M. Pearson
CLERK TO THE AUTHORITY

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

SERVICE HEADQUARTERS
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Your ref :
Our ref : SS/SY/RC/Nov 2014
Website : www.dsfire.gov.uk

Date : 12 November 2014
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RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

Thursday 20 November 2014

A meeting of the Resources Committee will be held on the above date, **commencing at 14:00 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 1 September 2014 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. Treasury Management Performance 2014-2015: Mid Year Review

Report of the Treasurer (RC/14/14) attached (page 10).

5. Financial Performance Report 2014-2015: Quarter 2

Report of the Treasurer to the Authority (RC/14/15) attached (page 18).

6. **Firefighters' Pension Scheme 2015: Consultation on Proposals for New Governance Arrangements**

Report of the Director of People and Commercial Services (RC/14/16) attached (page 30).

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Dyke (Chairman), Brooksbank, Burridge-Clayton, Chugg, , Greenslade, Singh and Yeomans.

NOTES	
1.	**<u>Access to Information</u>** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the "Please ask for" section at the top of this agenda.
2.	**<u>Reporting of Meetings</u>** Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chairman - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority. Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
3.	**<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.
4.	**<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.
5.	**<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.

RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

1 September 2014

Present:

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

Apologies:

Councillor Singh.

Attending in accordance with Standing Order 36:

Councillor Eastman.

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

RESOLVED that Councillor Dyke be elected Chair of the Committee until its first meeting following the Authority annual meeting in 2015.

***RC/2. Minutes**

RESOLVED that the Minutes of the meeting held on 16 May 2014 be signed as a correct record.

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

RESOLVED that Councillor Yeomans be elected Vice-Chair of the Committee until its first meeting following the Authority annual meeting in 2015.

***RC/4. Treasury Management Performance 2014-15: Quarter 1**

The Committee received, for information, a report of the Treasurer (RC/14/10) on the treasury management activities of the Authority for the first quarter of the current (2014-15) financial year, to June 2015. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management advocated that public authorities should receive a report on treasury management activities at least twice a year and preferably quarterly.

Performance during the first quarter of the current financial year demonstrated a prudent approach to investment decisions, with priority being given to liquidity and security over yield. No Prudential Indicators had been breached and, while investment returns were still low as a consequence of the fall in interest rates, it was still anticipated that the Authority would realise returns from its investments over the budget target.

In debating the report, Members commented in particular on the ongoing uncertainties facing the financial markets and of the need for the Authority, wherever practicable, to seek reductions in its level of external debt.

***RC/5. Financial Performance 2014-15: Quarter 1**

The Committee received for information a report of the Treasurer to the Authority (RC/14/11) on financial performance for the first quarter (April to June) as against those agreed targets for the current (2014-15) financial year.

At this stage it was anticipated that revenue spending would be some £2.062m (2.72%) less than the agreed budget figure. This aligned to the approved strategy to deliver in-year savings wherever possible to enhance reserve balances, with the underspend being largely attributable to savings on staffing costs arising primarily from continued implementation of Corporate Plan proposals approved in July 2013. These proposals were anticipated to deliver ongoing annual savings of £6.8m once fully implemented.

The report highlighted the most significant variations from the budget and estimated the position for both reserves and provisions at the end of the financial year. Earmarked reserves were projected to be some £7.9m, with general reserves estimated to be some £5.2m (6.85% of the net revenue budget). Provisions were estimated to be some £2.3m, the bulk of which related to funding set aside to meet costs retained firefighter pension costs associated with the legal ruling on application of the Part-time Workers (Less than Favourable Working Conditions) Regulations 2000.

In relation to the capital programme 2014-15, the latest projection was for spending to be some £6.891m against an initial, proposed revised programme of £9.093m – an indicative "slippage" of £2.202m. The initial, proposed revised programme additions totalling £1.266m were as a result of:

- inclusion of a further £1.046m slippage on the 2013-14 capital programme, additional to that reported to the Authority at its meeting on 29 May 2014 as part of the budget outturn position for the last financial year (Minute DSFRA/9 refers);
- £0.200m to fund additional works at some stations to comply with Water Regulations, as approved by the Authority at its meeting on 29 May 2014 (Minute DSFRA/9 refers); and
- £0.020m to fund works to the training tower at Appledore (to be funded from revenue contributions).

None of the additions identified above required any increase in the external borrowing requirement.

Given the total indicative slippage of £2.202m against the 2014-15 capital programme, which it was felt could not be addressed during the current financial year, it was intended to adjust the three year programme 2014-15 to 2016-17 by moving an amount of £2m from 2014-15 to 2015-16 (giving a final, proposed revised programme for 2014-15 of £7.094m). This reflected a change in project delivery rather than a change to the overall programme, was permissible under the Prudential Code and would have a positive impact on debt charges in deferring external borrowing requirements by a year.

The report also set out performance to date against other financial performance indicators, notably debt analysis and payment of invoices within 30 days.

The report identified that, while it was still early in the financial year, consideration would need to be given in due course to utilisation of any year-end savings and that these considerations would be influenced by a number of factors such as meeting the liability on retained pension costs (once finally clarified), supporting capital spending plans and thereby reducing debt exposure and maintaining sufficient reserve balances during the austerity period, now anticipated to last until at least 2017-18.

(SEE ALSO MINUTE RC/6 BELOW)

RC/6. **Revision to Capital Programme 2014-15 to 2016-17**

The Committee considered a report of the Director of Operations and Treasurer to the Authority (RC/14/12) on proposed revisions to the approved capital programme 2014-15 to 2016-17. The proposed revisions were as a result of:

- inclusion of a further £1.046m slippage on the 2013-14 capital programme, additional to that reported to the Authority at its meeting on 29 May 2014 as part of the budget outturn position for the last financial year (Minute DSFRA/9 refers). The carry-forward of this additional slippage reflected a change to the timing of the spend only rather than an increase in funding requirements;
- an increase of £0.200m in 2014-15 to fund additional works at some stations to comply with Water Regulations, to be met from the underspend against the 2013-14 revenue budget and as approved by the Authority at its meeting on 29 May 2014 (Minute DSFRA/9 refers); and
- an increase of £0.020m in 2014-15 to fund works to the training tower at Appledore (to be funded from revenue contributions);
- given the indication that slippage against the 2014-15 capital programme would be in the region of £2.202m (see Minute *RC/5 above), a proposal to transfer an amount of £2m from 2014-15 to 2015-16 reflecting, again, changes in the timing of spend rather than an increase in funding requirements.

