DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

SERVICE HEADQUARTERS
THE KNOWLE
CLYST ST GEORGE
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DEVON
EX3 0NW

To: **The Chair and Members of the Resources Committee**

(see below)

Your ref :
Our ref : DSFRA/MP/SY
Website : www.dsfire.gov.uk

Date : 7 November 2017
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday 15 November 2017

A meeting of the Resources Committee will be held on the above date, **commencing at 10.00 am in Committee Room B in Somerset House, Service Headquarters, Exeter** 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 (Pages 1 - 4)**

of the previous meeting held on 1 September 2017 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 2017-2018: Quarter 2 (Pages 5 - 12)**

Report of the Director of Finance (RC/17/8) attached.

5 **Treasury Management Strategy (Pages 13 - 22)**

Report of the Director of Finance (RC/17/9) attached.

6 **<u>Water Misting System</u> (Pages 23 - 28)**

Report of the Director of Finance (RC/17/10) attached.

7 **<u>Financial Performance Report 2017-18: Quarter 2</u> (Pages 29 - 40)**

Report of the Director of Finance (RC/17/11) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

<u>Membership:-</u>

Councillors Biederman, Chugg, Coles (Chair), Greenslade, Hendy, Hosking and Peart

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>Declarations of Interests (Authority Members only)</u>**
	(a). <u>Disclosable Pecuniary Interests</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: (i). 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; (ii). 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 (iii). 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 (ii) and (iii) above.
	(b). <u>Other (Personal) Interests</u> Where you have a personal (i.e. other than a disclosable pecuniary) interest in any matter to be considered at this meeting then you must declare that interest no later than the commencement of the consideration of the matter in which you have that interest, or (if later) the time at which the interest becomes apparent to you. If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the precise nature of the interest but merely declare that you have a personal interest of a sensitive nature. If the interest is such that it might reasonably be perceived as causing a conflict with discharging your duties as an Authority Member then, unless you have previously obtained a dispensation from the Authority's Monitoring Officer, you must not seek to improperly influence any decision on the matter and as such may wish to leave the meeting while it is being considered. In any event, you must comply with any reasonable restrictions the Authority may place on your involvement with the matter in which you have the personal interest.
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.

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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

1 September 2017

Present:-

Councillors Biederman, Coles, Hendy, Hosking, Peart and Healey MBE

Apologies:-

Councillor Chugg

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

RESOLVED that Councillor Coles be elected Chair of the Committee until the Annual General Meeting of the Authority in June 2018.

* **RC/2** **Election of Vice Chair**

RESOLVED that Councillor Hosking be elected Vice Chair of the Committee until the Annual General Meeting of the Authority in June 2017.

* **RC/3** **Minutes**

RESOLVED that the Minutes of the meeting held on 8 February 2017 be signed as a correct record.

RC/4 **Financial Performance Report 2017-18: Quarter 1**

The Committee considered a report of the Treasurer (RC/17/6) that set out the Service's financial performance for the first quarter of 2017-18 against the targets agreed for the current financial year. The report provided a forecast of spending against the 2017-18 revenue budget with explanation of the major variations.

The Committee noted that, at this early stage in the financial year, it was forecast that spending would be £0.449m more than the approved revenue budget, equivalent to 0.62%. The overspend was attributable largely to the potential increase to the pay award for Firefighters which was budgeted for at 1% but the National Joint Council had offered 2%. The Treasurer advised that the offer included the potential for a further 3% pay award from April 2018 which, if not supported by additional government funding, would add significant financial pressure to medium term financial planning.

It was suggested that it may be useful for the Revenue Monitoring Statement to show the comparison on figures from the same quarter in the previous year and the Head of Finance agreed to discuss with the Chair how this might be presented in future. The Treasurer advised that the Service would continue to identify in year savings to mitigate the overspend position currently predicted.

RESOLVED

(a) That the Authority be recommended to approve the budget transfers shown in Table 5 of report RC/17/6 (and as appended to these minutes for reference);

(b) That the transfers between Earmarked Reserves shown in Table 3 of report RC/17/6 be approved; and

(c) That, subject to (a) and (b) above, the monitoring position of projected spending against the 2017-18 revenue and capital budgets and performance against 2017-18 financial targets as set out in report RC/17/6 be noted.

*** RC/5 Treasury Management Performance 2017-18: Quarter 1**

The Committee received for information a report of the Treasurer (RC/17/7) that set out details of the treasury management performance for the first quarter of 2017 (to June 2017) as compared to the agreed financial targets for 2017/18. A revised Appendix A to this report was also circulated at the meeting.

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. He made reference to the following points:

- The current interest rate forecast indicated that the bank rate was likely to remain stable at 0.25% until at least June 2019 followed by gradual increases possibly to 0.75% in March 2020, subject to the position on economic growth;
- The Authority was outperforming the 3 month LIBID benchmark return of 0.19% with investment interest at £23,973 (0.37%) in Quarter 1;
- There had been no additional external borrowing undertaken with the debt reducing slightly to £25.724m. The Authority was maintaining its prudential approach to investment decisions with priority being given to liquidity and security over yield and no prudential indicators had been breached.

Reference was made to potential alternative investment strategies that might result in a greater yield for the Authority such as property investment via a consortium. The Committee was advised that this would require a change to the approved Treasury Management Strategy. The Chief Fire Officer added that consideration had to be given to the key functions of the Service and the best use of its funding accordingly. He added that the new Integrated Risk Management Plan may result in changes in service delivery in the future but alternative investment strategies options could be considered and reported back to the Committee in due course.

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

The Meeting started at 10.00 am and finished at 12.08 pm

APPENDIX TO THE MINUTES OF RESOURCES COMMITTEE HELD ON 1 SEPTEMBER 2017

Row in Table 2 (Reserves note)	Description	Debit £	Credit £
	Change to maintenance arrangements for USAR assets		
	The Home Office has devolved the financial management of maintenance for USAR assets to a local level so the Service is now required to make payments directly. A grant will be made to cover these costs.		
11	Repair and maintenance	227,600	
30	Grants and Reimbursements		(227,600)
	Revise annual budget to include Private Finance Initiave accounting adjustments		
	As reported in the 2016/17 outturn position, PFI financing has historically been reported as a year end accounting adjustment. To improve synergy between financial reporting to the Authority and the year end accounts the PFI financing of the Tri-service training facility contract at Avonmouth will now be reported as part of the financial performance report. A budget adjustment is therefore required.		
5	Training Expenses		(292,800)
26	Capital and Lease financing costs	203,000	
27	Revenue Contribution to Capital	7,500	
35 (c)	Transfers to Reserves (MRP already budgeted for)	82,300	
	Amend 2017/18 revenue budget to reflect Airwave Grant receipt in advance		
	The Home Office brought forward the timing of its grant payments to Fire Authorities for the Airwave Communications contract in March 2017 and so the Authority established an Earmarked Reserve of £714,100 for the 2017/18 grant received in advance. As the arrangement were changed post 2017/18 budget setting, a budget transfer is required to bring the funding back in to the revenue account.		
30	Grants and Reimbursements	714,100	
35 (a)	Transfer to (from) Earmarked Reserve		(714,100)
	Amend 2017/18 revenue budget to reflect Airwave Grant receipt in advance - 2018/19		
	As above, The Home Office has confirmed that Airwave grant payments will be made in March 2018 for the 2018/19 financial year and so in anticipation a budget transfer is requested to move the funding in to an Earmarked reserve for that purpose.		
30	Grants and Reimbursements		(732,000)
35 (a)	Transfer to (from) Earmarked Reserve	732,000	
	Amend 2017/18 revenue budget to reflect change in clasification of Appliance equipment		
	Following a review of Capital Expenditure conducted by Grant Thornton LLP as part of the year end financial audit 2016-17 it has been identified that planned capital expenditure would be better classified as revenue given the Authority de minimis limit for capital of £5,000. A budget transfer is required to move the allocated funding from the Capital Programme in to the revenue budget.		
14	Equipment and Furniture	254,000	
27	Revenue Contribution to Capital		(254,000)

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REPORT REFERENCE NO.	**RC/17/8**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 NOVEMBER 2017**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2017-2018: QUARTER 2**
LEAD OFFICER	**DIRECTOR OF FINANCE (TREASURER)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2017-18 (to September 2017) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 September 2017.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/17/3 – as approved at the meeting of the DSFRA meeting held on the 17 February 2017.

