



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

To: The Chair and Members of the Resources
Committee

(see below)

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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday 16 November 2016

A meeting of the Resources Committee is to be held on the above date, **commencing at 10.00 am in the Committee Room B in Somerset House, Service Headquarters, Exeter** to consider the following matters.

M. Pearson
Clerk to the Authority

AGENDA

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

- 1 **Apologies**
- 2 **Minutes (Pages 1 - 4)**
of the previous meeting held on 1 September 2016 attached.
- 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 2016-17: Quarter 2 (Pages 5 - 12)**
Report of the Treasurer to the Authority (RC/16/13) attached.

5 Financial Performance Report 2016-17: Quarter 2 (Pages 13 - 24)

Report of the Treasurer to the Authority (RC/16/14) attached.

6 Exclusion of the Press and Public

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

PART 2 - ITEMS WHICH MAY BE CONSIDERED IN THE ABSENCE OF THE PRESS AND PUBLIC

7 Estates Development Review Update (Pages 25 - 34)

Report of the Director of Corporate Services (RC/16/15) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Dyke (Chair), BurrIDGE-Clayton, Chugg, Greenslade, Hendy, Thomas and Yeomans (Vice-Chair)

NOTES

- | | |
|----|---|
| 1. | <p><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.</p> |
| 2. | <p><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.</p> |
| 3. | <p><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:</p> <ul style="list-style-type: none">(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. <p>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.</p> |
| 4. | <p><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.</p> |
| 5. | <p><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.</p> |

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RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

1 September 2016

Present:-

Councillors Dyke (Chair), Chugg, Greenslade, Hendy, Thomas, Yeomans (Vice-Chair) and Healey

* **RC/21** **Election of Chair**

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

Due to this item not being included on the agenda for this meeting for the Election of Chair, it was agreed that this matter should be taken as a matter of urgency.

RESOLVED that Councillor Dyke be elected Chair of the Committee until the first meeting after the Annual General Meeting of the Authority in June 2017.

* **RC/22** **Minutes of the previous meeting held on 17 May 2016**

RESOLVED that the Minutes of the meeting held on 17 May 2016 be signed as a correct record.

* **RC/23** **Election of Vice Chair**

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

Due to this item not being included on the agenda for this meeting for the Election of Vice Chair, it was agreed that this should be taken as a matter of urgency.

RESOLVED that Councillor Yeomans be elected Vice Chair of the Committee until the first meeting after the Annual General Meeting of the Authority in June 2017.

* **RC/24** **Treasury Management Performance Report 2016-17: Quarter 1**

The Committee received for information a report of the Treasurer (RC/16/11) that set out details of the treasury management performance for the first quarter of 2016 (to June 2016) as compared with the agreed financial targets for 2016/17. The report provided a forecast of spending against the 2016/17 revenue budget with explanations of any major variations.

Adam Burleton, representing Capita – the Authority's Treasury Management Adviser – was present at the meeting and he gave an overview of the performance to date as measured against the approved Treasury Management Strategy. The key points made were:

- That this was the first report to be submitted to the Committee for consideration post the Brexit vote;

- The growth outlook had weakened post Brexit and a revised interest rate forecast had been set out as a result as contained within paragraph 2.8 of the report circulated. The forecast for growth in 2017/18 had been cut from 2.3% to 0.8% as a result;
- treasury management 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;
- Although investment returns were still small as a result of the continuing low interest rates, the Authority had invested £28.5million of its funds in quarter 1 of 2016/17 and had outperformed the LIBID 3 benchmark by 0.06bp giving a return of £22.2k. It was forecast that the Authority's budgeted investment target for 2016/17 of £0.154million would be achieved.
- External borrowing as at 30 June 2016 was £25.817m which remained the same as in the last quarter of 2015/16;
- No Prudential Indicators had been breached.

The Committee noted that it would be important to monitor carefully the next two quarterly treasury management reports to gauge the full impact of Brexit on the Authority's investment position.

RC/25 Four Year Funding Allocations and Efficiency Plan

The Committee considered a report of the Treasurer (RC/16/10) that set out details of the 2016-17 Local Government Finance Settlement, including the offer of a four year funding settlement to cover the years 2016-17 to 2019-20.

