M. Pearson
CLERK TO THE AUTHORITY

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

SERVICE HEADQUARTERS
THE KNOWLE
CLYST ST GEORGE
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EX3 0NW

Your ref :
Our ref : SS/SY/RC/Nov 2013
Website : www.dsfire.gov.uk

Date : 5 November 2013
Please ask for : Sam Sharman
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RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

Wednesday 13 November 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. **Apologies**

2. **Minutes** of the meeting held on 9 September 2013 attached (Page 4).

3. **Items Requiring Urgent Attention**

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

PART 1 – OPEN COMMITTEE

4. **Financial Performance Report 2013-2014: Quarter 2**

Report of the Treasurer (RC/13/11) attached (page 9).

5. **Treasury Management Performance 2013-2014: Quarter 2**

Report of the Treasurer (RC/13/12) attached (page 21).

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

Nil

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Greenslade (Chair), Brooksbank, Burridge-Clayton, Chugg, Dyke, Gordon 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)

9 September 2013

Present:-

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

Apologies:-

Councillor Chugg

Also in attendance in accordance with Standing Order 36

Councillors Eastman, Horsfall and Woodman.

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

Councillor Dyke nominated, with Councillor Yeomans seconding, Councillor Greenslade as Chair of the Committee. There being no further nominations, it was

RESOLVED that Councillor Greenslade be elected Chair of the Committee until its first meeting following the Authority annual meeting in 2014.

***RC/2. Minutes**

RESOLVED that the Minutes of the meeting held on 16 May 2013 be signed as a correct record.

***RC/3. Election of Vice Chair**

Councillor Dyke nominated, with Councillor Gordon seconding, Councillor Yeomans as Vice-Chair of the Committee. There being no further nominations it was

RESOLVED that Councillor Yeomans be elected Vice-Chair of the Committee until its first meeting following the Authority annual meeting on 2014.

RC/4. Financial Performance Report 2013-14: Quarter 1

(Councillor Greenslade declared a **personal interest** only in this item, in relation to monitoring of the approved capital programme 2013-14 to 2015-16 and in particular the major project for a Training Facility at Exeter Airport, by virtue of his being a non-executive Director on the board of Exeter International Airport Ltd. This was not a disclosable pecuniary interest).

The Committee considered a report of the Treasurer to the Authority (RC/13/7) on performance during the first quarter of the current (2013-14) financial year against approved financial targets and providing a forecast of spending against the approved 2013-14 revenue budget with explanations of the major variations.

At this early stage, it was forecast that spending would be some £1.011m (1.32%) less than the approved total budget. This saving was largely attributable to early implementation of the strategy to reduce non-operational support function costs. Positive management action (including the deletion of 16 support staff posts - anticipated to reach 40 by 31 March 2014) combined with new procurement strategies provide a good confidence level that the projected full year savings of £1.5m by 2015-16 would be met.

The Committee was reminded, though, that the issue of firefighter pensions for retained staff, linked to the ruling on the application of the Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000, had yet to be fully resolved. While the Authority had established a provision of £1.6m to address this, the actual final impact on the Authority could be more significant depending on take-up by retained staff.

Nonetheless, given the indicative level of underspend it was proposed that £450,000 be transferred to an ear-marked reserve to fund enhanced prevention activities as set out in the Corporate Plan approved by the Authority at its meeting on 10 July 2013 (Minute DSFRA/20(f) refers).

The report also set out the forecast reserves and provisions balances as at 31 March 2014.

With regard to capital spending in 2013-14, a report elsewhere on the agenda for the meeting sought approval for an increase of £1.332 to the approved programme (from £4.998m to £6.330m). This increase did not reflect, however, any increase in borrowing requirement but addressed slippage from the previous financial year final details of which were not known when the programme was initially approved.

Finally, the report commented on performance against other financial indicators, namely aged debt analysis and payment of supplier invoices within 30 days.

RESOLVED

(a) that the Authority, at its meeting on the 30 September 2013, be recommended to approve the transfer of £0.450m from the 2013-14 approved revenue budget to an Earmarked Reserve to fund enhanced prevention activities, as outlined in paragraph 9.2 of this RC/13/7 and referred to above;

(b) that, subject to (a) above, the monitoring position in relation to projected spending against the 2013-2014 revenue and capital budgets as set out in the report and outlined above be noted;

(c) that the performance against the 2013-2014 financial targets as indicated in the report be noted.

