

**M. Pearson
CLERK TO THE AUTHORITY**

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

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RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

Friday 22 July 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

AGENDA

1. **Election of Chair**
2. **Apologies**
3. **Minutes** of the meeting held on 18 May 2011 attached (Page 1).
4. **Items Requiring Urgent Attention**

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

5. **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.*

6. **Election of Vice Chair**

PART 1 – OPEN COMMITTEE

7. **Treasury Management Performance 2011/12**

Report of the Treasurer (RC/11/7) attached (page 5)

8. **Financial Performance Report 2011/12 - Quarter 1**

Report of the Treasurer To The Authority (RC/11/8) attached (page 13)

**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:-

Bakewell, Gordon, Horsfall, Hughes OBE, Smith , Woodman and Yeomans

Substitute Members

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

NOTES

1. ACCESS TO INFORMATION

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

2. DECLARATIONS OF INTERESTS BY MEMBERS

What Interests do I need to declare in a meeting?

As a first step you need to declare any personal interests you have in a matter. You will then need to decide if you have a prejudicial interest in a matter.

What is a personal interest?

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

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

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

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

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

What do I need to do if I have a personal interest in a matter?

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

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

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

Can I stay in a meeting if I have a personal interest?

You can still take part in the meeting and vote on the matter unless your personal interest is also a prejudicial interest.

What is a prejudicial interest?

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

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

- setting council tax or a precept; **AND**
- (b) the matter affects your financial position (or that of any of the persons/bodies as described in Paragraph 8 of the Code) or concerns a regulatory/licensing matter relating to you or any of the persons/bodies as described in Paragraph 8 of the Code); **AND**
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest is so significant that it is likely to prejudice your judgement of the public interest.

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

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

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

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

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

RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

18 May 2011

Present:-

Councillors Gordon (Chair), Drean (vice Smith), Horsfall, Leaves (vice Hughes OBE), Turner, Woodman and Yeomans

Apologies:-

Councillors Hughes OBE and Smith

Also in attendance:-

Councillors Bown, Dyke, Eastman, Foggin, Fry, Healey and Way.

***RC/25. Minutes**

RESOLVED that the Minutes of the meeting of the Committee held on 28 January 2011 be signed as a correct record.

***RC/26. 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 to declare any such interests at this time.

No relevant interests were declared.

RC/27. Financial Performance Report 2010-11

The Committee considered a report of the Treasurer to the Authority (RC/11/5) that set out a draft financial outturn position against the 2010/11 Revenue Budget, together with details of the Authority's performance against the financial targets set.

The Treasurer stated that total spending was £73.760million against an approved Revenue Budget of £75.135million, representing an underspend of £1.375million, equivalent to 1.83% of the total budget. He drew attention to the proposals that had been put forward for utilisation of the underspend, namely:

- To transfer £0.896million to the Change and Improvement Reserve, and;
- To transfer the balance of £0.479million to the Comprehensive Spending Review (CSR) 2010 Budget Strategy Reserve.

It was noted that the underspend position was due largely to the strategy that had been adopted by the Service in response to the CSR 2010 announcement that fire and rescue services could expect a 25% reduction in government grant over the next four years and that savings would need to be set aside to bridge the gap in the future. The Chairman commended the officers, members and staff on the commitment that had been demonstrated in order to generate savings across the organisation.

Reference was made to the position in respect of the recent judgement following the Employment Tribunal on the Part Time Workers (Less than Favourable Working Conditions) Regulations which had meant that an additional amount of £0.556m had been charged to the 2010/11 accounts to increase the provision set aside for the extra compensation costs that were anticipated.

Members of the Committee commented upon the other financial performance indicators as set out within Section C of report RC/11/5 and in particular, the outstanding debt as at 31 March 2011. It was suggested that the target of 10% of the total debt needed to be revised as it was not realistic given that the removal of 2 current debtors would reduce this level to 3.22%. The Clerk added, in response to a question regarding the risk assessment of suppliers and customers that, given the level of work being undertaken by the Training Academy, that a risk assessment of customers' financial standing should perhaps be undertaken and that he would pursue this matter.