1. INTRODUCTION

1.1 The Treasury Management Strategy for Devon and Somerset Fire & Rescue Authority 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 (treasury management strategy, 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.** After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of Growth Domestic Product has seen weak growth as consumers cut back on their expenditure.

2.2 However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of Growth Domestic Product so expansion in this sector will have a much more muted effect on the average total Growth Domestic Product growth figure for the UK economy as a whole.

2.3 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 clearly flagged up that they expected Consumer Price Index inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September Monetary Policy Committee meeting.

2.4 This marginal revision can hardly justify why the Monetary Policy Committee became so aggressive with its wording.The focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the Monetary Policy Committee took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour force faces competition from overseas labour e.g. in outsourcing work to developing economies, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

2.5 It therefore looks very likely that the Monetary Policy Committee will increase Bank Rate to 0.5% in November 2017 or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October 2017, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the Monetary Policy Committee would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

2.6 **EU.** Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the European Central Bank eventually cutting its main rate to -0.4% and embarking on a massive programme of Quantitative Easing (QE). However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. Gross Domestic Product growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

2.7 **USA.** Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Federal Reserve (Fed) has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

2.8 **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

2.9 **Japan** is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

<u>Interest Rate Forecasts</u>

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

2.11 Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in Monetary Policy Committee policy at that meeting. However, the Monetary Policy Committee meeting of 14 September revealed a sharp change in sentiment whereby a majority of Monetary Policy Committee members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the Monetary Policy Committee will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

2.12 The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

3. **<u>TREASURY MANAGEMENT STRATEGY STATEMENT</u>**

<u>ANNUAL INVESTMENT STRATEGY</u>

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 17 February 2017. 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. This will not only cover short term cash flow needs but will also 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 2017 are shown in Appendix A.

3.4 The average level of funds available for investment purposes during the quarter was £40.497m (£35.430m in Quarter 1). These funds were available on a temporary basis and the level of funds 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	0.17%	0.32%	£0.050m.

3.5 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.15bp. It is currently anticipated that the actual investment return for the whole of 2017-18 will exceed the Authority's budgeted investment target of £79k.

<u>BORROWING STRATEGY</u>

<u>Prudential Indicators</u>:

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 2017-2018, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to September 2017 and that there are no concerns that they will be breached during the financial year.

<u>Current external borrowing</u>

3.8 The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 30 September 2017 was £25.677m, forecast to reduce to £25.630m by the end of the financial year as a result of natural loan repayments. All of this debt is at fixed rate with the remaining principal having an average rate of 4.233% and average life of 27.86 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 early repayment rates mean there is no financial benefit in undertaking premature loan repayment at this time.

New Borrowing

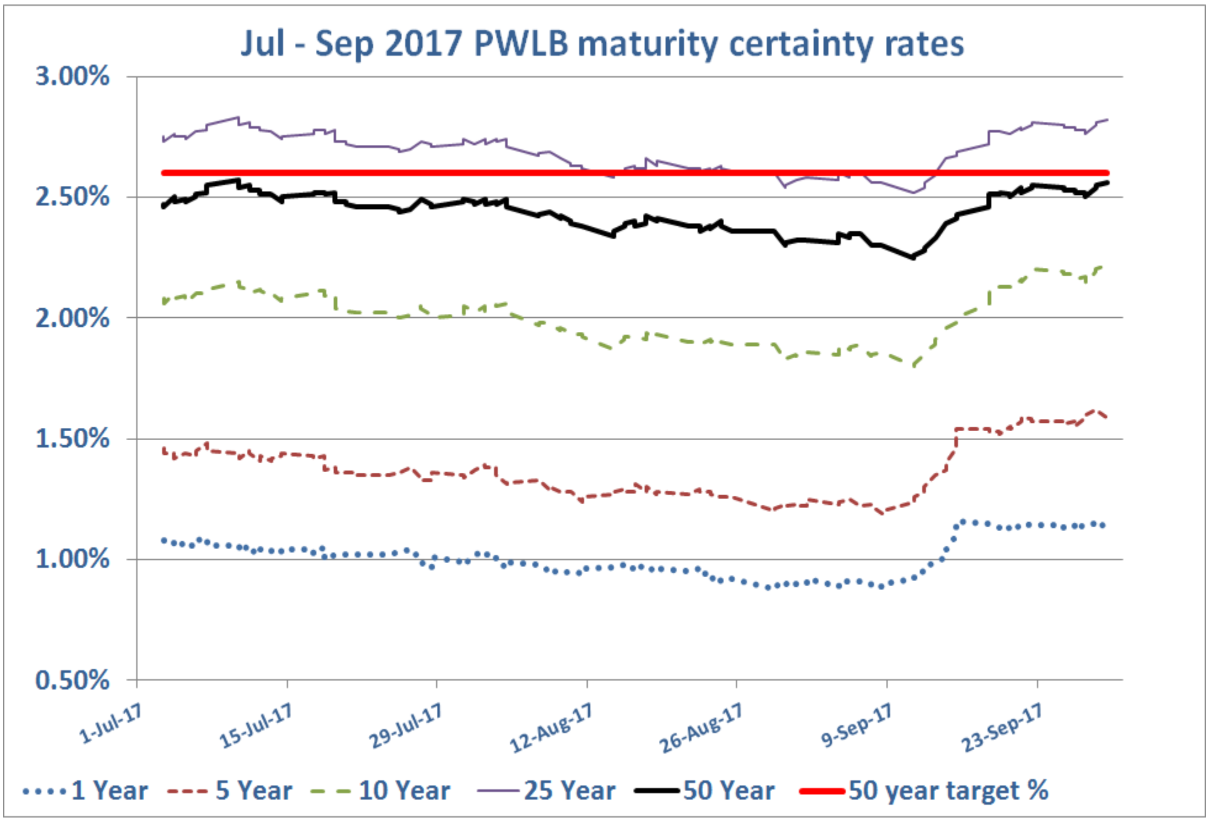
3.10 As depicted in the graph(s) below, there has been significant volatility in PWLB rates during the final weeks of quarter 2 following the September MPC meeting and the suggestion that Bank Rate will need to increase sooner than markets initially anticipated, partly because of inflation concerns and also because of the tightening labour market.

3.11 No new borrowing was undertaken during the quarter and none is planned during 2017-18 as a result of the Authority's adopted financial strategy to utilise revenue funds (revenue budget and reserves) to finance capital investment needs for the medium term.

