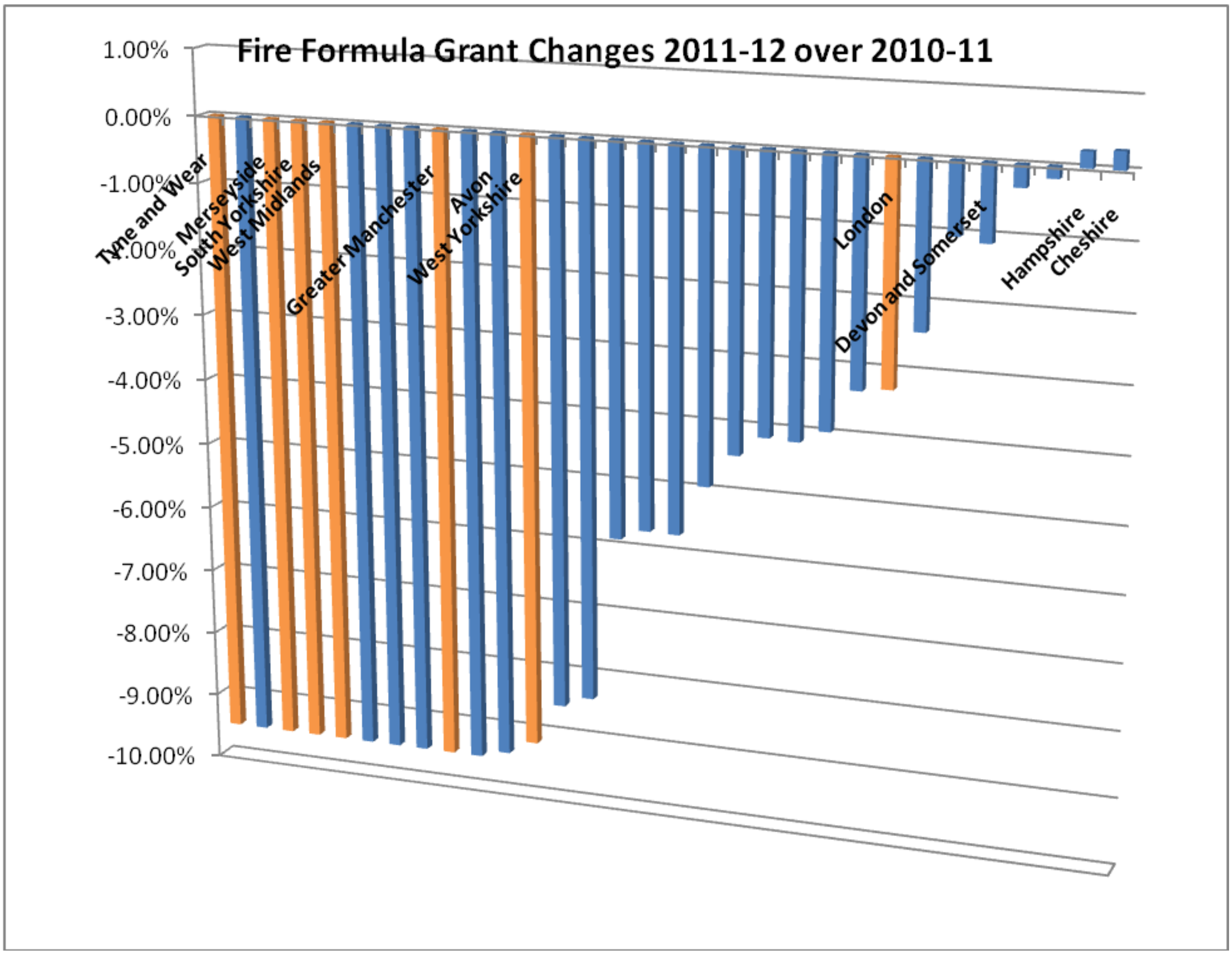
<u>Impact of Provisional Grant Settlement to Devon and Somerset FRA</u>

3.4 The actual reduction in grant for Devon and Somerset FRA in 2011-12 is -1.1% over 2010-11, and an increase of +1.9% in 2012-13 over 2011-12. Table 1 below provides a summary of the grant allocations. It should be emphasised that at the time of writing this report the grant allocations are provisional subject to any changes made by the CLG as part of the final grant settlement announcement, to be made at the end of January, after the consultation period has expired. It is not anticipated that there will be any changes to the grant allocations for Devon and Somerset FRA as part of the final settlement, but until confirmation of this is received then the figures can only be regarded as provisional.

TABLE 1 – FINAL GRANT SETTLEMENT FIGURES	**£m**	**%**
Formula Grant 2011-12	30.896	
Reduction over 2010-11 Grant	**(0.349)**	**-(1.1)%**
Formula Grant 2012-13	31.484	
Increase over 2011-12 Grant	**0.588**	**+1.9%**

3.5 These allocations are certainly more favourable than had had been anticipated, which is as a consequence of the government introducing changes to the way Fire Formula grant is distributed. A number of changes have been made which, in general, benefit the more rural authorities such as Devon and Somerset FRA, primarily at the expense of the larger urban FRA's, who are suffering much larger reductions in grant (-9.5%) in 2011-12. Members will be well aware that this Authority has been very active for a number of years in challenging the CLG that the previous distribution formula was flawed, which, in particular did not reflect the additional costs of providing a fire and rescue service in a sparse rural area. It is very pleasing therefore that the government has finally introduced changes which we believe makes the distribution methodology more equitable. Chart 2 below provides an analysis of changes in grant for all FRA's in 2011-12.

CHART 2



3.6 Chart 2 illustrates that whilst the average reduction in grant for Fire is -5.7% the range of reductions are from -9.5% (ten FRAs) to +0.26% (Cheshire FRA). As the government has set a floor of -9.5% no FRA has suffered a reduction of more than -9.5%.

Capping

3.7 The government has already published a consultation document setting out its intentions to abolish the capping system from 2012-13. Capping has been in place for a number of years and used as a means of government intervening where authorities are deemed to have set excessive increases in council tax. From 2012-13 capping will be replaced with a new system which will give local residents the powers to veto excessive increases in council tax through a local referendum.

3.8 As the new system will not be in place until the financial year 2012-13, the government has emphasised as part of the grant settlement that it will continue to use its capping powers in 2011-12 for those authorities which set excessive increases in council tax. As is normally the case, the government has not identified what level of increase will be considered to be excessive; this will not be published until later in the year.

4. PROPOSED COUNCIL TAX AND BUDGET REQUIREMENT 2011/2012

Council Tax

4.1 The government has laid out its expectations that local authorities set a zero percent increase in council tax in 2011-12. To encourage authorities to do this the government has introduced the new grant of Council Tax Freeze Grant, which will be paid those authorities that set a zero per cent increase in council tax for 2011-12. It should be emphasised that it is still an Authority decision to set a level of council tax that is appropriate to its funding position, and indeed it is voluntary as to whether the Authority agrees to accept the grant available.

4.2 As is stated earlier in this report the government has emphasised that it will use capping powers available to them to those authorities that set excessive increases in budget and council tax in 2011-12. Whilst the principles to be used by the government to assess whether increases are excessive will not be known until after council tax levels have been set, given that it has been announced that the amount of new Council Tax Reward will be equivalent to an increase of 2.5% in council tax in 2011-12, it is my view that this is likely to be used as the benchmark for capping considerations. With this in mind the Authority has two options in terms of setting a level of council tax for 2011-12.

