M. Pearson
CLERK TO THE AUTHORITY

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

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

Your ref : SS/SY/Resources/Sept 2013
Our ref :
Website : www.dsfire.gov.uk

Date : 30 August 2013
Please ask for : Sam Sharman
Email : ssharman@dsfire.gov.uk

Telephone : 01392 872200
Fax : 01392 872300
Direct Telephone : 01392 872393

RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

Monday 9 September 2013

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

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

1. **Election of Chair**

2. **Apologies**

3. **Minutes** of the meeting held on 16 May 2013 attached (Page 1).

4. **Items Requiring Urgent Attention**

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

5. **Election of Vice Chair**

   PART 1 – OPEN COMMITTEE

6. **Financial Performance Report 2013/14: Quarter 1**

   Report of the Treasurer to the Authority (RC/13/7) attached (page 4).

7. **Capital Programme 2013/14 to 2015/16**

Report of the Director of Operations and Treasurer (RC/13/8) attached (page 18).

8. **Treasury Management Report 2013/14: Quarter 1**

Report of the Treasurer (RC/13/9) attached (page 25).

9. **Exclusion of the Press and Public**

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

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

10. **ICT Building at Service Headquarters**

Report of the Director of Corporate Services (RC/13/10) attached (page 32).

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Brooksbank, Burridge-Clayton, Chugg, Dyke, Gordon Greenslade and Yeomans

NOTES	
1.	**<u>Disclosable Pecuniary Interests (Authority Members only)</u>** If you have any disclosable pecuniary interests (as defined by Regulations) in any item(s) to be considered at this meeting then, unless you have previously obtained a dispensation from the Authority's Monitoring Officer, you must: (a) disclose any such interest at the time of commencement of consideration of the item in which you have the interest or, if later, as soon as it becomes apparent to you that you have such an interest; (b) leave the meeting room during consideration of the item in which you have such an interest, taking no part in any discussion or decision thereon; and (c) not seek to influence improperly any decision on the matter in which you have such an interest. If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have a disclosable pecuniary interest of a sensitive nature. You must still follow (b) and (c) above.
2.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
3.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Order 35, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.
4.	**<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 the person listed in the "Please ask for" section at the top of this agenda.

RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

16 May 2013

Present:-

Councillors Gordon (Chairman), Bown (vice Yeomans), Horsfall, Randall Johnson (vice Hughes OBE) and Woodman.

Apologies:-

Councillors Hughes OBE and Yeomans

***RC/18. Former Authority and Committee Members**

The Chairman and other Members present asked to have placed on record their appreciation for the contributions made both to the work of the Committee and the full Authority of Cathy Bakewell MBE and Dennis Smith who, following the recent local authority elections, would not be returning as Members of the Devon & Somerset Fire & Rescue Authority.

***RC/19. Minutes**

RESOLVED that the Minutes of the meeting held on 4 February 2013 be signed as a correct record.

***RC/20. Annual Grant to Service Ceremonial Unit 2013-14**

The Committee considered a report of the Chief Fire Officer (RC/13/5) on the making of a grant to the Service Ceremonial Unit by way of contribution to events scheduled for the forthcoming financial year and to assist towards the costs of replacement of certain consumables as identified in the report. The approved 2013-14 revenue budget contained provision to make grants. Financial Regulations required the level of grant sought by the Unit to be approved by the Committee.

Members acknowledged and asked to have placed on record their appreciation of the work of the unit in representing at the highest standard both the Devon & Somerset Fire & Rescue Service and the fire service nationally. Whilst being sympathetic to the requirement for grant funding from the Service, the Committee also felt that the Ceremonial Unit might benefit from seeking alternative, independent sources of finance (e.g. lottery funding), perhaps with support and assistance from the Service in doing so. The Committee also indicated that officers might wish to explore other options for financial support for the Unit, for example by a Service Level Agreement establishing an appropriate amount in the base budget so as to afford greater financial security for the Unit.

RESOLVED that a grant of £8,000 be made to the Ceremonial Unit for the 2013/14 financial year as a contribution towards those costs highlighted in paragraphs 2.2 to 2.4 of report RC/13/5.

RC/21. Financial Performance Report 2012-13: Quarter 4

The Committee considered a report of the Treasurer to the Authority (RC/13/6) setting out the Authority's performance against approved financial targets as at the end of the fourth quarter (31 March 2013).

The draft financial outturn position indicated an underspend of £1.681m (2%) against the approved revenue budget for 2012-13. The underspend was largely (£1m) attributable to positive action by budget managers to secure savings against the budgets for which they were responsible. The savings so identified had also been removed from the base budget for 2013-14. The report also detailed other significant variations against the approved 2012-13 revenue budget including, amongst other things:

- an overspend of £0.357m against the wholetime staff pay budget;
- an underspend of £0.390m against the retained pay budget (accounted for by a reduction in activity levels);
- an underspend of £0.459m against non-uniformed pay costs;
- greater than anticipated Treasury Management income, which had exceeded the original target by £0.131m.

Three contributions to earmarked reserves were included in the outturn figures as follows:

- £0.139m in grants received during 2012-13 but currently unapplied;
- £0.150m to enable completion next year of works commenced during the current financial year relating to a replacement telephone system (£0.100m) and remedial work to repair leakage from an oil bunker container at Taunton Fire Station (£0.050m).

Proposals for utilisation of the underspend, together with the current position in relation to financial reserves and provisions held by the Authority, were also identified in the report.

The Authority's capital programme for 2012-13 had initially been set at £8.597m but had subsequently been increased to £10.647m as a result of carrying forward slippage from the previous year and also by the addition of new capital spending items to be funded either from grant income or revenue contributions. The draft outturn position indicated capital spending of £4.662m against the total approved programme of £10.647m. The report indicated how the total spending would be financed and also set out reasons for the slippage of £5.985m. No prudential indicator had been breached from capital activity in 2012-13.

Finally, the report detailed aged debt analysis and identified those debts outstanding for more than 85 days, for which rigorous recovery action was in train.

RESOLVED that the Authority, at its meeting on the 30 May 2013, be recommended to approve:

(a) that the provisional underspend of £1.681m against the 2012-13 revenue budget be utilised to fund the following transfers to Earmarked Reserves, as outlined in paragraph 10.1 of report RC/13/5:

(i) £0.103m for essential spending pressures (£0.070m for breathing apparatus cylinder testing; £0.033m for specialist rescue level 4 boat training);

(ii) £1.578m to the Comprehensive Spending Review (CSR) 2010 Budget Strategy Reserve

(b) That an amount of £0.314m within Earmarked Reserves be transferred to General Reserves as outlined in paragraph 11.5 of this report.