PWLB rates quarter ended 30 September 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.88%	1.19%	1.80%	2.52%	2.25%
Date	29/08/2017	08/09/2017	11/09/2017	11/09/2017	11/09/2017
High	1.16%	1.62%	2.22%	2.83%	2.57%
Date	15/09/2017	28/09/2017	29/09/2017	10/07/2017	10/07/2017
Average	1.01%	1.37%	2.00%	2.69%	2.44%

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 Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the first quarter report on treasury management activities for 2017-2018 to September 2017. 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.

AMY WEBB
Director of Finance & Treasurer

Investments as at 30 September 2017					
Counterparty	**Maximum to be invested**	**Total amount invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	**£m**			
Santander	5.000	2.000	T	6 Months	0.42
		1.000	T	6 Months	0.39
		1.000	T	6 Months	0.38
		1.000	T	6 Months	0.34
Qatar National Bank	5.000	3.000	T	1 Year	0.82
		1.000	T	1 Year	0.82
Bank of Scotland	5.000	2.100	T	6 Months	0.36
		1.500	T	6 Months	0.55
		1.400	T	6 Months	0.55
Goldman Sachs	5.000	5.000	T	6 Months	0.58
Standard Chartered	5.000	1.000	T	6 Months	0.44
		2.000	T	6 Months	0.44
Sumitomo Mitsui	5.000	3.200	T	6 Months	0.31
Lloyds Bank	2.000	2.000	T	6 Months	0.55
Nationwide	2.000	2.000	T	6 Months	0.30
Barclays FIBCA	2.000	0.001	C	Instant Access	Variable
Barclays	8.000	3.000	T	1 Year	0.55
		2.000	T	6 Months	0.30
Standard Life Money Market Fund	6.000	5.980	C	Instant Access	Variable
BlackRock Money Market Fund	5.000	2.003	C	Instant Access	Variable
Federated Liquidity Fund	5.000	0.330	C	Instant Access	Variable
Total invested as at 30 September 2017		**£42.514M**			

REPORT REFERENCE NO.	**RC/17/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 NOVEMBER 2017**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY**
LEAD OFFICER	**Director of Finance**
RECOMMENDATIONS	***(a) That the Devon & Somerset Fire & Rescue Authority be recommended to approve an amendment to the Terms of Reference for the Resources Committee as set out within paragraph 6.4 of this report; and*** ***(b) Subject to (a) above, the report be noted.***
EXECUTIVE SUMMARY	The Committee receives quarterly reports on the Authority's Treasury Management performance which has prompted discussion and questions regarding opportunities to expand the Authority's portfolio of investments and the pursuance of an ethical investment strategy. The information contained within this report is intended to provide an overview of the options regarding diversification and ethical investments to inform future review of the Authority's Treasury Management Strategy Statement.
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 – Report from Capita on Ethical Investment Strategies
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (Including Prudential and Treasury Indicators report 2016-17 to 2018-19)

1. **INTRODUCTION AND BACKGROUND**

1.1 Treasury management is defined as: “the management of the local authority’s investments and 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.”

1.2 The committee receives quarterly reports on the Authority’s Treasury Management performance which has prompted discussion and questions from Members of the Fire & Rescue Authority regarding opportunities to expand the Authority’s portfolio of investments and the pursuance of an ethical investment strategy.

1.3 In particular, officers were asked to research the benefits of diversifying the Authority’s investment portfolio in to both peer to peer lending platforms (such as Funding Circle) and in to property investment portfolios (such as CCLA).

1.4 Discussions have been held with the Authority’s Treasury Management Adviser, Adam Burleton from Capita, to inform this report and information has been provided by Capita on the risks and benefits of diversification and ethical investment policies.

2. **TREASURY MANAGEMENT STRATEGY STATEMENT**

2.1 The Authority is required to produce a Treasury Management Strategy and Minimum Revenue Provision Statement which outlines the approach for investments and borrowing for the following three years. The Strategy Statement is prepared according to statutory requirements and the Chartered Institute of Public Financial Accountants (CIPFA) guidance which are detailed in the following paragraphs.

2.2 The Strategy and Minimum Revenue Provision Statement is currently approved by the Full Authority at its February budget setting meeting with the monitoring of Treasury Management Performance being delegated to the Resources Committee.

Statutory requirements

2.3 The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

2.4 The Act therefore requires the Authority to set out its treasury management strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 3 of this report). This sets out the Authority’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.5 The Department for Communities and Local Government issued revised investment guidance which came into force from 1 April 2010. This guidance was captured within the revised CIPFA Treasury Management Code 2011.

CIPFA requirements

2.6 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Authority on 19 February 2010. The Code was reissued in 2011 with cross sectorial guidance notes.

2.7 The primary requirements of the Code are as follows:

a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities;

b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives;

c. Receipt by the 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;

d. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for this this Authority the delegated body is Resources Committee, and for the execution and administration of treasury management decisions and for this Authority the responsible officer is the Treasurer; and

e. Delegation by the Authority of the role of scrutiny of treasury management strategy and polices to a named body. For this Authority the delegated body is Resources Committee.

2.8 In summary, this Authority has adopted the following reporting arrangements in accordance with the requirements of the Code:

Area of Responsibility	**Authority/ Committee/Officer**	**Frequency**
Treasury Management Policy and Management Practices	Full Authority	Initial adoption in 2010
Revisions to Treasury Management Policy and Management Practices	Full Authority	As and when required (reviewed annually as part of constitutional governance framework review reported to Annual Authority meeting).
Treasury Management Strategy and Minimum Revenue Provision (MRP) Statement	Full Authority	Annual before the start of each financial year
Revisions to Treasury Management Strategy and Minimum Revenue Provision (MRP) Statement	Full Authority	Mid-year
Annual Treasury Outturn Report	Full Authority	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Resources Committee	Quarterly

3. **CURRENT INVESTMENT STRATEGY**

3.1 The Treasury Management Strategy and Minimum Revenue Provision Statement approved by the Fire & Rescue Authority on 17 February 2017 (Minute DSFRA/49c refers) outlines the Authority's current investment strategy.

3.2 The Authority will have regard to the Department for Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the Chartered Institute of Public Financial Accountants (CIPFA) Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") in setting its Treasury Management Strategy and Minimum Revenue Provision Statement.

3.3 The Authority's current investment priorities are:

- the security of capital; and
- the liquidity of its investments.

3.4 The Authority also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to the security of its investments.

3.5 In accordance with this, the Authority currently uses a portfolio of conventional investments which are:

- Call/ Notice Accounts;
- Term deposits – banks;
- Money Market Funds; and
- Debt Management Account Deposit Facility.

3.6 The Authority's Treasury Management Advisers, Capita, advise us on the creditworthiness of any potential investments and, given the Authority's low risk appetite, only the most secure investments are made. Whilst officers research the marketplace to achieve the best returns possible, priority is given to the security and liquidity of investments, with the majority of cash balances being invested for less than one year.

3.7 The administration of such investments is relatively straight forward and yields are fully understood at the point of investment. Officers do not require a high level of specialist knowledge in order to undertake the investment activity.

4. **DIVERSIFICATION OF THE INVESTMENT PORTFOLIO**

4.1 The Resources Committee broached the idea of pursuing alternative investment strategies at its meeting on 1 September 2017 (Minute * RC/5 refers). The Chief Fire Officer indicated at the meeting that the Service could look into this and report back to the Committee at a future meeting as appropriate.