RESOLVED

- (a) That the Fire & Rescue Authority at its meeting on 27 May 2011 be recommended to approve that the underspend against the 2010-11 revenue budget of £1.375m be utilised to fund the following additional transfers to Earmarked Reserves, as outlined in paragraph 11.1 of this report;
 - (i) That an amount of £0.896m be transferred to the Change and Improvement Reserve, and;
 - (ii) That the remaining underspend, estimated to be £0.479m be transferred to the Comprehensive Spending Review (CSR) 2010 Budget Strategy Reserve.
- (b) that, subject to (a) above, the following be noted:
 - (i) The draft position in respect of the 2010-2011 Revenue and Capital Outturn, as indicated in this report.
 - (ii) That the underspend figure against the revenue budget of £1.375m includes;
 - a transfer of £0.726m to the Earmarked Reserve of CSR 2010 Budget Management Reserve, as agreed in-year by the Authority.
 - a transfer of £0.657m to the Earmarked Reserve of 2010-11 Carry Forwards Reserve to fund committed projects not delivered by 31 March 2011.
 - a transfer of £1.374m to the Earmarked Reserve of Grants Unapplied Reserve, as required under new International Financial Reporting Standards (IFRS).
 - an increase of £0.556m in the Provision set aside to fund the impact of the Employment Tribunal relating to the Part Time Workers (Less than Favourable Working Conditions), as outlined in paragraph 3.4 of this report.
 - (iii) The performance against the 2010-2011 financial targets.

RC/28. Capital Programme 2011/12 to 2013/14

The Committee considered a report of the Director of Service Support and Treasurer (RC/11/6) that set out proposals to revise the Capital Programme over the period 2011/12 to 2013/14 as a result of an additional £2.021million in debt free grant that the Service had received from the Department for Communities and Local Government.

The Director of Service Support advised the Committee that the revisions to the Capital Programme included:

- Proposals to maintain the estates programme;
- To bring forward spending of £0.678million for a number of special appliances and harmonising vehicles as a legacy of combination.

It was noted that the remainder of the grant in the sum of £1.343million would be utilised to reduce the Service's borrowing, so providing cumulative savings in debt charges of £0.423million during the period 2011/12 to 2013/14.

RESOLVED that the Authority be recommended to approve the revised Capital Programme for 2011-12 to 2013-14 as set out in Appendix B to Report RC/11/6 (as appended to these Minutes for reference).

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

The meeting started at 10.00hours and finished at 11.05hours

APPENDIX B

Revised Capital Programme (2011/12 to 2013/14)

2010/2011 DRAFT outturn (£000)	Item PROJECT	2011/12 (£000)	2012/13 (£000)	2013/14 (£000)
	Estate Development			
(7)	1 Exeter Middlemoor	30		
52	2 Exeter Danes Castle	10		
39	3 SHQ major building works	96		
	4 Major Projects - Training Facility at Exeter Airport	1,000	1,900	
1,091	5 Minor improvements & structural maintenance	1,650	1,750	1,750
90	6 Welfare Facilities	37		
34	7 Diversity & equality			
10	8 USAR works	560		
	9 Minor Works slippage from 2010-11	1,689		
<hr/>	Estates Sub Total	<hr/>	<hr/>	<hr/>
1,309		5,072	3,650	1,750
	Fleet & Equipment			
1,642	10 Appliance replacement	397	1,400	1,700
328	11 Specialist Operational Vehicles	1,315		
68	12 Vehicles funded from revenue			
96	13 Equipment	127	200	200
23	14 Asset Management Plan (Miquest) software	129		
<hr/>	Fleet & Equipment Sub Total	<hr/>	<hr/>	<hr/>
2,157		1,968	1,600	1,900
<hr/>	SPENDING TOTALS	<hr/>	<hr/>	<hr/>
<u>3,466</u>		<u>7,040</u>	<u>5,250</u>	<u>3,650</u>
	Programme funding			
2,050	Main programme	3,757	4,500	3,650
179	Revenue funds	802	750	
1,237	Grants	2,481		
<hr/>	FUNDING TOTALS	<hr/>	<hr/>	<hr/>
<u>3,466</u>		<u>7,040</u>	<u>5,250</u>	<u>3,650</u>

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/11/7
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	22 JULY 2011
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2011/2012
LEAD OFFICER	TREASURER
RECOMMENDATIONS	That the performance in relation to the treasury management activities of the Authority for 2011/2012 (to June) 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. 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 June 2011.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/11/2 – as approved at the meeting of the Devon and Somerset Fire and Rescue Authority held on the 14 February 2011.

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 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 30th June 2011 saw the following:

- The economic recovery struggle to regain momentum;
- Conditions on the high street deteriorate;
- Mixed signals on the strength of the labour market recovery;
- Public sector borrowing come out disappointingly high;
- The near term outlook for Consumer price index (CPI) inflation deteriorate further;
- The Monetary Policy Committee (MPC) move away from raising interest rates;
- UK equities staying flat over the quarter with gilt yields falling;
- Economic growth slowing in the US and euro-zone.