The proposed revised capital programme 2014-15 to 2016-17 was summarised at Appendix B to the report, with Appendix C setting out revised prudential indicators associated with the revised programme.

The report also identified that, looking ahead, the affordability of future capital spending would come under more pressure given a reducing revenue budget and that consideration would ultimately need to be given to the identification of an alternative funding source to external borrowing.

RESOLVED that the Devon & Somerset Fire & Rescue Authority be recommended to approve the revised capital programme and associated prudential indicators for 2014-15 to 2016-17 as detailed in report RC/14/12 and summarised at Appendices A and B to these Minutes.

(SEE ALSO MINUTE *RC/5 ABOVE)

***RC/7.** **Disposal of Six End of Life Service Vehicles**

The Committee considered a report of the Director of Corporate Services (RC/14/13) on a proposal to donate six, “end of operational life” Land Rovers to the Dartmoor Rescue Groups.

The Groups were valuable, voluntary sector partners fully reliant upon charitable donations to operate. Donating the vehicles as proposed would accord with the aims of the approved Corporate Strategy in forging an integrated response framework inclusive of the community and voluntary sector and enable the Service to utilise the access, navigation and topographical skills of the Groups, thereby supporting the Service in responding to emergencies. This, in turn, would reduce the number of times when the Service may be required to request support from national assets.

If the donation was approved, an appropriate agreement to transfer ownership of the vehicles and all future liabilities would be drafted between the Authority and the Dartmoor Rescue Groups and each vehicle would be liveried to highlight and promote the working partnership between the Service and the Groups.

The normal disposal route for such vehicles would be via local auctions and could, depending on market conditions, realise a receipt of between £26,000 and £30,000. Financial Regulations required Committee approval for the disposal of any material asset (either individual or cumulative amounts of the same item) valued between £25,000 and £50,000.

RESOLVED that, in accordance with Financial Regulations, the donation of six ‘end-of-life’ Land Rovers to the four Dartmoor Rescue Groups, as set out in report RC/14/13, be approved.

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

The meeting started at 10.00hours and finished at 11.15hours.

APPENDIX A TO THE MINUTES OF THE MEETING OF THE RESOURCES COMMITTEE HELD ON 1 SEPTEMBER 2014

Revised Capital Programme (2014/15 to 2019/20)

2013/2014 Revised Programme (£000)	2013/2014 Outturn (£000)	Item PROJECT	PROPOSED PROGRAMME 2014-15 TO 2016-17 2014/15 (£000)	2015/16 (£000)	2016/17 (£000)	INDICATIVE PROGRAMME 2017-18 TO 2019-20 2017/18 (£000)	2018/19 (£000)	2019/20 (£000)
		Estate Development						
79	21	SHQ major building works	58					
1,544	1,247	Major Projects - Training Facility at Exeter Airport	320	100				
		Minor improvements & structural maintenance	1,062	2,400	1,500	1,750	1,750	1,750
255	187	USAR works	83					
1,288	603	Minor Works slippage from earlier years	680					
108	96	Projects funded from Revenue	195					
3,274	2,136	**Estates Sub Total**	2,398	2,500	1,500	1,750	1,750	1,750
		Fleet & Equipment						
		Appliance replacement	2,557	3,202	2,557	2,557	1,438	2,119
		Specialist Operational Vehicles	50		400	400		
60	60	Vehicles and equipment funded from revenue						
		Equipment	1,070	384	320	320	380	200
100	-	USAR Vehicles	100					
481	200	Equipment slippage from earlier years	415					
2,883	1,457	Appliance & Specialist Operational Vehicle slippage from earlier years	504	936				
3,524	1,717	**Fleet & Equipment Sub Total**	4,696	4,522	3,277	3,277	1,818	2,319
6,798	**3,853**	**SPENDING TOTALS**	**7,094**	**7,022**	**4,777**	**5,027**	**3,568**	**4,069**

Programme Funding								
1,596		Main programme	850	5,726	4,777	5,027	3,568	4,069
3,361	2,225	Revenue funds	4,468	1,296				
355	188	Earmarked Reserves	378					
1,440	1,440	Grants	1,398					
6,752	**3,853**	**FUNDING TOTALS**	**7,094**	**7,022**	**4,777**	**5,027**	**3,568**	**4,069**

APPENDIX B TO THE MINUTES OF THE MEETING OF THE RESOURCES COMMITTEE HELD ON 1 SEPTEMBER 2014

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS 2017/18 to 2019/20		
	2014/15 £m estimate	2015/16 £m estimate	2016/17 £m estimate	2017/18 £m estimate	2018/19 £m estimate	2019/20 £m estimate
Capital Expenditure						
Non - HRA	7.094	7.022	4.777	5.027	3.568	4.069
HRA (applies only to housing authorities						
Total	7.094	7.022	4.777	5.027	3.568	4.069
Ratio of financing costs to net revenue stream						
Non - HRA	3.65%	3.87%	4.67%	5.25%	5.82%	6.21%
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	23,430	27,351	29,948	32,545	33,406	34,544
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,509	1,443	1,374	1,299	1,209	1,112
Total	24,939	28,794	31,322	33,844	34,615	35,656
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	-975	3,855	2,528	2,522	771	1,041
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	-975	3,855	2,528	2,522	771	1,041
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.42	-£1.03	-£0.62	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	31,120	33,913	34,903	36,171	37,188	38,027
Other long term liabilities	1,449	1,371	1,278	1,177	1,070	963
Total	32,569	35,284	36,181	37,348	38,258	38,991
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	29,948	32,545	33,406	34,544	35,518	36,300
Other long term liabilities	1,374	1,299	1,209	1,112	1,010	907
Total	31,322	33,844	34,615	35,656	36,528	37,208

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 2014/15		
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%

REPORT REFERENCE NO.	**RC/14/14**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**20 NOVEMBER 2014**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2014-2015 – MID YEAR REVIEW**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***(a) That it be recommended to the Devon and Somerset Fire and Rescue Authority that changes to credit methodology whereby previous standalone ratings for viability and financial strength and the support ratings will no longer be considered as key criteria in the choice of creditworthy investment counterparties but will be incorporated into Long Term ratings, as outlined in paragraphs 3.7 to 3.11 of report RC/14/14; and,*** ***(b) Subject to (a) above, that the performance in relation to the treasury management activities of the Authority for 2014-2015 (to September) be noted.***
	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 2014.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/14/3 – as approved at the meeting of the DSFRA meeting held on the 24 February 2014.