The Treasurer advised that the firm four year funding allocation was being offered to fire and rescue authorities in return for the submission of robust and transparent efficiency plans. This would provide funding certainty and stability and enable the Service to be more proactive in its planning of service delivery and support for strategic collaboration with local partners. He added that he was not aware of any fire and rescue authority that would be turning down this offer. An Efficiency Plan had been drawn up and was attached to the report circulated and it was recommended for approval by the Fire and Rescue Authority. This set out the proposals to bridge the current funding gap of £7.3million. The Plan had to be published on the Authority's website and a link setting this out had to be received at the Home Office by 17:00hours on Friday 14 October 2016.

It was noted that the Efficiency Plan that was submitted for approval had been populated with the figures already included within the Authority's Medium Term Financial Plan and the Change and Improvement Plan. It also included further commentary on the Service's approach to delivering savings over the requisite four year period in order to achieve a balanced budget.

Councillor Dyke made reference at this point to the PFCSO project that was underway and asked for details of this to be mentioned on page 30 of the Efficiency Plan, together with information in respect of the co-responding activities the Service was involved in.

Councillor Thomas drew attention to the fact that some of the figures included in the plan would inevitably be subject to change, particularly as the Service moved further into the four-year period and the levels of uncertainty increased.

It was **RECOMMENDED** to the Devon & Somerset Fire & Rescue Authority at its next meeting on 30 September 2016 that:

- (a) The Authority applies for the government offer of a four year funding settlement, and;
- (b) That it approves the draft Efficiency Plan circulated within Appendix A of report RC/16/10, as amended to take into account the points raised during the meeting.

* **RC/26** **Financial Performance Report 2016-17: Quarter 1.**

The Committee received for information a report of the Treasurer (RC/16/11) that set out the financial performance for the first quarter of 2016/17 (to 30 June 2016) as compared with the agreed financial targets for 2016/17. In particular, the report provided a forecast of spending against the 2016-17 revenue budget with explanations of any major variations.

It was noted that, at this early stage in the financial year, revenue expenditure was forecast to be £1.298million less than the approved budget of £73.977million, equivalent to 1.75% of the total budget. This underspend was 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. The Treasurer reported that given the early stage in the financial year, no recommendation was made to the Committee in terms of how this predicted underspend should be utilised.

Reference was made to the position in respect of pensions which was forecast to be overspent at the year end. It was noted that this forecast overspend was due to the projected number of ill health retirements in 2016-17. The figure may be subject to change, however, as given the long term nature of these retirement cases, the leaving date may slip into future financial years. The Chief Fire Officer indicated that this matter would be reported to the Human Resources Management and Development Committee in due course to give further assurance on the position.

Attention was also drawn to the slippage on the Capital Programme and it was requested that the financial monitoring report should include more detailed narrative as to the reasons behind this.

RESOLVED

- (a) That the monitoring position in relation to projected spending against the 2016-17 revenue and capital budgets be noted;
- (b) That performance against the 2016-17 financial targets be noted.

RC/27 **Exclusion of 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 involved 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 or business affairs of a particular person, including the Authority.

* **RC/28** **Red One Ltd Performance Report 2016-17: Quarter 1.**

(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 received for information a report of the Treasurer (RC/16/12) that set out the draft financial outturn position for quarter 1 of 2016-17 for the Authority's trading company, Red One Ltd.

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

The meeting started at 10.00 am and finished at 11.40 am

Agenda Item 4

REPORT REFERENCE NO.	RC/16/13
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	16 NOVEMBER 2016
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2016-2017 – QUARTER 2
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the Authority for 2016-17 (to September 2016) be noted.</i>
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 2016.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/16/3 – as approved at the meeting of the DSFRA meeting held on the 19 February 2016.

1. **INTRODUCTION**

- 1.1 The Treasury Management Strategy for Devon and Somerset FRA has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. The Code recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report, therefore, ensures this Authority is implementing best practice in accordance with the Code and includes:
- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
 - The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
 - The receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
 - The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- 1.2 Treasury management in this context is defined as:
- “The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”
- 1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. **ECONOMIC BACKGROUND**

- 2.1 UK Growth Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.
- 2.2 The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

- 2.3 The Bank of England meeting on August 4th 2016 addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The August Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Philip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23 2016.
- 2.4 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. The Consumer Price Index (CPI) has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year. In addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years.
- 2.5 The Monetary Policy Committee (MPC), however, is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.
- 2.6 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Federal Reserve embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.
- 2.7 In the Eurozone, the European Central Bank commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings, it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn.
- 2.8 These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

2.9 Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest Rate Forecasts

2.10 The Authority’s treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

2.11 Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% by the end of December and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

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 19th February 2016. It outlines the Authority’s investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

- 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 2016 are shown in Appendix A.
- 3.4 The average level of funds available for investment purposes during the quarter was £37.998m (£29.533m 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	0.308%	0.46%	£60,696.