(c) That, subject to (a) and (b) above, the following be noted:

(i) the draft position in respect of the 2012-13 Revenue and Capital Outturn position, as indicated in this report.

(ii) That the underspend figure of £1.681m is after;

(A) A transfer of £0.139m to the Grants Unapplied Reserve, as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised;

(B) A transfer of £2.832m to the Capital Funding Earmarked Reserve, relating to agreed revenue funding towards capital spending not utilised;

(C) A transfer of £0.150m to an Earmarked Reserve to fund 2012-13 Budget Carry Forwards; and

(D) An increase of £0.798m in the Provision set aside to fund the impact of the Employment Tribunal relating to Part Time Workers (Less than Favourable Working Conditions), as outlined in paragraph 3.7 of the report.

(d) that, subject to (a) to (c) above, the performance against agreed financial targets in 2012-13, as detailed in the report, be noted.

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

The meeting started at 10.00hours and finished at 11.53hours.

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/7**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 SEPTEMBER 2013**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2013-2014 – Quarter 1**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That the Fire and Rescue Authority, at its meeting on the 30 September 2013, be recommended to approve that an amount of £0.450m be transferred to an Earmarked Reserve to fund Enhanced Prevention Activities, as outlined in paragraph 9.2 of this report.*** ***(b) That subject to (a) above, the monitoring position in relation to projected spending against the 2013-2014 revenue and capital budgets be noted;*** ***(c) That the performance against the 2013-2014 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the first quarter performance (to July 2013) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2013-2014 revenue budget with explanations of the major variations. At this early stage in the financial year it is forecast that spending will be £1.011m less than budget, equivalent to just 1.32% of the total budget. This saving is largely attributable to the early implementation of our strategy to reduce non-operational support functions costs by at least £1.5m by 2015-16. Management action already taken this year, for instance, the deletion of 16 support staff posts (anticipated to reach 40 by 31 March 2014), and the application of new procurement strategies, means that not only are we delivering in-year savings, but also provides the confidence that the full year savings target of £1.5m by 2015-16 will be met.
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 2013-2014.
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 July 2013. As well as providing projections of spending against the 2013-2014 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 2013-2014

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 1	Previous Quarter	Quarter 1 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£76.784m	£75.773m	N/A	(1.32)%	N/A
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.76%	N/A	(1.76)bp	N/A
	Capital Targets					
3	Spending within agreed capital budget	£6.330m	£6.316m	N/A	(0.21)%	N/A
4	External Borrowing within Prudential Indicator limit	£25.978m	£26.214m	N/A	0.91%	N/A
5	Debt Ratio (debt charges over total revenue budget)	3.85%	3.85%	N/A	0.00bp	N/A

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

- **SECTION A** – Revenue Budget 2013-14.
- **SECTION B** – Capital Budget and Prudential Indicators 2013-14.
- **SECTION C** – Other Financial Indicators.

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

2. SECTION A - REVENUE BUDGET 2013-2014

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 by the year end will be £75.773m compared with an agreed budget figure of £76.784, representing a saving of £1.011m, equivalent to 1.32% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2013-2014

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2013/14

Line No	SPENDING	2013/14 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 4 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	EMPLOYEE COSTS					
1	Wholetime uniform staff	31,998	10,609	10,684	31,871	(128)
2	Retained firefighters	11,794	3,627	3,235	11,783	(11)
3	Control room staff	1,637	538	488	1,569	(68)
4	Non uniformed staff	10,977	3,653	3,324	10,287	(690)
5	Training expenses	1,436	474	362	1,229	(207)
6	Fire Service Pensions recharge	2,058	854	1,064	2,163	105
		59,900	**19,756**	**19,158**	**58,901**	**(999)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,150	381	381	1,123	(27)
8	Energy costs	628	161	314	602	(26)
9	Cleaning costs	435	121	141	438	3
10	Rent and rates	1,505	582	1,287	1,572	67
		3,719	**1,245**	**2,123**	**3,736**	**17**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	636	212	208	636	0
12	Running costs and insurances	1,406	732	553	1,458	52
13	Travel and subsistence	1,684	455	438	1,715	31
		3,726	**1,399**	**1,198**	**3,809**	**83**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,559	852	896	2,401	(158)
15	Supplies Internal Recharges	-	-	-	-	-
16	Hydrants-installation and maintenance	111	37	21	111	-
17	Communications	2,009	966	615	1,991	(18)
18	Uniforms	1,303	435	159	1,277	(26)
19	Catering	134	45	46	124	(10)
20	External Fees and Services	329	110	142	300	(29)
21	Partnerships & regional collaborative projects	136	45	42	136	-
		6,581	**2,489**	**1,922**	**6,340**	**(241)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	389	158	106	373	(16)
23	Advertising	51	18	4	32	(19)
24	Insurances	393	331	262	304	(89)
		832	**506**	**373**	**708**	**(124)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	549	156	177	475	(74)
		549	**156**	**177**	**475**	**(74)**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,583	738	316	4,421	(162)
27	Revenue Contribution to Capital spending	55	-	-	55	0
		4,638	**738**	**316**	**4,476**	**(162)**
28	**TOTAL SPENDING**	**79,944**	**26,290**	**25,267**	**78,444**	**(1,500)**
	INCOME					
29	Treasury management investment income	(100)	(33)	(56)	(100)	-
30	Grants and Reimbursements	(1,996)	(500)	(927)	(2,191)	(195)
31	Other income	(902)	(301)	(128)	(691)	211
32	Internal Recharges	(163)	(54)	(32)	(140)	23
33	**TOTAL INCOME**	**(3,161)**	**(888)**	**(1,143)**	**(3,122)**	**39**
34	**NET SPENDING**	**76,784**	**25,402**	**24,124**	**75,323**	**(1,461)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to Earmarked Reserve	-	-	-	450	450
		-	**-**	**-**	**450**	**450**
36	**NET SPENDING**	**76,784**	**25,402**	**24,124**	**75,773**	**(1,011)**

2.2 These forecasts are based upon the spending position at the end of July 2013, 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.