Option A - To increase council tax for a Band D property in 2011-12 by 2.5% over 2010-11 - This would increase council tax from its current level of £71.77 to £73.56, representing an increase of £1.79.

Option B - To freeze council tax for a Band D property in 2011-12 at the same level as 2010-11 - This would freeze council tax at its current level of £71.77, and result in the Authority being entitled to receive council tax freeze reward grant equivalent to the amount of precept that would have been generated from an increase in council tax by 2.5%. For Devon and Somerset FRA the amount of reward is £1.098m, which will be paid for each of the four financial years covered by CSR 2010 i.e. 2011-12 to 2014-15.

4.3 Each option results in the same level of revenue budget for 2011-12, so in terms of spending power there is no difference between the two options. The advantage of choosing Option A is that the £1.098m of additional precept generated by increasing council tax by 2.5% will be built into base and will therefore be available for the Authority to spend in all future annual budgets. Option B however only guarantees that the £1.098m will be available to spend up until 2014-15, and therefore does carry the risk that in the event that the reward grant ceases from 2015-16, the Authority will be in the position of having to make the decision in 2015-16 of either increasing council tax to make up the shortfall or identifying further savings of £1.098m in that year.

4.4 Whilst Option B does carry with it some risk, given that the Authority grant settlement for 2011-12 and 2012-13 is more favourable than had been anticipated, and also given our responsibility to our council taxpayers to contain council tax increases whenever possible, it is the recommendation of this report that the Authority selects this option and agrees to freeze council tax for a Band D property at the 2010-11 level of £71.77.

4.5 It is estimated that to set a council tax for a Band D property at £71.77 will result in total funding of £76.235m being available to fund revenue spending in 2011-12. Table 2 below illustrates how this figure is calculated. At the time of writing this report this figure can only be regarded as an estimate, due to the fact that some of the council tax base figures and declaration of surpluses/deficits on council tax collection funds from the 15 billing authorities in Devon and Somerset are still to be approved by their relevant authorities. It is therefore possible that some minor changes will be made which would result in a change to the total funding available for 2011-12.

TABLE 2 – SUMMARY OF REVENUE FUNDING AVAILABLE 2011-12 COMPARED TO 2010-11	**2010-11 £m**	**2011-12 £m**	**Change £m**
Government Grant	31.245	30.896	-0.349
Council Tax Precept (based on council tax of £71.77 for a Band D property)	43.705	43.943	+0.238
Surplus on Billing Authority Council Tax Collection Funds	0.185	0.298	+0.113
Council Tax Freeze Reward Grant	-	1.098	+1.098
TOTAL FUNDING AVAILABLE	**75.135**	**76.235**	**+1.100**

Net Budget Requirement

4.6 As is illustrated in Table 2 to freeze council tax at its current level of £71.77 results in funding of £76.235m being available to set a Net Revenue Budget Requirement for 2011-12. To set the budget for 2011-12 at £76.235m represents an increase of £1.100m, or 1.46%, over the 2010-11 agreed budget of £75.135m. Table 3 below provides a summary of a proposed revenue budget for 2011-12 on the basis of setting the budget at this level. A breakdown of the more detailed items included in this draft budget are included in Appendix A.

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2011/2012	**£m**	**%**
Approved Net Revenue Budget Requirement 2010/2011	75.135	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	0.079	
PLUS Inescapable Commitments (items 5 to 10 included in Appendix A to this report)	1.288	
MINUS One-off investments in 2010-11 (items 11 to 16 included in Appendix A to this report)	(0.800)	
PLUS Invest-to-Save/Essential Spending Pressures (items 17 to 19 included in Appendix A to this report)	1.575	

CORE SPENDING REQUIREMENT 2011/2012	**77.277**	
MINUS Budget Reductions (items 20 to 26 included in Appendix A to this report)	(1.042)	
NET REVENUE BUDGET REQUIREMENT 2011/2012	**76.235**	
INCREASE IN BUDGET OVER 2010/2011 (£m)		**1.100**
INCREASE IN BUDGET OVER 2010/2011 (%)		**1.46%**

Invest-to-Save/Essential Spending Pressures

4.7 In constructing the budget requirement for 2011-12 an amount of £1.575m has been included for new investment in the Service. In assessing how this sum is to best utilised Senior Management Board has adopted the strict criteria that any new investment has to contribute towards the Business Change and Improvement Programme and/or contribute to plans to reduce spending by 2014-15.

4.8 From the range of new investment bids that have been received from budget managers the following three areas of investment are proposed.

I. **Change and Improvement Programme (invest-to-save)** – an amount of £0.723m has been identified as the minimum requirement in 2011-12 to support the significant work required to bring about the changes within the Service that will contribute to the budget reductions by 2014-15. The majority of this sum will be required to fund the staffing costs of the programme and project management arrangements established to govern and implement the change programme, and also investment in new IT systems. It is anticipated that the significant savings to be delivered from this programme will begin to be realised during 2011-12.

II. **Revenue Contribution to Capital Spending (invest-to-save) -** elsewhere on the agenda is a separate report proposing a revised capital programme for the years 2011-12 to 2013-14. The proposed programme has been constructed on the basis of keeping within prudential code limits and, in particular, containing as much as possible the Authority's exposure to external borrowing, now and into the future, and keeping debt charges within a 5% limit of the revenue budget. This is achieved by reducing overall capital spending in the period 2011-12 to 2013-14, and making a contribution of £1.5m from the revenue budget (£0.750m in 2011-12 and £0.750m in 2012-13). If this revised programme is approved then it is forecast that annual savings in debt charges of £0.427m will be achieved by 2013-14.

III. **Replacement Training System –** the existing training and course management system (RTIX) is no longer supported by the supplier and a replacement system is therefore required urgently, estimated cost of £0.088m. It is important that the replacement system forms part of the Service integrated ICT strategy and minimises duplication of effort and data, and streamlines processes.

5. MEDIUM TERM FINANCIAL PLAN

5.1 In formulating the net budget requirement for the next financial year, an assessment has also been made of the indicative core budget requirements for the following three years, i.e. 2012-13 to 2014-15. This assessment has provided indicative budget figures of £78.0m for 2012-13, £79.0m for 2013-14 and £80.8m for 2014-15. Table 4 provides a summary of how these figures have been constructed.

TABLE 4 – SUMMARY OF SPENDING REQUIREMENT 2011-12 to 2014-15	**2011-12 £m**	**2012-13 £m**	**2013-14 £m**	**2014-15 £m**
Approved Net Revenue Budget Requirement 2010/2011	**75.135**	**75.135**	**75.135**	**75.135**
Provision for pay and price increases	0.079	1.342	2.930	4.556
Inescapable Commitments	1.288	1.691	1.837	1.989
One-off investments in 2010-11	(0.800)	(0.875)	(0.875)	(0.875)
Invest-to-Save	1.575	0.750	-	-
CORE SPENDING REQUIREMENT 2011/2012	**77.275**	**78.043**	**79.027**	**80.805**

5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in these forecasts which will inevitably be subject to change. However, these figures are considered prudent forecasts of future budgets which can be used to refresh the Authority's Medium Term Financial Plan (MTFP) to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2014-15 to balance the budget.