- 2.2 The additional bank holiday for the Royal Wedding pulled down both industrial and services output in April. But the CIPS/Markit business surveys have failed to pick up by much since. An average of the surveys over the last three months point to quarterly Gross Domestic Product (GDP) growth of just 0.3% - less than half its trend.
- 2.3 The industrial recovery appears to have lost momentum quite quickly. The CIPS/Markit manufacturing survey has fallen to a level consistent with falls in manufacturing output. The output expectations balance of the CBI industrial trends survey has fallen more modestly, but has nonetheless dropped for the past three months in a row.
- 2.4 Meanwhile, the consumer outlook has darkened. The pick-up in the consumer sector seen during the spring appears to have been only temporary, reflecting the good weather and extra bank holiday. Retail sales volumes fell in May, more than reversing April's increase. The CBI's distributive trades survey fell in June. And a number of well-known retailers have recently fallen into administration.
- 2.5 Consumers appear to be reacting to the squeeze on their real incomes. Household real disposable incomes fell by 0.8%. Inflation is outpacing average earnings by about 2.5%. Consumer confidence also fell back in June and remains consistent with further falls in consumer spending.
- 2.6 Meanwhile, the news on the labour market has been mixed. The Workforce Jobs measure of employment rose strongly. But the timelier Labour Force Survey measure flattened off in April and May. And the number of job vacancies continued to fall throughout the quarter. The claimant count measure of unemployment also continued to rise over the last three months. This only partly reflected a rise in the number of lone parents claiming Jobseeker's Allowance due to recent benefit changes.
- 2.7 The housing market has continued to tread water. The number of mortgage approvals for new house purchase was broadly unchanged over the quarter at a very low level of just 46,000 or so. House prices have also remained broadly flat.
- 2.8 The trade deficit was unchanged in April compared to March.
- 2.9 Near-term outlook for inflation has deteriorated further. Although CPI inflation held steady at 4.5% in May, it now looks likely to rise to 5.5% or even higher within the next few months. Food price inflation is likely to rise further. And Scottish Power announced in June a 19% rise in gas prices and 10% rise in electricity prices to take effect in August. Other utility suppliers are likely to follow suit.
- 2.10 Households' inflation expectations rose sharply in June. But so far, there are no signs of any pick-up in pay growth. The median pay settlement was unchanged at 2.5% in May.
- 2.11 Most Monetary Policy Committee (MPC) members still think that the rise in inflation will be only temporary and that inflation will fall back sharply next year. So despite the worsening of the near-term inflation outlook, the weakness of the activity data has pushed most members further away from an interest rate rise.
- 2.12 Some MPC members have even started to discuss the prospect of giving the economy more support. Admittedly, the hurdle for more quantitative easing (QE) will be quite high. However, it is certainly possible if the economy remains as weak as expected.

2.13 At the end of March, financial markets were expecting interest rates to have risen by this July. But now they expect rates to stay on hold until July next year. Meanwhile, sterling was broadly unchanged against the dollar at about \$1.60, and fell only a touch against the euro.

2.14 In the United States, the recovery also appears to have lost a significant amount of momentum. The manufacturing index fell sharply in May and reversed only a fraction of this drop in June. Payrolls employment rose by a disappointing 54,000 in May. Meanwhile, in the euro-zone economy recent falls in most leading indicators suggest that growth is slowing there too. Germany has continued to outperform the rest of the region. The risk of an imminent Greek disaster appears to have eased, but European policymakers' inability to deal with the crisis quickly and effectively is hitting the rest of the periphery.

2.15 Sector, provides the following interest rate forecast:

Sector's Interest Rate View												
	NOW	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Sector's Bank Rate View	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
5yr PWLB Rate	3.12%	3.55%	3.65%	3.75%	3.90%	4.00%	4.15%	4.25%	4.45%	4.60%	4.65%	4.75%
10yr PWLB View	4.45%	4.75%	4.75%	4.80%	4.95%	4.95%	5.00%	5.05%	5.15%	5.20%	5.25%	5.25%
25yr PWLB View	5.24%	5.40%	5.40%	5.40%	5.40%	5.40%	5.45%	5.50%	5.50%	5.50%	5.60%	5.65%
50yr PWLB Rate	5.20%	5.40%	5.40%	5.40%	5.40%	5.40%	5.45%	5.50%	5.50%	5.50%	5.60%	5.65%

2.16 The Sector forecast is for a November 2011 increase in bank rate but with reservations that it could well slip back in time, unless there is some good news on the UK economic recovery before then.