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 Devon and Somerset Fire and Rescue Authority (DSFRA) on the 18th February 2013 (Minute DSFRA/53(b) refers). 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

Economic performance and Outlook

2.1 After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also recovering strongly. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth.

2.2 However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate.

2.3 The MPC has subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.

2.4 There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

2.5 Also encouraging has been the sharp fall in inflation (Consumer Price Index - CPI), reaching 1.2% in September, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

2.6 The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

2.7 The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

2.8 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

2.9 Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

Capita Interest Rate Forecasts

2.9 Capita Asset Services undertook a review of its interest rate forecasts on 24 October. During September and October, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, plus fears around Ebola and an accumulation of dismal growth news in most of the ten largest economies of the world and also on the growing risk of deflation in the Eurozone, had sparked a flight from equities into safe havens like gilts and depressed PWLB rates. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2015.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

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 24th February 2014. 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 2014 are shown in Appendix A of this reprot.

3.4 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme.

3.5 The average level of funds available for investment purposes during the quarter was £37.119m (£33.743m 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	0.43%	0.46%	£38,081

3.6 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.03 bp. It is also forecast that the Authority's will exceed the budgeted investment target for 2014-2015 of £0.100m.

Investment Counterparty criteria

3.7 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during this financial year. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

3.8 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of support that has been built into ratings through the financial crisis. The eventual removal of implied Government support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

3.9 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

3.10 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

3.11 As a result of these rating agency changes, it is recommended that the credit element of the Authority's future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

Borrowing Strategy

Prudential Indicators:

3.12 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 Treasury Management Strategy (TMSS).

3.13 The projected performance against these Indicators is included in a separate report on the agenda for this meeting entitled “Financial Performance Report 2014-2015 – Quarter 2”, which confirms that no breaches of the Prudential Indicators were made in the period to September 2014 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.14 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2014 stands at £26.059m (£26.214m in previous quarter), forecast to reduce to £25.944m by 31st March 2015 as a result of further principal repayments. All of this debt is at fixed rate with the remaining principal having an average rate/life of 4.231%/31.08 years.

Loan Rescheduling/Borrowing in Advance of Need

3.15 External borrowing of £26.059m as at 30 September 2014 exceeds the Capital Financing Requirement (CFR) figure of £23.430m, which reflects that borrowing of £2.629m has been taken out in advance of spending. This is as a result of slippage against the 2013-14 capital programme being more than forecast. At this time this does not represent a breach of prudential indicators, as borrowing is permitted to be above current CFR as long as future CFR estimates for current and next two financial years will utilise these loans. The Authority also maintains an Authorised Limit i.e. £31.120m and as loans fall below this, there is no immediate action required.

3.16 It is forecast that capital spending in the next two years will increase the CFR sufficiently to reverse this over borrowing position. However, as discussed at the last meeting of Resources Committee on 1 September 2014, consideration will also be given to the viability of early debt repayment during 2014-15 which would bring the debt figure closer to the CFR figure. Any such repayment would bring benefits in terms of future savings on interest payments but the PWLB would require a premium payment to be made to reflect the early repayment. Our external advisors have already completed a review of our debt portfolio to identify those individual loans which may be subject to early repayment; however their advice at this stage is to await potential further increases in PWLB later in the year which would have the effect of reducing early repayment premium payments.

New Borrowing

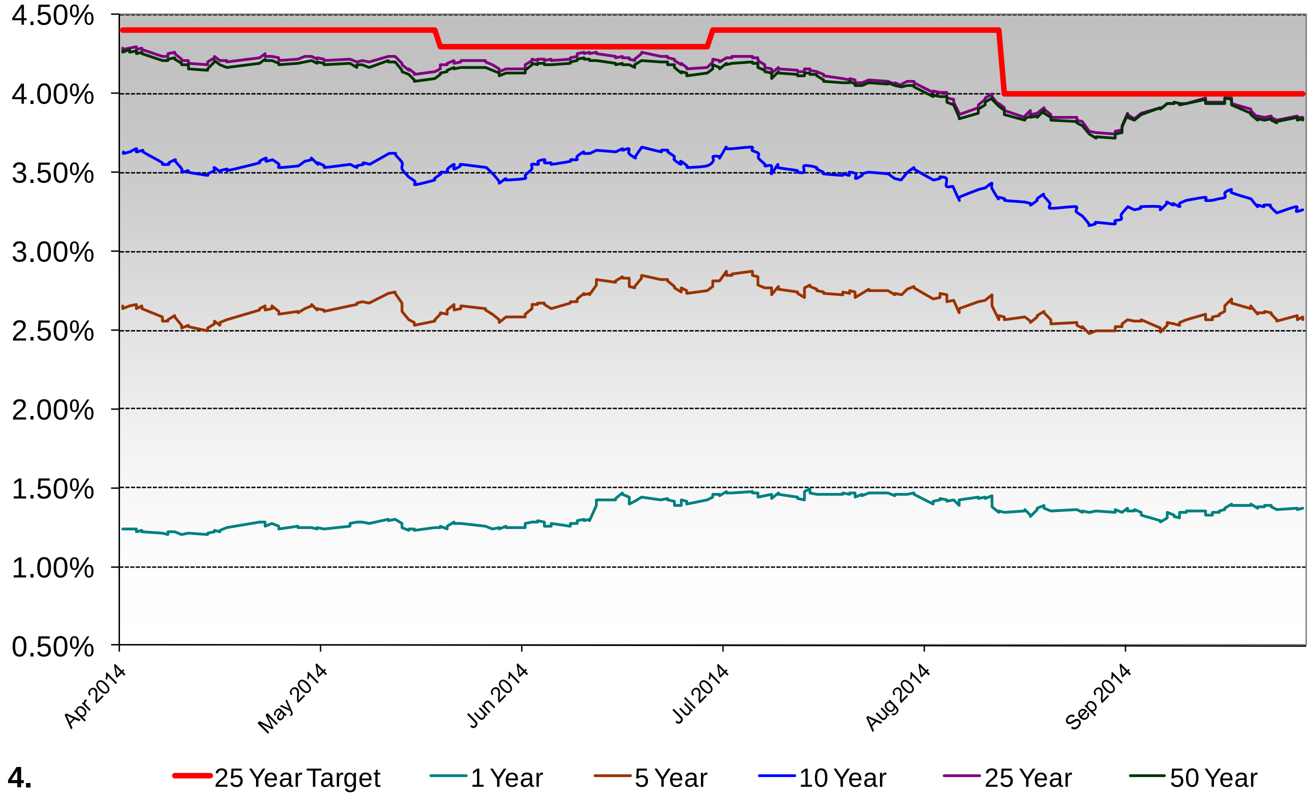
3.17 No new borrowing was undertaken during the quarter and none is planned during 2014-15, as it is forecast that all capital spending will be funded from revenue funding and government grants.