2.3 Members will recall as part of the discussions around the approval of the Corporate Plan that our strategy to deliver on-going savings of £8m by 2015-16 includes a savings target of £1.5m to come from non-operational support functions. It should be noted that this £1.5m is in addition to the £2.2m already removed from non-operational support function budgets since 2010-11. Report DSFRA/13/16 “Non-operational Savings” considered at the DSFRA meeting on the 10 July identified how this figure of £1.5m can be achieved including the deletion of approximately 40 posts by the end of this financial year.

2.4 To date, management have already taken decisions to delete 16 of these posts and are on target to reach 40 posts by the end of the financial year, contributing £0.690m of in-year savings. In-year efficiency savings of £0.189m are also forecast from the adoption of new improved procurement processes.

2.5 These in-year savings make a significant contribution to the forecast £1.011m underspend against the current year revenue budget. Savings against other budget heads e.g. Training Expenses and Capital Financing Costs are also reported. Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 8.

3. <u>EMPLOYEE COSTS</u>

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £0.128m less than the budget figure, equivalent to 0.40% of the total wholetime pay budget. This projection includes the impact of the agreed 1% pay award from July 2013.

3.2 It should be noted that, as part of the budget savings required to set a balanced budget for 2013-14, the wholetime staffing budget has been reduced by £0.5m to reflect vacancy management savings from predicted leavers during the financial year. Based upon current assumptions of further leavers, retirees and voluntary redundancies, during the remainder of the financial year it is forecast that this saving figure will be achieved.

Retained Pay Costs

3.3 At this early stage in the financial year spending is forecast to be just under budget with a small underspend of £0.011m. In making this projection an assumption has 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. It should be emphasised that by its very nature retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

3.4 Members will be well aware of the impending financial liability relating to the Employment Tribunal which ruled that, under the Part-Time Workers (less than favourable working conditions) Regulations, retained firefighters should have had the same access to pension benefits as their full-time colleagues. Whilst from 2006 retained staff have had such access, this was this was not the case prior to 2006. The ruling has meant that individual retained firefighters, both existing and retired, can now access the Firefighter Pension Scheme for the period from the year 2000 (the year the employment Tribunal was lodged) until 2006.

3.5 For each firefighter that opts to access the Pension scheme prior to 2006 the Authority will be required to pay an employer's contribution into the Pension Fund based upon pensionable pay during the relevant period. Each firefighter will also be required to pay an employee's contribution into the Fund, which for many will be a significant one-off payment.

3.6 A consultation document issued by the Department of Communities and Local Government (CLG) in July 2013 "Retained Firefighters Pension Settlement" sets out the proposed terms of access to a pension scheme for the period 1 July 2000 to 5 April 2006. It also provides a proposed timeframe of events including the process for retained staff to register an interest, and for each FRA to notify staff of the costs and benefits. Given that it is envisaged that this process will take up to twelve months to complete, it is not possible at this time to give a precise figure in terms of the liability to fall on the Authority.

3.7 The Authority has already prudently set aside an amount of £1.6m in a Provision to fund this liability when it is required to be settled. This figure has been calculated based upon an assumed level of take-up by retained staff. Clearly there is a risk that, should actual take-up levels exceed our assumptions, then this figure will prove to be insufficient. In such an event the additional cost would need to be funded from Authority Reserves.

Control Room Pay

3.8 The forecast outturn for Control Room Pay is for a saving of £0.068m, due to a change to the way shifts are crewed, which is partially offset by a provision for overtime to cover training on the new Control Software.

Non Uniformed Pay

3.9 Management action already taken this year has resulted in the deletion of 16 support staff posts. It is anticipated that this number will have reached 40 by the end of the financial year resulting in forecast savings of £0.690m against a budget of £10.977m. This figure includes known redundancy payments for non-uniformed staff.

Training Expenses

3.10 Training Expenses are expected to come in £0.207m under budget, primarily savings of £0.137m from Role Development courses, £0.091m on Assessment Centres and £0.021m of miscellaneous spends.

Pension Costs

3.11 Current predicted over spends of £0.105m on the Pensions Recharge are due to the anticipated number of ill-health retirements this year, which may change as time progresses due to the notice period necessary.

4. SUPPLIES AND SERVICES

Equipment and Furniture

4.1 Anticipated savings of £0.158m on equipment and furniture are due to £0.100m on Standard equipment as a result of planned procurement and spending strategies with savings of £0.058m on other operational equipment.

5. ESTABLISHMENT COSTS

Insurances

5.1 Forecast expenditure of £0.304m against budget of £0.393m will yield an under spend of £0.089m which is a result of improved procurement practices and joint working with other fire authorities to reduce premiums.

6. PAYMENT TO OTHER AUTHORITIES

Support Service Contracts

6.1 Expected savings of £0.074m on support services are primarily due to a reduced cost from the Occupational Health Services which are currently contracted to Devon County Council.

7. CAPITAL FINANCING COSTS

Capital charges

7.1 The forecast outturn for Capital Charges is £4.421m, a saving of £0.162m against budget. This is primarily due to a reduction in debt charges because of slippage in capital spending in 2012-13 resulting in reduced borrowing requirements.

8. INCOME

Grants and Reimbursements

8.1 Income from Grants and Reimbursements is expected to be £0.195m better than budgeted. However, the majority of funds will be spent in year (reflected on expense lines) so there is no net savings effect.

9. TRANSFERS TO/FROM RESERVE BALANCES

Earmarked Reserve

9.1 Members will recall that one of the eleven proposals, agreed as part of the Corporate Plan, was for an amount of £0.450m to be set aside and used to enhance our targeted approach to towards prevention activity in its widest sense. It is intended that this activity will be spread over a number of years in support of the delivery of the Corporate Plan proposals. No budget provision currently exists for this activity.

9.2 It is therefore recommended that an amount of £0.450m be transferred from the current year's budget forecast to an Earmarked Reserve to support this increased activity. Appendix A includes the impact of this proposed transfer on the basis that it is approved.

10. BUDGET SAVINGS

10.1 Members will recall that in setting the 2013-14 revenue budget additional on-going savings of £1.573m were identified as part of our savings strategy to offset the 25% reductions in government grants over the four year Comprehensive Spending Review 2010 (CSR 2010) period to 2015-16. This £1.573m of savings are in addition to £2.172m of on-going savings identified in previous years, therefore increasing the total on-going savings identified over and above the 2010-11 base budget to £3.745m.

10.2 The delivery of in-year savings, as reported within this report provides confirmation that the targets are being overachieved, and provides the confidence that the further savings targeted from next year from non-operational support functions can be met. It is also expected that further in-year operational savings will be achieved through implementation of the Corporate Plan which will improve this figure during the remainder of the financial year.