2.17 Sector has undertaken its normal quarterly review of interest rate forecasts after the issue of the Bank of England's quarterly inflation report. The key Bank of England comments are shown below:

- Mervyn King said after the May Inflation Report was published that 'Bank Rate cannot stay down indefinitely' but this does not equate to saying 'there will be a first increase in Bank Rate in November 2011'. Financial markets have over-reacted to this statement.
- Continuing wage freezes / low pay settlements.
- BoE forecasts for the speed of recovery and of increases in GDP growth rate have consistently been over optimistic since the recession started in 2009.
- CPI will blip up in 2011 due to temporary supply side shock factors but these will drop out within 12 months - as will VAT increases.
- Unless the output gap is closed (unlikely for some considerable time) inflation will eventually fall below target.

2.18 In summary:

- Expect continuing wage freezes /low pay settlements.
- Bank of England forecasts for the speed of recovery and of increase in GDP growth rate have consistently been over optimistic since the recession started in 2009.
- CPI will blip up in 2011 due to temporary supply side shock factors but these will drop out within 12 months – as will VAT increases.
- Unless the output gap is closed (unlikely for some considerable time) inflation will eventually fall below target.
- There has been a significant erosion of the confidence of financial markets in the EU handling of the peripheral debt crisis. There is now a major and escalating risk that the Greek, Irish, Portuguese debt crisis may not be contained and could lead to debt restructurings that could do significant damage to banks which already have weakened balance sheets. It is worth noting that many western governments have already exhausted their capacity to increase government debt to again bail out banks further damaged by any such future events and to counter the dampening of economic growth that would follow.

3. **TREASURY MANAGEMENT STRATEGY STATEMENT**

Annual Investment Strategy

3.1 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 14th February 2011. It 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 to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.

3.3 A full list of investments held as at 30 June 2011 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 £16.423m. 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 Performan ce	Investment interest for quarter
7 day LIBID	0.46%	0.82%	£(14,993)

3.6 As illustrated, the authority outperformed the benchmark by 36 bp. The Authority's budgeted investment return for 2011/12 is £0.100m, and performance so far this year indicates that this figure will be achieved.

Borrowing Strategy

Prudential Indicators:

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 2011/2012, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to June 2011.

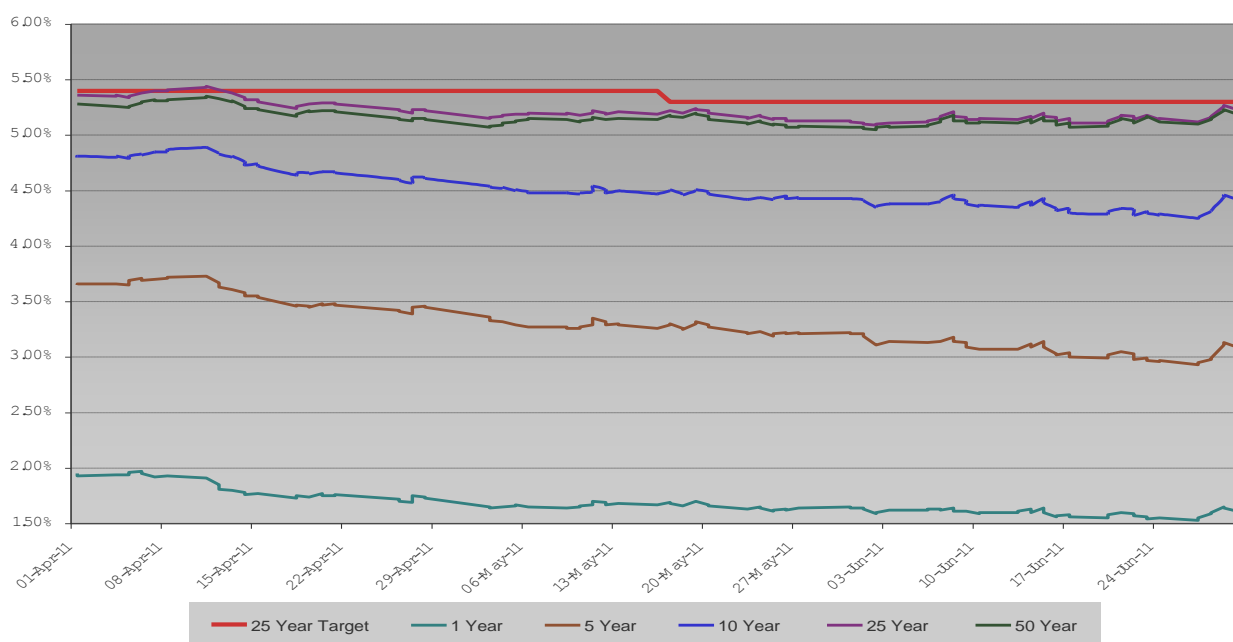
3.9 Sector's 25 year target rate for new long term borrowing for the quarter started at 5.40% and ended at 5.30%. No new borrowing was taken during this quarter of the year.