- 3.5 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.152bp. Whilst investment future returns will inevitably be adversely impacted by the reduction in the bank base rate to 0.25% during Q2, it is currently forecast that the Authority's budgeted investment target for 2016-2017 of £0.154m will still be achieved.

BORROWING STRATEGY

Prudential Indicators:

- 3.6 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.
- 3.7 A full list of the approved limits (as amended) are included in the Financial Performance Report 2016-2017, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to September 2016 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

- 3.8 External borrowing as at 30 September 2016 was £25.790m, a small reduction from the figure of £25.817m as at 30 June 2016. All of this debt was at fixed rate with the remaining principal having an average rate/life of 4.231%/30.09 years.

Loan Rescheduling

- 3.9 No debt rescheduling was undertaken during the quarter. The Authority will continue to work closely with our treasury advisors to explore any opportunities to repay existing loans, however current Public Works Loan Board (PWLB) early repayment rates mean there is no financial benefit in undertaking premature loan repayment at this time.

New Borrowing

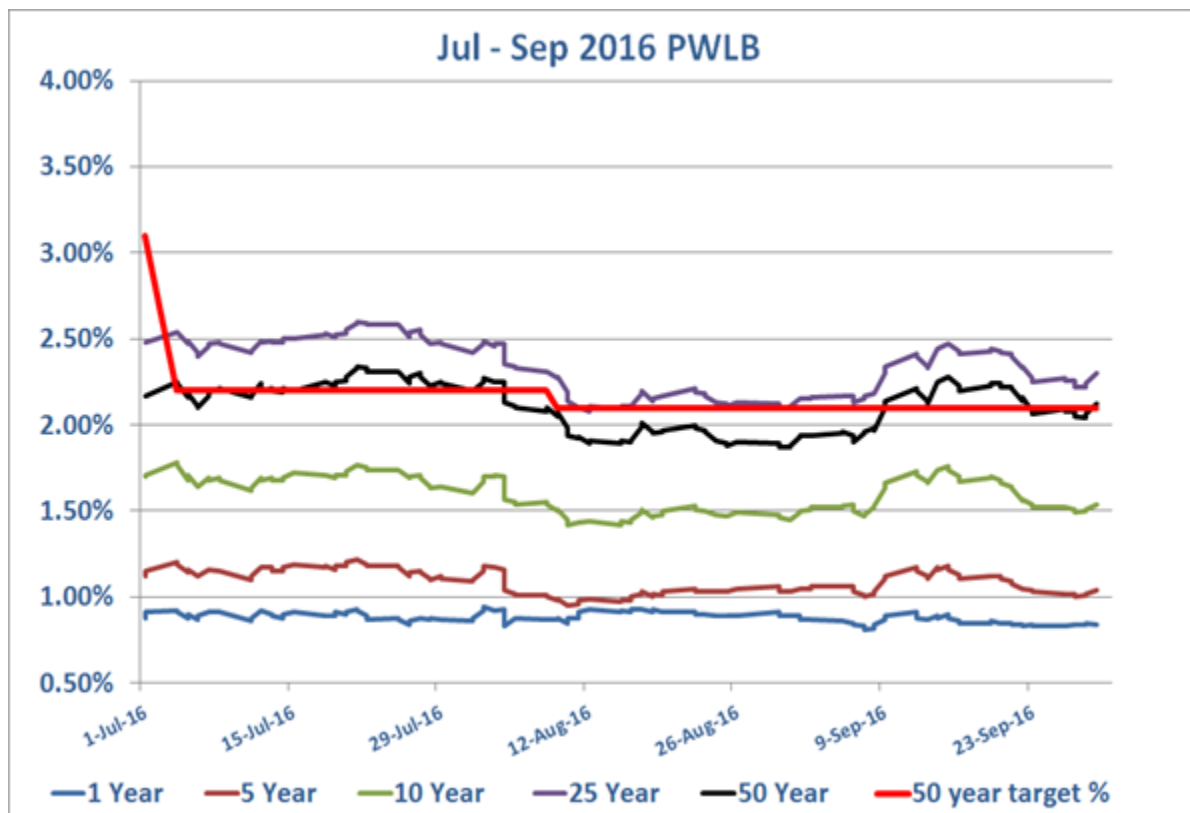
3.10 As depicted in the graph(s) below there has been some volatility in PWLB rates during the quarter. The 50 year PWLB target (certainty) rate for new long term borrowing started at 3% and ended at 2.10%.