3.18 PWLB certainty rates for the quarter ended 30 September 2014 are shown below. DSFRA is eligible to borrow at certainty rates.

PWLB rates quarter ended 30.09.2014

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.20%	2.48%	3.16%	3.74%	3.72%
Date	08/04/2014	28/08/2014	28/08/2014	01/09/2014	29/08/2014
High	1.49%	2.87%	3.66%	4.30%	4.28%
Date	16/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014
Average	1.35%	2.66%	3.47%	4.10%	4.07%

3.19 Borrowing rates for the first six months are shown below.



4.

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with the Mid-Year report of the treasury management activities for 2014-2015 to September 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 over achieve the budgeted target.

KEVIN WOODWARD
Treasurer

Investments as at 30 September 2014					
Counterparty	**Maximum to be invested**	**Total amount invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	**£m**			
Bank of Scotland	5.000	2.000	T	6 mths	0.70%
		1.500	T	1 yr	0.95%
		1.500	T	9 mths	0.80%
Barclays	10.000	2.000	T	3 mths	0.61%
		3.000	T	6 mths	0.61%
		3.000	T	3 mths	0.48%
		0.123	C	Instant Access	Variable
Goldman Sachs	5.000	5.000	T	6 mths	0.69%
Nationwide B/S	2.000	2.000	T	6 mths	0.63%
National Westminster Bank	5.000	5.000	T	3 mths	0.40%
Svenska Handelsbanken	5.000	5.000	C	Instant Access	Variable
Federated Prime Rate Money Market Funds	5.000	4.503	C	Instant Access	Variable
Ignis Sterling Liquidity Money Market Fund	5.000	1.000	C	Instant Access	Variable
Black Rock Money Market Fund	5.000	0.044	C	Instant Access	Variable
Total invested as at 30th September 2014		**35.670m**			

REPORT REFERENCE NO.	**RC/14/15**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**20 NOVEMBER 2014**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2014-2015: QUARTER 2**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	*(a)* ***That it be recommended to the Devon and Somerset Fire and Rescue Authority that a transfer of £1.5m be made to Earmarked Reserves (to be utilised as a further revenue contribution to capital spending), to be funded from the forecast underspend against the 2014-15 Revenue Budget. and,*** *(b)* ***That subject to (a) above, the monitoring position in relation to projected spending against the 2014-2015 revenue and capital budgets be noted; and*** *(c)* ***That the performance against the other 2014-2015 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the second quarter performance (to September 2014) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2014-2015 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £0.862m (net of a proposed transfer of £1.5m to Earmarked Reserves contained in this report) less than budget, equivalent to 1.1% of the total budget. This overall saving is largely attributable to the implementation of the Corporate Plan changes agreed in July 2013, together with a strategy to work with budget holders to identify in-year savings against budget heads. At this stage no recommendations are made in relation to how this forecast saving is to be utilised.
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 2014-2015.
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 2014. As well as providing projections of spending against the 2014-2015 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 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2014-2015

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 2	Previous Quarter	Quarter 2 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£75.794m	£74.932m	£73.732m	(1.13%)	(2.72%)
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.85%	6.85%	(1.85)bp	(1.85)bp
	Capital Targets					
3	Spending within agreed capital budget	£7.154m	£5.557m	£6.891m	(22.32)%	(2.85)%
4	External Borrowing within Prudential Indicator limit	£23.430m *revised*	£25.944m	£26.214m	10.73%	11.88%
5	Debt Ratio (debt charges over total revenue budget)	3.85%	3.65%	3.65%	(0.20)bp	(0.20)bp

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

- **SECTION A** – Revenue Budget 2014-15.
- **SECTION B** – Capital Budget and Prudential Indicators 2014-15.
- **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 2014-2015

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 £74.932m compared with an agreed budget figure of £75.794, representing a saving of £0.862m (£2.062m in Q1), and equivalent to 1.13% of the total budget.

2.2 It should be noted that the forecast spending figure includes a proposed transfer of £1.5m to Earmarked Reserves, as outlined in paragraph 9.6 of this report.

