DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

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

(see below)

SERVICE HEADQUARTERS
THE KNOWLE
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Your ref :
Our ref : DSFRA/MP/SS
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Date : 31 January 2018
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Thursday, 8th February, 2018

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 15 November 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 Financial Performance Report 2017- 18: Quarter 3 (Pages 5 - 16)

Report of the Director of Finance (Treasurer) (RC/18/1) attached.

5 Revenue Budget and Council Tax Level 2018/19 (Pages 17 - 70)

Report of the Treasurer and Chief Fire Officer (RC/18/2) attached.

6 Capital Programme 2018-19 to 2020-21 (Pages 71 - 80)

Report of the Chief Fire Officer and Director of Finance (Treasurer) (RC/18/3) attached.

7 Treasury Management Strategy 2018-19 (including Prudential and Treasury Indicators) Report 2018-19 (Pages 81 - 102)

Report of the Director of Finance (Treasurer) (RC/18/4) attached.

8 Treasury Management Performance 2017-2018: Quarter 3 (Pages 103 - 110)

Report of the Director of Finance (Treasurer) (RC/18/5) attached.

9 Exclusion of the Press and Public

RECOMMENDATION that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve 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 any particular person – including the authority holding that information.

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

10 Red One Update

Director of Finance (Treasurer) to report at the meeting.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Biederman, Chugg, Coles, Greenslade, Hendy, Hosking and Peart

NOTES	
1.	**Access to Information** 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.	**Reporting of Meetings** 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.	**Declarations of Interests (Authority Members only)**
	(a). Disclosable Pecuniary Interests 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). Other (Personal) Interests 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.	**Part 2 Reports** 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.	**Substitute Members (Committee Meetings only)** 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)

15 November 2017

Present:-

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

Apologies:-

Councillor Hendy.

* **RC/6** **Minutes**

RESOLVED that the Minutes of the meeting held on 1 September 2017 be signed as a correct record.

* **RC/7** **Treasury Management Performance 2017-2018: Quarter 2**

The Committee considered a report of the Director of Finance (RC/17/8) that set out details of the treasury management performance for the second quarter of 2017 (to September 2017) as compared to the agreed targets for 2017/18.

Adam Burleton, representing Capita – the Authority's Treasury Management Adviser – was present at the meeting and he gave an overview of the Service's performance to date against the approve Treasury Management Strategy. He made reference to the following points:-

- That inflation was currently running at 3% but it could be that wage rises may not be as strong as perhaps thought previously which may impact on the growth forecasts in future;
- There had been a recent 0.25% increase in the bank base rate with a further 0.25% increase predicted around December 2018 although some economists were forecasting more, possibly to 1.75% by 2019 in order to bring inflation back to the 2% target set by Government;
- The Authority's focus in past years had been on security and liquidity of its assets over yield, although it was noted that there was to be new guidance issued shortly by the Government in respect of treasury management strategy. In particular, this would cover alternative methods of investment such as on property acquisition with a continued focus on security and liquidity;
- The Authority had outperformed the 3 month LIBID benchmark of 0.17% with a return of 0.32% in quarter 2;
- There had been no new borrowing and the Authority had not breached its Prudential Indicators (affordability limits).

The Committee referred in particular to the new guidance to be issued by the Government on treasury management strategy and enquired if there was a different risk profile being suggested within this. Adam Burleton advised that there were already opportunities to do things differently within existing powers but the guidance was changing.

The Chair requested that a briefing paper be submitted to the Committee at its next meeting and the Director of Finance undertook to provide this. Reference was made to the report also on the agenda for this meeting on Treasury Management Strategy which also referred to the opportunity for the Committee to review the Authority's investment strategy (Minute RC/8 below refers).

RC/8 **Treasury Management Strategy**

The Committee considered a report of the Director of Finance (RC/17/9) that set out information in respect of opportunities to expand the Authority's portfolio of investments and the pursuance of an ethical investment strategy. The report also provided an overview of the current strategy together with information on potential alternative investment options and the risks and benefits of each one, including peer to peer platforms, property investment portfolios and ethical investment.

The Director of Finance advised that the Committee had responsibility for monitoring performance against the Treasury Management Strategy which it did on a quarterly basis. If it wished to pursue an alternate investment strategy in the future, this would need to be recommended to the Authority for approval. She added that, to facilitate this, it may be beneficial for the Committee to be able to consider the Treasury Management Strategy in advance of its consideration by the Authority. This would require an amendment to its Terms of Reference and thus the report included a recommendation to this effect.

RESOLVED

(a) That the Devon & Somerset Fire & Rescue Authority be recommended to approve the following amendment to the Terms of Reference for this Committee, as set out within paragraph 6.3 of report RC/17/9:

> to add to the "Advisory Only" section of the Terms of Reference the following:
>
> > 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.

(b) Subject to (a) above, the report be noted.

* **RC/9** **Water Misting System**

The Committee considered a report of the Director of Finance (RC/17/10) that set out the proposal for funding of water misting equipment to support the Service's approach on Tiered Response and also to ensure Firefighter safety.

The Committee noted that there was already funding of £48.4k allocated for the fitting of 45 sets of this equipment to Rapid Intervention Vehicles in the Revenue budget and that an additional £95.5k of funding was required to facilitate the purchase. It was proposed that this be funded from the Comprehensive Spending Review earmarked reserve and that an appropriate budget transfer be instigated.

RESOLVED 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 report RC/17/10 be approved.

*** RC/10** **Financial Performance Report 2017-18: Quarter 2**

The Committee considered a report of the Treasurer (RC/17/11) that set out the Service's financial performance during the second 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 it was forecast that spending would be £0.288m more than the approved revenue budget, equivalent to 0.40% which was a slight improvement on quarter 1. 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 Director of Finance advised that the offer had not been accepted as yet but provision needed to be made within the 2017/18 as well as 2018/19 budgets.

The Chairman drew attention to the need for the Authority to keep up the pressure on central Government to provide the additional funding to pay for the proposed additional 1% pay award for firefighters in view of the point that this was not included within the 4 year settlement.

RESOLVED

(a). That the budget transfers shown in Table 4 of report RC/17/11 (as reproduced at Appendix A to these Minutes) to support the roll out of Water Misting Systems be endorsed;

(b). That the action of the Chief Fire Officer in approving as a matter of urgency (following consultation with the Chair of the Resources Committee in accordance with Standing Order 37(4)) budget transfers shown in Table 3 of the report (as reproduced at Appendix A to these Minutes) to facilitate urgent repairs to the Service Fireboat be noted;

(c). That, subject to (a) and (b) above, the monitoring position in relation to projected spending against the 2017-18 revenue and capital budgets be noted; and

(d). that performance against the 2017-18 financial targets be noted.

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

The meeting started at 10.00 am and finished at 11.40 am

TABLE 3 OF REPORT RC/17/11

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)

TABLE 4 OF REPORT RC/17/11

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)

REPORT REFERENCE NO.	**RC/18/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2018**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2017-18 – QUARTER 3**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 4 of this report, be recommended to the Devon & Somerset Fire & Rescue Authority for approval;*** ***(b) That the monitoring position in relation to projected spending against the 2017-18 revenue and capital budgets be noted;*** ***(c) That the performance against the 2017-18 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third 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 stage in the financial year it is forecast that spending will be to budget. Whilst this report is forecasting a reduction in net expenditure, the balanced budget position is achieved because the budgeted transfer from Reserves is reduced accordingly.
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 December 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 3	Previous Quarter	Quarter 3 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£72.596m	£72. 596m	£72.866m	0.00%	0.40%
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	£4.058m	£4.874m	(46.38%)	(35.60%)
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%	4.18%	4.26%	(0.82)bp*	(0.74)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 £72.596m, representing spend to 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 9 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	27,692	20,739	21,220	28,070	378
2	Retained firefighters	12,362	8,981	8,730	12,349	(12)
3	Control room staff	1,668	1,243	1,131	1,547	(120)
4	Non uniformed staff	10,035	7,521	7,572	9,947	(88)
5	Training expenses	385	510	719	348	(37)
6	Fire Service Pensions recharge	3,075	2,548	2,315	2,890	(185)
		55,216	**41,541**	**41,688**	**55,152**	**(64)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,130	847	1,090	1,139	9
8	Energy costs	585	392	267	537	(48)
9	Cleaning costs	462	347	391	443	(19)
10	Rent and rates	1,782	1,565	1,505	1,730	(52)
		3,958	**3,151**	**3,253**	**3,848**	**(110)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	884	663	736	926	42
12	Running costs and insurances	1,229	976	1,001	1,240	11
13	Travel and subsistence	1,335	923	973	1,347	12
		3,448	**2,562**	**2,709**	**3,513**	**65**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,610	1,958	1,679	2,590	(20)
16	Hydrants-installation and maintenance	190	142	67	181	(9)
17	Communications	2,103	1,577	1,691	2,076	(27)
18	Uniforms	596	447	516	714	118
19	Catering	46	35	31	47	1
20	External Fees and Services	89	67	105	160	71
21	Partnerships & regional collaborative projects	182	136	167	182	-
		5,816	**4,362**	**4,256**	**5,950**	**134**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	310	246	208	286	(24)
23	Advertising	44	33	18	38	(6)
24	Insurances	349	339	324	351	2
		703	**617**	**550**	**675**	**(28)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	705	492	691	858	153
		705	**492**	**691**	**858**	**153**
	CAPITAL FINANCING COSTS					
26	Capital and lease financing costs	3,582	660	762	3,646	64
27	Revenue Contribution to Capital spending	3,427	(191)	-	1,878	(1,549)
		7,009	**470**	**762**	**5,524**	**(1,485)**
28	**TOTAL SPENDING**	**76,854**	**53,194**	**53,909**	**75,519**	**(1,335)**
	INCOME					
29	Investment income	(79)	(59)	(82)	(187)	(108)
30	Grants and Reimbursements	(4,316)	(2,528)	(2,727)	(4,265)	51
31	Other income	(440)	(331)	(721)	(810)	(370)
32	Internal Recharges	(20)	(15)	(19)	(21)	(1)
33	**TOTAL INCOME**	**(4,855)**	**(2,933)**	**(3,549)**	**(5,283)**	**(428)**
34	**NET SPENDING**	**71,999**	**50,261**	**50,359**	**70,236**	**(1,763)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to (from) Earmarked Reserve	596	(496)	-	810	214
37	Capital Funding	-	-	-	1,549	1,549
		596	**(496)**	**-**	**2,359**	**1,763**
38	**NET SPENDING**	**72,596**	**49,765**	**50,359**	**72,596**	**0**

2.2 These forecasts are based upon the spending position at the end of December 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 The forecast net expenditure has reduced and this has the effect of reducing the need to draw down from the Comprehensive Spending Review (CSR) reserve by a corresponding amount. Consequently, whilst forecast net expenditure has reduced, the projected outturn remains that the Authority will spend to budget. The CSR reserve budget line will continue to be used to balance any further fluctuations within this financial year.