3.10 No debt rescheduling was undertaken during this quarter of the year.

3.11 As shown below, most interest rates have generally been on a slightly positive trend during the quarter across all bands.

PWLB rates quarter ended 30.06.2011

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.53%	2.93%	4.25%	5.09%	5.05%
Date	27/06/11	27/06/11	27/06/11	02/06/11	02/06/11
High	1.97%	3.73%	4.89%	5.44%	5.35%
Date	06/04/11	11/04/11	11/04/11	11/04/11	11/04/11
Average	1.69%	3.29%	4.51%	5.22%	5.16%



- 3.12 In line with the paper that was submitted to Resources Committee in May 2011, it is anticipated that internal borrowing and available grants will reduce the call on borrowing. However if capital spend is in line with programme levels then borrowing will be undertaken during the financial year.

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 first quarter of 2011/2012. 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 are still low as a consequence of the fall in interest rates, the authority is still achieving returns above the LIBID 7 day rate, which is the benchmark return for this type of short term investments.

KEVIN WOODWARD
Treasurer

APPENDIX ATO REPORT RC/11/7

Investments as at 30 th June 2011						
% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Interest Rate
31.25%	Santander UK & Cater Allen	5.0	1.500	T	01/08/2011	1.41%
			1.500	T	17/10/2011	1.32%
			1.500	T	21/12/2011	1.35%
20.14%	Bank of Scotland	5.0	1.000	T	15/07/2011	2.00%
			1.901	C		0.75%
13.89%	Barclays	10.0	2.000	T	22/07/2011	0.76%
6.94%	Kent Reliance B/S	1.5	1.000	T	11/07/2011	0.95%
6.94%	Newcastle B/S	1.5	1.000	T	01/07/2011	0.90%
10.42%	Nottingham B/S	1.5	1.500	T	30/12/2011	1.80%
10.42%	Principality B/S	1.5	1.500	T	18/07/2011	0.80%
			14.401			

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/11/8
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	22 JULY 2011
SUBJECT OF REPORT	FINANCIAL PERFORMANCE REPORT 2011/2012 – QUARTER 1
LEAD OFFICER	Treasurer to the Authority
RECOMMENDATIONS	<p>(a) <i>That the monitoring position in relation to projected spending against the 2011-2012 revenue and capital budgets be noted.</i></p> <p>(b) <i>That the performance against the 2011-2012 financial targets be noted.</i></p> <p>(c) <i>That the target of below 5% for debt in excess of 85 days old be endorsed (paragraph 10.2)</i></p> <p>(d) <i>That the budget for the capital project for training facilities at Exeter airport be changed to £3m (paragraph 9.3)</i></p>
EXECUTIVE SUMMARY	<p>This report provides the Committee with the first quarter performance against agreed financial targets for the current financial year.</p> <p>In particular, it provides a forecast of spending against the 2011-2012 Revenue Budget with explanations for the major variations. At this early stage in the financial year it is forecast that spending will be £0.317m less than budget, equivalent to 0.42% of the total budget.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Prudential Indicators 2011-2012.
LIST OF BACKGROUND PAPERS	None.

1. **INTRODUCTION**

1.1 This report provides the first quarterly financial monitoring report for the current financial year, based upon the position as at the end of June 2011. As well as providing projections of spending against the 2011-2012 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2 Table 1 below provides a summary of performance against the key financial targets.