(SEE ALSO MINUTE RC/5 BELOW)

RC/5. **<u>Capital Programme 2013-14 to 2015-16</u>**

(Councillor Greenslade declared a **personal interest** only in this item, in particular the major project for a Training Facility at Exeter Airport, by virtue of his being a non-executive Director on the board of Exeter International Airport Ltd. This was not a disclosable pecuniary interest).

The Authority received a report of the Director of Operations and the Treasurer (RC/13/8) on proposed revisions to the capital programme 2013-14 to 2015-16 as approved initially by the Authority at its budget meeting in February (Minute DSFRA/ refers).

The proposed revisions would reflect an increase in slippage from 2012-13 being carried forward to 2013-14 and additional capital spending items in 2013-14 being funded from revenue contributions and grant funding. The proposed increases did not require, however, any increase in the Authority’s external borrowing requirements.

RESOLVED that the Authority, at its meeting on 30 September 2013, be recommended to approve the revised Capital Programme and associated prudential indicators for 2013-14 to 2015-16, as identified in report RC/13/8 and summarised in Appendices A and B respectively to these Minutes.

(SEE ALSO MINUTE RC/4 ABOVE).

***RC/6.** **Treasury Management Report 2013/14: Quarter 1**

The Committee received for information a report of the Treasurer (RC/13/9) on the performance of the Authority's treasury management activities for the first quarter (April to June) of the current, 2013-14, financial year. Submission of the report accorded with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.

No prudential indicators had been breached and a prudent approach had been adopted for investment decisions with priority being given to liquidity and security over yield. While investment return remained low because of low interest rates it was nonetheless still anticipated that they would meet the budgeted target.

***RC/7.** **Exclusion of the Press and Public**

RESOLVED 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 organisations.

RC/8. **ICT Building at Service Headquarters**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded from the meeting).

The Committee considered a report of the Director of Corporate Services (RC/13/10) on the outcome of discussions with Devon County Council on the transfer into ownership of the Authority of the ICT building at Service Headquarters. At the time of the initial establishment of the Devon Fire Authority and at the subsequent merger with the Somerset Fire & Rescue Service the building had, somewhat anomalously, remained in the ownership of Devon County Council.

RESOLVED that the Authority be recommended to approve the acquisition of the ICT building at Service Headquarters from the Devon County Council on the terms and conditions as set out in report RC/13/10.

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

The meeting started at 10.00hours and finished at 11.28hours.

APPENDIX A TO THE MINUTES OF THE RESOURCES COMMITTEE MEETING HELD ON 9 SEPTEMBER 2013

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**

APPENDIX B TO THE MINUTES OF THE RESOURCES COMMITTEE MEETING HELD ON 9 SEPTEMBER 2013

PRUDENTIAL INDICATORS

	2013/14 £m estimate	2014/15 £m estimate	2015/16 £m estimate	INDICATIVE INDICATORS 2016/17 TO 2018/19 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/13/11**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 NOVEMBER 2013**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2013-2014: Quarter 2**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***(a) That the monitoring position in relation to projected spending against the 2013-2014 revenue and capital budgets be noted;*** ***(b) That the performance against the 2013-2014 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the second quarter performance (to September 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 stage in the financial year it is forecast that spending will be £1.504m less than budget, equivalent to 1.96% 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 providing 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 second quarterly financial monitoring report for the current financial year, based upon the position as at the end of September 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 2	Previous Quarter	Quarter 2 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£76.784m	£75.280m	£75.773m	(1.96%)	(1.32)%
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.76%	6.76%	(1.76)bp	(1.76)bp
	Capital Targets					
3	Spending within agreed capital budget	£6.360m	£5.272m	£6.316m	(17.11)%	(0.21)%
4	External Borrowing within Prudential Indicator limit	£25.978m	£26.214m	£26.214m	0.91%	0.91%
5	Debt Ratio (debt charges over total revenue budget)	3.85%	3.85%	3.85%	0.00bp	0.00bp