2.4 Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 6.

3. <u>NARRATIVE ON VARIANCES AGAINST BUDGET</u>

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £0.378m more than budget. The forecast over spend is due to cover moves and pre-arranged overtime including cover to keep retained pumps on the run. As new wholetime recruits become more established, expenditure to support existing shift systems will reduce.

Control Room Staff

3.2 It is forecast that the Control Room will be £0.120m 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

3.3 Savings of £0.088m 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 as well as savings on vacancies during recruitment processes.

Authority Pensions

3.4 Savings of £0.185m are expected against the budget of £3.075 for Authority Pensions expenditure. The savings are due to fewer ill health and injury retirements during the year than was initially forecast.

Rent and Rates

3.5 Savings against budget of £0.052m due to successful business rating appeals across the various premises.

Uniforms

3.6 Forecast to be £0.118m over budget. These costs stem from an increase in condemned kit and also in the number of new recruits engaged by the Service.

External Fees

3.7 Forecast to be £0.071m over budget which is due to two factors. Firstly, unforeseen payments towards improving the Control system and secondly investment in work towards refreshing the core values of the organisation and leadership development (£0.026m).

Support Services Contracts

3.8 We are currently forecasting an over spend of £0.153m by the year end – £ 0.113m of this results from an increase in legal fees incurred, the balance from HR £0.040m as a result of several complex staffing issues.

Revenue Contribution to Capital Spending

3.9 Due to reduced in-year capital expenditure, as reported in Section B of this report, it is forecast that £1.549m 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.

Investment Income

3.10 Due to higher than forecast cash balances and an improved performance against the benchmarked yield for investments, a surplus of £0.108m investment income is forecast.

Grants and Reimbursements

3.11 Forecast to be £0.051m below the revised budget of £4.316m. 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

3.12 A surplus of £0.370m 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.

Transfer to reserves

3.13 The Authority set its annual budget for 2017-18 to include a transfer from the Comprehensive Spending Review reserve (CSR). Due to savings on other budget lines, a smaller transfer from reserves will be needed in order to balance the budget. At Quarter 3 the saving is £0.214m.

4. RESERVES AND PROVISIONS

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

Reserves

4.2 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

4.3 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.

TABLE 3 – BUDGET TRANSFERS

Row in Table 2	Description	Debit	Credit
35	Create reserve for PFI equalisation fund	295,000	
5	Release provision for PFI equalisation fund		(295,000)
35	USAR Grant received in advance - transfer to reserves	945,300	
30	USAR Grant received in advance		(945,300)

4.4 The Committee is asked to recommend to the Devon & Somerset Fire & Rescue Authority the budget virements (transfers between budget lines) shown in Table 3 above for approval. The transfers are reflected in Table 2 overleaf - budget monitoring statement.

4.5 As part of the audit of the 2016/17 accounts, the external auditors, Grant Thornton, recommended that a Provision which is being held on the Authority's balance sheet for Private Finance Initiative (PFI) equalisation (specifically for Severn Park training centre) would be better classified as an earmarked reserve. Accounting regulations mean that the provision must be returned to the revenue budget before being placed in to an earmarked reserve and therefore a budget transfer of £0.295m is requested for this purpose.

4.6 Notification has been received from the Home Office that it intends to pay Fire Authorities their 2018/19 grant for Urban Search and Rescue (USAR) in March this year. Again due to accounting regulations, it is a requirement to recognise grant income in the year in which it is received. Given that the grant of £0.945m will be received in 2017/18 it is proposed to transfer this amount immediately to an Earmarked Reserve where it will be ring fenced for USAR expenditure in the next financial year.

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

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 31 DECEMBER 2017

RESERVES	Balance as at 1 April 2017 £000	Approved Transfers £000	Proposed Transfers £000	Spending to P8 £000	Forecast Spend 2017-18 £000	Proposed Balance as at 31 March 2018 £000	
Earmarked reserves							
Grants unapplied from previous years	(1,469)	(18)	(945)	840	1,117	(1,315)	
Change & improvement programme	(501)	100	-	119	391	(10)	
Budget Carry Forwards	(1,130)	-	-	359	759	(371)	
Commercial Services	(172)	-	-	75	71	(101)	
Direct Funding to Capital	(16,576)	-	(1,549)	-	-	(18,125)	
Comprehensive Spending Review*	(4,957)	662	-	-	559	(3,737)	
Community Safety Investment	(89)	(3)	-	48	54	(38)	
PPE & Uniform Refresh	(542)	-	-	52	52	(490)	
Pension Liability reserve	(1,525)	-	-	-	-	(1,525)	
PIMS Replacement	(230)	-	-	-	-	(230)	
National Procurement Project	(399)	-	-	166	188	(211)	
NNDR Smoothing Reserve	(642)	-	-	-	-	(642)	
Digital Transformation Strategy	(430)	-	-	182	208	(222)	
Firefighter fitness monitoring & support	(175)	-	-	34	122	(53)	
PFI Equalisation	-	-	(295)	-	-	(295)	
Operational Safety - new training model	(404)	-	-	115	304	(100)	
Emergency Services Mobile Communications Programme	(744)	(100)	-	77	103	(741)	
Total earmarked reserves	**(29,985)**	**641**	**(2,789)**	**2,066**	**3,927**	**(28,206)**	
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)**					**(33,522)**	
PROVISIONS							
Fire fighters pension schemes	(755)		-	-	695	(60)	
PFI Equalisation	(295)		295	-	-	-	
TOTAL PROVISIONS	**(1,050)**		**295**	**-**	**695**	**(60)**	

** 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.*

5. SUMMARY OF REVENUE SPENDING

5.1 At this stage, it is forecast that spending will match the agreed budget figure for 2017-18, which is achieved by a reduction in forecast net expenditure being offset by a corresponding reduction in the planned requirement to draw from Earmarked Reserves. The Service will continue to endeavour to deliver further savings throughout the financial year.

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

Monitoring of Capital Spending in 2017-18

6.1 Table 5 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

6.2 As at the end of Quarter 3, there is a forecast variance of £3.445m against the revised capital programme of £7.503m 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.

6.3 Another £1.890m 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.

6.4 Plans to install new Mobile Data Terminals in appliances are delayed due to development of user requirements which represents £0.400m of the timing differences.

6.5 A further £0.275m of Estates projects are now scheduled to go ahead in the next financial year.

TABLE 5 – FORECAST CAPITAL EXPENDITURE 2017-18

PROJECT	2017/18 £000 Revised Budget	2017/18 £000 Forecast Outturn	2017/18 £000 Timing Differences	2017/18 £000 Re-scheduling / Savings
Estate Development				
Site re/new build	0	0	0	0
Improvements & structural maintenance	2,401	2,133	(275)	7
Estates Sub Total	**2,401**	**2,133**	**(275)**	**7**
Fleet & Equipment				
Appliance replacement	3,567	1,137	(2,430)	0
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	187	187	0	0
Equipment	502	201	(294)	(7)
ICT Department	800	400	(400)	0
Water Rescue Boats	46	0	(46)	0
Fleet & Equipment Sub Total	**5,102**	**1,925**	**(3,170)**	**(7)**
Overall Capital Totals	**7,503**	**4,058**	**(3,445)**	**0**
Programme funding				
Earmarked Reserves:	**2,158**	**262**	**(1,896)**	**0**
Revenue funds:	**3,362**	**1,813**	**(1,549)**	**0**
Application of existing borrowing	1,962	1,962	0	0
Total Funding	**7,503**	**4,058**	**(3,445)**	**0**

Prudential Indicators (including Treasury Management)

6.6 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 December 2017 stands at £25.677m (from £25.677m as at 30 September), 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.

6.7 Investment returns in the quarter yielded an average return of 0.59% which outperforms the LIBID 3 Month return (industry benchmark) of 0.35%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.108m by 31 March 2018.

6.8 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.

7. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

7.1 Total debtor invoices outstanding as at Quarter 3 were £647,748 (previous quarter £624,565). Table 6 below provides a summary of all debt outstanding as at 31 December.

7.2 Of this figure an amount of £421,115 (£404,411 as at 30 September 2017) was due from debtors relating to invoices that are more than 85 days old, equating to 65.0% (64.75% as at 30 September 2017) of the total debt outstanding.

TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	222,992	34.4%
1 to 28 days overdue	2,934	0.5%
29-56 days overdue	650	0.1%
57-84 days overdue	48	0.0%
Over 85 days overdue	421,115	65.0%
Total Debt Outstanding as at 30 December 2017	**421,115**	**100.00%**

7.3 Table 7 below provides further analysis of those debts in excess of 85 days old.

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
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	£420,397	Invoices raised for Services supplied to Red One relating to services provided in 2016/17. 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/18/1

PRUDENTIAL INDICATORS 2017-18

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		**4.058**	**7.503**	**(3.445)**
External Borrowing vs Capital Financing Requirement (CFR) - Total		**26.929**	**26.929**	**£0.000**
- Borrowing		25.630	25.630	
- Other long term liabilities		1.299	1.299	
External borrowing vs Authorised limit for external debt - Total		**26.929**	**28.445**	**(1.516)**
- Borrowing		25.630	27.005	
- Other long term liabilities		1.299	1.439	
Debt Ratio (debt charges as a %age of total revenue budget		**4.18%**	**5.00%**	**(0.82)bp**
Cost of Borrowing – Total		**1.088**	**1.088**	**(0.000)**
- Interest on existing debt as at 31-3-17		1.088	1.088	
- Interest on proposed new debt in 2017-18		0.000	0.000	
Investment Income – full year		**0.187**	**0.079**	**(0.108)**
		Actual (30 December 2017) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return		**0.59%**	**0.35%**	**(0.24)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	**80.18%**	**100.00%**	**50.00%**	**(19.82%)**
- 10 years to 20 years	7.26%			
- 20 years to 30 years	18.27%			
- 30 years to 40 years	48.82%			
- 40 years to 50 years	5.83%			

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REPORT REFERENCE NO.	**RC/18/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2018**
SUBJECT OF REPORT	**2018-19 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Treasurer and Chief Fire Officer**
RECOMMENDATIONS	***That the Committee consider this report with a view to recommending to the budget meeting of the Devon and Somerset Fire and Rescue Authority on 16 February 2018, an appropriate level of revenue budget and Council Tax for 2018-19.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 1 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2018-19 that would trigger a requirement to hold a Council Tax referendum is to be 3.0%. This report considers potential options A and B below for Council Tax in 2018-19: OPTION A – Freeze Council Tax at 2018-19 level **(£81.57 for a Band D Property).** OPTION B – Increase Council Tax by 2.99% above 2017-18 **(increase of £2.44 p.a. to £84.01 for Band D Property).** The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 16 February 2018.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2018-19. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances. C. DSFRA response to the Department of Communities and Local Government consultation document "Local Government Finance Settlement – Technical Consultation Paper". D. BMG Report on Precept Consultation for 2018-19 Revenue Budget E. Report on Precept Consultation via Social Media
LIST OF BACKGROUND PAPERS	Nil.