4.2 The Authority's Treasury Management Adviser, Capita, has provided some advice on the potential alternative investment options that might be available, including Peer to Peer lending and Property Investment Portfolios and further information in respect of the risks and benefits of each of these options is set out in the paragraphs below.

4.3 *Peer to Peer lending platforms (such as Funding Circle)*

Risks	Benefits
• Security of investment – potential investments not credit rated using Capita's modelling approach and there is limited historic information available on which to make an assessment • Fees and charges – returns can be diluted by high fees for investing via the online platform • Returns not guaranteed due to potential bad debts • Liquidity – sale of loan parts is dependent on willing buyers and therefore there might be a delay in return of investment when required • Security of investment – borrowers on peer to peer platforms tend not to have access to traditional financing which might mean that banks have assessed they are not credit worthy • Finance Officers will be required to administer and report on multiple investments which will require additional time	• Greater returns • Opportunity to target investment in local organisations (e.g. South West Region) • Opportunity to target investment in "ethical" companies • Further diversification of investment portfolio would spread risk

4.4 *Property Investment Portfolios*

Risks	Benefits
• Liquidity – property will always be a long term investment option • Liquidity – release of funds from the portfolio may be reliant on the sale of a property or number of properties which can be a slow process • Yield – performance of the portfolio is entirely dependent on the health of the property market • Yield – if a property is empty for some time, rental income will suffer • Security – if a fund is highly geared capital may be at risk in times of volatile market conditions • Forthcoming accounting regulations will require in year profits/ losses to be included in the Authority's revenue account, meaning that budgets will be affected during the year • Local Authority regulations require investment in property to be treated as Capital Expenditure which impacts on the Capital Financing Requirement	• Greater returns • Further diversification of investment portfolio would spread risk • Stability of return via fixed period rents • Property markets are historically profitable over the long term

• Liquidity - any investment in these funds would have a suggested investment horizon of 3 years+. The Fire Authority would need to have sufficient long term cash throughout that period to support the investment • Finance Officers will be required to administer and report on multiple investments which will require additional time	

4.5 As stated in paragraph 3.3 of this report above, the Authority's investment strategy currently gives priority to security and liquidity over return, with a low risk appetite, therefore Peer to Peer Lending Platforms and Property Portfolios do not meet the requirements of the published strategy.

5. <u>ETHICAL INVESTMENT POLICIES</u>

5.1 As outlined above, the Authority's Investment Strategy prioritises investment of cash surpluses on the basis of Security, Liquidity and return and does not make provision for the ethical implications of investment activity. Investments decisions are made based on an approved counterparty list provided by Capita.

5.2 Ethical investment means placing funds and selecting investments in a manner that reflects an authority's ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged.

5.3 This is a contentious and subjective area as negative criteria for one authority may be positive for another. For example in an area where jobs and investment are dependent upon a military presence, or the existence of a nuclear power plant, it could be argued that these should be supported by the authority which might conflict with Human Rights or Environmental criteria.

5.4 Appendix A of this report sets out a report by Capita on Ethical Investment and outlines some practical issues regarding the implementation of such policies which include:

- The possibility that investing in an "ethical" institution may result in inter bank lending to an institution which does not meet the criteria
- The lack of diversification in ethical institutions reducing the ability to spread credit risk
- Potential for a conflict between security (credit rating) and ethical criteria requiring prioritisation
- Ethics is not a criteria for consideration under CIPFA and CLG investment guidance
- Whether the views of council tax payers would support the ethical investment policy where it might result in lower financial performance
- Legal issues over balanced decision making.

5.5 The Authority investment strategy gives priority to security and liquidity over return, therefore introducing ethical criteria to investments would not meet the requirements of the published strategy. Were members minded to review the investment strategy of the Authority a more detailed report on risks, benefits and potential returns can be prepared.

6. <u>CONCLUSIONS</u>

6.1 Under the current investment strategy for 2017-18, when making investment decisions, officers must have due regard to the published strategy of prioritising security and liquidity over return on investment, with a low risk appetite.

6.2 Alternative investment options of Peer to Peer lending, Property Portfolios and ethical investments are not compatible with the Authority's current low risk appetite.

6.3 The Resources Committee currently has delegated responsibility only for the scrutiny of treasury management performance. Given previous requests, the Committee may wish to recommend to the Authority that the Committee's Terms of Reference be amended to enable it to consider and make recommendations on the Treasury Management and Investment Strategy and MRP Statement prior to approval by the Authority. The suggested wording for such an amendment is:

"Advisory only:

1. To give preliminary consideration to and recommend to the Authority a provisional budget and Council Tax requirement ***and the Treasury Management and Investment Strategy and MRP Statement*** for the forthcoming year".

6.4 This would give the Committee the ability to review the Strategy each year at the same time as considering the provisional budget (which is a linked issue) and council tax.

6.5 The Committee is therefore invited to consider recommending that the Authority approves the change in the Committee's Terms of Reference as set out within paragraph 5.4 of this report.

AMY WEBB
Director of Finance (Treasurer)

REPORT FROM CAPITA ON ETHICAL INVESTMENT POLICIES

CAN A LOCAL AUTHORITY HAVE AN ETHICAL INVESTMENT POLICY?

Many local authorities with responsibilities for pension funds have considered the extent to which ethical investment criteria should influence the placement or withdrawal of investments in shares, bonds and various funds, particularly on a long term basis, to provide for the payment of pensions to future pensioners. Some pension funds have adopted ethical investment criteria.

Some local authorities have also questioned whether ethical criteria could be employed with reference to investing surplus cash balances of the authority itself, though this would be on a much shorter term basis than pension fund investing and typically for periods less than a year. However, there are major difficulties with this and as far as we are aware, no local authority has adopted an ethical investment policy for the placing of surplus cash.

The main obstacles are the obligations on every local authority to: -

a) Implement the CIPFA Code of Practice on Treasury Management
b) Implement investment guidance by the CLG
c) Achieve optimal performance in investment returns.

One key difficulty with ethical investment is that it has potentially as many different definitions as the people who are concerned to raise this issue. In other words, the first step in making an attempt at determining an ethical investment policy is for an authority to provide a CLEAR definition of precisely what it is aiming at and the criteria by which the policy will be put into effect.

What are ethical investments?

Ethical investment means placing funds and selecting investments in a manner that reflects an authority's ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged. Examples could therefore be:

Positive	***Negative***
Positive Environmental Policy	Pollution Convictions
Community Involvement	Poor Human Rights Record
Equal Opportunities	Nuclear Power

This is a contentious and subjective area as negative criteria for one authority may be positive for another. For example in an area where jobs and investment are dependant upon a military presence, or the existence of a nuclear power plant, it could be argued that these should be supported by the authority. Alternatively, you could take a line that you should not invest with any UK bank as the UK is one of the biggest arms manufacturers in the world and also one of the biggest users of nuclear power and possessor of nuclear weapons in the world.

Ethical investments for local authority cash surpluses
The topic of ethical investment is very common in the field of pension funds where the fund manager has a very wide range of permitted investments e.g. domestic and international equities, bonds, corporate paper and property, derivatives, unlisted securities, currencies, unit trusts.