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 £75.280m compared with an agreed budget figure of £76.784m, representing a saving of £1.504m, equivalent to 1.96% 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		2013/14 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 6 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	31,998	15,974	15,998	31,944	(55)
2	Retained firefighters	11,794	5,600	5,060	11,763	(31)
3	Control room staff	1,637	812	743	1,584	(53)
4	Non uniformed staff	10,980	5,484	5,056	10,080	(900)
5	Training expenses	1,433	716	451	1,145	(288)
6	Fire Service Pensions recharge	2,058	1,196	1,382	2,177	119
		59,901	**29,782**	**28,691**	**58,693**	**(1,208)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,151	575	487	1,125	(26)
8	Energy costs	628	266	352	596	(32)
9	Cleaning costs	445	222	172	424	(21)
10	Rent and rates	1,505	873	1,346	1,510	5
		3,729	**1,936**	**2,356**	**3,655**	**(74)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	634	317	309	627	(7)
12	Running costs and insurances	1,408	884	662	1,428	20
13	Travel and subsistence	1,688	738	671	1,544	(144)
		3,730	**1,939**	**1,643**	**3,599**	**(131)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,554	1,278	1,189	2,400	(154)
15	Supplies Internal Recharges	-	-	-	-	-
16	Hydrants-installation and maintenance	111	56	43	111	-
17	Communications	2,010	1,005	782	1,976	(34)
18	Uniforms	1,304	652	231	1,120	(184)
19	Catering	134	67	71	138	4
20	External Fees and Services	329	164	146	273	(56)
21	Partnerships & regional collaborative projects	136	68	48	136	-
		6,578	**3,290**	**2,509**	**6,154**	**(424)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	393	217	157	387	(6)
23	Advertising	51	26	6	22	(29)
24	Insurances	366	333	263	396	30
		810	**576**	**427**	**805**	**(5)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	549	240	707	548	(1)
		549	**240**	**707**	**548**	**(1)**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,582	2,017	320	4,438	(144)
27	Revenue Contribution to Capital spending	65	-	-	65	-
		4,647	**2,017**	**320**	**4,503**	**(144)**
28	**TOTAL SPENDING**	**79,944**	**39,779**	**36,652**	**77,957**	**(1,987)**
	INCOME					
29	Treasury management investment income	(100)	(50)	(77)	(100)	0
30	Grants and Reimbursements	(1,996)	(998)	(1,276)	(2,210)	(214)
31	Other income	(902)	(451)	(183)	(691)	211
32	Internal Recharges	(163)	(82)	(35)	(127)	36
33	**TOTAL INCOME**	**(3,161)**	**(1,581)**	**(1,571)**	**(3,128)**	**33**
34	**NET SPENDING**	**76,784**	**38,199**	**35,081**	**74,830**	**(1,954)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to Earmarked Reserve	-	-	-	450	450
		-	**-**	**-**	**450**	**450**
36	**NET SPENDING**	**76,784**	**38,199**	**35,081**	**75,280**	**(1,504)**

2.2 These forecasts are based upon the spending position at the end of September 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 As part of the discussions around the approval of the Corporate Plan in July 2013, our strategy to deliver further on-going savings of £6.8m 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 Devon and Somerset Fire and Rescue Authority (DSFRA) meeting on the 10 July 2013 (Minute DSFRA/20 refers) 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 has 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 £0.9m 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 £1.504m 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 7.

3. <u>EMPLOYEE COSTS</u>

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £55k less than the budget figure, equivalent to 0.17% 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 stage in the financial year spending is forecast to be just under budget with a small underspend of £31k. 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 With reference to 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 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 Fire and Rescue Authority (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 prudently already 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 £53k, 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 £0.900m against a budget of £10.980m. This figure is net of known redundancy payments for non-uniformed staff.

Training Expenses

3.10 Training Expenses are forecast to come in £0.288m under budget, primarily savings of £0.137m from Role Development courses, £0.091m on Assessment Centres and £0.052m on Core Development. This is primarily due to a reducing headcount throughout the service.

Pension Costs

3.11 Current predicted over spends of £0.119m 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. TRANSPORT RELATED COSTS

Travel and Subsistence

4.1 Savings of £0.131m are forecast to be realised from Travel expenses, specifically £0.090m on Contract Car Hire Vehicle leases and £0.050m in relation to travel expenses which had been set aside to meet additional travel costs from the combination of control rooms. These savings are partially offset by additional spend on vehicle repairs which has been recovered from the insurers via the grants and reimbursements budget line.