1. **INTRODUCTION**

1.1 It is a legislative requirement that the Devon & Somerset Fire & Rescue Authority (the Authority) sets a level of revenue budget and Council Tax for the forthcoming financial year, before 1 March, in order that it can inform each of the fifteen Council Tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2018-19. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels for the Authority.

1.2 The Localism Act 2011 includes provisions which require a local authority to hold a Council Tax referendum where an authority's Council Tax increase exceeds the Council Tax "excessiveness principles" applied for that year.

1.3 On 19 December 2017, the Department for Communities and Local Government (DCLG) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2018-19. This is to be 3.0% which, if exceeded, would trigger the need to hold a referendum.

1.4 Given that the administration costs associated with holding a local referendum for the Service for one year are estimated to be in the region of £2.3m, this report does not include any proposals to go beyond the referendum limit. Instead, it considers two options, A and B below, of which the maximum proposed increase is 2.99%:

- **OPTION A** – Freeze Council Tax at 2017-18 level (£81.57 for a Band D Property);
- **OPTION B** – Increase Council Tax by 2.99% above 2017-18 - an increase of £2.44 pa (20p a month) to £84.01 for Band D Property.

1.5 The Committee is asked to consider each of these options with a view to making a recommendation of one option to the Fire and Rescue Authority at its meeting to be held on 16 February 2018.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2018-19

2.1 The provisional Local Government Finance Settlement was announced on 19 December 2017, which provided local authorities with individual settlement funding assessment figures for 2018-19, and confirmed figures for 2019-20 as offered by the four-year settlement which has been accepted by the Authority.

2.2 Table 1 provides details of the Settlement Funding Assessment (SFA) for this Authority which results in a reduction in 2018-19 of 11.1% over 2017-18 and an overall reduction of 25.4% by 2019-20:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)			
	SFA	**SFA Reduction**	
	£m	**£m**	**%**
2015-16	29.413		
2016-17	26.873	(2.540)	**-8.6%**
2017-18	23.883	(2.990)	**-11.1%**
2018-19	22.618	(1.265)	**-5.3%**
2019-20	21.950	(0.669)	**-3.0%**
Reduction over 2015-16		**(7.463)**	**-25.4%**

2.3 With regard to the accepted offer of a four-year settlement, the Government has made a clear commitment to provide central funding for the period of the Spending Review to those authorities that choose to accept the offer and have published an Efficiency Plan. A confirmation letter was received by the Authority on 14 December 2016 from the Minister of State for Policing and Fire Service confirming the settlements until 2019-20.

2.4 In practice, final figures for each year are subject to changes in the business rates multiplier which is based on the Retail Prices Index in September each year. However, barring exceptional circumstances, e.g. transfer of new responsibilities between authorities, and subject to the normal statutory consultation process for the local government finance settlement, the government expects the future year figures to be presented to Parliament each year.

2.5 In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a £65m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £340k for 2018-19. This grant will be paid as a Section 31 grant (which means it is not in base funding) and is therefore included as income within the draft budget proposed in this report.

3. REQUIREMENT TO HOLD A LOCAL REFERENDUM FOR EXCESSIVE COUNCIL TAX INCREASES

3.1 Since 2013-14 there has been a requirement for an authority to hold a local referendum should it propose to increase Council Tax beyond a government set limit (principles), which for this Authority results in estimated referendum costs of £2.3m. The Service has asked DCLG to consider an alternative set of principles for fire and rescue authorities (most recent letter to DCLG in October 2017 – copy included at Appendix C to this report) that would apply a cash amount, e.g. £5, rather than applying a percentage increase.

3.2 On 19 December 2017, DCLG announced the referendum threshold to be applied in 2018-19 is 3.0% for the next two years, an increase of 1.0% over the 2017-18 limit. Whilst this is disappointing given that Police and Crime Commissioner areas have been given the flexibility to adopt a £12 threshold in 2018-19, the increase to the referendum limit recognises that Fire and Rescue Authorities are facing increasing inflationary pressures.

3.3 Due to the high proportion of people costs, pay awards have a significantly higher impact on the Authority’s revenue budget than the effect of price rises on goods and services. Whilst not explicitly stated in the provisional finance settlement, it is likely that the raising of the referendum threshold to 3% is in recognition of likely pay awards.
Each 1% pay award for staff costs the Authority £0.517m and this budget proposal contains provision for a 3% pay award for uniformed staff.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2018-19

Council Tax

4.1 Unlike in the previous Spending Review period, the Government has not overtly laid out any expectation that local authorities should freeze Council Tax, and therefore, there is no offer of a Council Tax Freeze Reward Grant to those authorities that freeze or reduce Council Tax in 2018-19.

4.2 It is, of course, still an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2018-19, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2017-18 level (£81.57 for a Band D Property);
- **OPTION C** – Increase Council Tax by £2.99% above 2017-18 - an increase of £2.44 pa (20p a month) to £84.01 for Band D Property.

4.3 The Committee could decide to set any alternative level below 3%. Each 1% increase in Council Tax represents an 82p a year increase for a Band D property, and is equivalent to a £0.489m variation on the revenue budget. In relation to the referendum option, it is the Treasurer's view that given the costs of holding a referendum (circa £2.3m), it is not a viable option for the Authority to consider a Council Tax increase in excess of the 3% threshold.

4.4 As outlined in Table 2 below, Option A would result in a net funding reduction for the Authority whilst Option B would result in increased funding.

Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2018-19 and therefore, the figures in Table 2 will be subject to change. The impact of any changes will be reported at the meeting.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – REDUCTION IN FUNDING 2018-19

	OPTION A Council Tax Freeze at £81.57 £m	OPTION B Council Tax Increase of 2.99% to £84.01 £m
TOTAL FUNDING 2017-18	**72.596**	**72.596**
Reduction in Formula Funding	(1.293)	(1.293)
Reduction in Retained Business Rates from Business Rate Retention System.	(0.219)	(0.219)
Changes in Council Tax Precept		
- increase in Council Tax Base	0.711	0.711
- resulting from an increase in Band D Council Tax	-	1.461
- Decrease in Share of Billing Authorities Council Tax Collection Funds	(0.228)	(0.228)
Net Change in precept income	**0.483**	**1.944**
TOTAL FUNDING AVAILABLE 2018-19	**71.567**	**73.029**
NET CHANGE IN FUNDING	**(1.029)**	**0.433**

Council Tax Base

4.5 The total reduction in government funding of £1.512m was expected and planned for, the Service had also anticipated an increase in Council Tax receipts of 1.35% arising from house building in the area, although the actual increase has been even higher at 1.48%. This increase has been offset by a reduced amount of surplus available to the Authority of £0.228m which reflects a lower percentage of Council Tax collection by districts.

Net Budget Requirement

4.6 Table 3 below provides a summary of the Core Budget Requirement for 2018-19. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2018-19

	£m	%
Approved Net Revenue Budget Requirement 2017-18	**72.596**	
PLUS Provision for pay and price increases (Pay award assumed 3.0% in 2018 for Firefighters)	1.572	*2.17%*
PLUS Removal of one off income in 2017-18	0.579	*0.80%*
PLUS Inescapable Commitments	0.422	*0.58%*
PLUS New Investment	1.184	*1.63%*
MINUS Changes to income targets	-0.162	*-0.22%*
CORE SPENDING REQUIREMENT 2018-19	**76.191**	
INCREASE IN BUDGET OVER 2017-18 (£m)	**3.595**	***4.95%***

4.7 At the time of writing this report, the Service is reviewing Station Manager roles which includes a job sizing exercise to ensure equitable pay. Any resultant increases to pay would put additional pressure on the wholetime pay bill going forward as well as potential back pay. The structure of management roles is being considered and future post reductions could be used to offset the additional cost. Given that neither review is complete provision has not been made for these changes within the 2018-19 revenue budget and will need to be reflected in year via the budget monitoring process.

Budget Savings

4.8 As is indicated in Table 3, the Core Budget Requirement for 2018-19 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £79.191m. This is more than the amount of funding available under Options A or B and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 below provides an analysis of on-going savings identified to be delivered in 2018-19.

TABLE 4 – BUDGET SAVINGS 2018-19

REVENUE BUDGET SAVINGS	£m
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.416)
Estates costs – Resulting from efficiencies in premises maintenance costs and rationalisation of the Estate by moving away from a leased property in Taunton	(0.206)
Debt Charges – As a result of the Authority Strategy to reduce reliance on borrowing, savings are being made on debt charges	(0.089)
BUDGET SAVINGS (£m)	**(0.711)**

4.9 Whilst the Service is confident that savings of £0.711m can be delivered, this still leaves the Authority with a budget shortfall in order that it can set a balanced budget for 2018/19. Based on Option B (increase of 2.99% of Council Tax) this shortfall is £2.5m. If Council Tax is frozen, the funding shortfall will increase to £3.9m. The shortfall is outlined in Table 5.