3.11 No new borrowing was undertaken during the quarter and none is planned during 2016-17. It is anticipated that use of internal borrowing will avoid the need to borrow from the PWLB in year.

PWLB rates quarter ended 30 September 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	0.94%	1.22%	1.78%	2.60%	2.34%
Date	02/08/2016	21/07/2016	04/07/2016	21/07/2016	21/07/2016
Average	0.88%	1.09%	1.60%	2.34%	2.11%

3.12 Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

3.13 The Authority has not borrowed in advance of need during this quarter.

4. SUMMARY AND RECOMMENDATION

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 2016-2017 to September 2016. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are still low as a consequence of the fall in interest rates, the Authority is still anticipating that investment returns will meet the budgeted target.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/16/13

Investments as at 30 September 2016					
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	5.000	2.100	T	1 yr	1.050%
		1.400	T	3 mths	0.650%
		1.500	T	1 yr	1.020%
Qatar National Bank	2.000	1.000	T	1 yr	1.000%
		1.000	T	1 yr	0.750%
Santander UK PLC	5.000	1.000	T	6 mths	0.660%
		2.000	T	6 mths	0.460%
		2.000	T	6 mths	0.460%
Leeds Building Society	2.000	1.000	T	6 mths	0.670%
Coventry Building Society	2.000	2.000	T	6 mths	0.600%
Nationwide Building Society	2.000	2.000	T	6 mths	0.400%
Goldman Sachs	5.000	5.000	T	6 mths	0.595%
Sumitomo Mitsui	5.000	3.200	T	6 mths	0.420%
Svenska Handelsbanken	5.000	5.000	C	Instant Access	Variable
Federated Liquidity Fund	5.000	1.600	C	Instant Access	Variable
Black Rock Money Market Fund	5.000	4.660	C	Instant Access	Variable
Ignis Sterling Liquidity Money Market Fund	6.000	4.316	C	Instant Access	Variable
Total invested as at 30 September 2016		£40.776M			

Agenda Item 5

REPORT REFERENCE NO.	RC/16/14
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	16 NOVEMBER 2016
SUBJECT OF REPORT	FINANCIAL PERFORMANCE REPORT 2016-17 – QUARTER 2
LEAD OFFICER	Treasurer to the Authority
RECOMMENDATIONS	<p>(a) <i>That the monitoring position in relation to projected spending against the 2016-17 revenue and capital budgets be noted;</i></p> <p>(b) <i>That the performance against the 2016-17 financial targets be noted.</i></p>
EXECUTIVE SUMMARY	<p>This report provides the Committee with the second quarter performance (to September 2016) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2016-17 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £1.612m less than budget, equivalent to 2.18% of the total budget.</p> <p>This saving is largely attributable to the ongoing crewing changes as a result of the last Corporate Plan together with a strategy to hold vacancies when staff leave the organisation. At this stage no recommendations are made in relation to how this forecast saving is to be utilised.</p> <p>At the time of writing this report the full cost impact of the major fire in Cathedral Yard in Exeter has not been fully assessed. Once the full cost is finalised this of course may impact on the forecast spending figures included in this report.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Prudential Indicators 2016-17.
LIST OF BACKGROUND PAPERS	None.

1. **INTRODUCTION**

1.1 This report provides the first quarterly financial monitoring report for the current financial year, based upon the position as at the end of September 2016. As well as providing projections of spending against the 2016-17 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 2016-17

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 2	Previous Quarter	Quarter 2 %	Previous Quarter %
Revenue Targets						
1	Spending within agreed revenue budget	£73.977m	£72.365m	£72.679m	(2.18%)	(1.75%)
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.14%	7.14%	(2.14)bp*	(2.14)bp*
Capital Targets						
3	Spending within agreed capital budget (<i>revised</i>)	£6.417m	£4.217m	£4.403m	(34.28%)	(31.39%)
4	External Borrowing within Prudential Indicator limit (<i>revised</i>)	£28.101m	£27.098m	£27.098m	(3.57%)	(3.57%)
5	Debt Ratio (debt charges over total revenue budget)	4.18%	4.17%	4.17%	(0.01)bp*	(0.01)bp*