6. PLANS TO ACHIEVE BUDGET REDUCTIONS 2011-12 TO 2014-15

6.1 As is stated earlier in this report the Local Government Grant Settlement has provided details of grant allocations for the next two years. In the event, the Authority has had a more favourable settlement for those two years than had been anticipated, which is to be welcomed. However the grant reductions for 2013-14 and 2014-15 have not been announced at FRA level, which leads to uncertainty as to the scale of budget reductions that the Authority will be required to have delivered by 2014-15. Of course, what we do know is that the grant reductions for Fire have been back-loaded so the more severe reductions are still to come in 2013-14 and 2014-15.

6.2 Whilst we cannot be certain of the scale of budget reductions, the MTFP financial modelling tool can be used to assess what is considered to be 'best case' and 'worst case' scenarios. This modelling has forecast the scale of reductions required by 2014-15 to be between -4.5m (best case) and -£9.2m (worst case). Appendix B provides a summary of this modelling including key assumptions used in each case e.g. likely grant reductions and council tax increases.

6.3 Members will be well aware that plans to deliver the savings by 2014-15 are well advanced, and that we plan to meet our budget shortfall through: 1) ***improving efficiency*** 2) ***reducing spending*** and 3) ***generating income***.

Improving efficiency by: -
Better management and control of spending and suppliers,
Sharing managers and operational/business support functions,
Changing how we respond to co-responder calls for the ambulance service.
Providing better targeted prevention advice.
Buying slightly smaller fire engines for relevant areas.
Commencing discussions with staff as to how we can make the existing shift system work better rather than imposing a new shift pattern/start finish times.
Savings from reductions in the senior management team in 2010.
Managing with fewer operational and non operational staff (standardising crewing levels in Somerset & Devon, introducing Day Crewed Plus and improving business processes).
Reducing costs: -
Risk managed approach to reduce spend.
Not attending repeated false alarms from the same premises and/or charge for repeated defective alarm system call outs.
Ending the Regional Management Board (a political body).
Reducing spending by Councillors.
Pay restraint (recognising national conditions of service apply).
Using money saved in 2010/11 as a result of tight budget management (ring fenced reserves).
Generating income: -
Selling training and other functions to others

6.4 Many of these savings proposals have been identified from the findings of the two fundamental reviews which have been undertaken over the last two years, the first of which has been to review Service Delivery, and the second to examine Service Support areas. Officers are confident that this package of proposals can be implemented over the next four years in order to secure the necessary budget reductions by 2014-15.

6.5 The process has of course already started. This report already proposes a range of budget reductions of £1.042m to be delivered in 2011-12 (Appendix A items 20 to 26), all of which are on-going savings and will therefore contribute to the total savings requirement by 2014-15.

6.6 Elsewhere on the agenda is a separate report which considers a revised capital programme for the period 2011-12 to 2013-14. This report proposes a revision to the capital programme which reduces debt charges from new borrowing by an amount of £0.427m by 2013-14. The budget reduction forecasts included in paragraph 6.2 have already been adjusted to reflect this saving, on the basis that this revised programme is approved.

6.7 Looking further ahead, the recent launch of the draft Corporate Plan for 2011-12 to 2013-14 includes some of the proposals for budget reductions. This Plan is currently undergoing a consultation period to May 2011. On completion of this consultation period, a further report will be brought back to this Committee to report on the feedback from the consultation and how this will be used to shape our budget reduction plans.

7. PRECEPT CONSULTATION 2011-12

7.1 Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on its proposals for expenditure. The Act requires that, every financial year, consultation be completed before the first precept is issued by the authority for that financial year. The Department for Communities and Local Government (CLG) previously advised that there is no statutory requirement to consult the general public on this matter.

7.2 Telephone surveys have been used to undertake the business precept surveys because of the short timescale to complete the research. It was decided that this proven methodology should be adopted again for 2011/12. The key specifications for the survey were:

- To ask 4 key question plus demographic information;
- To collect answers to both closed and open questions;
- To provide a representative sample by constituent area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).

7.3 At its meeting on 16 December 2010 the Devon and Somerset Fire and Rescue Authority (DSFRA) approved the reduction of the business sample size to 100, minute 46 refers. This provides a confidence interval of +/- 10% at the 95% confidence level. The survey was undertaken between 4th and 14th January 2011, but, due to the reporting timescales, results presented in this report are un-weighted top line results only. Once the full results have been provided and analysed a more detailed report will be available for the DSFRA budget setting meeting on 14 February 2011.

7.4 Below are the top line results that reveal:

- the majority of respondents, 76.7% (79), agreed that, in response to the government's request, the Council Tax charge should not be increased (see table 5.1); and that
- 78.6% (81) agreed that Devon and Somerset Fire and Rescue Service (DSFRS) provides value for money at a total annual budget equating to £135.66 per household (see table 5.2).

Table 5.1 – Responses to Question 1: 'The coalition government has requested that local authorities do not increase their council tax charges for 2011/12. In response to the government's request, do you agree or disagree that Devon and Somerset Fire and Rescue Authority should NOT increase (i.e. 0%) their council tax charge for 2011/12?'

Response	**Number**	**Percentage**
Agree	79	76.7%
Neither Agree nor Disagree	14	13.6%
Disagree	9	8.7%
Don't Know	1	1.0%
Total	**103**	**100%**

Table 5.2 – Responses to Question 2: 'Devon and Somerset Fire and Rescue Service's total annual budget equates to £135.66 per household across Devon and Somerset. Do you agree that DSFRS provides value for money?'

Response	Number	Percentage
Agree	81	78.6%
Neither Agree nor Disagree	15	14.6%
Disagree	4	3.9%
Don't Know	3	2.9%
Total	**103**	**100%**

7.5 For Question 2, the cost quoted for 2011, £135.66 was calculated from the total revenue budget and capital budgets to provide a total cost of running the service per household. In previous years' questions the cost indicated represented only the Council Tax charge for a Band 'D' property. This change was made to meet legislative requirements and to provide rate payers with a more accurate assessment of the costs of DSFRS.

7.6 The results of the telephone survey indicate that, despite the higher cost presented for the value for money question, the level of agreement was above the average level (76%) set over the last four years. Although the current cost of the service to rate payers is seen as being value for money, there is a high level of support for the government's proposal to freeze the Council Tax charge for 2011/12.

8. RESERVES AND BALANCES

8.1 In setting the revenue budget and council tax for 2011/2012, the Authority will also need to consider an appropriate level of financial reserves to be held to provide a financial contingency against any unforeseen expenditure that may arise during the course of 2011/2012. In making this assessment the Treasurer, as the Proper Officer for the purposes of Section 112 of the Local Government Finance Act 1988 (the equivalent provision, for combined fire and rescue authorities, of Section 151 of the Local Government Act 1972), has a duty to advise the Authority on his view as to the robustness of the budget and level of reserves recommended. This report will need to be considered at the budget meeting alongside decisions on the levels of budget and council tax.