5. SUPPLIES AND SERVICES

Equipment and Furniture

5.1 Anticipated savings of £0.154m on equipment and furniture are primarily as a result of the adoption of planned procurement and spending strategies.

Uniforms

5.2 The forecast under spend of £0.184m on uniforms is due to reduced staff numbers and planned procurement savings on PPE and work wear refreshment programmes.

External Fees and Services

5.3 Due to the strategic reduction in the number of external contractors used, expenditure on External fees and services is forecast to be underspent by £0.056m.

6. CAPITAL FINANCING COSTS

Capital charges

6.1 The forecast spending for Capital Charges is £4.438m, a saving of £0.144m 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.

7. INCOME

Grants and Reimbursements

7.1 Income from Grants and Reimbursements is expected to be £0.214m better than budgeted. However, the majority of funds are matched by additional spending items in year (reflected on expense lines) resulting in no net savings.

Other Income

7.2 Income from External bodies is forecast to be £0.211m less than budget. Of this amount £0.075m relates to the reversal of income accounted for twice in 2012/13, which was identified as part of the external audit process. The remainder is as a consequence of the adverse impact to income generation in the current economic conditions.

8. RESERVES AND PROVISIONS

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

Reserves

8.2 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

8.3 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.

8.4 A summary of predicted balances on Reserves and Provisions is shown in Table 3 below. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

<u>TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2014</u>

RESERVES	Balance as at 1 April 2013 £000	In-Year Transfers £000	Spending to Quarter 2 2013 £000	Projected Outturn £000	Projected Balance as at 31 March 2014 £000	
Earmarked reserves						
Grants unapplied in 2010-11	2,251		16	364	1,887	
Change & improvement programme	511		-	-	511	
Commercial Services	252		19	30	222	
Direct Funding to Capital	3,877		-	3,295	582	
CSR 2010	3,389 *		-	-	3,389	
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	**10,671**	**450**	**35**	**4,281**	**6,840**	
General reserve						
General fund balance	**5,191**				**5,191**	
Percentage of general reserve compared to net budget						6.76%
TOTAL RESERVE BALANCES	**15,862**				**12,031**	
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 voluntary 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.

9. DELIVERY OF CORPORATE PLAN SAVINGS

9.1 There is a need to deliver on-going revenue savings to meet the reductions in government grant. The Chancellors 2013 Spending Round announcement in July confirmed that, in addition to the initial 25% reduction in Fire grants by 2014-15, as announced in CSR 2010, a further 10% reduction will be applied to 2015-16. Table 4 below provides a summary of those on-going revenue savings already agreed by the Authority at budget setting meetings in each year since 2010.

TABLE 4 – SUMMARY OF ON-GOING REVENUE SAVINGS SINCE 2010-11

Year	2011-12 £'000	2012-13 £'000	2013-14 £'000	TOTAL £'000
Operational				
Budget management/zero base budgeting	-	-	(378)	**(378)**
Standarisation of Crewing	(425)	-		**(425)**
Automated Fire Alarm Calls	(25)	(84)		**(109)**
Co-responder Calls	(50)	(25)		**(75)**
Vacancy Management		(150)	(341)	**(491)**
	(500)	**(259)**	**(719)**	**(1,478)**
Non-Operational				
Budget management/zero base budgeting	(342)	(305)	(704)	**(1,351)**
Senior Management Restructure	(50)	(104)		**(154)**
Control Room consolidation	-	(503)		**(503)**
Dissolution of Regional Management Board	(25)			**(25)**
Business Support Changes		(59)	(150)	**(209)**
	(417)	**(971)**	**(854)**	**(2,242)**
Total Savings since 2010-11	**(917)**	**(1,230)**	**(1,573)**	**(3,720)**

9.2 As can be seen from these figures, of the total £3.7m removed from the base budget, an amount of £2.2m relates to savings from non-operational budget heads i.e. 59% of the total.

9.3 Looking ahead, the Medium Term Financial Plan forecasts that further savings of £6.8m will be required over the next two years in order that a balanced budget can be set in 2015-16. As is highlighted within this report we are confident that further savings of £1.5m can be delivered from non-operational budget heads, leaving a further £5.3m to be delivered from operational budgets.