*bp = base points

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

- **SECTION A** – Revenue Budget 2016-17.
- **SECTION B** – Capital Budget and Prudential Indicators 2016-17.
- **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 2016-17**

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 £72.365m compared with an agreed budget figure of £73.977m, representing a saving of £1.612m, equivalent to 2.18% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2016-17

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY						
Revenue Budget Monitoring Report 2016/17						
Line No		2016/17 Budget £000	Year To Date Budget £000	Spending to Month 6 £000	Projected Outturn £000	Projected Variance over/ (under) £000
SPENDING						
EMPLOYEE COSTS						
1	Wholetime uniform staff	28,462	14,184	13,579	27,550	(912)
2	Retained firefighters	12,340	5,858	5,351	12,354	14
3	Control room staff	1,564	773	747	1,546	(18)
4	Non uniformed staff	10,141	5,063	4,894	9,715	(426)
5	Training expenses	962	481	515	915	(47)
6	Fire Service Pensions recharge	2,786	1,613	5,506	2,874	88
		56,254	27,973	30,592	54,953	(1,301)
PREMISES RELATED COSTS						
7	Repair and maintenance	1,193	597	731	1,226	33
8	Energy costs	612	258	93	603	(9)
9	Cleaning costs	450	225	358	462	12
10	Rent and rates	1,686	983	1,010	1,659	(27)
		3,940	2,062	2,191	3,949	9
TRANSPORT RELATED COSTS						
11	Repair and maintenance	630	315	249	610	(20)
12	Running costs and insurances	1,372	892	633	1,297	(75)
13	Travel and subsistence	1,402	616	651	1,326	(76)
		3,403	1,823	1,533	3,232	(171)
SUPPLIES AND SERVICES						
14	Equipment and furniture	2,306	1,153	992	2,258	(48)
16	Hydrants-installation and maintenance	175	88	64	171	(4)
17	Communications	2,007	1,004	476	2,012	5
18	Uniforms	588	294	274	639	51
19	Catering	171	85	42	68	(103)
20	External Fees and Services	59	29	54	41	(18)
21	Partnerships & regional collaborative projects	150	75	69	187	37
		5,457	2,728	1,997	5,377	(80)
ESTABLISHMENT COSTS						
22	Printing, stationery and office expenses	371	208	131	322	(49)
23	Advertising	31	16	15	33	2
24	Insurances	329	309	181	338	9
		731	532	327	693	(38)
PAYMENTS TO OTHER AUTHORITIES						
25	Support service contracts	716	324	406	713	(3)
		716	324	406	713	(3)
CAPITAL FINANCING COSTS						
26	Capital charges	3,615	660	620	3,471	(144)
27	Revenue Contribution to Capital spending	3,159	-	-	1,904	(1,255)
		6,773	660	620	5,374	(1,399)
28	TOTAL SPENDING	77,275	36,103	37,668	74,292	(2,983)
INCOME						
29	Investment income	(154)	(77)	(62)	(153)	1
30	Grants and Reimbursements	(3,150)	(1,575)	(1,633)	(2,993)	157
31	Other income	(590)	(295)	(201)	(631)	(41)
32	Internal Recharges	(30)	(15)	(29)	(30)	0
33	TOTAL INCOME	(3,923)	(1,962)	(1,925)	(3,806)	117
34	NET SPENDING	73,352	34,141	35,743	70,486	(2,866)
TRANSFERS TO EARMARKED RESERVES						
35	Transfer to Earmarked Reserve	625	312	625	625	0
37	Capital Funding	0		0	1,255	1,255
		625	312	625	1,880	1,255
38	NET SPENDING	73,977	34,453	36,368	72,365	(1,612)

- 2.2 These forecasts are based upon the spending position at the end of September 2016, 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 an underspend of £1.612m is largely attributable to savings on staffing costs primarily as a result of in year leavers and retirees not being replaced as per the Corporate Plan implementation. When fully implemented, these proposals will deliver on-going savings of £6.8m and there has now been sufficient natural turnover so that the number of staff is at establishment.
- 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 7 of this report.