TABLE 2 – REVENUE MONITORING STATEMENT 2014-2015

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2014/15

Line No		2014/15 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	30,348	15,143	14,517	29,558	(790)
2	Retained firefighters	12,444	5,921	5,693	12,219	(226)
3	Control room staff	1,630	808	806	1,647	17
4	Non uniformed staff	9,646	4,814	4,550	9,358	(288)
5	Training expenses	1,030	515	436	1,030	0
6	Fire Service Pensions recharge	2,211	1,285	(268)	2,167	(44)
		57,309	**28,486**	**25,734**	**55,979**	**(1,330)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,408	704	723	1,262	(146)
8	Energy costs	627	265	386	586	(41)
9	Cleaning costs	443	221	355	423	(20)
10	Rent and rates	1,617	942	1,030	1,591	(26)
		4,095	**2,133**	**2,494**	**3,862**	**(233)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	611	305	234	534	(77)
12	Running costs and insurances	1,329	845	410	1,325	(4)
13	Travel and subsistence	1,533	673	718	1,522	(11)
		3,472	**1,823**	**1,362**	**3,380**	**(92)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,850	1,425	1,173	2,767	(83)
16	Hydrants-installation and maintenance	128	64	29	128	-
17	Communications	2,057	1,028	885	2,057	0
18	Uniforms	1,176	588	220	1,084	(92)
19	Catering	158	79	110	160	2
20	External Fees and Services	72	36	83	47	(25)
21	Partnerships & regional collaborative projects	138	69	32	138	-
		6,579	**3,289**	**2,533**	**6,381**	**(198)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	349	198	158	299	(50)
23	Advertising	32	16	16	26	(6)
24	Insurances	372	351	460	373	1
		753	**565**	**635**	**698**	**(55)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	601	270	421	588	(13)
		601	**270**	**421**	**588**	**(13)**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,377	962	1,322	4,154	(223)
27	Revenue Contribution to Capital spending	1,854	-	-	1,854	-
		6,231	**962**	**1,322**	**6,008**	**(223)**
28	**TOTAL SPENDING**	**79,039**	**37,528**	**34,501**	**76,895**	**(2,144)**
	INCOME					
29	Treasury management investment income	(100)	(50)	(38)	(138)	(38)
30	Grants and Reimbursements	(2,367)	(1,264)	(1,070)	(2,425)	(58)
31	Other income	(767)	(383)	(337)	(1,013)	(246)
32	Internal Recharges	(40)	(20)	(4)	(31)	9
33	**TOTAL INCOME**	**(3,274)**	**(1,718)**	**(1,449)**	**(3,607)**	**(333)**
34	**NET SPENDING**	**75,765**	**35,811**	**33,052**	**73,288**	**(2,477)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to Earmarked Reserve	29	0	0	44	15
36	Direct Revenue Contribution to Capital	0	0	0	1,600	1,600
		29	**-**	**-**	**1,644**	**1,615**
37	**NET SPENDING**	**75,794**	**35,811**	**33,052**	**74,932**	**(862)**

2.2 These forecasts are based upon the spending position at the end of September 2014, 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 This projection for a significant underspend is largely attributable to savings on staffing costs primarily as a result of the continued implementation of the Corporate Plan changes agreed in July 2013. Members will recall that when fully implemented, these changes will deliver on-going savings of £6.8m. However, it is recognised that this full saving would take a number of years dependent on the natural turnover of staff through retirements.

2.4 In addition all budget managers have been tasked by the Chief Fire Officer and Executive Board to reduce spending 'in year' and managers are responding accordingly.

2.5 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 £790k less than budget. This saving is largely as a result of more retirements than had budgeted primarily as a consequence of new initiatives, retirement/re-employment requests (agreed by HRMD Committee) and job share, to reduce staffing numbers by voluntary means in order to meet the agreed Corporate Plan changes. This projection includes the impact of the agreed 1% pay award from July 2014.

Retained Pay Costs

3.2 At this stage in the financial year spending is forecast to be under budget by £0.226m. 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.

3.3 As Members will be aware this budget heading is at risk pending further information on the number of retained firefighters (current and retired) who opt to join the firefighters pension scheme, and potentially back dated to the year 2000, as a consequence of the Employment Tribunal verdict which ruled in favour of retained staff under the Part Time Workers (Less than Favourable Working Conditions) Regulations. An options exercise is currently underway to identify the level of interest from retained staff which when completed will provide a more informed indication of the financial impact, both to current budget, and future pension arrangements.

3.4 The Authority has so far set aside an amount of £2m in a Provision which is ring fenced to be used to provide funding towards future pension liabilities, including the liability from the Employment Tribunal. The first stage of the options exercise has now been completed which has resulted in a total of 750 “expressions of interest” from both existing and already retired retained staff, which is significantly more than numbers used in the initial modelling. However not all will actually join the scheme and the next stage is to provide each of those individuals with estimates of pension benefits in order that decisions on joining the scheme can be made.

3.5 Individuals have until March 2015 to make this decision by which time we will have a much more informed position in order to assess the financial impact to the Service.

3.6 The Authority will be required to review the adequacy of Provision balances at the year-end to ensure that sufficient has been put aside to meet the liability. There is of course a risk that the £2m balance will prove to be insufficient to meet the eventual liability resulting in a need to enhance the Provision from this year’s underspend.

Non Uniformed Pay

3.7 It is forecast that savings of £288k will be achieved against non-uniformed pay costs primarily as a result of vacancy management during the year. The forecast also assumes a 1% pay award from April 2014, but yet to be agreed. Members will recall that in setting the budget for the current year this budget line has already been reduced by over £1m as a result of Management action taken to reduce the number of support staff by 41.

4. PREMISES RELATED COSTS

Repair and Maintenance

4.1 Forecast savings against budget of £146k for Repair and Maintenance are due to an anticipated reduction in the number of planned projects to be completed due to staffing vacancies in the Estates Department.

5. TRANSPORT RELATED COSTS

Repair and Maintenance

5.1 At this stage in the financial year it is anticipated that fleet maintenance costs will be £77k under budget as a result of a reduction in the volume of repairs.

6. SUPPLIES AND SERVICES

Equipment and Furniture

6.1 It is forecast that delays in the implementation of some Change projects will result in an underspend against this budget line. At the year-end it will be necessary to seek Committee approval to utilise some of the final underspend to be transferred to Earmarked Reserves in order that funds are available to complete agreed projects in 2015-16.

Uniforms

6.2 This budget line includes provision for the delivery of a major project in relation to the roll-out of the agreed replacement Personal Protective Equipment (PPE). Similar to the spending position with Equipment and Furniture, it is anticipated that this project will not be fully delivered by the year-end resulting in additional underspend to that reported within Table 2. In this event approval of the Committee will be sought at the year-end to transfer unspent funds into 2015-16 to enable the completion of the project.

7. CAPITAL FINANCING COSTS

Capital charges

7.1 Current forecast of spending on Capital Charges is £4.154m representing a saving of £223k. This is primarily as a consequence of slippage in capital spending in 2013-14 and 2014-15, resulting in a reduction in debt charges.

8. INCOME

Grants and Re-imbursements

8.1 As a result of an additional grant from the DCLG to cover the Airwave radio system it is anticipated grant income will exceed the budget by £58k.

Other Income

8.2 It is anticipated that income targets from this budget head will be exceeded by £246k, of which £100k relates to forecast overachievement against commercial income targets. The remainder primarily relates to unbudgeted income from a seconded officer to another local authority, vehicle sales and successful recovery of court costs relating to investigations pursued by the Risk and Insurance Team.