8.2 At this time, the level of General Reserve is £4.453m, equivalent to 5.9% of the revenue budget. Elsewhere on the agenda for this meeting is a report monitoring the current year's revenue budget (RC/11/1). This indicates a projected underspend of £1.363m. Some of this figure may be available to be transferred to the General Reserve at the year-end, depending on the need for this sum to be utilised to fund emerging issues, e.g. new fire control facilities or potential costs from the Employment Tribunal case which has ruled that retained firefighters should enjoy similar conditions of service to their wholetime colleagues. At the end of the financial year once the 2010-11 final outturn position is known the Authority will need to decide how any underspend is to be utilised.

8.3 In terms of a strategy for Reserve balances, the Authority has adopted an “in principle” strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

8.4 It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in the last three years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. However, given the current economic climate and the resultant uncertainties about grant funding levels for the years 2013-14 and 2014-15, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through this turbulent period.

8.5 It should also be emphasised that this Authority is placed in the lower quartile when compared to all fire and rescue authorities. The average reserve balance for all FRAs is 13.5% of revenue budget, with the Upper Quartile being 15.0% and Lower Quartile 8.0%. Consequently, even at 5.9% the Authority’s reserve level would still be the fourth lowest of all combined fire and rescue authorities in the country, positioning the Authority at 29 out of 33.

9. SUMMARY

9.1 The Authority is required to set its level of revenue budget and council tax for 2011/2012 by 1 March so that it can meet its statutory obligation to advise each of the 15 billing authorities in Devon and Somerset of the required level of precept for 2011/2012. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for Devon and Somerset FRA.

9.2 The report recommends that the Authority agrees to freeze the 2011-12 council tax for a Band D Property at the 2010-11 level of £71.77 (Option B paragraph 4.2), resulting in a Net Revenue Budget Requirement of £76.235m for 2011-12. The Committee is asked to consider the contents of the report with a view to recommending these levels to the budget setting meeting of the full Fire and Rescue Authority, to be held on the 14 February 2011.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

DRAFT REVENUE BUDGET REQUIREMENT 2011/2012

		£m	£m	%
	Revenue Budget 2009/2010		**75.135**	
	Provision for Pay and Prices			
1.	Uniformed Pay - July 2010 (budgeted 1.0% LESS actual of 0.00%) - July 2011 (assumed 0.0%)	 (0.350) 0.000		
2.	Non-Uniformed Pay - April 2009 (budgeted 1.0% LESS actual of 0.0%) - April 2011 (assumed 0.0%)	 (0.113) 0.000		
3.	Provision for prices increases (assumed CPI of 3.0%) plus additional allowance for fuel, utilities and non-domestic rates)	0.482		
4.	Provision for inflationary increase in pension costs.	0.060		
			0.079	
	Inescapable Commitments			
5	Additional debt charges arising from proposed capital programme	0.193		
6	Pay increments and other pay changes	0.592		
7	Replacement of obsolete Hand Held Radios	0.200		
8	Enhanced Breathing Apparatus Training to comply with Fire Service Circular 18/2009	0.165		
9	Additional rates costs relating to new fire stations	0.073		
10	Other minor costs(net)	0.065		
			1.288	
	One-off Provisions included in 2010-11 Budget			
11	Removal of Temporary Posts	(0.098)		
12	Installation of Airwave radios	(0.112)		
13	Document Records Management System	(0.030)		
14	Business Change Programmes	(0.455)		
15	Enabling works to install station end equipment	(0.034)		
16	Training Costs associated with Mobile Data Terminals (MDTs)	(0.071)		
			(0.800)	
	Invest-to-Save/Essential Spending Pressures			
17	Change and Improvement Programme (invest-to-save)	0.737		
18	Revenue Contribution to Capital Spending (invest-to-save)	0.750		
19	Replacement Training system	0.088		
			1.575	
	CORE SPENDING REQUIREMENT 2011/2012		**77.277**	
	Proposed Budget Reductions			
20	Vacancy Management	(0.425)		
21	Efficiency Savings identified from devolved budget holders	(0.342)		
22	Dissolution of Regional Management Board	(0.025)		
23	Restructure of Senior Management Board in 2010	(0.050)		
24	Changes to mobilisation arrangements to co-responder and Automatic Fire Alarm (AFA) calls	(0.075)		
25	Share Management Support/Back office functions	(0.025)		
26	Surplus income from Trading Arm	(0.100)		
			(1.042)	
	TOTAL CHANGES (LINES 1 TO 26)		**1.100**	**1.46%**
	CORE REVENUE BUDGET REQUIREMENT 2011/2012		**76.235**	

MEDIUM TERM FINANCIAL PLAN – FORECAST BUDGET REDUCTIONS

SCENARIO A – BEST CASE

KEY ASSUMPTIONS	2011/12	2012/13	2013/14	2014/15
PAY AWARD	0.0%	2.0%	2.0%	2.0%
INFLATION	3.0%	3.0%	3.0%	3.0%
GOVERNMENT GRANT REDUCTIONS OVER FOUR YEARS (OVER AND ABOVE 2010-11)	(1.1)% Actual	0.1% Actual	***(5.0%) Forecast***	***(10.0%) Forecast***
INCREASE IN COUNCIL TAX	0.0%	2.0%	2.0%	2.0%
CORE SPENDING REQUIREMENT (£m)	**77.2**	**78.0**	**79.0**	**80.8**
GOVERNMENT GRANT (£m) - Formula Grant - Council Tax Precept - Council Tax Freeze Grant TOTAL FUNDING	 (30.9) (44.2) (1.1) (76.2)	 (31.4) (45.1) (1.1) (77.6)	 (29.7) (46.0) (1.1) (76.8)	 (28.1) (47.1) (1.1) (76.3)
FORECAST SAVINGS REQUIRED (£m)	**(1.0)**	**(0.4)**	**(2.2)**	**(4.5)**

SCENARIO B – WORST CASE

KEY ASSUMPTIONS	2011/12	2012/13	2013/14	2014/15
PAY AWARD	0.0%	2.0%	2.0%	2.0%
INFLATION	3.0%	3.0%	3.0%	3.0%
GOVERNMENT GRANT REDUCTIONS OVER FOUR YEARS (OVER AND ABOVE 2010-11)	(1.1)% Actual	0.1% Actual	***(12.0%) Forecast***	***(25.0%) Forecast***
INCREASE IN COUNCIL TAX	0.0%	2.0%	2.0%	2.0%
CORE SPENDING REQUIREMENT (£m)	**77.2**	**78.0**	**79.0**	**80.8**
GOVERNMENT GRANT (£m) - Formula Grant - Council Tax Precept - Council Tax Freeze Grant TOTAL FUNDING	 (30.9) (44.2) (1.1) (76.2)	 (31.4) (45.1) (1.1) (77.6)	 (27.5) (46.0) (1.1) (74.6)	 (23.4) (47.1) (1.1) (71.6)
FORECAST SAVINGS REQUIRED (£m)	**(1.0)**	**(0.4)**	**(4.4)**	**(9.2)**

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/11/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**28 JANUARY 2011**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2011/12 – 2013/14**
LEAD OFFICER	**Director of Service Support, and Treasurer**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority at its budget meeting on the 14th February 2011 be asked to :*** ***(a) Approve, in accordance with Financial Regulations, a contribution of £1.5million from the Revenue Budget to part fund the proposed enhancement to the training facilities at Exeter Airport; and*** ***(b) Subject to (a) above, approves the revised Capital Programme 2011/12 to 2013/14 and the associated prudential indicators as set out in this report.***
EXECUTIVE SUMMARY	Each year the Capital Programme is reviewed in line with the Service budget preparations. This review takes account of the normal replacement cycle for appliances, equipment and work in support of maintaining the Authorities building stock, along with new projects. As previously reported to Members, the capital allocation for an Authority of this size remains insufficient and any review requires careful understanding of the different priorities in allocating funds. The enhancement to the training facilities at Exeter has been included for 2011/12 and 2012/13 and this has required the re-profiling of funds for both fleet and estates to support this build programme. The commitments for 2010/11 period, as approved, have been progressed. Whilst this report details the adjusted three year capital programme for the period 2011/12 to 2013/14, Appendix A illustrates the existing approved 2010/11 alongside the 2011/12 to 2012/13 capital programme.
RESOURCE IMPLICATIONS	A full financial appraisal is contained within the report.

EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	A. Proposed 2011-12 to 2013-14 Capital Programme. B. Prudential Indicators 2011-12 to 2013-14
LIST OF BACKGROUND PAPERS	Report CPWP/09/3 – "Affordable Capital Investment Plans for 2010/11 to 2011/12" – submitted to the meeting of the Capital Programme Working Party on 5 November 2009.

1. INTRODUCTION

1.1 Members will be aware that each year the capital programme is reviewed and adjusted to include new projects or those that have been carried forward, allowing the capital investment needs of the Service to be understood over the next three years. Appendix A represents the proposed programme for 2011/12 to 2013/14, which also includes those projects already approved and new proposals which are referenced further in the report.

1.2 The matter of Capital expenditure remains an issue for this Authority given the size of Devon and Somerset. We have a continuing backlog of work for estates and the appliance replacement programme has slipped due to allocation of funds, which for 2009/10 and 2010/11 were directed towards the build of Danes Castle and Middlemoor fire stations. This position continues to place pressure on the Authorities investment programme which requires significant investment.

1.3 In 2008 this position was eased by the Department for Communities and Local Government (CLG) approved grant of £2m debt free capital support spread over 2009/10 to 2010/11, principally to address equality and diversity issues on stations including dignity at work as identified by the Health and Safety Executive. These funds have been fully committed to these projects and are no longer available.

1.4 Whist this report provides options for the next three years, it should be recognised that future capital programmes may be adjusted significantly against such recommendations made as a result of the two reviews of Service Delivery and Service Support, or changes in funding arrangements e.g. allocation of specific grants, or changes in interest rates.

2. FINANCING OF THE PROPOSED REVISED CAPITAL PROGRAMME

CIPFA Prudential Code for Capital Financing

2.1 Whilst it is recognised that this Authority faces significant pressures in terms of maintaining and replacing its capital assets so as those assets are ‘fit for purpose’, this has to be balanced against what it is affordable in terms of its exposure to external borrowing now and into the future, particularly in light of current financial constraints within the public sector.

2.2 The tests of affordability are measured by compliance with the CIPFA Prudential Code for Capital Financing for Local Authorities. Under the Code the Authority is required to set a suite of Prudential Indicators to provide assurance that capital spending plans are prudent, affordability and sustainability. These indicators, which are reviewed each year and are typically set for a three-year period, include the setting of maximum borrowing limits to provide assurance around prudence, and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.3 In relation to borrowing, up until now, the government has provided some financial support to capital expenditure borrowing within the Revenue Support Grant (RSG), by the allocation of what is known as the Supported Capital Expenditure (SCE(R)). The allocation for Devon and Somerset FRA for 2010-11 is £1.808m, which means that borrowing up to this figure is supported within RSG to fund the debt charges emanating from this level of borrowing. Under the Prudential Code borrowing in excess of the SCE(R) is permitted and classified as unsupported borrowing, but in the knowledge that the resultant debt charges emanating from unsupported borrowing will have to be funded from council tax. However, this support has now been removed as part of the 2011-12 Local Government Finance Settlement, with the abolition of SCE (R) from all local authority grant allocations. This means that all future debt charges emanating from borrowing to support capital spending will need to be funded from council tax.

2.4 The issue of affordable capital spending has been subject to several reports to Members, the most recent being the report ‘Affordable Capital Investment Plans 2010/2011 to 2011/2012’ presented to the meeting of the Capital Programme Working Party held on the 5 November 2009. That report indicated that based on existing capital spending plans external borrowing will reach £36.7m by the end of the financial year 2013/2014. The external borrowing figure at the end of 2010/2011 is forecast to be £28.6m.

2.5 Whilst a debt level of £36.7m is not considered excessive for this size authority, it is evident that the Authority will need to monitor its exposure to further debt levels as we move forward in the next 3-5 years, to ensure that the debt levels are affordable in the context of the ability of the revenue budget to service debt repayments.

2.6 In report RC/08/10 “Affordable Capital Investment Plans for 2009-2010 to 2011-12” as submitted to the meeting of the Resources Committee on 8 December 2008, the Treasurer advised that debt repayments should be kept within 5% of the total revenue budget during the period 2010-11 to 2013-14 (paragraph 7.5 refers). This advice was reiterated to Members of the Capital Programme Working Party at its meeting in November 2009.

2.7 Based on the current capital programme, it is now forecast that this ceiling will be breached in 2012-13 (5.13%). This breach is not as a result of borrowing being in excess of agreed limits, it is as a consequence of future revenue budgets being lower than originally forecast following the CSR 2010 announcement, which for fire and rescue authorities included reductions in government grants of 25% by 2014-15. The proposed revision to the capital programme, as included in Appendix A, has been constructed on the basis that the debt ratio is brought back within the 5% ceiling.

3. SERVICE ESTATES

3.1 The property portfolio for DSFRS extends to more than 100 buildings across the two Counties. Sixty Percent of these are now in excess of 40 years old and despite concerted efforts to improve and replace buildings over the last ten years the Service is still faced with a substantial backlog to support ongoing maintenance and repairs. The programme for estates is assessed against industry models for repair and maintenance. For 2011/12 the budget was £2.070. However, this figure does not reflect the true cost which is in the region of £5m annually.

3.2 Whilst the remainder of the £2m government capital grant allocated to 2010-2011 (£1,193m) has alleviated some of these issues, this has been fully allocated on stations into line with the Disability Discrimination Act, Dignity at Work requirements, community access and partnership co-location. These funds have provided the basic provision for modern day standards such as showers and changing facilities. If capital funding is maintained going forward by the end of 2013 we will have brought 95% of our stations up to an acceptable Dignity at Work standard and 75% up to full use under Discrimination and Disability Act for community use.

3.3 It is proposed that the capital programme for 2011/12 is £5.208 to support slippage and the enhancement of training arrangements at Exeter Airport. For 2012/2013, there is an allocation £3.650, which includes phase 2 of the Exeter Airport project and £1.750m for 2013/14. This however, will need to be reviewed in twelve months time when setting 2012/2013 budget levels, dependent on affordability issues, and Authority decision regarding the procurement of Light Rescue Pumps and any outcomes from both Service reviews. The Service Property Management Plan for 2011/12 will be revised subject to available funds and reported to Members.