Since the advent of new government guidance on investing in 2004, local authorities have had scope to consider as wide a range of potential investments as they consider appropriate with the proper management of risk so as to ensure that council taxpayers do not suffer from adverse performance or actual losses of cash. The most commonly used form of investing is the placing of cash deposits with authorised institutions,

PRACTICAL PROBLEMS TO ADOPTING AN ETHICAL INVESTMENT POLICY FOR CASH SURPLUSES

1. Inter bank lending
It is theoretically possible for an authority to select approved counterparties to place cash deposits with which have a specific policy on ethical investments, assuming of course that both parties have similar views on what is ethically sound. However, it is common practice for banks with cash surpluses to lend to other banks with a cash requirement. Therefore although the authority has placed their funds with an institution that meets its requirements, it is perfectly possible that their funds are being used by another institution for activities that are not approved. Some banks do have policies that prohibit the direct lending of funds to companies and governments of dubious ethical nature yet inter-bank lending does occur and so funds may be utilised indirectly.

2. Diversification
There are very few banks which have a strong ethical stance, the Cooperative Bank being the main one *(October 2013 - though at the time of writing, this bank is facing a major challenge to address a shortfall in capital and there is a question as to whether it has a long term viable future).* Would an authority consider it to be reasonable to have 100% of its risk exposure in the banking sector placed with just one counterparty and also with a counterparty under such severe financial stress? If it was, how would it reconcile this with observing the recommendations of the CIPFA Code of Practice on Treasury Management to avoid over concentration of investments and the general requirement of the Code to ensure proper management of risk by adopting suitable credit criteria to select counterparties with high creditworthiness? The CLG's investment guidance also requires all specified investments to be of high credit quality and if an authority chooses to adopt investment opportunities which do not have that, then these have to be classified as being non specified and their use justified in the annual treasury management strategy report.

3. Use of credit ratings
If the authority found that there are banks which were acceptable to its ethical investment policy, but had credit ratings which clearly warned that investments would not be financially secure if placed with them, which policy would take precedence?

4. Explaining losses on ethical investments to the public
If an ethical policy were to take precedence over the use of credit ratings to choose counterparties with the highest credit worthiness, and an ethical bank were to get into financial trouble which placed the investment at risk, how would the members explain their decision to adopt an ethical investment policy to council tax payers?

5. Optimal investment returns
Authorities are required to achieve best value by implementing CIPFA and CLG investment guidance based around the three principles of security, liquidity and yield (yield being optimal performance once the objectives of security and liquidity have been achieved). The implementation of these principles will be subject to regular inspection by internal and external audit. If a local authority were to receive an adverse audit report on sub optimal investment performance due to adoption of an ethical investment policy, how would members respond to justify such a policy which was non complaint with CIPFA and CLG guidance and which took cash away from being placed with institutions offering higher rates of return than those available from 'ethical' counterparties?

6. Council tax
Would a majority of council tax payers support paying a higher council tax charge due to a poorer return on ethical investments, or a lower level of service if council tax cannot be raised above a set ceiling?

7. Legal issues concerned with placing ethical investments
Every decision taken by an authority should comply with the Wednesbury principles i.e. when making decisions, local authorities should do the following: -

a) Have regard to all relevant matters which the authority is bound to consider.
b) Exclude from its considerations matters which are irrelevant.
c) Not come to a decision that is "so unreasonable that no reasonable authority could have ever come to it."

Authorities therefore owe a duty to the taxpayer to deploy the financial resources available to it to the best advantage – a point made by Lord Diplock in the case of Bromley LBC v Greater London Council (1982). This clearly indicates an obligation to obtain the best possible financial return from investments which may be available, but offers authorities discretion to choose how those investments can be made. An authority, therefore, must not reach an investment decision so unreasonable that no reasonable authority would have made such a decision.

To the best of our current knowledge, no local authority in the UK has adopted an ethical investment policy for its surplus cash balances. Any authority seeking to adopt such a policy would therefore need to address an issue of why it would be the first one.

Capita Asset Services 15.10.13

REPORT REFERENCE NO.	**RC/17/10**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 NOVEMBER 2017**
SUBJECT OF REPORT	**WATER MISTING SYSTEMS**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That the budget transfer from the Comprehensive Spending Review earmarked reserve to the Revenue Budget for 2017/18 to support the roll out of Water Misting Systems as outlined in paragraph 3.4 of this report be approved.***
EXECUTIVE SUMMARY	Water misting is a relatively new technology that provides operational firefighters with another method of attacking fires. It is particularly effective in dealing with compartment fires from a defensive position (i.e. without committing personnel into significantly dangerous conditions) and for attacking fires in voids and difficult to access areas such as crawl spaces, ventilation ducts, thatch, etc. Numerous trials have taken place within the Service and whilst on trial this equipment has been used successfully at live operational incidents. Introduction of this equipment will support the Service objectives and the tiered approach to operational deployment. It will also support the strategic principles identified in the Integrated Risk Management Plan (IRMP) to further mitigate the key fire related risks facing the communities of Devon and Somerset. The Service is already working closely with other Fire and Rescue Services in the Network Fire Services Partnership (NFSP) that use this technology and are developing new ways of working to further support public and staff safety. The original specification for Rapid Intervention Vehicles (RIV) included funding for water misting tools which is already included in the budget.
RESOURCE IMPLICATIONS	As outlined in the report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable
APPENDICES	None
LIST OF BACKGROUND PAPERS	None

1. **INTRODUCTION**

1.1 Devon and Somerset Fire and Rescue Service has in the past predominantly provided Service Delivery resources focused on standardisation rather than being driven by local need or the Integrated Risk Management Plan (IRMP) requirements.

1.2 A full Service Delivery review was undertaken between June 2009 and June 2011. The review examined a range of appliances/equipment against a range of risk factors and modelled a number of possible appliance distribution scenarios against the Emergency Response Standards (ERS).

1.3 Moving away from the 'one size fits all' approach of Medium Rescue Pumps (MRPs) created the opportunity and potential for the development and introduction of smaller lighter appliances that will be equipped to deal with the risks faced in all areas of Devon and Somerset.

1.4 The Integrated Risk Management Plan recognised the fact that risk and demand were changing and there were significant variations across the Service. It also acknowledged that the ability of crews (especially those at quieter retained stations) to maintain competence across the very broad range of incidents that we may attend and for incidents they were unlikely to attend is becoming increasingly difficult. In addition, evidence suggested that most equipment carried on our frontline fire appliances was rarely, if ever, used.

2. **BACKGROUND**

2.1 The tiered approach is predicated on a principle that all staff are trained and equipped to deal with the types of incidents that they are most likely to face on a day to day basis (Tier 1), based on our analysis of risk and demand. Beyond that the Service has provide enhanced levels of support (Tiers 2 and 3) strategically located across the organisation, again based on risk and demand.

2.2 Water Misting Systems offer a solution that supports Tiered Response and enhances firefighter safety. With ever-changing building construction and security, water misting systems will enable the organisation to offer an alternative way to effectively deal with compartment fires using an external alternative to existing firefighting techniques. The benefits of implementing a water misting system prior or in place of current procedures include:

- Suppression of the fire;
- Greatly improves conditions;
- Reduced potential of Backdraught/Flashover;
- Significant reduction in temperature;
- Increased vision; and
- Improves survivability for casualties.

2.3 This will enable the teams to carry out their tasks in a more efficient and or effective and safe manner. It could also reduce the time required for the wearer to be exposed to the conditions.

2.4 The proven operational efficiency of these systems would provide further efficiencies at incidents. With Devon & Somerset Fire & Rescue Service appliances reducing in size and water capacity, the water misting system has low water consumption rates.