11. RESERVES AND PROVISIONS

11.1 As well as the funds available to the authority by setting an annual budget, the Authority also holds reserve and provision balances.

Reserves

11.2 There two types of Reserves held by the Authority:

Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

11.3 In addition to reserves the Authority may also hold provisions which can be defined as:

Provisions – a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

11.4 A summary of predicted balances on Reserves and Provisions is shown in Table 4 overleaf. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2014

RESERVES	Balance as at 1 April 2013 £000	In-Year Transfers £000	Spending to Quarter 1 2013 £000	Projected Outturn £000	Projected Balance as at 31 March 2014 £000	
Earmarked reserves						
Grants unapplied in 2010-11	2,250		11	44	2,206	
Change & improvement programme	511		-	-	511	
Commercial Services	253		19	30	223	
Direct Funding to Capital	3,876		-	3,295	581	
CSR 2010	3,395 *		-	-	3,395	
2012-13 Budget Carry Forwards	150		-	150	0	
Grants unapplied in 2011-12	139		-	139	0	
Essential Spending Pressures	103		-	103	0	
Community Safety Investment	0	450	-	200	250	
Total earmarked reserves	**10,677**	**450**	**31**	**3,961**	**7,166**	
General reserve						
General fund balance	**5,191**				**5,191**	
Percentage of general reserve compared to net budget						6.76%
TOTAL RESERVE BALANCES	**15,867**				**12,356**	
PROVISIONS						
Part time workers - retained fire fighters	1,605		1	1	1,604	
TOTAL PROVISIONS	**1,605**		1	1	**1,604**	

***** The CSR 2010 Reserve has been established to provide additional financial contingency during the period of austerity, which is now anticipated to go beyond the current CSR 2010 period until at least 2017-18. Given that the proposals within the Corporate Plan are to be implemented with no compulsory redundancies this Reserve will be utilised over the period of austerity measures to fund staffing costs, including redundancy costs, where required. It also provides further contingency in the event that government grant reductions are larger than included in the Authority Medium Term Financial Plan.

12. SUMMARY OF REVENUE SPENDING

12.1 At this stage it is forecast that spending will be £1.011m less than the agreed budget figure for 2013-14. It is anticipated that this saving figure will be improved upon as we move further into the financial year and further efficiency savings can be delivered against budget heads. This forecast saving figure is primarily attributable to the early adoption of our strategy to have reduced non-operational support function costs by an amount of £1.5m by 2015-16.

12.2 Given that we are still relatively early in the financial year, and the figures will inevitably be subject to change, this report does not make any recommendation as to how this forecast saving is to be utilised. Future decisions to be made by the Committee as to how the savings figure is to be best utilised will be influenced by other factors e.g. clarity around the liability in respect of retained pension costs (see Para 3.7), the need to support capital spending plans therefore reducing debt exposure (separate report on Capital Programme 2013-14 to 2015-16), and also the need to maintain sufficient Reserve balances during the period of austerity, now anticipated to be to at least 2017-18.

13. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2013-14

Monitoring of Capital Spending in 2013-14

13.1 Elsewhere on the agenda for this meeting is a separate report relating to a revised capital programme for the years 2013-14 to 2015-16. That report seeks approval for an increase in the 2013-14 capital programme of £1.332m i.e. from £4.998m (as agreed at the budget meeting in February 2013) to £6.330m. As is emphasised within that report this increase does not represent an increase in borrowing requirement, it is predominantly to reflect slippage in spending from the previous financial year.

13.2 Table 5 overleaf provides a summary of forecast spending against the revised 2013-2014 capital programme. At this stage it is forecast that total capital spending will be £6.317m.

TABLE 5 – CAPITAL MONITORING 2013-14

	PROJECT	2013/14 £000 Budget	2013/14 £000 Forecast Outturn	2013/14 £000 Variation to Budget
	Estate Development			
1	SHQ major building works	121	121	0
2	Major Projects - Training Facility at Exeter Airport	1,544	1,544	0
3	Minor improvements & structural maintenance	988	988	0
4	Minor Works slippage from earlier years	300	300	0
	Estates Sub Total	2,953	2,953	0
	Fleet & Equipment			
5	Appliance replacement - slippage from 12-13	337	337	0
6	Specialist Operational Vehicles - slippage from 12-13	1,531	1,529	(2)
7	Equipment - slippage from 12-13	181	169	(12)
8	Vehicles funded from revenue	13	13	0
9	Appliance replacement	1,015	1,015	0
10	Equipment	300	300	0
	Fleet & Equipment Sub Total	3,377	3,363	(14)
	SPENDING TOTALS	**6,330**	**6,316**	**(14)**
	Programme funding			
	Main programme	1,595	1,581	(14)
	Revenue funds	3,295	3,295	0
	Grants	1,440	1,440	0
	FUNDING TOTALS	**6,330**	**6,316**	**(14)**

Prudential Indicators (including Treasury Management)

13.3 Table 5 also illustrates how the forecast spending of £6.316m is to be financed, which includes an additional borrowing requirement of £1.581m to finance capital spending. As is reported in the separate Treasury Management Performance Report elsewhere on the agenda, no additional borrowing has been taken out during the first quarter. At this stage there are no plans to take out any further borrowing to fund capital spending in the remainder of the financial year, as internal borrowing i.e. temporary cash balances will be used in the first instance. However this position may change depending on movement in PWLB rates, which are monitored on a daily basis.

13.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 July 2013 stands at £27.167m, forecast to reduce to £26.214m by 31 March 2014 as a result of principal repayments. This level of borrowing is well within the Authorised Limit for external debt of £32.766m (the absolute maximum the Authority has agreed as affordable).

13.5 At this stage of the year income from the investment of working balances into short-term deposits is anticipated to reach the target figure of £0.100m by 31 March 2014. Investment returns have yielded an average return of 0.43%, which outperforms the LIBID 3 Month return (industry benchmark) of 0.38% for the quarter.

13.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2013-2014, which illustrates that at this time there is no anticipated breach of any of these indicators.

14. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

14.1 Total debtor invoices outstanding as at 31 July 2013 is £524,647 a small reduction on the previous reported figure of £598,311 as at 31 March 2013.