Slippage for 2010/11

3.4 Slippage at financial year end is a regular occurrence in major capital projects due to the inability to control certain external factors, examples of which are the planning process and conveyance transactions. In these circumstances it becomes difficult to fully complete some schemes within the financial year, as approved. Slippage on the major schemes is dealt with by re-profiling the scheme, whilst maintaining the originally approved threshold. For 2010/11 the total slippage on estates is forecast to be £2.384m. Some of this can be attributed to the RCC project and associated work proposed for SHQ, along with decisions required for the development of the Exeter Airport project, plus a number of contractors going into liquidation, the biggest being ROK.

3.5 Of the forecast slippage in spending of £2.384m an amount of £0.246m has been identified as savings on projects cost. The remaining value of £2.138m is carried forward into the 2011-12 capital programme to fund the completion of committed schemes.

4 SERVICE FLEET AND EQUIPMENT

Vehicle Replacements

4.1 The Authority has the second largest fleet in England and slippage with replacement schedules can lead to problems in future years such as increased maintenance costs, less operational availability due to breakdowns The profile for appliance purchase for 2010/11 is within scope and at varying stages of build.

4.2 However, due to other pressures covered elsewhere in this paper, it is proposed to suspend the fire appliance replacement programme for 2011/12. This will leave only a budget allocation of £1.294m to support slippage from 2010-11, and equipment. The proposal is to re-profile funding to support the capital build for Exeter Airport whilst maintaining the revenue implications of borrowing below the 5% threshold.

4.3 Members will be aware of proposals coming forward for lighter, more manoeuvrable fire appliances which are more cost effective to those currently being procured. This will allow us to mitigate against any backlog of replacement appliances in a planned manner. The Service is currently reviewing resource requirements and the disposition of appliances and equipment in line with local risk. These vehicles are referred to as Light Rescue Pumps. The current programme provides for the purchase of four appliances which are to be piloted during 2011/12. Given the cost incentive, the LRP is some £50/£60k less expensive than the traditional fire appliance, there is the opportunity to procure a more appropriate vehicle in future years with a significant cost reduction and will reduce the backlog.

5 REGIONAL FIRE CONTROL PROJECT

5.1 With the demise of the Regional Fire Control Project consideration is being given to an alternative fire control solution for the Authority. In determining this solution, further work will be undertaken to consider the financial options alongside guidance for project closure recommended by CLG. Dependent upon the final outcome DSFRA may have to fund a new building to house our command and control arrangements which may commence during 2012/13.

6 ENHANCED TRAINING FACILITIES – EXETER AIRPORT

6.1 The original training facility was established at Exeter Airport in 2000 as a joint venture with Exeter Airport operators. In October the Service entered into a formal 5 year licence with the new owners of the airport, Exeter and Devon Airport Limited. DSFRS has been reviewing their training facilities across the two Counties and with the increasing need for realistic fire behaviour training, including comprehensive breathing apparatus training, has concluded that an enhanced centralised capability at the airport was appropriate. This facility will offer training in specific skills with the ability to trade and best meet the future needs of the Service.

6.2 The estimated capital borrowing in support of this project is approximately £2.9m over two years and it is proposed that this is part funded from existing capital borrowing (£1.4m) and a contribution from revenue (£1.5m) on an invest to save basis by reducing our borrowing and subsequent debt charge from 2011-12. It is proposed that the revenue contribution of £1.5m is phased over the next two financial years requiring a contribution from the revenue budget of £0.750m in both 2011-12 and 2012-13. These contributions have been included in the revenue budget proposals report considered elsewhere on the agenda. The contribution from revenue will require the approval of the Fire & Rescue Authority in accordance with Financial Regulations.

7. REVISED CAPITAL PROGRAMME 2011-12 to 2013-14

7.1 The proposed revision to the capital programme, as included in Appendix A, has been constructed on the basis that the debt ratio is brought back within the 5% ceiling. This is achieved by reducing the original spending total for the three year period 2010-11 to 2012-13 from £15.934m to £14.940, utilising £1.500m from the revenue budget over 2011-12 and 2012-13 to part fund the Exeter Airport development, and including a reduced programme of £3.650m for 2013-14. The reduction in the programme is illustrated in Table 1 below.

TABLE 1	Estates	Fleet and Equipment	Total
	£m	£m	£m
CURRENT PROGRAMME			
2010/2011	3.425	4.051	7.476
2011/2012	2.070	2.319	4.389
2012/2013	1.750	2.319	4.069
Total 2010/11 TO 2012/13	**7.245**	**8.689**	**15.934**
PROPOSED PROGRAMME			
2010/2011 (forecast spending)	1.061	2.127	3.188
2011/2012	5.208	1.294	6.502
2012/2013	3.650	1.600	5.250
Total 2010/11 TO 2012/13	**9.919**	**5.021**	**14.940**
2013/2014	1.750	1.900	3.650

7.2 The schedule in Appendix A illustrates the revised spending profiles for 2011/12 through to 2013/14, and Appendix B provides a summary of the Prudential Indicators associated with this level of spending. Approval of this programme will reduce the original external borrowing figure in 2013-14 from £36.7m to £34.6m. It is forecast that this reduced borrowing requirement will achieve annual savings of £0.427m in debt charges by 2013-14.

7.3 The estimated debt charges emanating from this revised spending profile are illustrated in Table 2 below.

TABLE 2 – SUMMARY OF ESTIMATED CAPITAL FINANCING COSTS

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Base budget for Capital Financing Costs – debt charges and operating leasing rentals	4.969	5.162	5.277	5.373
Increase over previous year		0.193	0.115	0.096
Debt Ratio	*4.01%*	*4.29%*	*4.49%*	*4.93%*

8. CONCLUSION AND RECOMMENDATION

8.1 This report and previous reports to this Committee has emphasised the difficulties in meeting the full capital expenditure requirement for the Service. In recognising the revenue costs associated with servicing debt through borrowing it is clearly necessary that affordable and prudent proposals are put in place.

8.2 The proposals for 2011/12 do not fully address the needs of the Service either now or in the future. With public finances set to become even more stringent in future years addressing the backlog of replacement and maintenance will become extremely difficult to address.

8.3 As a consequence the Service is reviewing its asset base for the future to consider more flexible, economic and targeted resources to meet local risk requirements, for example the introduction of smaller fire appliances.

8.4 The proposed capital programme as set down in Appendix A is recommended for approval, on the basis that it goes some way to addressing the Service capital investment needs, whilst also providing the funding for the development at Exeter Airport and the introduction of a smaller, and cheaper, type of fire appliance (LRPs), whilst also keeping borrowing costs within the set limit of 5% of the total revenue budget.