9. TRANSER TO EARMARKED RESERVES

Direct Revenue Contributions to Capital

9.1 **Light Rescue Pumps (LRP's) -** Members will be well aware of the initiative to introduce smaller type appliances into the Service as a replacement to the more traditional appliances, saving at least 40% on the capital cost alone. Included in the 2014-15 capital programme is an amount of £2.214m to provide for 14 LRP's, £1.566m of which is to be funded from an agreed revenue contribution therefore mitigating the need to increase external borrowing requirements.

9.2 Looking ahead to the next three years the indicative capital programme 2015-16 to 2017-18 includes an amount of £7.568m to provide for a further 48 smaller type appliances. These figures can only be considered indicative at this stage as the Authority will need to consider funding implications as part of the annual budget setting process to ensure that such commitments are affordable at a time of a reducing revenue budget.

9.3 A bid of £3.9m to part fund the LRP programme had been submitted against the £70m DCLG Transformational Bids made available to FRA's for 2015-16. Unfortunately we have recently been told that this bid was not successful. Feedback from CLG officials has suggested that the reason the bid was not successful is that a positive Net Present Value (NPV) is not achieved until year 12 against an expectation that a positive NPV is achieved within 10 years. This is obviously a disappointment to the Authority but unfortunately there is no appeal process and given that this is the second time that a bid for support to the LRP programme has been rejected we have to plan on the basis that there will be no government support for the initiative.

9.4 In considering the 2013-14 revenue outturn position, at the Authority meeting on 29 May 2014, it was agreed to make a contribution of £2.349m from the 2013-14 underspend to an Earmarked Reserve to provide direct revenue funding towards future capital spending. This represents a very prudent approach and contributes at least £245k towards our annual savings target from 2016-17.

9.5 Given the forecast underspend against the current year revenue budget, as contained within this report, and in light of the disappointment of the failed LRP bid, it is proposed that a further contribution be made to the Earmarked Reserve which can be utilised to provide further direct funding towards the LRP programme thereby reducing reliance on external borrowing.

9.6 A further contribution of £1.5m towards capital spending will deliver a further £195k of recurring savings from 2016-17. The impact of this proposal is included within Table 2 on the basis that the Committee is minded to approve the proposal.

9.7 **Commercial Income –** As outlined in paragraph 8.2 of this report the current forecast is that income from commercial activities will be £100k more than budgeted. The Authority has previously made an "in principle" decision that any income from commercial activities in excess of that budgeted be ring fenced to provide direct revenue funding toward capital spending. Table 2 reflects that a further transfer of £100k is made to the Earmarked Reserve for Direct Revenue Contributions to Capital at the year-end. It is hoped that this position will have improved by the year-end leading to a larger contribution.

10. <u>RESERVES AND PROVISIONS</u>

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

Reserves

10.2 There are 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

10.3 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.

10.4 A summary of predicted balances on Reserves and Provisions is shown in Table 3 overleaf. These figures include those forecast transfers to Earmarked Reserves outlined in paragraph report.

TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2015

RESERVES AND PROVISIONS						
RESERVES	Balance as at 1 April 2014 £000	Proposed Transfers £000	Spending to P6 £000	Projected Spend 2014-15 £000	Projected Balance as at 31 March 2015 £000	
Earmarked reserves						
Grants unapplied from previous years	2,503	44	121	488	2,059	
Change & improvement programme	739		29	228	511	
Commercial Services	211		23	50	161	
Direct Funding to Capital	4,099	1,600	-	2,042	3,657	
CSR 2010	3,389		-	-	3,389 *	
Budget Carry Forwards	304		6	204	100	
Community Safety Investment	405		25	370	35	
PPE & Uniform Refresh	450		-	-	450	
Total earmarked reserves	**12,100**	**1,644**	**204**	**3,381**	**10,362**	
General reserve						
General fund balance	**5,191**				**5,191**	
Percentage of general reserve compared to net budget						6.85%
TOTAL RESERVE BALANCES	**17,291**				**15,553**	
PROVISIONS						
Fire fighters pension schemes	2,084				2,084	
PFI Equalisation	295				295	
TOTAL PROVISIONS	**2,379**	**0**	**0**	**0**	**2,379**	

***** *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.*

11. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2014-15

Monitoring of Capital Spending in 2014-2015

11.1 Table 4 overleaf provides a summary of forecast spending against the 2014-2015 capital programme. Latest projection is for capital spending to be £5.557m (£6.891m in Q1) against a revised programme of £7.154m. It should be noted that the previously reported programme figure of £7.094m has been increased by £60k to provide for the purchase of six Community Safety vehicles to be funded from Earmarked Reserves. It should be emphasised that this addition does not result any increase in the external borrowing requirement.

TABLE 4 – CAPITAL OUTTURN 2014-15

Capital Programme 2014/15

Item	PROJECT	2014/15 £000 Budget	2014/15 £000 Projected outturn	2014/15 £000 Variation to budget
	Estate Development			
1	SHQ major building works	58	28	(30)
2	Major Projects - Training Facility at Exeter Airport	320	231	(89)
3	Minor improvements & structural maintenance	1,062	877	(185)
4	Projects funded from Reserves	282	238	(44)
5	Minor Works slippage from earlier years	680	866	186
	Estates Sub Total	**2,402**	**2,240**	(162)
	Fleet & Equipment			
7	Vehicles Slippage from 13/14	504	589	85
8	Equipment - Slippage from 13/14	415	349	(66)
9	Vehicle Replacement	2,557	1,889	(668)
10	Equipment	1,070	320	(750)
11	Projects funded from Reserves	195	159	(36)
12	Vehicles funded from revenue	11	11	-
	Fleet & Equipment Sub Total	**4,752**	**3,317**	**(1,435)**
	Overall Capital Totals	**7,154**	**5,557**	**(1,597)**
	Programme funding			
	Main programme	850	0	(850)
	Revenue funds	4,479	3,763	(716)
	Earmarked Reserves	427	396	(31)
	Grants	1,398	1,398	-
		7,154	**5,557**	**(1,597)**

Slippage in 2014-15

11.2 As is illustrated in Table 4 it is already anticipated that there will be some slippage against the 2014-15 programme. At this stage, slippage against projects is forecast to be £1.597m. It is a common feature of capital spending that individual projects included in the programme can be subject to delays, for instance as a consequence of weather delays, or pending planning consents. Under the Prudential Code this does not cause any funding problems as slippage can be carried forward into the following years. In fact, slippage in capital spending has a positive impact against the revenue account in so much as it defers borrowing requirements and the associated debt charges.