TABLE 1 – FORECAST PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2011-2012

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 1	Previous Quarter	Quarter 1 %	Previous Quarter %
1	Spending within agreed revenue budget	£75.141m	£74.824m	N/A	(0.42)%	N/A
2	Spending within agreed capital budget	£7.040m	£5.781m	N/A	(17.88)%	N/A
3	External Borrowing within Prudential Indicator limit	£31.154m	£29.899m	N/A	(4.20)%	N/A
4	Budget Efficiency Savings in 2011-2012	£1.042m	£0.516m	N/A	50.48%	N/A
5	Debt Ratio (debt charges over total revenue budget)	4.35%	4.32%	N/A	(0.03)%	N/A
6	General Reserve Balance as %age of total budget (minimum)	5.00%	5.93%	N/A	(0.93)%	N/A
			Actual as at 30 June 2011	Previous Quarter	Variance at 30 June 2011 %	Previous Quarter %
7	Aged Debt (debtors more than 85 days old)	5.00%	8.08%* See para 10.3	N/A	3.08%	N/A

1.3 The remainder of the report is split into the three sections of:

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

1.3 Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. **SECTION A - REVENUE BUDGET 2011-2012**

2.1 Table 2 overleaf provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending will be £74.824m compared with an agreed budget figure of £75.141m, representing an underspend of £0.317m, equivalent to 0.42% of the total budget.

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY

TABLE 2

Revenue Budget Monitoring Report 2011/12

Line No		2011/12 Budget	Year To Date Budget	Spending to Month 3	Projected Outturn	Projected Variance over/ (under)
		£000 (1)	£000 (2)	£000 (3)	£000 (4)	£000 (5)
SPENDING						
EMPLOYEE COSTS						
1	Wholetime uniform staff	31,904	8,036	8,073	31,983	79
2	Retained firefighters	11,985	2,580	2,326	11,972	(13)
3	Control room staff	1,947	482	522	2,109	162
4	Non uniformed staff	9,587	2,390	2,226	9,309	(278)
5	Training expenses	1,357	339	451	1,318	(39)
6	Fire Service Pensions recharge	1,999	666	1,830	1,974	(25)
		58,779	14,493	15,428	58,665	(114)
PREMISES RELATED COSTS						
7	Repair and maintenance	1,059	265	173	1,049	(10)
8	Energy costs	687	117	52	664	(23)
9	Cleaning costs	412	103	42	444	32
10	Rent and rates	1,476	647	535	1,457	(19)
		3,634	1,132	802	3,614	(20)
TRANSPORT RELATED COSTS						
11	Repair and maintenance	660	165	44	660	-
12	Running costs and insurances	1,201	441	343	1,121	(80)
13	Travel and subsistence	1,505	277	279	1,500	(5)
		3,366	883	666	3,281	(85)
SUPPLIES AND SERVICES						
14	Equipment and furniture	2,581	643	530	2,553	(28)
15	Hydrants-installation and maintenance	103	26	9	103	-
16	Communications	2,135	534	299	1,978	(157)
17	Uniforms	1,213	303	133	1,196	(17)
18	Catering	180	45	42	167	(13)
19	External Fees and Services	282	70	107	318	36
20	Partnerships & regional collaborative projects	105	26	20	105	-
		6,599	1,647	1,140	6,420	(179)
ESTABLISHMENT COSTS						
21	Printing, stationery and office expenses	433	139	81	388	(45)
22	Advertising	57	14	4	53	(4)
23	Insurances	326	246	134	326	-
		816	399	219	767	(49)
PAYMENTS TO OTHER AUTHORITIES						
24	Support service contracts	588	121	176	568	(20)
		588	121	176	568	(20)
CAPITAL FINANCING COSTS						
25	Capital charges	5,162	88	277	5,125	(37)
26	Revenue Contribution to Exeter Airport Site	750	0	0	750	-
27	Revenue Contribution to Capital spending	0	0	0	0	-
		5,912	88	277	5,875	(37)
28	TOTAL SPENDING	79,694	18,763	18,708	79,190	(504)
INCOME						
29	Treasury management investment income	(100)	(25)	15	(100)	-
30	Grants and Reimbursements	(3,052)	(763)	(776)	(2,913)	139
31	Other income	(1,333)	(334)	(291)	(1,285)	48
32	Internal Recharges	(68)	(17)	(5)	(68)	-
33	TOTAL INCOME	(4,553)	(1,139)	(1,057)	(4,366)	187
34	NET SPENDING	75,141	17,624	17,651	74,824	(317)

2.2 These forecasts are based upon the spending position at the end of June 2011, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. 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. Explanations of the more significant variations from budget are explained below in paragraphs 3 to 5 below.

3. EMPLOYEE COSTS

Wholetime Staff

3.1 At this stage it is projected that spending will be £0.079m more than the budget figure. This projection includes assumptions relating the number of officers that will retire during the course of the financial year.

Control Room Staff

3.2 It is forecast that control room staffing costs will be £0.162m more than budget as a result of the need to fund additional staffing to support the major project to explore options for an alternative control room facility.