2.5 With less resources required at the scene, a higher level of cover could be maintained throughout the wider service area. This in itself would be an increase to public safety and make Devon and Somerset a safer place.

3. FINANCE

3.1 The Outline Business Case for this project identified four options for Water Misting Systems. The preferred option for the Service was for the full roll out of a system that was not ultra-high powered.

3.2 The Water Misting Systems units will be implemented to pumping appliances (set A) and Aerial appliances/Incident Support Units (set B) in two formats:

Set A

- Two water misting tools – 1 x Restrictor spray pattern, 1 x Attack spray pattern
- One hammer with spike for penetration through lightweight building materials
- An 18v Makita SDS drill with 20mm masonry drill bit (available from a separate supplier)
- Wood beaver drill bit
- SDS adapter

Set B

- Three water misting tools – 2 x Restrictor spray pattern, 1 x Attack spray pattern
- One hammer with spike for penetration through lightweight building materials
- 10m extended hoses for the 3 nails
- 1 x manifold to connect all 3 nails in a controllable manner if required

3.3 The planned distribution is as follows:

Set Type	Unit No's.	Location
Set A (including Makita SDS drill)	117	Appliances
	5	Light Rescue Pump Reserves
	8	Reserve appliances
	4	Academy
Set B (no drill required)	6	Aerial appliances
Total:	140 units	

3.4 The initial expenditure would be:

Set e	Contents	Unit No's.	Cost (per unit)	Total
Set A	Nails	134	£560.00	£75.040.00
	Hammer	134	£145.00	£19,430
	Makita 'SDS' Drill	134	£314.60	£42,156.40
Set B	Nails/manifold/hose	6	£1071.55	£6,429.30
	Hammer	6	£145.00	£870.00
Total:		140 units		£143,925.70
Less approved Rapid Intervention Vehicle funding:				£48,420.00
Total Funding required:				£95,505.70

3.5 The figures are based on equipping every first appliance and aerial appliance as shown in paragraph 3.3 above. Funding of £48,420 has already been approved for 45 sets to be fitted onto Rapid Intervention Vehicles over the coming 3 year period 2017-2020. The remaining cost of the delivery of this proposal in terms of new funding is £95,505.70.

3.6 This simplistic and robust design needs limited maintenance to maintain a long lifecycle. The tender includes training being provided to a limited number of Devon & Somerset Fire & Rescue Service employees by the supplier. This 'Train the Trainer' training will form the basis of the cascade training then supplied to end users by the implementation team (Response Support). Further consultation with the training academy could increase the costs to delivery should the organisation decide that formal training be appropriate.

- Approximate costs 1 x WM to deliver training during shift or On-Call drill session. This has the potential to increase the costs relative to the example (1 x 84stn x 4hrs x £16.78=£5700)
- To achieve this procurement, additional revenue budget will have to be approved within the 2018/2019 budget cycle or funds allocated from an ear marked reserve.

3.7 As this is a new requirement for equipment, approval for a budget transfer is sought to support the project.

4. **CONCLUSION**

4.1 The following outcomes will be achieved by the introduction of water misting systems.

- Have sufficient equipment available to enable crews to safely deal with a high proportion of incidents by utilising an inventory aligned to the findings of the strategic asset review and the integrated risk management plan (IRMP);
- Rationalised levels of equipment; by alignment of the inventory required to findings of the Integrated Risk Management Plan;
- Improved efficiency through better use of resources; by alignment to the IRMP recommendations; and
- Better matched resources to risk; by alignment to the IRMP recommendations.

4.2 The following outcomes will not be achieved solely by introducing water misting systems but is an integral element of the introduction of Tiered Response and Rapid Intervention Vehicle project.

- Reduced establishment at all On Call stations; however with a crewing policy change appliances could be mobile without waiting for 5 personnel
- Improved availability; however with a crewing policy change appliances could be available for more of the time.

4.3 The introduction of water misting systems directly supports the Service key priorities specifically around firefighter safety. The service is investing in alternative vehicles and equipment to meet the needs of the Service plan. With a continued drive towards alternative crewing solutions this equipment will support and enhance options that are being considered. Approval is therefore sought from the Resources Committee to enhance the revenue budget for 2017-18 by £95,500 from funding held within the Comprehensive Spending Review earmarked reserve.

AMY WEBB
Director of Finance (Treasurer)

REPORT REFERENCE NO.	**RC/17/11**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 NOVEMBER 2017**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2017-18: QUARTER 2**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 4, to support the roll out of Water Misting Systems be endorsed;*** ***(b) That the budget transfers shown in Table 3 of this report, approved by the Chief Fire Officer in consultation with the Chair of the Committee as a matter of urgency in accordance with Standing Order 37(4), be noted;*** ***(c) That the monitoring position in relation to projected spending against the 2017-18 revenue and capital budgets be noted; and*** ***(d) That the performance against the 2017-18 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the second quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2017-18 revenue budget with explanations of the major variations. At this early stage in the financial year it is forecast that spending will be £0.288m more than budget, equivalent to 0.40% of the total budget. This overspend is attributable to the forecast pay award for Firefighters which we budgeted at 1%, the National Joint Council has now offered a 2% increase. Given the early stage in the financial year and that the figures will inevitably be subject to change, no recommendations are made at this stage in relation to how the overspend is financed.
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 2017-18.
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 2017. As well as providing projections of spending against the 2017-18 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 2017-18

	Key Target	**Target**	**Forecast Outturn**		**Forecast Variance**	
			Quarter 2	**Previous Quarter**	**Quarter 2 %**	**Previous Quarter %**
	Revenue Targets					
1	Spending within agreed revenue budget	£72.596m	£72. 866m	£73.045m	0.40%	0.62%
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.32%	7.32%	(2.32)bp*	(2.32)bp*
	Capital Targets					
4 3	Spending within agreed capital budget (*revised*)	£7.568m	£4.874m	£7.568m	(35.60%)	(0.00%)
4	External Borrowing within Prudential Indicator limit (*revised)*	£28.445m	£26.929m	£26.929m	(5.33%)	(5.33%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	4.26%	4.31%	(0.74)bp*	(0.69)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2017-18.
- **SECTION B** – Capital Budget and Prudential Indicators 2017-18.
- **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 2017-18

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 £72.866m compared with an agreed budget figure of £72.596m, representing a potential overspend of £0.288m, equivalent to 0.40% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2017-18