14.2 Of this figure an amount of £67,281 (£100,778 as at 31 March 2013) was due from debtors relating to invoices that are more than 85 days old, equating to 12.82% (16.84% as at 31 March 2013) of the total debt outstanding. Table 6 below provides a summary of all debt outstanding as at 31 July 2013.

TABLE 6 – OUTSTANDING DEBT AS AT 31 JULY 2013

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	4,021	0.77%
1 to 28 days overdue	95,421	18.19%
29-56 days overdue	55,022	10.49%
57-84 days overdue	302,902	57.73%
Over 85 days overdue	67,281	12.82%
Total Debt Outstanding as at 31st July 2013	**524,647**	**100.00%**

14.3 Table 7 overleaf provides further analysis of those debts in excess of 85 days old.

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Individual Debts less than £1,000	16	£4,594	Each debt being pursued by the Risk and Insurance Officer.
Georgia Group	1	£62,687	This is a claim that relates to a breach of contract and refunds due to the Authority in relation to training courses not delivered. The Authority is in dispute with the Georgia Group over this issue and is progressing legal options to secure a successful resolution.

Payment of Supplier Invoices within 30 days

14.4 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). Actual performance to the end of July 2013 was 90.61%, a decline against the previous reported figure of 95.44% as at 31 March 2013.

KEVIN WOODWARD
Treasurer to the Authority

APPENDIX A – PRUDENTIAL INDICATORS 2013-2014

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	**6.316**	**6.330**	**(£0.014m)**
Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**27.746** 26.214 1.532	**27.510** 25.978 1.532	**£0.236m**
Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**27.746** 26.214 1.532	**34.296** 32.776 1.520	**(£6.550m)**
Debt Ratio (debt charges as a %age of total revenue budget	**3.85%**	**3.85%**	**(0.00)bp**
Cost of Borrowing – Total -Interest on existing debt as at 31-3-13 -Interest on proposed new debt in 2013-14	**1.132** 1.132 0000	**1.132** 1.132 0.000	**(£0.000m)**
Investment Income – full year	**0.100**	**0.100**	**(£0.000m)**
	Actual (31 July 2013) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.43%**	**0.38%**	**(0.05)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (31 March 2014) %	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	3.51%	30.00%	0.00%	(26.49%)
12 months to 2 years	0.99%	30.00%	0.00%	(29.01%)
2 years to 5 years	1.15%	50.00%	0.00%	(48.85%)
5 years to 10 years	5.03%	75.00%	0.00%	(69.97%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**89.31%** 16.59% 13.62% 24.66% 34.45%	**100.00%**	**50.00%**	**(10.69%)**

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/8**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 SEPTEMBER 2013**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2013-14 TO 2015-16**
LEAD OFFICER	**Director of Operations and Treasurer**
RECOMMENDATIONS	***That it be recommended to the Devon and Somerset Fire and Rescue Authority on 30 September that the revised Capital Programme and associated prudential indicators for 2013-14 to 2015-16, as included in this report, be approved.***
EXECUTIVE SUMMARY	A three year capital programme for 2013-14 to 2015-16 was approved at the budget meeting in February 2013. This report proposes a revision to that programme to reflect: a) An increase in the amount of slippage from 2012-13 to be carried forward to 2013-14. b) Additional capital spending items in 2013-14 to be funded from revenue contributions and grant funding. It should be emphasised that these proposed increases do not require any increase in the Authority external borrowing requirements.
RESOURCE IMPLICATIONS	As indicated within the Report
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Approved Capital Programme (2013/14 to 2015/16) B. Revised Capital Programme (2013/14 to 2017/18) C. Prudential Indicators
LIST OF BACKGROUND PAPERS	Report DSFRA/13/2 “Capital Programme 2013-14 to 2015-16” - as reported to DSFRA 18 February 2013.

1. INTRODUCTION

1.1 The current capital programme covering the three years 2013-14 to 2015-16 was approved at the budget meeting in February 2013.

1.3 This report seeks approval of the Authority to increase the programme figure for 2013-14 by an amount of £1.332m, of which an amount of £1.236m is to reflect additional slippage in spending in 2012-13, required to be carried forward into 2013-14, £0.055m to fund two additional capital spending items to be funded from direct revenue contributions to capital, and £0.041m is additional grant funding for environmental protection units.

1.4 It should be noted that the proposed changes do not require any additional external borrowing, over and above what has already been agreed, and therefore places no further burden on the revenue budget in terms of debt charges.

2. CURRENT CAPITAL PROGRAMME 2013-14 TO 2015-16

2.1 Each year the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme.

2.2 At the budget meeting on 18 February 2013 the Authority considered and approved a three year capital programme covering the years 2013-14 to 2015-16 (report DSFRA/13/2 “Capital Programme 2013-14 to 2015-16” refers). This approved programme is included as Appendix A.

2.3 As is the case in each year considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously approved by the Authority. The impact of a reducing revenue base on the Service’s ability to borrow whilst maintaining debt charge below this ceiling has, however, made the allocation of funds between the main cost centres of fleet and estates increasingly difficult.

2.4 Over the last 4 years funds have been directed towards specific Estates projects culminating in the Training Academy build at Exeter Airport, reducing the available budget for the vehicle replacement programme, thereby creating a significant backlog. There is an increasing need to reinstate this programme in the next financial year, with the proposed introduction of the Light Rescue Pump.

2.5 Whilst the approved programme for 2013-14 to 2015-16 has been constructed on the basis of what is affordable in terms of its exposure to external borrowing and taking account of the current economic position, as was reported to the February meeting, it does come with some risk in terms of progression of the Programme from 2016-17 onwards which may require a reconsideration by the Authority of its previous stance on the 5% Prudential Indicator.

2.6 Whilst a three year capital programme has been considered and approved, Appendix A also includes indicative spending levels for the three years beyond 2015-16. This enables debt levels and resulting debt charges to be forecast over a longer period. Based upon these figures it is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £25m to £36m by 2018/19. Figure 1 below provides this analysis for each year.