3. EMPLOYEE COSTS

Whole-time Staff

- 3.1 At this stage, it is projected that spending on whole-time pay costs will be £0.912m less than budget largely as a result of more staff retirements and leavers during the year than had been budgeted, reducing staffing levels towards those required post Corporate Plan crewing changes. Forecast spending on this budget line may be subject to further change once final costs are known in relation to the Cathedral Yard fire.

Non Uniformed Pay

- 3.2 The Service is anticipating that savings of £0.426m will be achieved against non-uniformed pay costs primarily as a result of staffing vacancies and management action to challenge whether vacancies are filled, as per the agreed strategy. Additionally, the Service is not delivering the same number of courses in 2016/17 for Job Centre Plus as has been the case previously. The Service was delivering courses to young adults having trouble securing themselves jobs on behalf of the Department of Work & Pensions – this has created a saving. This has had a compensatory effect on the Grants & Reimbursements line.

Pensions Recharge

- 3.3 It is forecast that expenditure will be £0.088m over budget relating to Firefighters Pensions recharges due to anticipated cases of ill-health retirements in 2016-17. This figure is less than had been previously forecast at Q1 (£0.323m) as it is now anticipated that some cases will not be finalised before 31st March 2017. This figure may be subject to change as given the long term nature of these retirement cases, the leaving date may slip into future financial years.

4. TRANSPORT RELATED COSTS

Running costs and insurances

- 4.1 Forecast savings of £0.075m. £0.050m savings on vehicle insurance as a result of the Service moving to new insurance arrangements through the Fire and Rescue Insurance Consortium (FRIC), and £0.026m resulting from savings on vehicle fuel.

Travel and subsistence

- 4.2 Forecast savings on Travel and Subsistence of £0.076m are mostly due to anticipated savings on lease car costs.

5. SUPPLIES AND SERVICES

Catering

- 5.1 Due to the Service decision to close both of the canteens at Service Headquarters and at our Plympton site, the spend associated with catering purchases will reduce. The Service is therefore forecasting an underspend of £0.103m – this will be partially off-set by a reduction in meals income.

Uniforms

- 5.2 As a result of the requirement to issue additional uniform to stations involved in the Marauding Terrorist Firearms Attack (MTFA) project, the Service is forecasting an overspend in this line of £0.051m. The MTFA Project has been established to help protect against terrorist threats as recently suffered in Paris and Nice and involves equipping firefighters with the necessary protection to engage in these incidents.

6. CAPITAL FINANCING COSTS

Capital Charges

- 6.1 The Service is anticipating an under spend of £144k on this budget line to reflect the fact that a number of leased vehicles have now been either returned or the leases have been bought out.

Revenue Contribution to Capital Spending

- 6.2 Due to reduced in-year capital expenditure, as reported in Section B of this report, it is forecast that £1.255m of the Revenue Contribution to Capital will not be utilised in 2016-17. The final amount of unutilised budget at year end will be transferred to the Capital funding reserve for use in future years.

7. INCOME

Grant and Reimbursements

- 7.1 It is anticipated that there will be a £0.157m under recovery against a budget of £3.150m. This is mainly due to fewer Job Centre Plus courses in this year – there will be a corresponding reduction in costs to match the income.

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 overleaf. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2017

RESERVES AND PROVISIONS						
	Balance as				Projected	Proposed
	at 1 April	Approved	Proposed	Spending	Spend	Balance as
	2016	Transfers	Transfers	to P5	2016-17	at 31 March
RESERVES	£000	£000	£000	£000	£000	2017
						£000
Earmarked reserves						
Grants unapplied from previous years	(983)	-	-	217	299	(684)
Change & improvement programme	(1,012)	-	-	367	976	(36)
Budget Carry Forwards	(696)	-	-	68	349	(347)
Commercial Services	(192)	-	-	1	21	(171)
Direct Funding to Capital	(12,911)	(625)	(1,069)	-	321	(14,284)
Comprehensive Spending Review*	(4,957)	-	-	-	-	(4,957)
Community Safety Investment	(173)	-	-	18	164	(9)
PPE & Uniform Refresh	(996)	-	-	465	465	(531)
Pension Liability reserve	(1,525)	-	-	-	-	(1,525)
National Procurement Project	(372)	-	-	52	195	(177)
ESMCP	(100)	-	-	-	-	(100)
NNDR Smoothing Reserve	(612)	-	-	-	-	(612)
Total earmarked reserves	(24,529)	(625)	(1,069)	1,187	2,789	(23,434)
General reserve						
General fund balance	(5,282)	-	-	-	-	(5,282)
Percentage of general reserve compared to net budget						7.14%
TOTAL RESERVE BALANCES	(29,812)					(28,716)
PROVISIONS						
Fire fighters pension schemes	(694)	-	-	(1)	134	(560)
PFI Equalisation	(295)	-	-	-	-	(295)
TOTAL PROVISIONS	(989)			(1)	134	(855)