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2017/18

Line No		2017/18 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	27,692	13,801	14,090	28,033	342
2	Retained firefighters	12,362	5,885	5,795	12,627	265
3	Control room staff	1,668	825	731	1,582	(86)
4	Non uniformed staff	10,035	5,012	5,208	9,978	(57)
5	Training expenses	680	340	566	666	(14)
6	Fire Service Pensions recharge	3,075	1,780	1,772	3,027	(48)
		55,511	**27,642**	**28,160**	**55,913**	**402**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,130	565	925	1,136	6
8	Energy costs	585	246	88	549	(36)
9	Cleaning costs	462	231	364	434	(28)
10	Rent and rates	1,782	1,043	975	1,721	(61)
		3,958	**2,085**	**2,352**	**3,839**	**(119)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	884	407	433	940	56
12	Running costs and insurances	1,229	783	583	1,211	(18)
13	Travel and subsistence	1,335	589	668	1,347	12
		3,448	**1,780**	**1,684**	**3,498**	**50**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,610	1,257	1,175	2,693	83
16	Hydrants-installation and maintenance	190	95	41	185	(5)
17	Communications	2,103	1,051	1,616	2,090	(13)
18	Uniforms	596	298	320	660	64
19	Catering	46	23	19	44	(2)
20	External Fees and Services	89	44	80	124	35
21	Partnerships & regional collaborative projects	182	91	107	182	-
		5,816	**2,860**	**3,358**	**5,978**	**162**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	310	174	150	276	(34)
23	Advertising	44	22	11	31	(13)
24	Insurances	349	329	202	358	9
		703	**525**	**364**	**665**	**(38)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	705	316	565	869	164
		705	**316**	**565**	**869**	**164**
	CAPITAL FINANCING COSTS					
26	Capital and lease financing costs	3,582	602	85	3,613	31
27	Revenue Contribution to Capital spending	3,427	(127)	-	2,617	(810)
		7,009	**475**	**85**	**6,230**	**(779)**
28	**TOTAL SPENDING**	**77,149**	**35,683**	**36,567**	**76,991**	**(158)**
	INCOME					
29	Investment income	(79)	(39)	(29)	(157)	(78)
30	Grants and Reimbursements	(3,371)	(1,685)	(2,030)	(3,292)	79
31	Other income	(440)	(220)	(429)	(804)	(364)
32	Internal Recharges	(20)	(10)	(9)	(21)	(1)
33	**TOTAL INCOME**	**(3,910)**	**(1,955)**	**(2,497)**	**(4,274)**	**(364)**
34	**NET SPENDING**	**73,239**	**33,728**	**34,070**	**72,718**	**(522)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to (from) Earmarked Reserve	(662)	(248)	-	(662)	-
37	Capital Funding	-	-	-	810	810
		(662)	**(248)**	**-**	**148**	**810**
38	**NET SPENDING**	**72,578**	**33,479**	**34,070**	**72,866**	**288**

2.2 These forecasts are based upon the spending position at the end of September 2017, 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 overspend of £0.328m is attributable to the anticipated pay award for firefighters, an update received from the National Joint Council (NJC) states they have offered 2% for 2017/18 plus possibly another element later in the year. The forecast over spend has reduced by £139k since last quarter.

2.4 Given the forecast overspend 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 6.

3. EMPLOYEE COSTS

Wholetime Staff

3.1. At this stage it is projected that spending on wholetime pay costs will be £0.342m more than budget largely as a result of the anticipated pay award which the NJC suggest will be 2%. This is greater than the 1% included within the budget. At this stage, the forecast includes an additional £0.206m to cover the increase in the pay award.

Retained Pay Costs

3.2. At this stage in the financial year spending is forecast to be over budget by £0.265m, £0.120m of which is for the anticipated pay award. 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. The forecasted overspend position includes the costs of a number of pilots to improve availability which ended during October 2017.

Control Room Staff

3.3. It is forecast that the Control Room will be £0.086m under spent on its staffing budget. This is due to a number of vacancies currently held within the Control room. Recruitment to fill the vacancies has been successful with all new starters now having completed their initial training. The costs of the new staff are included in the forecast.

Non Uniformed Staff

3.4. Savings of £0.057m are expected against the budget for non-unformed staff. At this stage in the year the savings are due to a small reduction in flexible workers such as advocates and agency staff.

4. PREMISES RELATED COSTS

Rent and Rates

4.1 Savings against budget of £0.061m due to successful business rating appeals across the various premises.

5. TRANSPORT RELATED COSTS

Repair and Maintenance

5.1 Forecast to be £0.056m over budget due to a high number of light vehicle kit outs (£28k) and an increase in unplanned vehicle maintenance costs (£35k).

6. SUPPLIES AND SERVICES

Equipment and Furniture

6.1 The forecast over spend of £0.083m arises from several items of expenditure, the most significant of which is £0.013m for Breathing Apparatus and £0.019m on Operational Equipment (replacement of defective water rescue equipment). £27k has also been spent on the “HeartStart” initiative in West Somerset which is off-set by income.

Uniforms

6.2 Forecast to be £0.064m over budget. These costs stem from an increase in condemned kit and also in the number of new recruits engaged by the Service.

7. PAYMENTS TO OTHER AUTHORITIES

Support Services Contracts

7.1 We are currently forecasting an over spend of £0.164m by the year end – £ 0.124m of this results from an increase in legal fees incurred, the balance from HR £0.040m as a result of several complex staffing issues.

8. CAPITAL FINANCING COSTS

Revenue Contribution to Capital Spending

8.1 Due to reduced in-year capital expenditure, as reported in Section B of this report, it is forecast that £0.810m of the Revenue Contribution to Capital will not be utilised in 2017-18. The final amount of unutilised budget at year end will be transferred to the Capital funding reserve for use in future years.

9. INCOME

Investment Income

9.1 Due to higher than forecast cash balances and an improved performance against the benchmarked yield for investments, a surplus of £78k investment income is forecast.

Grants and Reimbursements

9.2 Forecast to be £0.079m below the budget of £3.371m. The shortfall is largely made up of a reduced grant from the Home Office for national resilience activity (£44k) and fewer Phoenix courses being run by the Community Safety department (£19k), which is offset by reduced expenditure.

Other Income

9.3 A surplus of £0.364m is forecast for Other Income, made up of Red One Ltd contribution forecast to exceed the budget by £0.258m, £38k of additional income from Procurement frameworks and £29k of income received from the Heartstart initiative in Somerset in addition to other minor variances.

10. RESERVES AND PROVISIONS

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 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 transfer from Earmarked Reserves was approved by the Chief Fire Officer, in consultation with the Chair of the Resources Committee, as a matter of urgency in accordance with Standing Order 37(4) during Quarter 2 to support unplanned repairs to the Fire Boat based in Plymouth. As a result, a virement has been actioned which is shown in Table 3 below.

TABLE 3 – BUDGET TRANSFER FROM RESERVES

Row in Table 2	Description	Debit	Credit
11	Repairs and Maintenance- Fire Boat repairs	70,000	
35	Transfer from Reserves - funding of Fire Boat repairs		(70,000)

10.5 Elsewhere on the agenda for this meeting is an item regarding Water Misting Systems, which required funding through an additional transfer from Earmarked Reserves of £95,500. These transfers are included in the forecast outturn figures in Table 2.