TABLE 5 – BUDGET SHORTFALL 2018-19

SUMMARY OF ADDITIONAL SAVINGS REQUIREMENT	OPTION A £m	OPTION B £m
Net change in funding over 2017-18	(1.029)	0.433
Increase in spending requirement since 2017-18	3.595	3.595
Savings requirement 2018-19	(4.624)	(3.162)
Less Budget savings already achieved	0.711	0.711
FUNDS REQUIRED TO BALANCE BUDGET	**(3.913)**	**(2.451)**

4.10 Funding pressures and the reduction in available budget has resulted in officers considering either a reduction in revenue contribution to capital budget or relying on earmarked reserves to meet the shortfall. Given the need to maintain the Comprehensive Spending Review (CSR) earmarked reserve to fund future change activity, the proposal is for the Authority to reduce its revenue contribution to Capital in 2018-19. The Authority has a published strategy to reduce reliance on borrowing to fund capital projects and has been successful in building a reserve for Capital funding over the last few years (forecast to be £17.6m at the end of 2017-18). Reducing the budget for Revenue contribution to capital is only a short term solution as this budget requirement will increase to circa £5m a year in the future if the Authority is to avoid further borrowing.

4.11 Given the healthy capital reserve, reducing the budget for revenue contribution to capital presents minimal short term risk but continuing this practice will result in pressure on capital budgets over a 5-10 year period. Borrowing to support capital increases the pressure on revenue budgets through interest charges and Minimum Revenue Provision (the amount which the Authority has a regulatory responsibility to set aside each year to repay debt). Supporting capital expenditure through revenue budgets represents a sound and prudent approach to long term financial planning. A Council Tax freeze would increase the likelihood of having to borrow to support Capital expenditure in the future, which is contrary to the financial strategy that the Authority has followed in recent years.

4.12 As outlined in Paragraphs 4.5 and 4.7 to 4.11 above, it is proposed as part of this draft budget that, in the event of a 2.99% increase to Council Tax (Option B) the revenue contribution to capital expenditure is reduced by £2.541m to £1.221m (of which an amount of £0.300m is earmarked from Red One contribution) in order to balance the budget for the 2018-19 financial year.

4.13 Each 1% increase in Council Tax income represents £0.489m of additional funding which could be used to support our future capital programme, some examples of what could be funded by maintaining a revenue contribution to capital as a result of a Council Tax increase of 2.99% are outlined overleaf:

Item of Capital Expenditure	Illustrative quantity which could be funded under Option B (£1.221m of Capital Funding available)	Total cost
RDS Fire Station Rebuild	1	£900,000
Medium Rescue Pump	4	£1,160,000
Rapid Intervention Vehicle	10	£1,120,000

4.14 Should the Committee decide to recommend to the Authority Council Tax Option A (Council Tax Freeze), then there will be insufficient revenue contribution to Capital remaining after excluding the £0.300m Red One Funds to balance the budget for the 2018-19 financial year.

4.15 In that event, it is proposed that £0.219m is funded by a transfer from the National Non-Domestic Rates (NNDR) smoothing reserve, which was set up to allow for annual variations to NNDR income. Given that NNDR income has reduced by £0.219m since 2017-18 it is appropriate to utilise the reserve in order to lessen the impact of reduced funds. In addition, a further transfer from reserves of £0.321m will be required to balance the revenue budget for which the Comprehensive Spending Review (CSR) earmarked reserve would be utilised. This reserve was established in order to offset funding shortfalls.

TABLE 6 – PROPOSALS TO BALANCE 2018-19

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A Council Tax Freeze at £81.57 £m	OPTION B Council Tax Increase of 2.99% to £84.01 £m
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is only a short term solution as this budget requirement will increase to circa £5m a year in the future if the Authority is to avoid further borrowing	(3.373)	(2.451)
Transfer from Reserves – given that NNDR funding has decreased since last year, the equivalent amount is taken from the NNDR smoothing reserve	(0.219)	
Transfer from Reserves – in order to balance the revenue budget, the Comprehensive spending review reserve (CSR) is utilised	(0.321)	
TOTAL	**(3.912)**	**(2.451)**

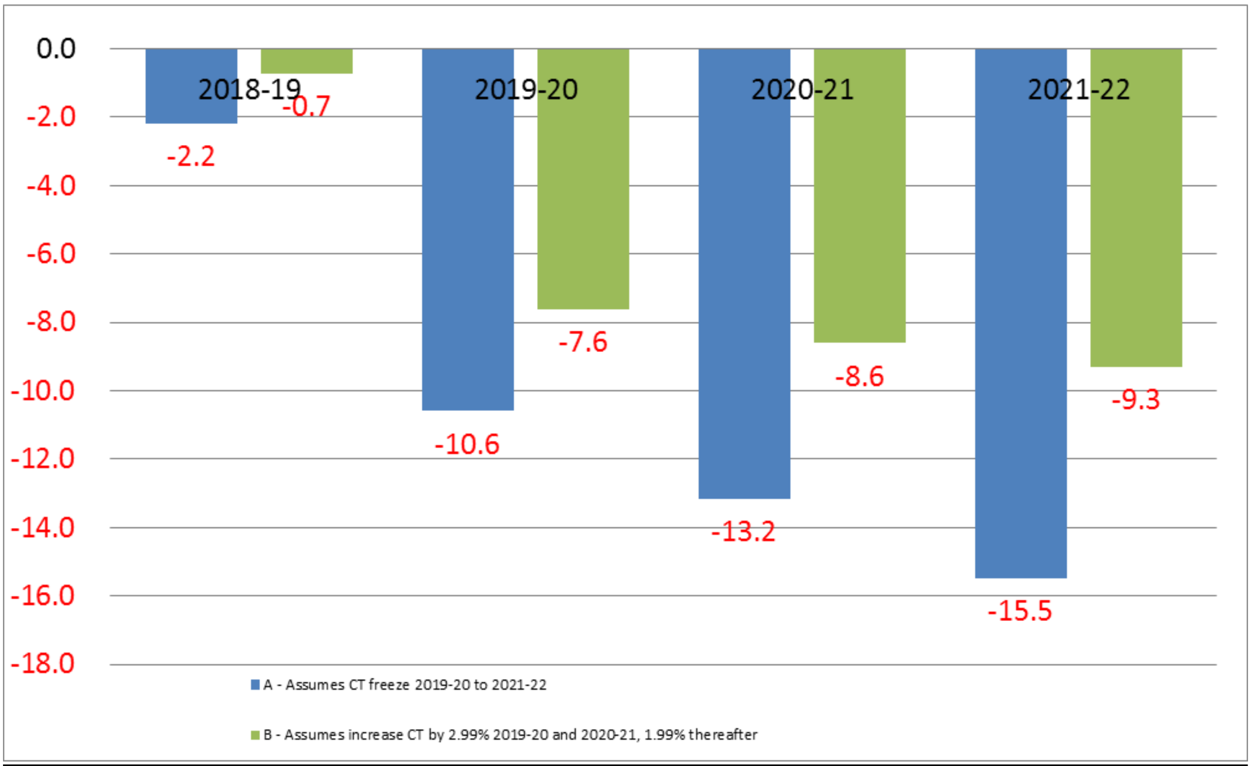
5. MEDIUM TERM FINANCIAL PLAN

5.1 Given that indicative grant figures up to 2019-20 have been received, there is now greater certainty of the funding situation over the short term. This means that the Medium Term Financial Plan (MTFP) needs to be planning for further significant reductions beyond the saving of £0.711m achieved in 2018-19.

5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards (which are likely to see significant increase), inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in our forecasts which will inevitably be subject to change. Prudent forecasts of future budgets can, however, be used to refresh the Authority's MTFP to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2021-22 to balance the budget.

5.3 The MTFP financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2019-20 to 2021-22. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2018 TO 2022 (BASE CASE) - £MILLIONS



5.4 Chart 1 illustrates that further savings will be required beyond 2018-19 to plan for a balanced budget over the next three years to 2021-22. Should the Authority decide to freeze Council Tax in 2018-19 (Option A) and the following three years then the MTFP forecast that further savings of £15.5m need to be planned for.

5.5 As is stated earlier in this report each 1% increase in Council Tax results in additional precept of £0.489m. Should it be agreed to increase Council Tax by 2.99% in 2018-19 (Option B) and by the maximum increase (not subject to a decision at this meeting) in each year from 2019-20 to 2021-22 then the saving target by 2020-22 would be reduced from £15.5m to £9.3m.

6. PLANS TO DELIVER SAVINGS 2018-2022

Our Plan 2018 onwards

6.1 This budget report proposes a balanced budget for the next financial year 2018-19 including proposals as to how budget savings can be achieved.

6.2 Looking beyond 2018-19 it is clear that the Authority needs to plan for the delivery of further recurring savings to ensure that balanced budgets can be set in each year of the Spending Review period. The strategic approach to deliver the required savings is targeted against the three broad headings of:

- **Reducing our costs** (reductions against budget lines);

- **Reduce Support Costs** (staffing budget lines);
- **Reduce Operational Costs** (staffing budget lines).

6.3 On the 30 September 2016, the Authority approved the offer of a 4 year settlement proposed by the Home Office on the condition that it publishes a 4 year Efficiency Plan. This plan was submitted to and agreed by the Home Office and can be found at:

https://fireauthority.dsfire.gov.uk/documents/g332/Public%20reports%20pack%2030th-Sep-2016%2014.00%20Devon%20Somerset%20Fire%20Rescue%20Authority.pdf?T=10.

6.4 In the ensuing time period, a new Integrated Risk Management Plan (IRMP) is under development and change plans including financial implications will be brought to the Authority depending on the outcome of the IRMP consultation.

7. PRECEPT CONSULTATION 2018-19

7.1 Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure.

7.2 In addition to the statutory requirement, members of the public have in previous years also been consulted as it was deemed appropriate to include the public's views on the option of increasing Council Tax at a time of economic difficulty.

7.3 At its meeting on 20 October 2017 the Fire Authority considered the issue of Council Tax precept consultation and resolved (Minute DSFRA/41 refers):

AGREED that, consultation in relation to the budget and precept for 2018-19 be conducted on the basis of:
- A telephone survey for both business and the public;
- A street survey for the public; and
- Use of social media

with all associated costs not to exceed £13,500.

7.4 In line with the Authority decision, arrangements were made for a telephone survey to be undertaken with the business community and members of the public. The key specifications for the survey were:

- To ask four key questions on the precept, value for money and satisfaction
- To request demographic information
- To collect answers to both closed and open questions
- To provide a representative sample of 400 businesses by constituent authority area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).

7.5 It was not possible to conduct a street survey of members of the public in addition to the telephone survey within the budget available. A decision was made by the Executive Board that resources should be focused on promotion of the consultation online and through social media.