Prudential Indicators (including Treasury Management)

11.3 Also included within Table 4 are details of how the forecast spending of £5.557m is to be financed, which illustrates that all of this spending is to be funded from revenue funding or government grants therefore avoiding the need to increase external borrowing requirements in 2014-15.

11.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2014 stands at £26.059m (£26.214m in previous quarter), and is forecast to reduce to £25.944m by 31st March 2015 as a result of further principal repayments. This level of borrowing is well within the Authorised Limit for external debt of £31.120m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

11.5 Investment returns in the quarter yielded an average return of 0.46% which outperforms the LIBID 3 Month return (industry benchmark) of 0.43%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.100m by 31 March 2015.

11.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2014-2015, which illustrates that there was no breach of any of these indicators.

12. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

12.1 Total debtor invoices outstanding as at Quarter 2 were £159,709 (previous quarter £233,716). Of this figure an amount of £54,069 (£60,796 as at 30 June 2014) was due from debtors relating to invoices that are more than 85 days old, equating to 33.85% (26.01% as at 30 June 2014) of the total debt outstanding. Table 5 below provides a summary of all debt outstanding as at 30 September 2014.

TABLE 5 – OUTSTANDING DEBT AS AT 30 SEPTEMBER 2014

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	34,979	21.90%
1 to 28 days overdue	69,324	43.41%
29-56 days overdue	199	0.13%
57-84 days overdue	1,139	0.71%
Over 85 days overdue	54,068	33.85%
Total Debt Outstanding as at 30 September 2014	**159,709**	**100.00%**

12.2 Table 6 below provides further analysis of those debts in excess of 85 days old.

TABLE 6 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Individual Debts less than £1,000	5	£1,199	Each debt being pursued by the Risk and Insurance Officer.
L Davies	1	£2,681	This relates to an overpayment to a former employee and payment by instalments has been negotiated.
Georgia Group	1	£50,188	This is a claim that relates to a breach of contract and refunds due to the Authority in relation to training courses not delivered. As previously reported this debt is subject to an agreed instalment plan which to date is being honoured.

Payment of Supplier Invoices within 30 days

12.3 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 2014 was 86.03% compared to the previous reported figure of 89.61% as at 30 June 2014. The Finance Team are working closely with administration staff across the Service to attempt to improve this performance.

13. SUMMARY AND RECOMMENDATIONS

13.1 At this stage it is forecast that revenue spending will be £2.362m less than the agreed budget figure for 2014-15, which aligns with the strategy adopted to deliver in-year savings where possible to be available to enhance Reserve balances.

13.2 Given this position and in light of the disappointment of the rejected LRP bid of £3.9m against the DCLG Transformational Funding, it is proposed:

(a) ***That it be recommended to the Devon and Somerset Fire and Rescue Authority that a transfer of £1.5m be made to Earmarked Reserves (to be utilised as a further revenue contribution to capital spending), to be funded from the forecast underspend against the 2014-15 Revenue Budget. and,***

(b) ***That subject to (a) above, the monitoring position in relation to projected spending against the 2014-2015 revenue and capital budgets be noted;***

(c) ***That the performance against the other 2014-2015 financial targets be noted.***

KEVIN WOODWARD
Treasurer to the Authority

PRUDENTIAL INDICATORS 2014-2015

Prudential Indicators and Treasury Management Indicators	**Outturn £m**	**Target £m**	**Variance (favourable) /adverse**
Capital Expenditure	**5.557**	**7.154**	**(£1.597m)**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**27.453**	**24.939**	**£2.514m**
- Borrowing	25.944	23.430	
- Other long term liabilities	1.509	1.509	
External borrowing vs Authorised limit for external debt - Total	**27.453**	**32.569**	**(£5.116m)**
- Borrowing	25.944	31.120	
- Other long term liabilities	1.509	1.449	
Debt Ratio (debt charges as a %age of total revenue budget	**3.65%**	**3.85%**	**(0.20)bp**
Cost of Borrowing – Total	**1.075**	**1.075**	**(£0.000m)**
- Interest on existing debt as at 31-3-13	1.075	1.075	
- Interest on proposed new debt in 2013-14	0.000	0.000	
Investment Income – full year	**0.138**	**0.100**	**(£0.038m)**
	Actual (30 Sept 2014) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.46%**	**0.43%**	**(0.03)bp**

Prudential Indicators and Treasury Management Indicators	**Forecast (31 March 2015) %**	**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%			

REPORT REFERENCE NO.	**RC/14/16**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**20 NOVEMBER 2014**
SUBJECT OF REPORT	**FIREFIGHTERS' PENSION SCHEME 2015: CONSULTATION ON PROPOSALS FOR NEW GOVERNANCE ARRANGEMENTS**
LEAD OFFICER	**Director of People and Commercial Services**
RECOMMENDATIONS	***That the Committee reviews the response at Appendix A of this report and that a final version is submitted to the Department for Communities and Local Government.***
EXECUTIVE SUMMARY	DCLG has opened a consultation on the governance arrangements for the Firefighters' Pension Scheme 2015. The intention is to make public sector pension schemes more accountable to its members and the taxpayers. The consultation questions and responses are attached at Appendix A of this report for review by the Committee.
RESOURCE IMPLICATIONS	Dependent upon the number of board members and whether expenses are paid. There would be further Service resources in setting up and supporting a Local Pension Board.
EQUALITY RISK & BENEFITS ASSESSMENT	There is insufficient information at this stage to complete an Equality and Risk Benefits Assessment.
APPENDICES	A. DSFRS Response to consultation B. Firefighters' Pension Scheme 2015 - Proposals For New Governance Arrangements C. The Firefighters' Pension Scheme (Amendment) (Governance) Regulations 2015
LIST OF BACKGROUND PAPERS	None

1. **INTRODUCTION**

1.1 The Department for Communities and Local Government (DCLG) has opened a consultation on the governance arrangements for the Firefighters' Pension Scheme 2015. The intention is to make public sector pension schemes more accountable to its members and the taxpayers. It is suggested that the changes in governance are in accordance with the pension recommendations from Lord Hutton in 2011. This would result in every fire & rescue authority having a Local Pension Board and that additionally there would be a national Scheme Advisory Board. There would also be a capping mechanism to control future costs of the scheme.