Non-Uniformed Staff

3.3 It is anticipated that savings of £0.278m will be achieved from this budget from vacancy management.

4. TRANSPORT RELATED COSTS

Running Costs

4.1 Based upon spending so far it is forecast that fuel costs will be under budget by 0.080m. This position may change during the year subject to volatility of fuel prices.

5. SUPPLIES AND SERVICES

Communications Equipment

5.1 It is projected that costs relating to the new Firelink radio system will be £0.137m less than had originally been anticipated. It should be noted that, given that this cost is funded from CLG New Burden Grant income, there will also be an offsetting reduction in grant income (Table 2 line 29).

6. SAVINGS

6.1 As part of the budget setting process in 2011-12 the authority agreed that £1.042m of targeted savings should be found. Progress against these savings requirements are shown overleaf in Table 3.

Table 3 delivery of base budget savings		Targeted Savings required by 31/3/12	Actual to end May 11
<u>DELIVERY OF SAVINGS 2011 - 2012</u>		£000	£000
1	Vacancy Management	(425)	(66)
2	Efficiency savings identified by budget holders	(342)	(342)
3	Dissolution of regional management board	(25)	(25)
4	Restructure of SMB 2010	(50)	(50)
5	Changes to mobilisation arrangements to coresponder calls	(50)	-
6	Changes to mobilisation arrangements to automatic fire alarm calls	(25)	-
7	Share management support/back office functions	(25)	(4)
8	Surplus income from commercial arm	(100)	(29)
TOTAL		(1,042)	(516)

6.2 Based on the above, we are on track to deliver the savings required this year.

7. **RESERVES AND PROVISIONS**

7.1 As well as the funds available to the authority by setting an annual budget, there are also useable reserves and provisions.

7.2 A summary position of Reserves and Provisions, including the recommendations included in this report, is shown in Table 4 overleaf.

Reserves and provisions				
	Remaining balance from previous year	2010-11 carry fwds	Total at year start 2011-12	Spend to date
	£000	£000	£000	£000
Earmarked reserves				
Lundy	25		25	
Positive pressure ventilation training	4		4	
Mobilisation equipment	103	64	167	(113)
Property works	5		5	
Support costs	7		7	
Welfare building works	37		37	
Integrated clothing project	66	422	488	
Change & improvement training		50	50	
Gold command courses		35	35	
Interagency liaison officer costs		36	36	(6)
SHQ office works		50	50	(50)
Grants unapplied in 2010-11		1,374	1,374	(4)
Change & improvement programme		896	896	
CSR 2010		1,191	1,191	
Grand total earmarked reserves	247	4,118	4,365	-173
General reserve				
General fund balance	4,453		4,453	
Total of useable reserves	4,700		8,818	
Percentage of general reserve compared to net budget				5.93%
Provision	Balance from previous year	2010-11 carry fwds	Total at year start 2011-12	Spend to date
	£000	£000	£000	£000
Part time workers - retained fire fighters	1,505		1,505	
Total of provisions	1,505		1,505	

8. SUMMARY OF REVENUE SPENDING

- 8.1 It is pleasing that so early on in the year savings are being predicted against budget. Further updates on the proposed outturn will be presented to future meetings of the Resources Committee together with any proposed actions in relation to significant variations to budgets.

9. SECTION B – CAPITAL PROGRAMME 2011-2012 AND PRUDENTIAL INDICATORS

Monitoring of Capital Spending in 2011-2012

9.1 Table 5 below provides a summary of forecast spending against the agreed 2011-2012 capital programme.

Table 5 Capital programme

Capital Programme (2011/12 to 2013/14)

Item PROJECT	2011/12 £000 Budget	2011/12 £000 Predicted outturn	2011/12 £000 Variation to budget	2012/13 £000 Budget	2013/14 £000 Budget
Estate Development					
1 Exeter Middlemoor	30	30	0		
2 Exeter Danes Castle	10	10	0		
3 SHQ major building works	96	96	0		
4 Major building works - training facilities at Exeter airport	1,000	796	(204)	1,900	
5 Minor improvements & structural maintenance (including slippage)	3,339	2,292	(1,047)	1,750	1,750
6 Welfare facilities	37	37	0		
7 New Dimensions (USAR) works	560	552	(8)		
Estates Sub Total	5,072	3,813	(1,259)	3,650	1,750
Fleet & Equipment					
8 Appliance replacement	397	397	0	1,400	1,700
9 Specialist Operational Vehicles	1,315	1,315	0		
10 Vehicles (funded from revenue)	0	0	0		
11 Equipment	127	127	0	200	200
12 Asset Management Plan (Miquest) software	129	129	0		
Fleet & Equipment Sub Total	1,968	1,968	0	1,600	1,900
Overall Capital Totals	7,040	5,781	(1,259)	5,250	3,650
Programme funding					
Main programme	3,757	2,498	(1,259)	4,500	3,650
Revenue funds	802	802	0	750	0
Grants	2,481	2,481	0	0	0
	7,040	5,781	(1,259)	5,250	3,650