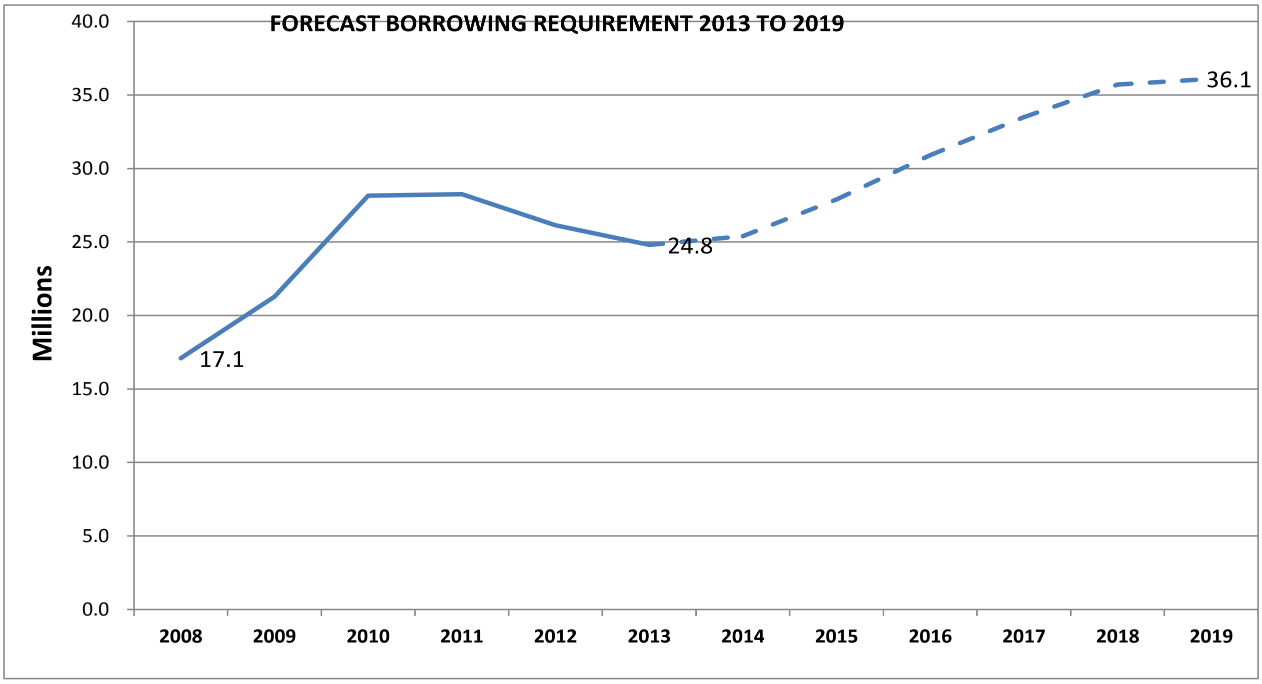


Figure 1

2.7 Clearly any increase in external borrowing will put additional pressure on the revenue budget in terms of increased debt charges. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority and affordability tests to be applied. Figure 2 provides a summary of estimated debt charge emanating from this borrowing profile. These amounts are included in the 2013/14 revenue base budget and Medium Term Financial Plan 2013/14 to 2018/19.

<u>Summary of Estimated Capital Financing Costs</u>

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Base budget for Capital Financing costs Debt charges and operating leasing rentals	4.753	4.625	4.398	4.660	4.848	5.206	5.535
Change over previous year		-0.128	-0.227	0.262	0.188	0.358	0.329
Debt ratio	***3.71%***	***3.89%***	***3.83%***	***4.42%***	***5.08%***	***5.64%***	***6.17%***

Figure 2

2.8 As is illustrated from Figure 2 current forecasts are that the 5% ceiling will be breached in 2016-17 (5.08%). Given this forecast breach, a further review of the sustainability of applying the 5% limit will be required prior to consideration of the next three year capital programme as part of the budget setting process for 2014-15. A further report will be brought to this Committee later in 2013 in good time to inform budget planning for 2014-15.

3. PROPOSED REVISON TO CAPITAL PROGRAMME

3.1 Appendix B to this report provides a revised capital programme for the years 2013-14 to 2015-16. This revised programme reflects an increase in the capital programme figure for 2013-14 from £4.998m to £6.330m i.e. an increase of £1.332m. The increase of £1.332m is to cover:

a) Slippage in spending in 2012-13 of £1.236m more than had been anticipated when setting the original programme for 2013-14. This slippage is required to be carried forward to 2013-14 and therefore reflects only a change to the timing of spend rather than an increase to funding requirements.
b) An increase of £0.055m to cover the cost of two additional capital spending items to be funded from the revenue budget by way of a direct revenue contribution.
c) Additional grant funding of £0.041m from the Environment Agency towards specialist Environmental Protection Units

3.2 It should be emphasised that these proposed changes do not require any increase in the need to borrow to fund capital spend, over and above the figures included in this report in Figures 1 and 2.

3.3 Appendix C to this report provides a summary of the revised prudential indicators emanating from the revised programme.

4. SUMMARY AND RECOMMENDATION

4.1 This report provides a revision to the agreed capital programme for the year 2013-14. The Committee is asked to recommend this revision, and associated prudential indicators, to the next meeting of the Fire and Rescue Authority to be held on the 30 September 2013.

4.2 Looking ahead, the affordability of future capital spending will inevitably be under more pressure given a reducing a revenue budget. The next review of capital spending plans will take place in good time to inform the budget setting process for 2014-15.

TREVOR STRATFORD
Director of Operations

KEVIN WOODWARD
Treasurer

Capital Programme (2013/14 to 2017/18)

2012/2013 Revised Programme (£000)	2012/2013 Predicted outturn (£000)	Item PROJECT	PROPOSED PROGRAMME 2013-14 TO 2015-16 2013/14 (£000)	2014/15 (£000)	2015/16 (£000)	INDICATIVE PROGRAMME 2016-17 TO 2018-19 2016/17 (£000)	2017/18 (£000)	2018/19 (£000)
		Estate Development						
92	77	SHQ major building works	15					
3,284	2,184	Major Projects - Training Facility at Exeter Airport	1,100					
		Minor improvements & structural maintenance	300	2,050	1,750	1,750	1,750	1,750
15	15	Welfare Facilities						
105	105	USAR works						
343	343	Minor Works slippage from 2010-11						
1,674	1,063	Minor Works slippage from 2011-12	566					
2,140	530	Minor Works slippage from 2012-13	530					
52	52	STC ship structure						
7,705	4,369	**Estates Sub Total**	2,511	2,050	1,750	1,750	1,750	1,750
		Fleet & Equipment						
		Appliance replacement	1,015	2,480	3,125	2,480	2,480	1,395
		Specialist Operational Vehicles				400	400	
177	177	Vehicles funded from revenue						
242	91	Equipment	451	1,184	300	300	300	200
889	648	Appliance & Specialist Operational Vehicle slippage 2011-12						
1,620	599	Appliance & Specialist Operational Vehicle slippage 2012-13	1,021					
2,928	1,515	**Fleet & Equipment Sub Total**	2,487	3,664	3,425	3,180	3,180	1,595
10,633	**5,884**	**SPENDING TOTALS**	**4,998**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**
		Programme funding						
4,179	2,670	Main programme	360	4,316	5,175	4,930	4,930	3,345
4,433	1,193	Revenue funds	3,240					
2,021	2,021	Grants	1,398	1,398				
10,633	**5,884**	**FUNDING TOTALS**	**4,998**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**