* The CSR Reserve has been established to provide additional financial contingency during the period of austerity, which is now confirmed by the CSR 2015 to run until at least 2019-20. It provides contingency in the event that transfers from reserves are required to meet government grant reductions and spending pressures in the Authority's Medium Term Financial Plan.

9. SUMMARY OF REVENUE SPENDING

- 9.1 At this stage, it is forecast that spending will be £1.612m less than the agreed budget figure for 2016-17, which aligns with the strategy adopted to deliver in-year savings where possible to be available to enhance Reserve balances and prepare the Authority for future austerity measures.
- 9.2 Given that the Service is half-way through 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 at this stage.
- 9.3 At this time there are two emerging budgetary issues which may be required to bring forward to members as a recommendation to utilise in year underspend once further details are known and the risk has been assessed. Firstly, local partners have raised concerns about funding for the Emergency Services Mobile Communications Project (ESMCP) and whether the government grant will be sufficient to cover costs of implementation. Secondly, there may be a requirement to enhance the Change and Improvement reserve to support transformational projects and collaborative work.

9.4 Future decisions to be made by the Committee on utilisation of in-year savings will be influenced by other factors e.g. 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.

10. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2016-17

Monitoring of Capital Spending in 2016-17

10.1 Table 4 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

TABLE 4 – FORECAST CAPITAL EXPENDITURE 2016-17

	2016/17 £000	2016/17 £000	2016/17 £000	2016/17 £000
PROJECT	Revised Budget	Forecast Outturn	Timing Differences	Re- scheduling/ Savings
Estate Development				
Major Projects - Training Facility at Exeter Airport	0	0	0	0
Minor improvements & structural maintenance	2,095	1,729	(365)	(1)
Estates Sub Total	2,095	1,729	(365)	(1)
Fleet & Equipment				
Appliance replacement	1,854	1,680	(40)	(134)
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	265	265	0	0
Equipment	1,377	467	(7)	(903)
ICT Department	800	50	(750)	0
Water Rescue Boats	26	26	0	0
Fleet & Equipment Sub Total	4,322	2,488	(797)	(1,037)
Overall Capital Totals	6,417	4,217	(1,162)	(1,038)
Programme funding				
Earmarked Reserves:	1,266	321	(945)	0
Revenue funds:	3,159	1,904	(217)	(1,038)
Application of existing borrowing	1,992	1,992	0	0
Grants	0	0		0
Total Funding	6,417	4,217	(1,162)	(1,038)

- 10.2 Forecast Capital expenditure for the year is £4.217m against a revised budget of £6.417m. Previous slippage reported at Quarter 1 of £1.110m has increased to £1.162m for Quarter 2, the movements against budget represent timing differences whereby the budget for those projects will be spent in future years.
- 10.3 As previously reported, the majority of timing differences of £1.162m is due to delays to the purchase of new Mobile Data Terminals (MDTs) in fire appliances (£0.750m). There is uncertainty over this project due to the planned change of carrier for communications in 2019 (was Airwave) under the Emergency Services Mobile Communications Project. Analysis is underway to assess whether MDTs can be purchased which are compatible with both systems and offer good value for money for the transitional period whilst alternatives such as using second hand items from another service are also being explored.
- 10.4 Two projects for investment in equipment amounting to £0.904m have already been subject to programme rescheduling by the Resources Committee at Quarter 1. The Light Four-wheeled Drive Pump (L4P) replacement pilot requires just one prototype now rather than the original two releasing a further £0.134m of Capital funding back to the Earmarked Reserve for Capital expenditure.
- 10.5 None of these changes require any increase in the external borrowing requirement.

Prudential Indicators (including Treasury Management)

- 10.6 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2016 stands at £25.790m (a slight reduction from the balance at 30 June 2016 which was £25.817m and forecast to reduce to £25.724m as at 31 March 2017. This level of borrowing is well within the Authorised Limit for external debt of £28.101m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.
- 10.7 Investment returns in the quarter yielded an average return of 0.46% which outperforms the LIBID 3 Month return (industry benchmark) of 0.308%. Due to the reduction in interest rates following Brexit, It is forecast that investment returns from short-term deposits is anticipated to come in slightly under the budgeted figure of £0.154m by 31 March 2017.
- 10.8 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2016-2017, which illustrates that there was no breach of any of these indicators.

11. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

- 11.1 Total debtor invoices outstanding as at Quarter 2 were £32,630 (previous quarter £24,658). Table 5 overleaf provides a summary of all debt outstanding as at 30 September.
- 11.2 Of this figure an amount of £9,623 (£4,023 as at 30 June 2016) was due from debtors relating to invoices that are more than 85 days old, equating to 29.49% (16.23% as at 30 June 2016) of the total debt outstanding. Table 6 overleaf provides an analysis of all debt in excess of 85 days.

TABLE 5 – OUTSTANDING DEBT AS AT 30 SEPTEMBER 2016

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	13,716	42.04%
1 to 28 days overdue	3,707	11.36%
29-56 days overdue	0	0.00%
57-84 days overdue	5,584	17.11%
Over 85 days overdue	9,623	29.49%
Total Debt Outstanding as at 30 September 2016	32,630	100.00%

11.3 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	2	£494	Each debt being pursued by the Risk and Insurance Officer.
Devon Ambulance Response	1	£1,314	We are currently liaising with the debtor and our Training Department to resolve the debt.
Hampshire Fire & Rescue Service	1	£7,815	This debt was paid week commencing 31 st October 2016

Payment of Supplier Invoices within 30 days

11.4 There is a statutory requirement from April 2015 for the Authority to pay all undisputed invoices within 30 days. The performance was 98.5% for 2015-16. So far this financial year, there has been an issue with the finance system which has prevented the data being accessible for this performance measure. Officers recognise the importance of this measure to ensure that suppliers are being paid promptly and have therefore reported the issue to the system supplier who are looking for a solution. Regrettably, this issue is still to be resolved.

11.5 The statutory requirement is to publish performance data on supplier performance on an annual basis and therefore there is not a current risk of breach. Information will be passed on to members on year to date performance when this becomes available.

Value for Money – Basket of Goods – National Procurement Information

11.6 In June 2016, all Fire and Rescue Authority Chairs and Chief Fire Officers were requested to provide procurement information on a list of 25 common items. The Home Office published this information in August 2016 which can be obtained from the following link: [home-office procurement information](#)

11.7 The National Fire Policy team in the Home Office and the CFOA National Procurement Hub have been evaluating the data in order to help identify opportunities for efficiency savings. Each item has been ranked based on the lowest to highest price which have been used to develop a league table of performance across the Fire and Rescue Authorities. It is pleasing to be able to report that the table indicates that Devon and Somerset Fire and Rescue were the highest ranking Authority overall.

KEVIN WOODWARD
Treasurer to the Authority

PRUDENTIAL INDICATORS 2016-17

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		4.217	6.417	(2.200)
External Borrowing vs Capital Financing Requirement (CFR) - Total		27.098	27.098	0.000
- Borrowing		25.724	25.724	
- Other long term liabilities		1.374	1.374	
External borrowing vs Authorised limit for external debt - Total		27.098	28.101	(1.003)
- Borrowing		25.724	26.824	
- Other long term liabilities		1.374	1.278	
Debt Ratio (debt charges as a %age of total revenue budget)		4.17%	4.18%	(0.01)bp
Cost of Borrowing – Total		1.092	1.092	(0.000)
- Interest on existing debt as at 31-3-16		1.092	1.092	
- Interest on proposed new debt in 2016-17		0.000	0.000	
Investment Income – full year		0.153	0.154	0.001
		Actual (30 September 2016) %	Target for quarter %	Variance (favourable) /adverse
Investment Return		0.46%	0.308%	(0.152)bp
Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2017) %	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	0.36%	30.00%	0.00%	(29.51%)
12 months to 2 years	0.36%	30.00%	0.00%	(29.14%)
2 years to 5 years	3.03%	50.00%	0.00%	(48.92%)
5 years to 10 years	6.34%	75.00%	0.00%	(66.78%)
10 years and above	89.91%	100.00%	50.00%	(10.14%)
- 10 years to 20 years	17.34%			
- 20 years to 30 years	16.33%			
- 30 years to 40 years	20.21%			
- 40 years to 50 years	36.03%			

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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