9.4 The Corporate Plan 2013-14 to 2014-15, agreed by the Authority in July 2013, included proposals to deliver these required savings. At this time implementation plans for the delivery of each of these proposals have been put in place. Given that the Authority will be required to set a balanced budget for 2015-16 in February 2015, only fifteen months away, it is vital that these implementation plans are kept under constant review to provide the confidence that the required savings can be delivered in time.

9.5 This Committee will receive updates as part of the financial performance reporting on the progress of these proposals.

10. SUMMARY OF REVENUE SPENDING

10.1 At this stage it is forecast that spending will be £1.504m less than the agreed budget figure for 2013-14. It is anticipated that this saving figure will be improved upon as we move toward the end of 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.

10.2 Given that we still have a further six months to go 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, and also the need to maintain sufficient Reserve balances during the period of austerity, now anticipated to be to at least 2017-18.

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

Monitoring of Capital Spending in 2013-14

11.1 Table 5 below provides a summary of forecast spending against the 2013-2014 capital programme. At this stage it is forecast that total capital spending in year will be £5.272m, with £1.028m of slippage in to 2014-15 and net savings of £0.060m against a total budget of £6.360m.

TABLE 5 – CAPITAL MONITORING 2013-14

Capital Programme 2013/14

Item	PROJECT	2013/14 £000 Budget	2013/14 £000 Projected outturn	2013/14 £000 Variation to budget
	Estate Development			
1	SHQ major building works	79	79	-
2	Major Projects - Training Facility at Exeter Airport	1,544	1,444	(100)
3	Minor improvements & structural maintenance	988	899	(89)
4	USAR works	0	-	(0)
5	Minor Works slippage from earlier years	300	297	(3)
6	Projects funded from Revenue	63	62	(1)
	Estates Sub Total	**2,974**	**2,782**	(192)
	Fleet & Equipment			
7	Appliance Replacement - Slippage from 12/13	337	231	(106)
8	Specialist Ops Vehicles - Slippage from 12/13	1,530	1,013	(517)
9	Equipment - Slippage from 12/13	181	157	(24)
10	Vehicles funded from Revenue	23	22	(1)
11	Appliance Replacement	1,015	887	(128)
12	Equipment	300	180	(120)
	Fleet & Equipment Sub Total	**3,386**	**2,491**	**(896)**
	Overall Capital Totals	**6,360**	**5,272**	(1,088)
	Programme funding			
	Main programme	1,596	508	(1,088)
	Revenue funds	3,324	3,324	-
	Grants	1,440	1,440	-
		6,360	**5,272**	**(1,088)**

Prudential Indicators (including Treasury Management)

11.2 Table 5 also illustrates how the forecast spending of £5.272m is to be financed. Should the forecast slippage increase then we are likely to be in a position of not requiring any borrowing in this financial year 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 six months of the year, and there are no plans to take out any further borrowing in the remainder of the financial year. This position may change however subject to movement in Public Works Loan Board (PWLB) rates, which are monitored on a daily basis.

11.3 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2013 stands at £26.285m, forecast to reduce to £26.214m by 31 March 2014 as a result of further loan repayments. This level of borrowing is well within the Authorised Limit for external debt of £32.770m (the absolute maximum the Authority has agreed as affordable).

11.4 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 0.41% which outperforms the LIBID 3 Month return (industry benchmark) of 0.39% for the quarter.

11.5 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.

12. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

12.1 Total debtor invoices outstanding as at 30 September 2013 is £124,088, a considerable reduction on the previous reported figure of £524,647 as at 31 July 2013.

12.2 Of this figure an amount of £66,845 (£67,281 as at 31 July 2013) was due from debtors relating to invoices that are more than 85 days old, equating to 53.87% (12.82% as at 31 July 2013) of the total debt outstanding. Table 6 below provides a summary of all debt outstanding as at 30 September 2013.

TABLE 6 – OUTSTANDING DEBT AS AT 30 SEPTEMBER 2013

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	35,521	28.62%
1 to 28 days overdue	575	0.47%
29-56 days overdue	14,636	11.79%
57-84 days overdue	6,511	5.25%
Over 85 days overdue	66,845	53.87%
Total Debt Outstanding as at 30 September 2013	**124,088**	**100.00%**

12.3 Table 7 below 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	9	£4,158	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

12.4 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 September 2013 was 93.50%, an improvement on the previous reported figure of 90.61% as at 31 July 2013. The Finance Team are working with administrative staff across the Service with a view to identify changes to current processes which will improve performance further.