7.6 The telephone survey was conducted by BMG Research, an external contractor, at a cost of £11,750.

7.7 An online survey was also created using the telephone survey script and a link provided on the Service's website. This was promoted through the Service's social media platforms Facebook and Twitter. In addition to the online survey and to make use of social media platforms, a Twitter poll was created asking Twitter users their opinions on the level of Council Tax increase they considered reasonable. The only costs incurred for the online and social media consultation were those of internal staff time.

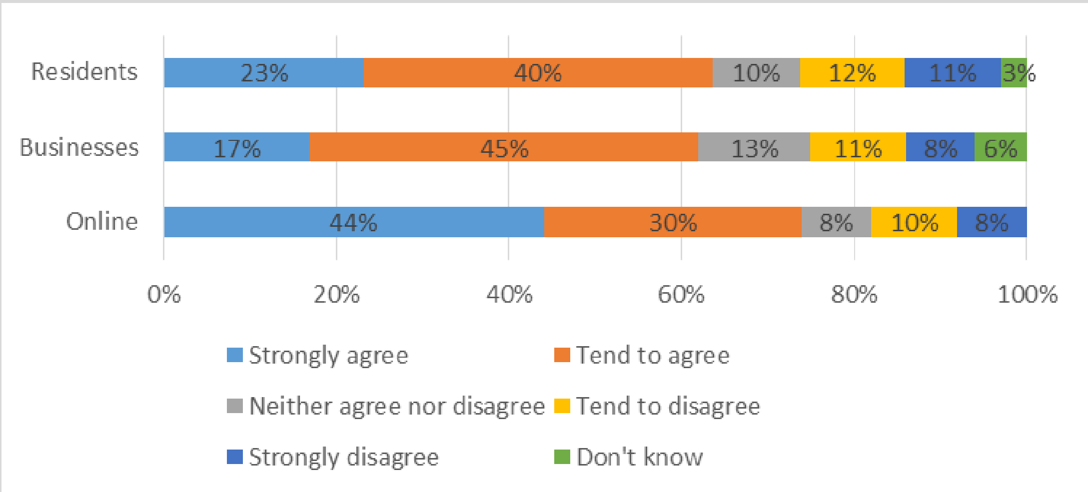
7.8 The consultation period ran from the week beginning Monday 13 November 2017 until Monday 18 December 2017. A summary of the results are displayed below, combining the telephone and online responses. It would not be appropriate to combine the Twitter responses as the context and methodology of the poll differed to that of the telephone and online surveys. Due to rounding the percentages in the graphs may equal 100% + or – 1%. The full results of the telephone survey, online survey and Twitter poll can be found in Appendices D and E.

RESULTS

7.9 *Question 1: How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its Council Tax charge for 2017/18 in order to lessen the impact of the funding cuts?*

The results for Question one, shown in Chart 1, illustrate that the majority of business respondents (62%) agreed that it would be reasonable for the Authority to consider increasing the precept to lessen the impact of funding cuts. Members of public were also positive with 63% in agreement that it was reasonable for the Authority to consider increasing Council Tax charges. Online responses were even more positive with 73% in support for increasing the precept.

Chart 1: Question 1 results of agreement to consider increasing the precept



Unweighted sample base: 400 businesses, 400 residents, 50 online
N.B Online responses have not been separated into business and residents due to the low sample size.

7.10 The results of the telephone business survey have remained fairly consistent over the last three years: from 57% in 2015, 61% in 2016 and 64% in 2017. The results from the telephone survey with members of the public showed a decrease in agreement over previous years from 79% in 2015, 85% in 2016 and 71 % in 2017. The decrease could be attributed to the move away from face to face surveys to a telephone survey, where a less personal survey elicits a different response.

7.11 These results suggest strong support for the Authority to consider increasing the precept to minimise the impact of cuts to the government grant.

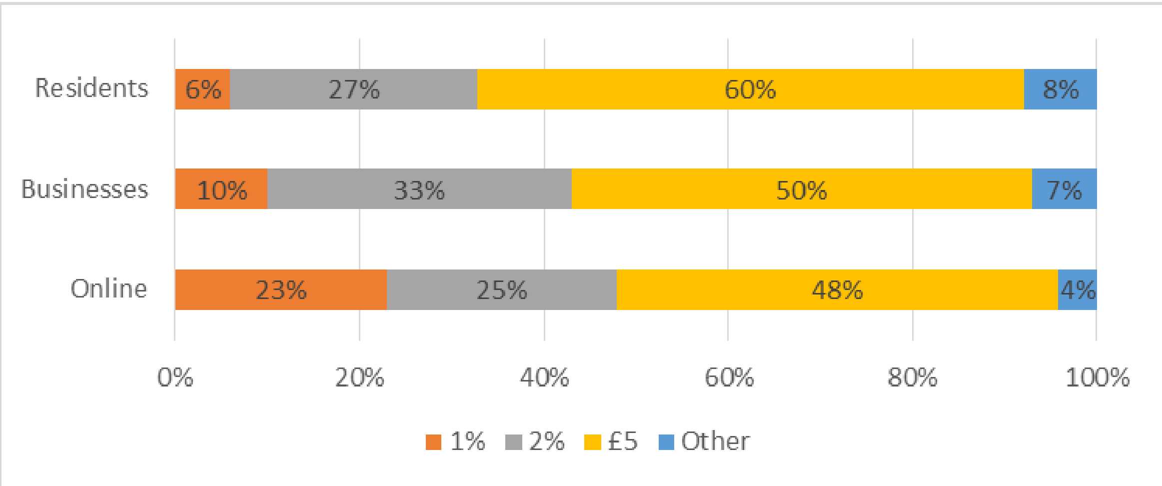
7.12 Those respondents who disagreed to Question 1 were asked why and their responses recorded. Typical comments received have been included in the full reports in Appendix D.

7.13 Respondents who agreed that the Authority should consider increasing the precept were asked:

Question 2: What level of increase would you consider is reasonable for the Authority to increase its element of the Council Tax charge by?

The majority of business respondents (50%) were in favour of a £5 increase to the precept as seen in Chart 2. Similarly, the majority of public respondents (60%) were also in favour of a £5 increase. 48% of respondents to the online survey were also in support of a £5 increase.

Chart 2: Question 2 results of options to increase the precept



Unweighted sample base: 252 businesses, 242 residents, 48 online

7.14 It is not possible to compare these results with previous years as the option of a £5 increase was not previously consulted upon. In 2017, a 2% increase was supported, with 74% from businesses and 60% from members of the public.

7.15 Conversely, the results of the Twitter poll indicate that most respondents did not consider an increase in Council Tax charges reasonable. The question posed on Twitter was as follows:

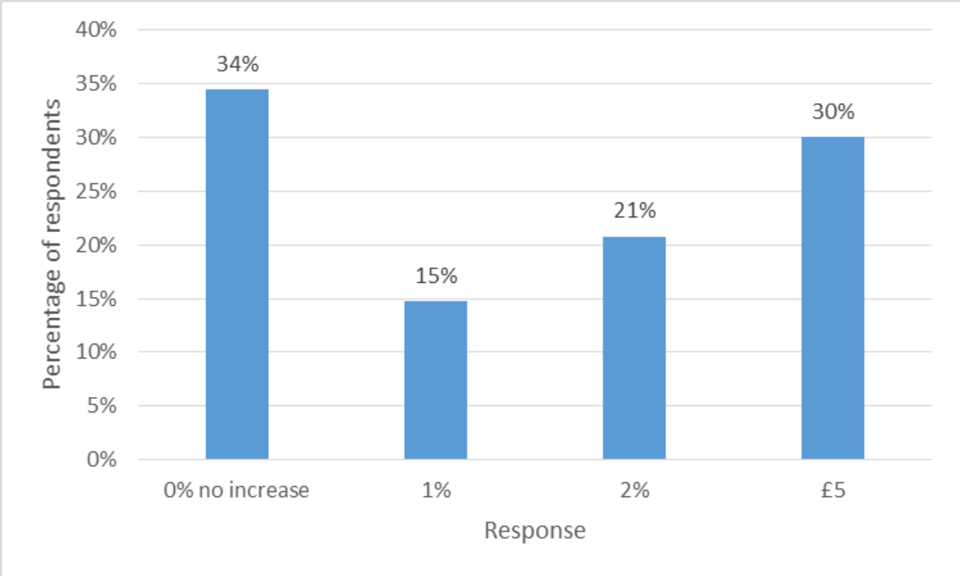
Devon and Somerset Fire and Rescue Authority is considering its Council Tax charges for 2018/19. The current charge is £81.57 a year for a Band 'D' property. What level of increase would you consider reasonable? For more information visit our website dsfire.gov.uk/consultation.

- *0% no increase*
- *1%*
- *2%*
- *£5 for band D (pro rata)*

The Service received a total of 178 responses to the Twitter poll.

7.16 The chart below indicates that 34% of respondents to the Twitter poll voted for no increase, as opposed to 30% who voted for a £5 increase. This could be attributed to the different demographic of Twitter users, or to the difference in methodology.

Chart 3: responses to the Twitter poll

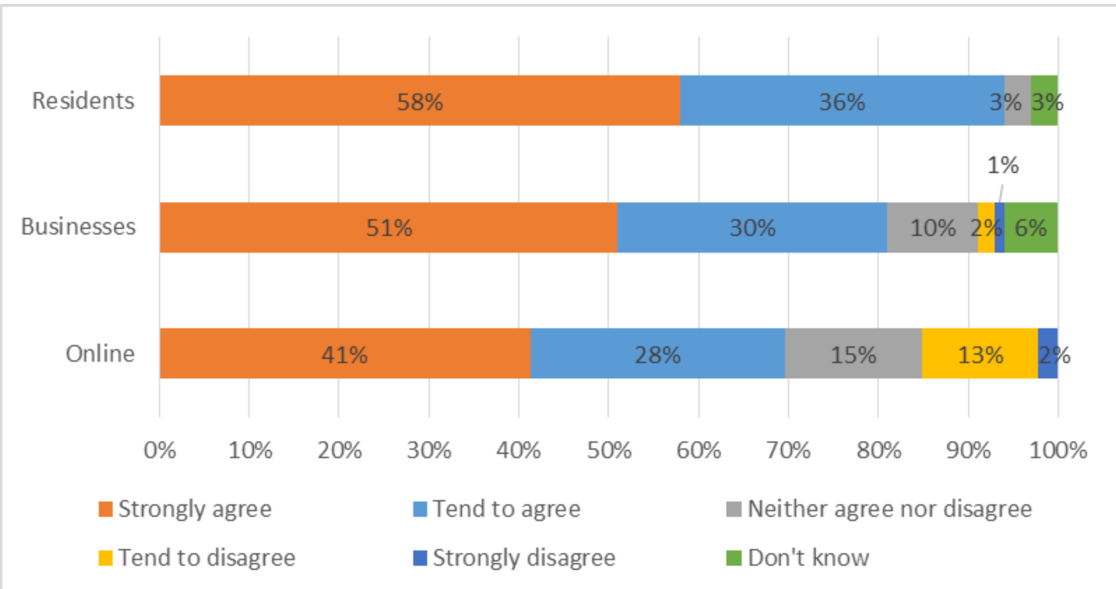


7.17 Although less so from Twitter users, the responses overall suggest support for the Authority to consider increasing the precept by £5 to minimise the impact of cuts to the government grant.