TABLE 4 – BUDGET TRANSFER FROM RESERVES

Row in Table 2	Description	Debit	Credit
14	Equipment - Water misting systems	95,500	
35	Transfer from Reserves - funding of water misting systems		(95,500)

10.6 A summary of predicted balances on Reserves and Provisions is shown in Table 5 overleaf. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 5 – FORECAST RESERVES AND PROVISION BALANCES 30 SEPTEMBER 2017

RESERVES	Balance as at 1 April 2017 £000	Approved Transfers £000	Proposed Transfers £000	Spending to P6 £000	Forecast Spend 2017-18 £000	Proposed Balance as at 31 March 2018 £000
Earmarked reserves						
Grants unapplied from previous years	(1,469)	(18)	-	725	1,299	(187)
Change & improvement programme	(501)	100	-	44	300	(101)
Budget Carry Forwards	(1,130)	-	-	234	799	(331)
Commercial Services	(172)	-	-	38	90	(82)
Direct Funding to Capital	(16,576)	-	(810)	-	-	(17,386)
Comprehensive Spending Review*	(4,957)	566	96	-	662	(3,634)
Community Safety Investment	(89)	(3)	-	72	92	-
PPE & Uniform Refresh	(542)	-	-	50	101	(441)
Pension Liability reserve	(1,525)	-	-	-	-	(1,525)
PIMS Replacement	(230)	-	-	-	-	(230)
National Procurement Project	(399)	-	-	147	294	(104)
NNDR Smoothing Reserve	(642)	-	-	-	-	(642)
Digital Transformation Strategy	(430)	-	-	135	300	(130)
Firefighter fitness monitoring & support	(175)	-	-	19	175	-
Operational Safety - new training model	(404)	-	-	32	350	(54)
Emergency Services Mobile Communications Programme	(744)	(100)	-	40	150	(694)
Total earmarked reserves	**(29,985)**	**545**	**(715)**	**1,536**	**4,611**	**(25,543)**
General reserve						
General fund balance	**(5,319)**	**3**	**-**	**-**	**-**	**(5,316)**
Percentage of general reserve compared to net budget						7.32%
TOTAL RESERVE BALANCES	**(35,304)**					**(30,859)**
PROVISIONS						
Fire fighters pension schemes	(755)		-	-	695	(60)
PFI Equalisation	(295)		-	-	-	(295)
TOTAL PROVISIONS	**(1,050)**		**-**	**-**	**695**	**(355)**

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.

11. SUMMARY OF REVENUE SPENDING

11.1 At this stage it is forecast that spending will be £0.288m more than the agreed budget figure for 2017-18, mainly due to the potential of the pay award which is greater than budgeted. The Service will endeavour to bring the outturn position back to a neutral position throughout the financial year.

11.2 Given that we are at an early stage in the financial year and the figures will inevitably be subject to change, this report does not make any recommendation as to how this forecast overspend will be found.

12. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2017-18

Monitoring of Capital Spending in 2017-18

12.1 Table 6 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

12.2 As outlined in the first Quarter performance report to this Committee, since the Capital Programme was set at £7.814m by the Authority in May 2017 the programme has been reduced to £7.568m which reflects a reduction of £254k in to the revenue budget for Rapid Intervention Vehicles equipment and a small increase of £7,500 to reflect the Capital element of the Private Finance Initiative contract.

12.3 As at the end of Quarter 2, there is a forecast variance of £2.694m against the revised capital programme of £7.568m which is made up of timing differences. £0.880m of the timing differences relate to a delay in the set-up of the Rapid Intervention Vehicle production line at our suppliers Emergency One, meaning the vehicles will be delivered in the next financial year.

12.4 Another £1.550m of fleet capital expenditure is now due to go ahead in 2018/19 as a final strategy on numbers of Medium Rescue Pumps and Four by Four vehicles will result from the Integrated Risk Management Plan which has not yet been finalised.

12.5 A further £0.150m of Estates projects and £0.114m of Fleet projects are now scheduled to go ahead in the next financial year.

TABLE 6 – FORECAST CAPITAL EXPENDITURE 2017-18

Item	PROJECT	2017/18 £000 Revised Budget	2017/18 £000 Forecast Outturn	2017/18 £000 Timing Differences	2017/18 £000 Re-scheduling / Savings
	Estate Development				
2	Minor improvements & structural maintenance	2,401	2,257	(150)	6
	Estates Sub Total	**2,401**	**2,257**	**(150)**	**6**
	Fleet & Equipment				
3	Appliance replacement	3,567	1,137	(2,430)	0
5	Specialist Operational Vehicles	187	187	0	0
6	Equipment	567	467	(94)	(6)
7	ICT Department	800	800	0	0
8	Water Rescue Boats	46	26	(20)	0
	Fleet & Equipment Sub Total	**5,167**	**2,617**	**(2,544)**	**(6)**
	Overall Capital Totals	**7,568**	**4,874**	**(2,694)**	**0**
	Programme funding				
	Earmarked Reserves:	**2,158**	**274**	**(1,884)**	**0**
	Revenue funds:	**3,427**	**2,617**	**(810)**	**0**
16	Application of existing borrowing	1,962	1,962	0	0
17	Grant - Responding to new risks	21	21	0	0
	Total Funding	**7,568**	**4,874**	**(2,694)**	**0**

Prudential Indicators (including Treasury Management)

12.6 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2017 stands at £25.677m (from £25.724m as at 30 June), and is forecast to reduce to £25.631m as at 31 March 2018. This level of borrowing is well within the Authorised Limit for external debt of £28.445m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

12.7 Investment returns in the quarter yielded an average return of 0.32% which outperforms the LIBID 3 Month return (industry benchmark) of 0.17%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.079m by 31 March 2018.

12.8 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2017-2018, which illustrates that there is no anticipated breach of any of these indicators.

13. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

13.1 Total debtor invoices outstanding as at Quarter 2 were £624,565 (previous quarter £436,527). Table 7 below provides a summary of all debt outstanding as at 30 September.

13.2 Of this figure an amount of £404,411 (£164,474 as at 30 September 2017) was due from debtors relating to invoices that are more than 85 days old, equating to 64.75% (37.69% as at 30 June 2017) of the total debt outstanding.

TABLE 7 – OUTSTANDING DEBT AS AT 30 SEPTEMBER 2017

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	22,199	3.55%
1 to 28 days overdue	279	0.04%
29-56 days overdue	197,652	31.65%
57-84 days overdue	24	0.00%
Over 85 days overdue	404,411	64.75%
Total Debt Outstanding as at 30 September 2017	**624,565**	**100.00%**

13.3 Table 8 below provides further analysis of those debts in excess of 85 days old.

TABLE 8 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Name not disclosed.	1	£1,651	This debt results from the vehicle costs of an ex-employee, the debt is being pursued by the Risk and Insurance Officer.
Red One Ltd	35	£402,721	Invoices raised for Services supplied to Red One. This was discussed at the Fire Authority meeting held on the 26/07/2017. Accordingly, the credit terms have been increased. As at 03/11/2017, £179,643 has been received towards the outstanding balance. Discussions are ongoing with Red One Ltd regarding settlement of the remaining outstanding balance.

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/17/11

PRUDENTIAL INDICATORS 2017-18

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		**4.874**	**7.568**	**(2.694)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities		**26.929** 25.630 1.299	**26.929** 25.630 1.299	**£0.000**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities		**26.929** 25.630 1.299	**28.445** 27.005 1.439	**(1.516)**
Debt Ratio (debt charges as a %age of total revenue budget		**4.26%**	**5.00%**	**(0.74)bp**
Cost of Borrowing – Total - Interest on existing debt as at 31-3-17 - Interest on proposed new debt in 2017-18		**1.088** 1.088 0.000	**1.088** 1.088 0.000	**(0.000)**
Investment Income – full year		**0.157**	**0.079**	**(0.078)**
		Actual (30 June 2017) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return		**0.32%**	**0.17%**	**(0.15)bp**
Prudential Indicators and Treasury Management Indicators	**Forecast (30 March 2018) %**	**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%	(29.64%)
12 months to 2 years	0.36%	30.00%	0.00%	(29.64%)
2 years to 5 years	3.03%	50.00%	0.00%	(46.97%)
5 years to 10 years	16.06%	75.00%	0.00%	(58.94%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**80.18%** 7.26% 18.27% 48.82% 5.83%	**100.00%**	**50.00%**	**(19.82%)**

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