KEVIN WOODWARD
Treasurer to the Authority

APPENDIX A TO REPORT RC/13/11 – PRUDENTIAL INDICATORS 2013-2014

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	**5.272**	**6.360**	**(£1.088m)**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**27.746**	**27.510**	**£0.236m**
- Borrowing	26.214	25.978	
- Other long term liabilities	1.532	1.532	
External borrowing vs Authorised limit for external debt - Total	**27.746**	**34.290**	**(£6.544m)**
- Borrowing	26.214	32.770	
- Other long term liabilities	1.532	1.520	
Debt Ratio (debt charges as a %age of total revenue budget	**3.85%**	**3.85%**	**(0.00)bp**
Cost of Borrowing – Total	**1.132**	**1.132**	**(£0.000m)**
- Interest on existing debt as at 31-3-13	1.132	1.132	
- Interest on proposed new debt in 2013-14	0.000	0.000	
Investment Income – full year	**0.100**	**0.100**	**(£0.000m)**
	Actual (30 Sept 2013) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.41%**	**0.39%**	**(0.02)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	**89.31%**	**100.00%**	**50.00%**	**(10.69%)**
- 10 years to 20 years	16.59%			
- 20 years to 30 years	13.62%			
- 30 years to 40 years	24.66%			
- 40 years to 50 years	34.45%			

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/12**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 NOVEMBER 2013**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2013-2014: QUARTER 2**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2013-2014 (to September) 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 September 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 suggested that the economic recovery accelerated during the quarter ended 30 September;

- Household spending growth remained robust;
- Inflation fell back towards the 2% target;
- The Bank of England introduced state-contingent forward guidance;
- 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
- The Federal Reserve decided to maintain the monthly rate of its asset purchases.

Capita Interest Rate Forecasts

2.2 Capita Asset Services undertook a review of its interest rate forecasts in late September as a result of an increase in confidence in economic recovery, chiefly in the US, but more recently, also in the UK and Eurozone. The latest forecast (overleaf) now includes a first increase in Bank Rate in quarter 3 of 2016 (previously quarter 4).

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%
10yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%
25yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%
50yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%

Summary Outlook

2.3 UK economy

- Growth has been on an upward trend – 0.3% in Q1; 0.7% in Q2 and likely to be much stronger in Q3. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread feel good factor. However, this is still a long way away from the UK getting back to sustainable strong growth.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and EU GDP growth means that the UK economy is still vulnerable to what happens in overseas markets.
- 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.
- The coalition government is hampered in promoting growth by the need to tackle the budget deficit. However, the March Budget did contain measures to boost house building and the supply of mortgages, and brought forward, by one year to April 2014, the start of a £10,000 tax free allowance for incomes.
- There is little sign of a co-ordinated strategy for the private Capita to finance a major expansion of infrastructure investment to boost UK growth.
- Government inspired measures to increase the supply of credit to small and medium enterprises (which are key to achieving stronger growth) by banks are not succeeding.

- Gilt yields remain vulnerable to pressures to rise, especially as they are powerfully influenced by US treasury yields and American investors have been spooked by Chairman Bernanke's comments on tapering QE. The Fed's reluctance to start tapering in September has, potentially, only delayed a trend for gilt yields to rise.