7.18 *Question 3: How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?*

For businesses, 81% agreed that the Service provides value for money. For members of the public 94% agreed that the Service provides values for money, with no respondent disagreeing to this. The online responses were slightly less positive than the telephone surveys, with 69% agreeing that the Service provides value for money.

Chart 4 – Question 3 How strongly do you agree or disagree that the Service provides value for money?



Unweighted sample base: 400 businesses, 400 residents, 46 online

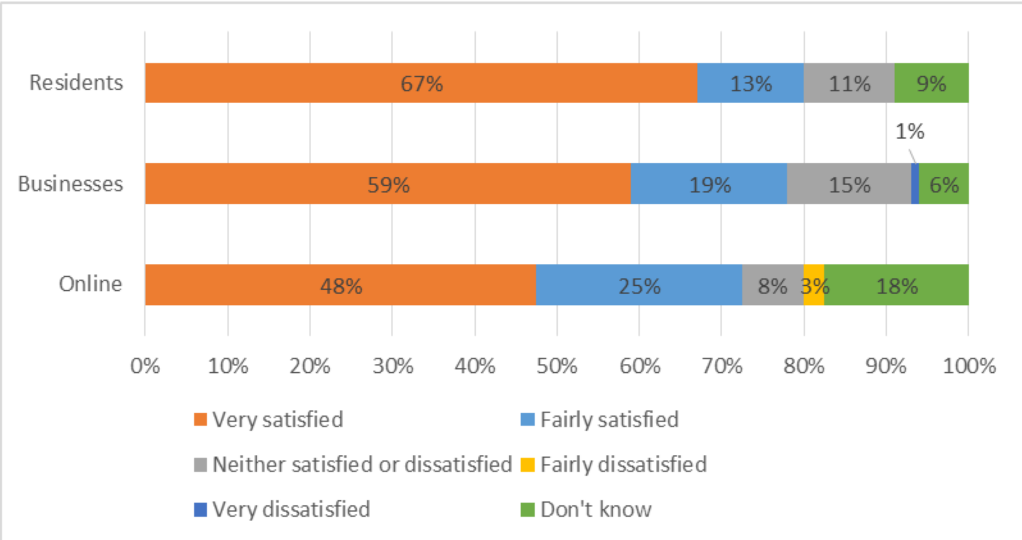
7.19 The level of agreement from businesses (81%) has been fairly consistent over the last three years, with 81% in 2015, 79% in 2016 and 83% in 2017. The trend for members of the public, although slightly more positive this year (94%) is fairly consistent; 99% in 2015, 93% in 2016 and 89% in 2017.

7.20 The results suggest that residents and businesses are satisfied that the Service provides value for money.

Question 4: How satisfied or dissatisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?

7.21 Chart 5 below shows that the majority of respondents were satisfied with the service provided by the Service (78% from businesses and 80% from members of the public, 73% from the online survey).

Chart 5: Question 4 results of satisfaction with Service.



Unweighted sample base: 400 businesses, 400 residents, 40 online

7.22 Levels of satisfaction for businesses appear fairly consistent over the last three years with results of 77% satisfaction recorded in 2017, 76% in 2016 and 74% in 2014. Levels of satisfaction for members of the public show in increase on last year at 77% (prior to 2017, this question was not included in the face to face survey with members of the public in order to reduce the time taken to complete the survey; therefore no trend analysis is available.)

7.23 The results suggest that residents and businesses are satisfied with the service provided by the Service.

SURVEY CONCLUSION

7.24 The results of the consultation indicate that a significant majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 2018/19. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of a £5 increase (50% of business respondents, 60% of public respondents, 48% of online respondents, but only 30% of Twitter respondents).

7.25 Since the survey was conducted, DCLG have confirmed that the maximum amount of Council Tax increase before a referendum is triggered is 3% and therefore a suggested Council Tax increase of 2.99%, equivalent to £2.44 for a Band D property is included within this report. The increase outlined in Option B of 2.99% represents a reduction against the maximum consultation figure of £5.00 or 6.13%.

7.26 Both business respondents and members of the public agreed that the Service provides value for money, at around £42 per head of the population per year, and were satisfied by the service provided by Devon and Somerset.

8. STATEMENT ON ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE LEVELS OF RESERVES AND BALANCES

8.1 It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions. This statement is included as Appendix B to this report.

9. SUMMARY

9.1 The Authority is required to set its level of revenue budget and Council Tax for 2018-19 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.

9.2 The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the full Authority, to be held on the 16 February 2018.

AMY WEBB	**GLENN ASKEW**
Director of Finance (Treasurer)	**Chief Fire Officer**

APPENDIX A TO REPORT RC/18/2

DRAFT REVENUE BUDGET REQUIREMENT 2018-19 (BASED UPON OPTION B FOR ILLUSTRATIVE PURPOSES

	2018/2019		
	£'000	**£000**	**%**
Approved Budget 2017-18		**72,596**	
Provision for pay and prices increase			
Uniformed Pay Award (assume 3.0% from July 2018)	932		
Non-uniformed Pay Award (assume 2% from April 2018)	205		
Prices increases (assumed 2.7% CPI from April 2018)	352		
Pensions inflationary increase (tracks CPI)	83		
		1,572	2.2%
Funding Adjustments			
Removal of Reserve funding of revenue budget 2017-18	579		
Removal of USAR grant income for 2018-19 as funds received in advanc	945		
USAR income to be transferred in from Reserves	-945		
		579	
Inescapable Commitments			
Support Staff Increments	29		
Network Fire Services Partnership	103		
Retained pay - Fixed/variable/NI/Super all increased	145		
Cumulative minor budget variances	145		
		422	
New Investment			
Fleet equipment previously in capital programme	619		
Increase in Prevention Activity	404		
New apprentice posts	85		
ICT Service Development changes	44		
Fire Safety School training & seminars	32		
		1,184	
Income			
Increase Red One Contribution target	-223		
Increase Co-responder Activity	-61		
Sparsity and Section 31 grants	122		
		-162	
Anticipated savings			
Pensions - anticipate reduced Ill Health/ Injury leavers	-416		
Chiltern House closure	-102		
Estates (Property Maintenance)	-104		
Revenue Contribution to Capital	-2,452		
Decrease in debt charges emanating from agreed capital programme	-89		
		-3,163	
Transfer from Reserves			
CORE BUDGET REQUIREMENT		**73,028.0**	

STATEMENT OF THE ROBUSTNESS OF THE BUDGET ESTIMATES AND THE ADEQUACY OF THE DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY LEVELS OF RESERVES

It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions.

THE ROBUSTNESS OF THE 2018-19 BUDGET

The net revenue budget requirement for 2018-19 has been assessed as £73.028m (Option B in report). In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Corporate Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2018, in which time external factors, which are outside of the control of the authority, may arise which will cause additional expenditure to be incurred. For example, the majority of retained pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. Other budgets, such as fuel are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a four year period covering the years 2019-20 to 2021-22. These forecasts include only prudent assumptions in relation future pay awards and prices increases, which will need to be reviewed in light of pay settlements and movement in the Consumer Prices Index.

TABLE 1 – BUDGET SETTING 2018-19 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

Budget Head	Budget Provision 2018-19 £m	*RISK AND IMPACT*	MITIGATION
Wholetime Pay Costs	28.7	Wholetime Pay represents nearly a third of Service costs. There is a high level of uncertainty around future pay increases, particularly whether pay awards will be linked to a change to the Firefighter role map to include emergency medical response. Each 1% pay award is equivalent to £xxx of additional pressure on the revenue budget. It is not anticipated that any additional funding will be allocated for pay and therefore large increases could mean the Authority needs to utilise reserves in order to balance its budget.	An unfunded pay award of 3% has been factored in to the budget for 2018-19 which represents a prudent approach.
Retained Pay Costs	12.8	A significant proportion of costs associated with retained pay is directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict e.g. spate weather conditions. Abnormally high or low levels of calls could result in significant variations against budget provision.	In establishing a General Reserve for 2018-19 an allowance has been made for a potential overspend on this budget
Fire-fighter's Pensions	2.7	Whilst net pension costs funded by the government through a top-up grant arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a General Reserve for 2018-19 an allowance has been made for a potential overspend on this budget
Insurance Costs	0.8	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.	In establishing a General Reserve for 2018-19 an allowance has been made for a potential overspend on this budget
Fuel Costs	0.7	As fuel prices are slowly starting to increase it is highly possible that inflationary increases could be in excess of the budget provided.	In establishing a General Reserve for 2018-19 an allowance has been made for a potential overspend on this budget
Treasury Management Income	(0.1)	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income for 2018-19 has been set at a prudent level of achieving only a 0.3% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.7)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £1.0m of external income whilst setting the reliance on the Service budget for Red One Income at £0.3m. Due to economic uncertainty this budget line may be at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Capital Programme	10.3	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.	Capital projects are subject to risk management processes that quantify risks and identify appropriate management action. Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.
Business Rates	(0.6)	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	There is a specific reserve of £0.6m set up for NNDR smoothing in future years of which £0.2m is expected to be utilised in 2018-19 if Council Tax is frozen at 2017-18 levels.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2017 is £35.3m made up of Earmarked Reserves (committed) of £30.0m, and General Reserve (uncommitted) of £5.3m. This will decrease by the end of the financial year as a result of planned expenditure against those reserves during the year. A General Reserve balance of £5.3m is equivalent to 7.3% of the total revenue budget, or 27 days of Authority spending, and places the Authority in the middle quartile when compared to other fire and rescue authorities.