Revised Capital Programme (2013/14 to 2017/18)

2012/2013 Revised Programme (£000)	2012/2013 Outturn (£000)	PROJECT	PROPOSED PROGRAMME 2013-14 TO 2015-16 2013/14 (£000)	2014/15 (£000)	2015/16 (£000)	INDICATIVE PROGRAMME 2016-17 TO 2018-19 2016/17 (£000)	2017/18 (£000)	2018/19 (£000)
		Estate Development						
92	3	SHQ major building works	121					
3,284	2,090	Major Projects - Training Facility at Exeter Airport	1,544					
2,140	820	Minor improvements & structural maintenance	988	2,050	1,750	1,750	1,750	1,750
15	15	Welfare Facilities						
112	109	USAR works						
343	343	Minor Works slippage from 2010-11						
1,674	549	Minor Works slippage from 2011-12						
52	47	Minor Works slippage from 2012-13	300					
0	0	STC ship structure	0					
7,712	3,976	**Estates Sub Total**	2,953	2,050	1,750	1,750	1,750	1,750
		Fleet & Equipment						
700	207	Appliance replacement	1,015	2,480	3,125	2,480	2,480	1,395
920	251	Specialist Operational Vehicles				400	400	
184	183	Vehicles funded from revenue	13					
242	45	Equipment	300	1,184	300	300	300	200
889	0	Appliance & Specialist Operational Vehicle slippage	1,868					
		Equipment Slippage	181					
2,935	686	**Fleet & Equipment Sub Total**	3,377	3,664	3,425	3,180	3,180	1,595
10,647	**4,662**	**SPENDING TOTALS**	**6,330**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**
		Programme funding						
4,179	2,076	Main programme	1,596	4,316	5,175	4,930	4,930	3,345
3,247	415	Revenue funds	3,295					
1,200	150	Earmarked Reserves						
2,021	2,021	Grants	1,440	1,398				
10,647	**4,662**	**FUNDING TOTALS**	**6,330**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2016/17 TO 2018/19		
	2013/14 £m estimate	2014/15 £m estimate	2015/16 £m estimate	2016/17 £m estimate	2017/18 £m estimate	2018/19 £m estimate
Capital Expenditure						
Non - HRA	6.330	5.714	5.175	4.930	4.930	3.345
HRA (applies only to housing authorities						
Total	6.330	5.714	5.175	4.930	4.930	3.345
Ratio of financing costs to net revenue stream						
Non - HRA	3.85%	3.88%	4.49%	5.15%	5.71%	6.24%
HRA (applies only to housing authorities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,978	28,430	31,472	33,968	36,214	36,608
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,532	1,509	1,443	1,374	1,299	1,209
Total	27,510	29,939	32,915	35,342	37,513	37,817
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	-356	2,430	2,974	2,423	2,168	301
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	-356	2,430	2,974	2,423	2,168	301
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.36	-£1.18	-£0.96	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	32,770	35,390	37,788	38,306	39,343	40,122
Other long term liabilities	1,520	1,449	1,371	1,278	1,177	1,070
Total	34,290	36,839	39,159	39,584	40,520	41,192
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	31,472	33,968	36,214	36,608	37,532	38,292
Other long term liabilities	1,443	1,374	1,299	1,209	1,112	1,010
Total	32,915	35,342	37,513	37,817	38,644	39,302

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2013/14		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 SEPTEMBER 2013**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2013-2014 – QUARTER 1**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2013-2014 (to June) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The 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 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 2013.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/13/3 – as approved at the meeting of the DSFRA meeting held on the 18 February 2013.

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) 2011 Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. The most recent revision of the Code was adopted at the meeting of the DSFRA on the 18th February 2013. 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

Global economy

2.1 Indicators suggest that the economy has accelerated during the quarter to the 30th June;

- Stronger household spending, both on and off the high street;
- Inflation remained above the Monetary Policy Committees 2% target;
- 10 year gilt yields rose above 2.5% and the FTSE 100 fell below 6100;
- The Federal Reserve discussed tapering the pace of asset purchases with a resulting rise in US Treasury yields which was replicated in the UK;
- Tension in the Eurozone eased but there remained a number of triggers for a potential flare up.

2.2 Sector's interest rate forecast

The most recent forecast received from Sector in August 2013 suggested the following anticipated rates.

	NOW	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3 month LIBID	0.39	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.80	1.00
6 month LIBID	0.47	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.90	1.10	1.30
12 month LIBID	0.74	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.90	1.00	1.20	1.40	1.60	1.80	2.00
5 yr PWLB	2.20	2.20	2.20	2.20	2.20	2.20	2.30	2.40	2.50	2.60	2.80	2.90	3.00	3.20	3.30	3.40
10 yr PWLB	3.40	3.30	3.30	3.30	3.30	3.30	3.40	3.50	3.60	3.80	3.90	4.10	4.20	4.30	4.40	4.50
25 yr PWLB	4.30	4.20	4.20	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.00	5.10	5.10	5.20
50 yr PWLB	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.10	5.20	5.20	5.30

2.3 In Mervyn King's last Inflation Report as Governor of the Bank of England, there was a distinct shift towards optimism in terms of a marginal upgrading of growth forecasts so that the wording changed for the recovery from "remains weak by historical standards" to "modest and sustained recovery over the next three years". The overall balance of risks to economic recovery in the UK is now evenly weighted.

UK

- Mark Carney started on the 1st July as the new Governor of the Bank of England;
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up but this is still a long way from the UK getting back to strong growth;
- Consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded;
- There is little potential for more Quantitative Easing (QE) in 2013 to stimulate economic activity;

Eurozone

- With the exception of Germany, most Eurozone countries are now battling against recession with growth prospects poor due to the need to adopt austerity programmes to bring government deficits under control;
- The European Central Bank cut its central rate from 0.75% to 0.5% but this is unlikely to significantly improve prospects for Gross Domestic Product growth.