2.4 Eurozone

- Most Eurozone countries are now starting to see a return to growth after a prolonged recession. The prospects for growth, at least in the short term, have also improved. However, for some countries, austerity programmes could prove to be a self-defeating spiral of falling demand, tax receipts, and GDP, leading to a rise, not fall, in debt to GDP ratios. Debt ratios in excess of 90% will cause market concern as beyond this level, the costs of servicing such debt becomes oppressive and growth inhibiting. This could, therefore, lead to an inevitable end game in the over the next few years of withdrawal from the Eurozone bloc in order to regain national control of a currency, government debt, monetary policy and, therefore, of setting national interest rates. The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about these countries is likely to be subdued in the near term. However, the poor economic fundamentals and outlook for some economies could well mean that an eventual storm in financial markets has only been delayed, not cancelled.
- The European Central Bank (ECB) maintained its central policy rate at 0.5% in this quarter.
- Greece: after the agreement to a further major financial support package amounting to nearly €50bn in December 2012, it now looks almost certain that the country will need another, smaller, bailout package as progress has not been quick enough in rectifying the national finances.
- Spain: there is also increasing concern over the Spanish economy; the social cost and pain of a very high level of unemployment of 27%, similar to the level in Greece, could mean that both countries are approaching the limit of operating austerity programmes within democratic systems. Spain has, to date, resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.
- Italy: the general election created a highly unstable political situation where the two dominant parties initially formed an unlikely coalition due to the blocking power of the new upstart Five Star anti-austerity party which has 25% of seats and has refused to enter a coalition agreement with ANY party. There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.
- Germany: the general election in September returned Angela Merkel's party to power, but not with an overall majority. It will have to form a coalition, but with a new makeup, as the previous junior party was wiped out.
- Cyprus: the fallout from the bail out in March 2013 has done huge damage to the Cypriot economy and many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.
- The Eurozone remains particularly vulnerable to investor fears of contagion if one country gets into major difficulty.

2.5 US

- There has been a marked improvement in consumer, investor and business confidence this year.
- Unemployment has continued on a steady, but unspectacular decline to 7.3%, but is still a long way from the target rate of 6.5% for an increase in the Fed policy rate.
- The housing market has turned a corner, both in terms of rising prices and in increases in the volume of house sales. More householders are, therefore, escaping from negative equity.
- US equities have reached all time highs.
- The package of tax increases and cuts in Government expenditure starting in 2013 does not appear to be having a major impact on depressing growth.
- GDP in Q1 was disappointingly downgraded from +2.4% to a sub-par +1.8% before rising to 2.5% in Q2.
- The shale gas revolution is providing some solid underpinning to the US economy by enhancing its international competitiveness through cheap costs of fuel.
- There has been a start to the repatriation of manufacturing production from China to the USA as Chinese labour costs have continued their inexorable rise and new forms of high tech production have made home based production more viable and flexible.

2.6 China

- Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property Capita to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking Capita.
- There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

2.7 Japan

- The initial euphoria generated by “Abenomics”, the huge Quantative Easing (QE) operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled.

<u>Capita Forward View</u>

2.8 Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

2.9 Near-term, there is some residual risk of further QE - if there is a dip in strong growth or if the MPC takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid-October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed could cause bond yields to rise.

2.10 The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

2.11 The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

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

3.3 A full list of investments held as at 30 September 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 £32.818m (£25.991m in previous quarter). 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 to quarter 2
3 Month LIBID	0.39%	0.41%	£77,263

3.6 As illustrated, the authority outperformed the 3 month LIBID benchmark by 0.02 bp**.** The Authority's budgeted investment target for 2013-2014 of £0.100m will also be overachieved.

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 September 2013 and that there are no concerns that they will be breached during the financial year.