TREVOR STRATFORD **Director of Service Support**	**KEVIN WOODWARD** **Treasurer**

				APPENDIX A TO REPORT		
Proposed Capital Programme (2011/12 to 2013/14)						
	2010/2011 predicted outturn (£000)	**Item**	**PROJECT**	**2011/12 (£000)**	**2012/13 (£000)**	**2013/14 (£000)**
			Estate Development			
	-24	1	Exeter Middlemoor			
	44	2	Exeter Danes Castle			
	35	3	SHQ major building works	100		
		4	Major Projects - Training Facility at Exeter Airport	1,000	1,900	
	882	5	Minor improvements & structural maintenance	1,750	1,750	1,750
	80	6	Welfare Facilities			
	34	7	Diversity & equality			
	10	8	USAR works	460		
		9	Minor Works slippage from 2010-11	1,898		
	1,061		**Estates Sub Total**	5,208	3,650	1,750
			Fleet & Equipment			
	1,628	10	Appliance replacement	411	1,400	1,700
	344	11	Specialist Operational Vehicles	619		
	44	12	Vehicles funded from revenue			
	98	13	Equipment	125	200	200
	13	14	Asset Management Plan (Miquest) software	139		
	2,127		**Fleet & Equipment Sub Total**	1,294	1,600	1,900
	3,188		**SPENDING TOTALS**	**6,502**	**5,250**	**3,650**
			Programme funding			
	1,807		Main programme	5,245	4,500	3,650
	144		Revenue funds	797	750	
	1,237		Grants	460		
	3,188		**FUNDING TOTALS**	**6,502**	**5,250**	**3,650**

PRUDENTIAL INDICATOR	**2011/12 £m estimate**	**2012/13 £m estimate**	**2013/14 £m estimate**
Capital Expenditure			
Non - HRA	6.502	5.250	3.650
HRA (applies only to housing authorities)	0	0	0
TOTAL	6.502	5.250	3.650
Ratio of financing costs to net revenue stream			
Non - HRA	4.29%	4.49%	4.93%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March			
CFR – external borrowing Non – HRA	31.154	33.434	34.671
HRA (applies only to housing authorities)	0	0	0
CFR – other long term liabilities	1.885	1.847	1.836
TOTAL	33.039	35.281	36.507
Annual change in Cap. Financing Requirement			
Non – HRA	3.114	2.242	1.226
HRA (applies only to housing authorities)	0	0	0
TOTAL	3.114	2.242	1.226
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase/(decrease) in council tax (band D) per annum	(£0.47)	(£0.39)	(£0.47)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	**£m**	**£m**
Authorised Limit for external debt -			
borrowing	36.229	37.885	39.251
other long term liabilities	1.930	1.917	1.856
TOTAL	38.159	39.802	41.107
Operational Boundary for external debt -			
borrowing	34.671	36.213	37.517
other long term liabilities	1.836	1.825	1.766
TOTAL	36.507	38.038	39.283

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/11/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**28 JANUARY 2011**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2010/2011 (TO DECEMBER 2011)**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	That the performance in relation to the treasury management activities of the Authority for 2010/2011 (to December) be noted.
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in November 2009, following consultation with Local Authorities during the summer. The revised Code 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 revised Code of Practice.
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 December 2010.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/10/3Policy – as approved at the meeting of the DSFRA meeting held on the 19 February 2010.

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. A revised Code of Practice has recently been issued which was adopted by the authority at the budget meeting held on 19 February 2010. 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 full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during 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 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

2.1 The quarter ended 31st December 2010 saw the following:

- Activity indicators strengthening again, suggesting that the recovery still has a reasonable amount of momentum;

- Spending on the high street continuing to recover;

- Conditions in the labour market deteriorating further;

- House prices continuing to fall with some regional exceptions;

- The public finances deteriorating, tentatively questioning whether the government can meet its fiscal forecasts;

- The UK's trade deficit widens further, pouring cold water on hopes of an export-led recovery;

- CPI inflation rise and pipeline pressures continuing to build

- The Monetary Policy Committee (MPC) shying away from doing more quantitative easing (QE);

- UK equities surging and gilt yields rising;

- Economic growth picking up strongly in the US and maintaining pace in the euro-zone.

2.2 Activity indicators suggested that the recovery still has a reasonable amount of momentum. The CIPS/Markit surveys improved in the third quarter and are now consistent again with modest growth, having briefly pointed to a double-dip in prior months. The surveys suggested that the recovery weakened in the construction sector, but strengthened in the larger manufacturing sector. GDP (Gross Domestic Product) expanded by 0.7%q/q in the third quarter of 2010.

2.3 There were signs that consumer spending improved during the quarter. Retail sales volumes rose by a solid 0.7% and 0.3% in October and November respectively. Survey evidence has suggested that December's heavy snowfall has not had too much of a negative effect on retail spending over the festive period as a whole, with consumers making up for weaker spending in early December during the post-Christmas "sales" period.

2.4 The resilience of consumer spending during the quarter was in sharp contrast to the renewed deterioration of conditions in the labour market. Employment on the Labour Force Survey (LFS) measure fell by 33,000 in the three months to October, which was far less than the large rises seen a few months ago. As a result, ILO unemployment rose by 35,000 over the same period.

2.5 House prices have also continued to fall during the quarter. The Nationwide measure fell by 0.7% m/m in October and 0.3%m/m in November, before rising by 0.4%m/m in December. The Halifax house price measure rose by 1.9% m/m in October, this only offset around half of the fall in September. The measure subsequently posted a small 0.1% m/m drop in November but a fall of 1.3% in December.

2.6 Public finances appear to have deteriorated during the quarter. Borrowing on the PSNB (Public Sector Net Borrowing) measure was in line with 2009/10's figure in October but was £6bn higher than a year before in November. The figures therefore cast doubt on whether the Government will be able to meet its borrowing forecast of £149bn this year, some £7bn lower than last year's total. Elsewhere, there are still few signs that the external sector has begun to support the overall recovery. The trade in goods deficit widened again from £8.4bn to £8.5bn in October, while the overall deficit also grew from £3.8bn to £3.9bn. While export goods volumes rose by 2.2% m/m in October, import goods volumes rose by a larger 2.6%.

2.7 CPI (consumer price inflation) inflation edged up from 3.1% to 3.2% in October and then to 3.3% in November. Part of the rise may have reflected retailers pushing up their prices ahead of the VAT rise in January 2011. The rise also seems to have reflected the surge in commodity prices during the quarter and earlier in the year. If these commodities hold onto their recent price gains, then their inflationary effects will build over the next few months.

2.8 Encouraging activity data and strong inflation data prevented the Monetary Policy Committee (MPC) from following the Fed in sanctioning more quantitative easing (QE) at its November meeting. The majority of members on the MPC have continued to vote for official interest rates to remain on hold at 0.5%; the minutes to their meetings suggested that most members thought that the risks that CPI inflation would overshoot the 2% target in two years time had grown. Some members also expressed concern about the recent rise in households' inflation expectations.

2.9 Sector provides the following interest rate forecast:

Sector's Interest Rate View												
	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%
5yr PWLB Rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%
10yr PWLB View	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%
25yr PWLB View	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%
50yr PWLB Rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%

- Sector has undertaken a review of its interest rate forecasts to update them for recent events and in particular, the sell off in the bond markets that we have seen in November and December.
- Sector has not changed it's view on Bank Rate, or the outlook for the UK economy, so this revised forecast is mainly focused on revisions to the 5 and 10 year forecasts to reflect this sell off.
- In recent months sentiment has focused on the potential for faster US economic recovery, which brings with it an increase in the potential for inflationary pressures and concerns as to whether the Fed will act quickly and resolutely enough to stop those pressures from building. There are also concerns at the extent to which US government debt is going to increase which means that extra sales will have to be made at a lower price to attract buyers i.e. that yields will rise. QE2 purchases of debt by the Fed would normally be expected to depress yields by increasing the price of bonds. However, what we have seen since the beginning of November is exactly the opposite – a steady rise in Treasury yields and right across the board from 5 to 30 years.
- In the UK, sentiment has shifted in terms of concerns around the build up of inflationary pressures and there is an increase in concern as to the credibility of the MPC when inflation has been so much above its 2% target for such a long time. The MPC will be particularly concerned that the public's inflation expectations could become unhinged and while we have not changed our Bank Rate forecast in this revision, there is a risk that the MPC may feel they will need to take action earlier than Q4, i.e. Q3, in order to do a damage limitation exercise to its credibility.
- In line with widespread comment that the Bank of England's previous forecasts for growth were on the optimistic side, the November Inflation Report did downgrade the forecast for 2011 to about 2.3%. However, the Bank then slightly upgraded its forecast for growth in 2012 to around 3%, helped by the continuation of strong monetary policy stimulus through an exceptionally low Bank Rate and the current level of QE.