9.2 With a quarter of the year gone, indications are that the capital budget will not be fully spent in 2011/12. Monthly monitoring will continue and if the pattern is maintained then it will mean that a revenue saving may be made in debt charges as a result of having to borrow less.

- 9.3 The budget set for the training facility at the airport site is currently £2.9m (£1m in 2011/12 and £1.9m in 2012/13). It is anticipated that the total cost may now be in the order of £3m. This additional cost can be found from other lines within the estates capital programme, however approval is requested for the budget for this project to be increased to £3m.

Prudential Indicators (including Treasury Management)

- 9.4 Appendix A provides a summary of performance against the agreed Prudential Indicators for 2011-2012.

10. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

- 10.1 As at 30 June 2011, an amount of £62,910 (£45,689 as at 31 March 2011) was due from debtors relating to invoices that are more than 85 days old, equating to 18.69% (12.41% as at 31 March 2011) of the total debt outstanding. Table 6 below provides a summary of all debt outstanding as at 30 June 2011.

TABLE 6 – OUTSTANDING DEBT AS AT 30 JUNE 2011

	Total Value £	%age
Current (allowed 28 days in which to pay invoice)	120,527	35.82
1 to 28 days overdue	105,154	31.26
29-56 days overdue	35,010	10.41
57-84 days overdue	12,837	3.82
Over 85 days overdue	62,910	18.69
Total Debt Outstanding as at 30 June 2011	336,438	100.00%

- 10.2 Historically, the target has been to achieve less than 10% of debt over 85 days old. Prompter payment should be an aim in order to maximise the cash available to the authority. It is therefore proposed to reduce the target to 5% and members are asked to endorse this recommendation.
- 10.3 Whilst the value of over 85 days debt of £62,910 exceeds the suggested target of below 5% of total debt, it should be noted that this figure includes an amount of £34,974 owed by two specific debtors which is subject to legal proceedings. If those two debtors were removed from the calculation then our performance would improve to 8.08%.

Payment of Supplier Invoices within 30 days

- 10.4 The authority attempts to pay its suppliers promptly. The target is that 98% of invoices should be paid within 30 days (or other agreed credit terms). At the end of June our performance stood at 97.25% but it should be possible to achieve the target by the end of the financial year.

KEVIN WOODWARD
Treasurer to the Authority

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	5.781	7.040	(£1.259m)(17.88%)
Capital Financing Requirement (CFR) - Total	31.512	33.039	(£1.527m) (4.62%)
- Borrowing	29.899	31.154	(£1.255m)
- Other long term liabilities	1.613	1.885	(£0.272m)
Authorised limit for external debt - Total	36.843	38.159	(£1.316m) (3.45%)
- Borrowing	35.230	36.229	(£0.999m)
- Other long term liabilities	1.613	1.930	(£0.317m)
Operational boundary for external debt - Total	35.267	36.507	(£1.240m) (3.40%)
- Borrowing	33.735	34.671	(£0.936m)
- Other long term liabilities	1.532	1.836	(£0.304m)
Investment Income – full year	0.100	0.100	£0.000m 0.00%
	Actual (30 June 2011) %	Target for quarter %	Variance (favourable) /adverse
Investment Return	0.82%	0.46%	(0.36) bp
	Forecast £m	Target £m	Variance (favourable) /adverse
Cost of Borrowing – Total	1.234	1.271	(£0.037m) (2.91%)
- Interest on existing debt as at 31-3-11	1.195	1.195	£0.000m
- Interest on proposed new debt in 2011-12	0.39	0.076	(£0.037m)

Prudential Indicators and Treasury Management Indicators	Forecast (31 March 2012) %	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	5.39%	30.00%	0.00%	(24.61%)
12 months to 2 years	6.64%	30.00%	0.00%	(23.36%)
2 years to 5 years	4.28%	50.00%	0.00%	(45.72%)
5 years to 10 years	1.75%	75.00%	0.00%	(73.25%)
10 years and above	81.95%	100.00%	50.00%	(18.05%)