1.2 The recommendation from Lord Hutton was as follows:

> *"Every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration. There should also be a pension policy group for each scheme at national level for considering major changes to scheme rules".*

1.3 There has already been consultation on the Local Government Pension Scheme (LGPS) which has individual scheme funds and investment options. There are also a range of local discretions. This is not the case for the Firefighters Pension Scheme for which there is local administration but the scheme is governed nationally. Pension scheme costings can already be reported through the fire and rescue authorities so, at this stage, it is unclear as to the benefits from having a Local Pension Board.

1.4 The proposal is that the Local Pension Board would comprise of a minimum of four members. Two would be representing pension scheme members which must be current employees (it is unclear why they could not be existing pensioners) and two would be employer representatives and could be counsellors or officers provided they are not responsible for making decisions in relation to the pension scheme.

1.5 The precise role of the Local Pension Board is not clear but it is in a scrutiny capacity and ensures that the Scheme Manager complies with the regulations governing the Firefighters' Pension Scheme and any requirements from the Pension Regulator. Local Pension Board members are required to have the capacity and understanding to represent the pension members or the employer. It is for the Scheme Manager to determine whether any expenses should be paid in the running of the Local Pension Board.

2. **THE CONSULTATION**

2.1 The Service has considered the questions put forward by the DCLG and a suggested response is attached for consideration by the Committee.

JANE SHERLOCK
Director of People and Commercial Services

Question 1

Do the draft regulations deliver the policy objective on the introduction of local pension boards and a Scheme Advisory Board as set out in this consultation document?

The draft regulations do enable the introduction of Local Pension Boards and a Scheme Advisory Board but do not give sufficient information on the reasons for this objective or what the benefits would be to both the taxpayer and pension scheme members. The reason for introducing these boards appears to be based on fulfilling the recommendations from the Lord Hutton Report in 2011. This report included the following recommendation:

Every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration. There should also be a pension policy group for each scheme at national level for considering major changes to scheme rules.

The consultation document and associated amendments to the Firefighters' Pension Scheme interprets this recommendation as requiring each individual fire & rescue authority to have a Local Pension Board since they are assumed to be separate public service pension schemes. The Lord Hutton recommendation is quite specific about the Local Government Pension Schemes (LGPS) which comprise local funds and will have separate investment portfolios. There has been separate consultation around the introduction of such Local Pension Boards for these schemes. However, whilst the Firefighters' Pension Scheme is administered locally there are not separate pension funds and so the administration is on behalf of the national Firefighters' Pension Scheme. In addition, whilst the LGPS has a range of local discretions that can be applied, these same arrangements are not extended to the Firefighters' Pension Scheme. Therefore, it would seem that, in respect of the Firefighters' Pension Scheme, the functions of a Pension Board could only operate at a national level.

If the objective is to ensure greater transparency and scrutiny then this can be achieved through existing mechanisms whereby pension budgets and associated issues can be reported through to the local fire and rescue authority. To introduce a new and additional level of bureaucracy across all individual fire & rescue authorities does not present an efficient and effective means of control and administration of the Firefighters' Pension Scheme.

Question 2

Do you have any comments on the terms of the local pension boards or Scheme Advisory Board as set out in regulations?

These are not clear from the consultation document. In the scope of the consultation, it refers to assisting the Scheme Manager in the efficient and effective administration of the pension scheme. In the policy context section the document refers to providing more assurance to taxpayers and to the scheme members. The section also refers to the Local Pension Board assisting the Scheme Manager in the following:

- securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme, and any connected scheme
- securing compliance with any requirements imposed by the Pensions Regulator, and

- in relation to any other matter specified in the scheme regulations

Within the proposal, the Local Pension Board function includes these aspects but also says that the role is wide ranging and allows, for instance, the board to look at the systems underpinning the administration of the scheme or how decisions are taken. However, the proposal also states that the Local Pension Board is not a decision making body.

Within the consultation for Local Pension Boards within the LGPS, there is a provision that where the Scheme Manager is a committee of a local authority, the Local Pension Board may be the same committee if approval in writing has been obtained from the Secretary of State. Something similar could be applied for the Firefighters' Local Pension Boards.

This would cover the Employers' side and for employees there is already a mechanism in place for dealing with concerns or for raising issues. This is by way of the pension Internal Disputes Resolution Panel for which the stage 2 appeal is with fire and rescue authority members.

From a national perspective, the Scheme Advisory Board would duplicate activities undertaken by the existing Firefighters' Pension Committee. Nationally, there has also been recent agreement to appoint a Technical Support Officer to the LGA Pensions Department. This post is being funded on a subscription basis and earlier this year Devon & Somerset Fire and Rescue Authority agreed to financially support this position at a cost of £1 per annum per employee. This provision is similar to the approach used by the LGA for both the Teachers' Pension Scheme and the LGPS.

It would be beneficial if the Scheme Manager role and responsibility could be clearly defined and whether this is the responsibility of the Chief Fire Officer and his delegated officers, the fire and rescue authority, or whether this lies with the Scheme Administrator (which in almost all cases will be a principal local authority).

Question 3

Are there other powers or requirements that should be put in place for local pension boards or the Scheme Advisory Board?

None that we are aware of.

Question 4

Should the regulations be more, or less prescriptive about potential members of the local pension boards or the Scheme Advisory Board?

It is unclear within the proposal as to why from an employee representative's perspective, the Local Pension Board posts would be limited to existing employees rather than considering existing pensioners. This distinction is not made on the LGPS consultation.

Question 5

Is there an alternative funding mechanism for the Scheme Advisory Board which could be put in place rather than raising funds from scheme managers with the Secretary of State ensuring that the Board is delivering value for money?

Our preference would be that there is no additional cost to fire & rescue authorities.

Question 6

Do you consider that any groups with protected characteristics under equalities legislation are being disproportionately affected? If so, what do you consider to be the nature and scale of that disproportionate effect?

No.