- However, inherent in this optimistic forward looking view are major assumptions around a continuation of healthy world growth rates. This dependency is due to a combination of negative factors that are likely to dampen the UK growth rate: -
    - the public sector will be a negative contributor to the UK growth rate;
    - personal expenditure growth rates are likely to be weak;
    - many corporates and people will be focused on cutting back over-borrowing in the years of easy and cheap credit;
    - corporate and personal borrowing by borrowers seeking credit will be held back by banks caution in expanding credit when banks are faced with having to refinance huge sums of wholesale funding maturing over the next few years plus repaying all loans made by the Bank of England under the SLS scheme, which closes in early 2012.
- Sector still maintains that the general trend beyond the next twelve months of rising gilt yields and PWLB rates is expected to remain unchanged as market fundamentals must eventually re-establish the current disconnect between the sheer volume of UK gilt issuance and the price of issue of new debt. Negative (or positive) developments in the EU sovereign debt crisis could significantly impact current safe haven flows of investor money into UK gilts and produce shorter term movements away from our central forecasts.
- As there are significant potential downside risks to these forecasts and to the pace of both UK and world recovery, we would suggest that authorities err on the side of caution when setting their investment budgets.
- Any forecasts beyond a one year time horizon will be increasingly subject to being significantly amended as and when world events and financial markets change.

3. 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 31 December 2010 are shown in Appendix A.

3.4 Investment rates available in the market have continued at historically low levels.

3.5 The average level of funds available for investment purposes during the quarter was £16.787m. 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 LIBID	0.43%	0.77%	£32,064

3.6 As illustrated, the authority outperformed the benchmark by 34 bp**.** The Authority's budgeted investment return for 2010/11 is £0.070m, and performance so far this year indicates that this figure will be exceeded.

<u>Borrowing Strategy</u>

<u>Prudential Indicators:</u>

3.7 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.

3.8 A full list of the approved limits (as amended) are included in the Financial Performance Report 2010/2011, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2010.

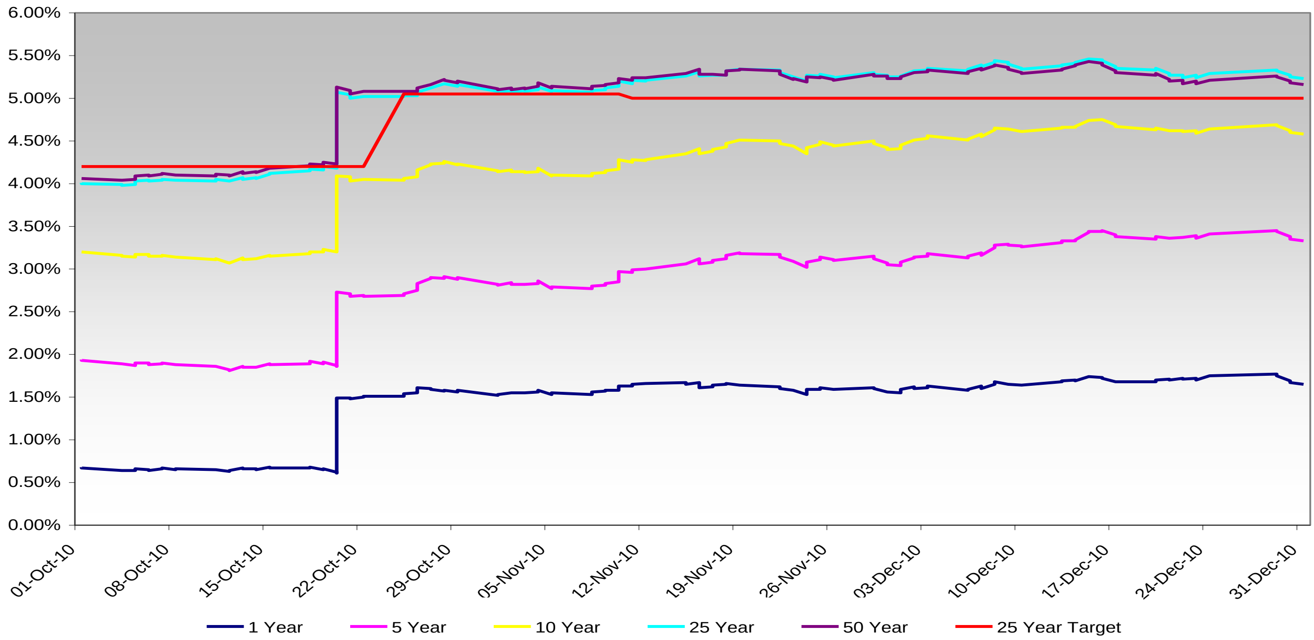
3.9 Sector's 25 year target rate for new long term borrowing for the quarter started at 4.20% and ended at 5.00%. No new borrowing was taken during the third quarter of the year.

3.10 No debt rescheduling has been undertaken during the third quarter of the year.

3.11 As shown below, most interest rates have generally been on an increasing trend during the quarter across all bands. The graph below shows rates all spiking up on the 20th October due to the PWLB policy change following the Spending Review, where the PWLB have increased the average rate of interest rate on all new loans to an average of 1.00% above Government's cost of borrowing. The low points during the quarter were seen in the early part of October before the PWLB policy change. The high points were seen in late December.

<u>PWLB rates quarter ended 31.12.2010</u>

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.61%	1.81%	3.07%	3.98%	4.04%
Date	20/10/10	12/10/10	12/10/10	04/10/10	04/10/10
High	1.77%	3.45%	4.75%	5.46%	5.43%
Date	29/12/10	16/12/10	16/12/10	15/12/10	15/12/10
Average	1.41%	2.82%	4.13%	4.98%	4.99%



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 for the second quarter of 2010/2011. 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 so far, 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 December 2010

% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£)	Call or Term	Date if Term	Interest Rate
26.91%	Santander UK & Cater Allen	5.0	1.000	T	17/01/2011	1.32%
			1.500	T	01/02/2011	1.33%
			1.182	C		0.80%
7.31%	Bank of Scotland	5.0	1.000	T	15/07/2011	2.00%
10.96%	Barclays	10.0	1.500	T	17/01/2011	0.98%
10.96%	Coventry B/S	1.5	1.500	T	28/02/2011	0.70%
10.96%	Kent Reliance B/S	1.5	1.500	T	10/02/2011	0.75%
10.96%	Newcastle B/S	1.5	1.500	T	31/03/2011	0.90%
10.96%	Norwich & Peterborough B/S	1.5	1.500	T	14/01/2011	0.90%
10.96%	West Bromwich B/S	1.5	1.500	T	03/01/2011	0.78%
			13.682			