The Authority has adopted an “in principle” strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

It is pleasing that the Authority has not experienced the need to call on general reserve balances in the last five years to fund emergency spending, which has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. The importance of holding adequate levels of general reserves has been highlighted on a number of occasions in recent times, the impact of flooding and the problems experienced by the global financial markets are just two examples of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

.

CONCLUSION

It is considered that the budget proposed for 2018-19 represents a sound and achievable financial plan, and will not increase the Authority’s risk exposure to an unacceptable level. The estimated level of reserves is judged to be adequate to meet all reasonable forecasts of future liabilities.

AMY WEBB
Director of Finance (Treasurer)

GLENN ASKEW
Chief Fire Officer

Roger Palmer
Department for Communities and Local Government
2nd Floor, Fry Building
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Date : 20th October 2017
Please ask for : Mr Woodward
Email : kwoodward@dsfire.gov.uk

Telephone : 01392 872200
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Dear Sir,

LOCAL GOVERNMENT FINANCE SETTLEMENT 2018-19 – TECHNICAL CONSULTATION PAPER

I am writing to you on behalf of Devon and Somerset Fire and Rescue Authority (the Authority) in response to the above consultation.

The Authority welcomes the opportunity to provide a response to the consultation paper and provides at responses to those specific questions included in the document that have an impact to fire and rescue authorities.

Yours sincerely

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority

RESPONSE TO QUESTIONS

We provide below our responses to the specific questions raised in the consultation document**. Please note that we are not responding to all of the Consultation Questions, just those that we consider to be especially relevant to fire and rescue authorities.**

Section 2.1 – The multi-year settlement offer – certainty over funding.

Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?

Response – We agree that the certainty over funding provided by the multi-year offer should continue, however in light of new financial pressures since acceptance of the offer, particularly new ways of working following the catastrophic fire at Grenfell Tower, and pay awards in excess of the 1% included in the 4-year offer, we would want the 2018-19 settlement to announce some additional government funding for fire and rescue authorities to fund these pressures.

Section 4.1 – Council Tax referendum principles for local authorities.

***Question 9:* Do you have views on Council Tax referendum principles for 2018-19 for principal local authorities?**

***Question 10:* Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?**

Response – It is our view that because the cost of holding a referendum is prohibitive for fire and rescue authorities they should be removed from the Council Tax referendum principles altogether.

The relatively low Band D Council Tax figures for FRAs, typically only 4% of the total Council Tax bill for any area, means that the cost of holding the referendum would be totally disproportionate to the additional amount of precept that could possibly be achieved. For instance, for Devon and Somerset Fire and Rescue Authority, which has fifteen billing authorities across its two counties, the cost of holding a referendum has been estimated at £2.3m (equivalent to a 5.5% increase in Council Tax). We could not possibly justify this cost which would represent exceptionally bad value for money to our taxpayers.

If the referendum principles are to continue for fire and rescue authorities then it is our view that the proposed limit of “less than 2%” be revised to be “less than 2% or up to £5, whichever is the higher”. This would provide the same flexibility as offered to other local authority types i.e. all shire district councils and those police authorities with precepts in the lowest quartile. As is illustrated overleaf, the average precept for those groups is significantly higher than that of a fire and rescue authority.

Authority Type	Average Band D Council Tax 2016-17
Fire and rescue authorities	£71.50
Local precepting authorities (Band D >£75.46 and precept >£500k)	£134.28
Police authorities	£174.24
Shire district councils	£174.99

This request for an additional flexibility of a £5 limit was also included in our response to last year's settlement technical consultation and it was very disappointing that no flexibility was offered in the final settlement.

It is our view that the case for this additional flexibility is even more overwhelming this year in the light of new financial pressures on the Service and in the event that no additional government funding is made available to meet these pressures. Recent terrorist incidents and large scale fires such as the Grenfell fire demonstrate that authorities need to be able to respond to a range of incidents. During the current year the UK national threat level has been raised to critical on two occasions to date. It is also likely that a number of recommendations will come from the Grenfell enquiry that will place additional financial burdens on fire and rescue authorities.

Pay and inflation pressures will also have a significant impact to medium term financial plans. The most recent pay offer for firefighters of 2% from July 2017 (and possible further 3% from April 2018 subject to government funding) is more than had been planned during the four-year settlement period. A cost of 2% pay award is almost the same as the additional precept received from a 2% increase leaving no funding to cover inflationary increases and other pressures.

Our medium term financial plan has built in the impact of the £7.3m reductions in grant funding as included in the four-year settlement to 2019-20, and plans are in place to deliver the required efficiency savings to ensure that a balanced budget can be set in each of those years. However we are very concerned that in the event that no additional government funding is made available to meet new cost pressures during this period then the Service will be placed in the position of identifying further efficiency savings which will inevitably include reductions in the number of firefighters.

Our medium term financial plan has also assumed increases in Council Tax of 1.99% in each year. The additional flexibility provided by a £5 cash limit would provide the Authority with an option to mitigate some of the additional cost pressures through increased precept, subject to engagement with its local taxpayers as to how what the level of increase should be and how the additional precept will be utilised.

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APPENDIX D TO REPORT RC/18/2

Research Report

DEVON & SOMERSET FIRE & RESCUE SERVICE

Council Tax Precept Survey 2018/19

Prepared for: Devon and Somerset Fire and Rescue Service

Council Tax Precept Survey 2018/19

Prepared for: Devon and Somerset Fire and Rescue Service

Prepared by: Sharon Gowland, Research Manager

Date: December 2017

Produced by BMG Research

www.bmgresearch.co.uk

Project: 1423

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1 Introduction

1.1 Background and method

In November 2017, Devon and Somerset Fire and Rescue Service (DSFRS) commissioned BMG Research to undertake a survey amongst 400 businesses and 400 residents. The purpose of the surveys was to assess the opinions of business decision makers and residents on how DSFRS should approach setting its budget for 2018/19 and on whether the Service is currently deemed to be providing value for money.

The questionnaire for the survey was provided by DSFRS. The contacts for the survey were purchased by BMG Research from a commercial database provider. To ensure the survey was broadly representative, quotas were set by local authority district (LAD), number of employees and broad industry sector for the business survey and local authority district, age and gender for the resident survey. The data has been weighted (adjusted) by these characteristics to correct for any under or over-representation in the final data set.

In total, 400 interviews with businesses and 400 interviews with residents were completed during December 2017. Details of the profile of the sample can be found in Appendix 1.

On a sample of 400 the confidence interval at the 95% level is +/- 4.3%. This means that if a statistic of 50% was observed, we can be 95% confident that the true response among the total population lies between 45.7% and 54.3%.

This report summarises the main findings from both surveys.

2 Survey Findings

2.1 Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2018/19

Respondents were provided with the following contextual information regarding DSFRS:

> *"Devon and Somerset Fire and Rescue Authority is committed to maintaining a professional service across the two counties whilst addressing the funding cuts passed down by the Government. The Service provides 85 local fire stations across Devon and Somerset and employs approximately 2030 staff, helping to keep safe a population of 1.7 million. On average the Service attends around 17,500 incidents each year, which includes flooding, road traffic collisions, fires and other emergencies. The Authority is seeking feedback about its level of Council Tax precept for the coming year and how satisfied you are with the service it provides."*

They were then informed of the following:

> *"Devon & Somerset Fire & Rescue Authority is considering its Council Tax charges for 2018/19. The current charge is £81.57 a year for a Band 'D' property. Over the last few years the Government has been reducing the funding provided for the fire and rescue service and this means that by 1 April 2018 the funding for Devon & Somerset Fire & Rescue Service will have been reduced by approximately £11.4 million in the last five years. A further £1.7 million reduction will be made by 2019/20.*

Respondents were asked how strongly they agree or disagree that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2018/19 in order to lessen the impact of the funding cuts.

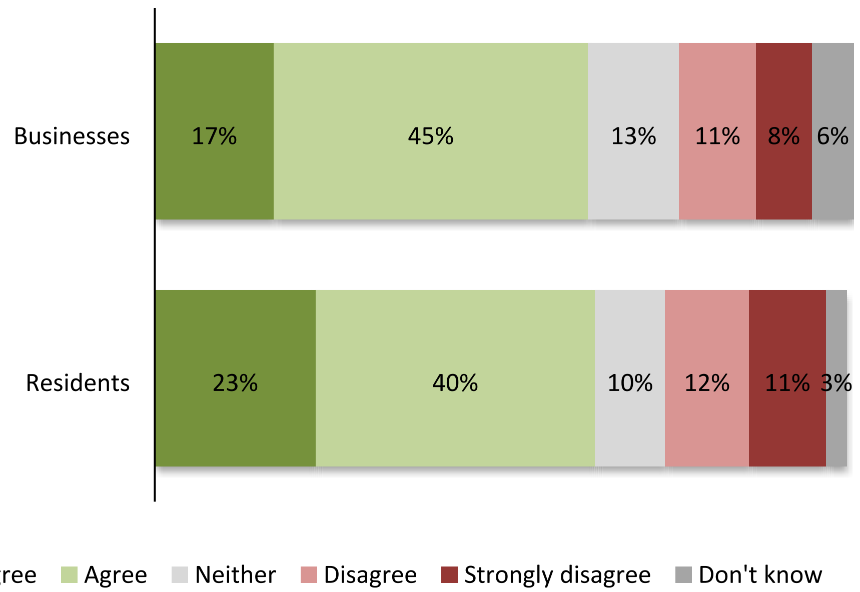
Over three in five (62%) of businesses agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2018/19, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement[1] of +43%.

Agreement was consistent by industry sector, gender and age. Respondents in Torbay were somewhat more positive (71% agreed it is reasonable for DSFRS to consider increasing its Council Tax charge). Perhaps unsurprisingly those respondents who had used a DSFRS service were significantly more likely to agree (67% compared to 57% who have not used a DSFRS service).

Over three in five (63%) of residents agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2018/19, while close to a quarter (23%) disagreed, giving a net agreement of +40%.

Residents in Devon were significantly more likely to agree (70%) and those in Plymouth significantly less likely (46%). Levels of agreement also varied by age with those aged 16 to 34 most likely to agree (76%, compared to 56% aged 35 to 54 and 66% aged 55+). Those respondents who had used a DSFRS service were more likely to agree than those who had not (69% compared to 60%).

Figure 1: Agreement or disagreement that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2018/19 (All respondents)



Unweighted sample base: 400 businesses, 400 residents

[1] Net agreement = the proportion who strongly agree/agree minus the proportion who disagree/strongly disagree.