US

- There has been a strong resurgence of confidence in US financial markets due to the "fiscal cliff" being largely averted or postponed. However with tax increases and cuts in Government expenditure leading to cuts in jobs the potential for recovery in growth rates is being dampened

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 18th February 2013. 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 a significant proportion of 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 2013 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 £25.991m. 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 for quarter**
3 Month LIBID	0.38%	0.43%	£(44,004)

3.6 As illustrated, the authority outperformed the 3 month LIBID benchmark by 0.05 bp**.** The Authority's budgeted investment return for 2013-2014 is £0.100m, and performance so far this year indicates that this figure will be met by March 2014.

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 2013-2014, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to June 2013 and that there are no concerns that they will be breached during the financial year.

New Borrowing

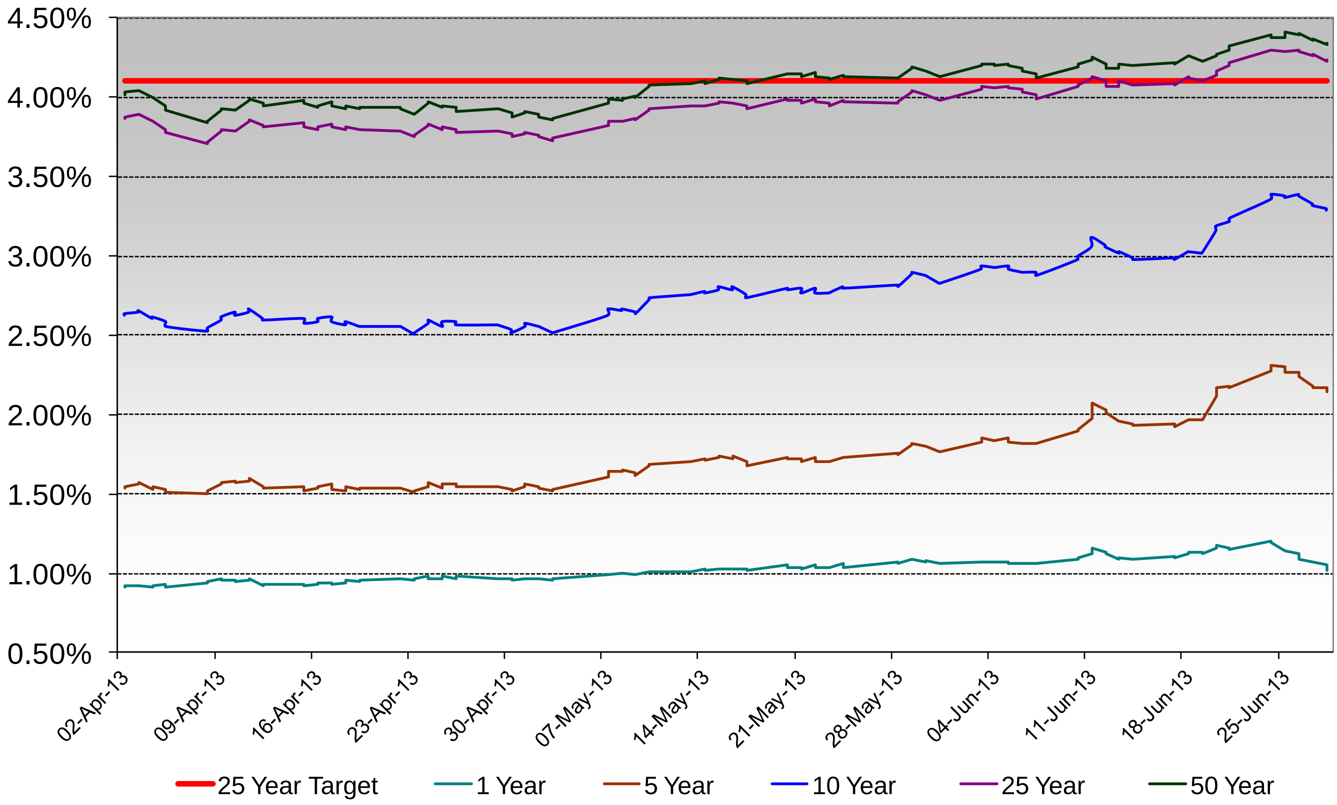
3.9 Sector's 25 year PWLB target rate for new long term borrowing for the quarter remained at 4.10%.

3.10 No new borrowing was undertaken during the quarter and external borrowing as at 30 June 2013 was £27.167m. No debt rescheduling was undertaken during this quarter of the year

3.11 PWLB certainty rates for the quarter ended 30 June 2013 are shown below. DSFRA is eligible to borrow at certainty rates.

PWLB rates quarter ended 30.6.2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.91%	1.50%	2.51%	3.71%	3.84%
Date	02/04/2013	08/04/2013	23/04/2013	08/04/2013	08/04/2013
High	1.20%	2.31%	3.39%	4.30%	4.41%
Date	24/06/2013	24/06/2013	24/06/2013	24/06/2013	25/06/2013
Average	1.02%	1.75%	2.81%	3.95%	4.09%



3.12 It is anticipated that internal borrowing and available grants will reduce the need to borrow from the PWLB although a small amount of borrowing may be necessary. This will be subject to certainty rates on offer and the delivery of the capital programme.

4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with a first quarter report of the treasury management activities for 2013-2014. 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 anticipating that investment returns will meet those originally budgeted.

KEVIN WOODWARD
Treasurer

Investments as at 30th June 2013

% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Period Invested	Interest Rate
20.32%	Bank of Scotland	5.0	1.500	T	04/07/2013	1 yr	3.00%
			1.500	T	04/07/2013	1 yr	3.00%
			2.000	T	08/11/2013	6mths	0.80%
24.40%	Barclays	10.0	2.000	T	07/07/2013	3mths	0.44%
			2.000	T	20/08/2013	3mths	0.45%
			2.000	T	29/11/2013	6mths	0.53%
2.90%	Black Rock	5.0	0.714	C			Variable
19.87%	Ignis Money Market Fund	5.0	4.888	C			Variable
8.13%	Local Authority	1.5	2.000	T	15/07/2013	1 yr	0.34%
4.06%	Nationwide B/S	1.5	1.000	T	19/12/2013	6mths	0.39%
20.32%	National Westminster	1.5	5.000	T	02/08/2013	3mths	0.90%
			24.602				