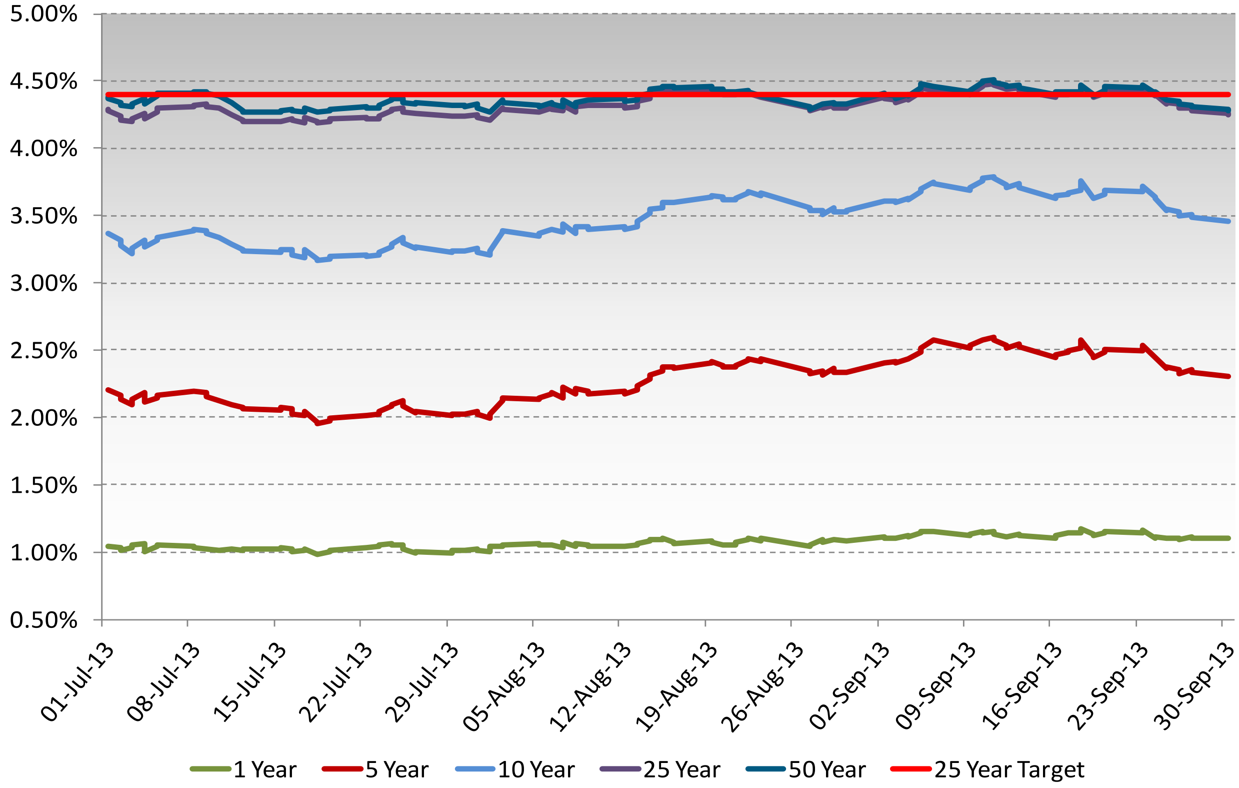
New Borrowing

3.9 Capita's 25 year PWLB target rate for new long term borrowing for the quarter increased from 4.10% to 4.40%. Due to the overall financing position of the capital programme no new borrowing was undertaken during the quarter. External borrowing as at 30 September 2013 was £26.285m (£27.167m in previous quarter). No debt rescheduling was undertaken during this quarter of the year

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

PWLB rates quarter ended 30.9.2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.98%	1.95%	3.17%	4.19%	4.27%
Date	18/07/2013	18/07/2013	18/07/2013	18/07/2013	18/07/2013
High	1.17%	2.6%	3.79%	4.48%	4.51%
Date	18/09/2013	11/09/2013	11/09/2013	11/09/2013	11/09/2013
Average	1.07%	2.27%	3.47%	4.32%	4.37%



3.11 It is anticipated that use of internal borrowing and available grants will avoid the need to borrow from the PWLB in year; however this will be subject to certainty rates on offer and the delivery of the capital programme.

4. <u>SUMMARY</u>

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with the second 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 overachieve the budgeted target.

KEVIN WOODWARD
Treasurer

Investments as at 30th September 2013

% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Period Invested	Interest Rate
16.23%	Bank of Scotland	5.0	1.500	T	04/10/2013	3mths	0.70%
			1.500	T	02/01/2014	6mths	0.75%
			2.000	T	08/11/2013	6mths	0.80%
22.72%	Barclays	10.0	2.000	T	20/11/2013	3mths	0.45%
			1.000	T	23/10/2013	3mths	0.45%
			2.000	T	10/11/2013	3mths	0.45%
			2.000	T	29/11/2013	6mths	0.53%
6.49%	King & Shaxson	5.0	2.000	T	21/10/2013	3mths	0.28%
16.23%	Black Rock	5.0	5.000	C			Variable
2.64%	Ignis Money Market Fund	5.0	0.812	C			Variable
16.23%	Federated Prime Rate	5.0	5.000	C			Variable
3.25%	Nationwide B/S	1.5	1.000	T	19/12/2013	6mths	0.39%
16.23%	National Westminster	5.0	5.000	T	05/11/2013	3mths	0.80%
			30.812				