2.2 Level of increase that would be reasonable

Those respondents who agreed that it is reasonable for DSFRS to consider increasing its Council Tax Charge for 2018/19 were asked at what level the increase should be;

- 1%, this would be an increase of 82 pence per year on a Band 'D' property
  This will raise an additional £481,500 for the fire and rescue service

- 2%, this would be an increase of £1.63 per year on a Band 'D' property
  This will raise an additional £962,900 for the fire and rescue service

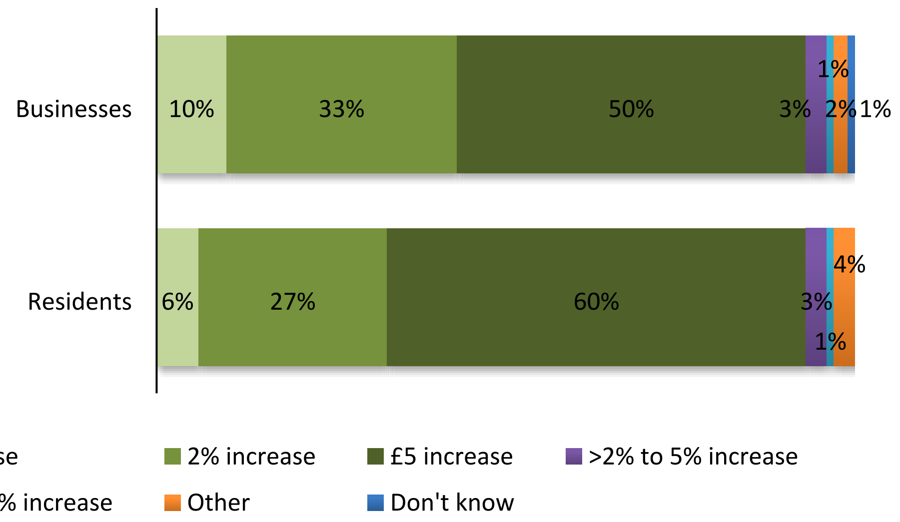
- £5 increase per year on a Band 'D' property (pro rata for other bands)
  This will raise an additional £2,951,200 for the fire and rescue service

- Some other level of increase

The largest proportion of businesses opted for a £5 increase (50%) followed by a 2% increase (33%) which was relatively consistent by LAD and industry sector, as well as gender and age.

Consistent with businesses the largest proportion of residents opted for a £5 increase (60%) followed by a 2% increase (27%) which was relatively consistent by LAD and gender. Those older respondents aged 55+ were less likely to opt for a £5 increase (50%, compared to 68% aged 16 to 34 and 69% aged 35 to 54) but more likely to opt for the 2% increase (35%, compared to 18% aged 16 to 34 and 20% aged 35 to 54).

Figure 2: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2018/19)



Unweighted sample base: 252 businesses, 242 residents

2.3 Reasons for disagreeing that it is reasonable for DSFRS to increase its element of the Council Tax charge for 2018/19

Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2018/19 (19% of businesses and 23% of residents) were asked why they disagreed. Typical comments made by respondents are highlighted below.

2.3.1 Businesses

‘Being squeezed financially enough. Should be helping more rather than adding more charges.’

‘Believe that there is still plenty of room for cuts - the number of fires falling anyway due to a greater effort being put into prevention. Furthermore, fire service pensions should be brought into line with private sector pensions.’

‘Agree they need more investment I think they should take the money from other parts of the council rather than penalising households.’

‘Can't take funding away and expect the same level of service as service needs to be increased because of the extra population in the area. 400 extra houses and services have to increase workload.’

‘We as council tax payers pay far too much and the government should pay as they spend money on things that are not needed e.g. Devon bridge.’

‘Wages aren't going up, they're not putting their prices up, so they don't have the money to pay higher taxes, plus service not improving.’

‘They're cutting back on the services they provide, so why should the fee go up.’

‘They should be funded appropriately but council tax shouldn’t take the brunt. Central government should pay.’

‘I don't think there are so many fires, as there's a lot more work on prevention these days.’

2.3.2 Residents

‘Decrease their fees, they waste a lot of stuff and should share more with police and ambulance services.’

‘Funding should be redirected into more important things like the fire and rescue service.’

‘I already pay enough. The money should be obtained from somewhere else, not only from council tax.’

‘They should be increasing the fire rescue services and decreasing the council tax.’

‘We're all struggling as it is without having to pay more council tax.’

‘They built a new fire call centre and they haven't used it, and it has caused the tax payers to pay millions upon millions of pounds. And they are still not using it.’

‘They keep increasing council tax every year and they don’t improve their services.’

‘It’s national health, it’s people’s lives we are talking about and they shouldn’t increase the Council Tax charge.’

‘I think the government should be paying for it not passing it on to the elector to pay for. The government make enough money to pay for it instead of spending their money on pointless things.’

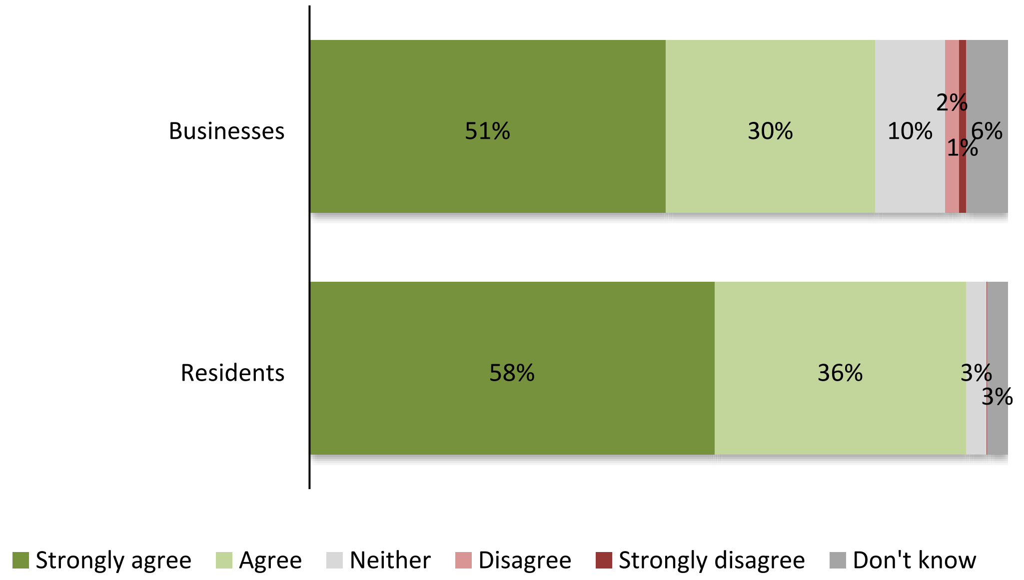
2.4 Agreement or disagreement that DSFRS provides value for money

All respondents were asked if they agree or disagree that DSFRS provides value for money.

Four in five (81%) businesses agreed that DSFRS does provide value for money, with only 3% disagreeing, resulting in a net agreement of +78%. Views were consistent by LAD, industry sector and age. Females were significantly more likely to agree DSFRS provides value for money (88% compared to 77% males) as were those that had used a DSFRS service (87% compared to 75% who had not used a DSFRS service).

Views were even more positive among residents, with 93% agreeing that DSFRS does provide value for money and less than 0.5% disagreeing, resulting in a net agreement of +93%. Residents in Torbay were less likely to agree that this is the case (88%, compared to 90% in Plymouth, 95% in Devon and 94% in Somerset).

Figure 3: Agreement or disagreement that DSFRS provides value for money (All respondents)



Unweighted sample base: 400 businesses, 400 residents

2.5 Reasons for disagreeing that DSFRS provides value for money

The 11 businesses and 4 residents who disagreed that DSFRS provides value for money were asked why they disagreed, and, where provided, their reasons for this are listed below.

2.5.1 Businesses

‘Expensive for what they provide.’

‘Had a fire on the commercial premises, firefighters were absolutely useless.’

‘Highly inefficient and where has the money gone astray.’

‘In some areas they are fantastic and efficient but experience of local business fires is not handled very well.’

‘Might as well put sprinklers in, seems a lot of money, they could do something themselves for that amount of money.’

‘Personal experience of how hard ambulance and police work, I feel that the fire service could take on more responsibilities and that currently they spend a lot of time just sitting around.’

‘The distribution and network was not well organised we had many call outs but there was no co coordination with the team.’

‘They do various things that I don't think should be done by the fire brigade; buying cars and motorbikes, going around telling people how wonderful they are. The fire brigade should stick to fighting fires.’

‘Was it full time or part time fireman. Why are second time fireman got second jobs. Where I’m based if someone has accident as many as 10 brigades can go which is over the top. Person should pay as self-inflicted wounds.’

2.5.2 Residents

‘Fire services are generally not efficient, they are rather traditional with their services and very top-heavy with senior people.’

‘It’s an issue.’

‘People are putting their lives at risk. Why should you be targeted because you have a minimum wage?’

‘They release a lot of their employees and then they employ them in different areas of the council.’

2.6 Services used

To contextualise the findings reported above, all respondents were asked if they had used any of ten specific services provided across Devon and Somerset.

Overall, over a half (51%) of businesses reported using at least one of the services, most commonly a fire safety audit (27%) at a business, and 39% of residents did so, most commonly via a community event (14%) or home fire safety visit (13%).

Businesses in Torbay were the most likely to report having used any of the services (62%, compared to 56% in Plymouth, 50% in Devon and 48% in Somerset).

Residents in Plymouth were the most likely to report having used any of the services (48%, compared to 46% in Somerset, 35% in Torbay and 32% in Devon). Younger residents were less likely to report having used any of the services (26% compared to 46% of those aged 35 to 54 and 37% of those aged 55+).

Table 1 Services used

	Businesses	Residents
Fire safety audit / check in a business	27%	6%
Other fire safety advice	13%	6%
Home fire safety visit / smoke alarm fitting	12%	13%
Community event	12%	14%
Youth education	9%	7%
Emergency response – house fire	7%	6%
Community use of fire stations	6%	7%
Emergency response – road traffic collision	5%	4%
Emergency response – other rescue	5%	2%
Emergency response – co-responder	4%	2%
Emergency response – flooding	2%	<0.5%
Other service	1%	2%
I have not used a DSFRS service	49%	61%
Unweighted sample base: 400 businesses, 400 residents		

2.7 Satisfaction with the service provided by DSFRS

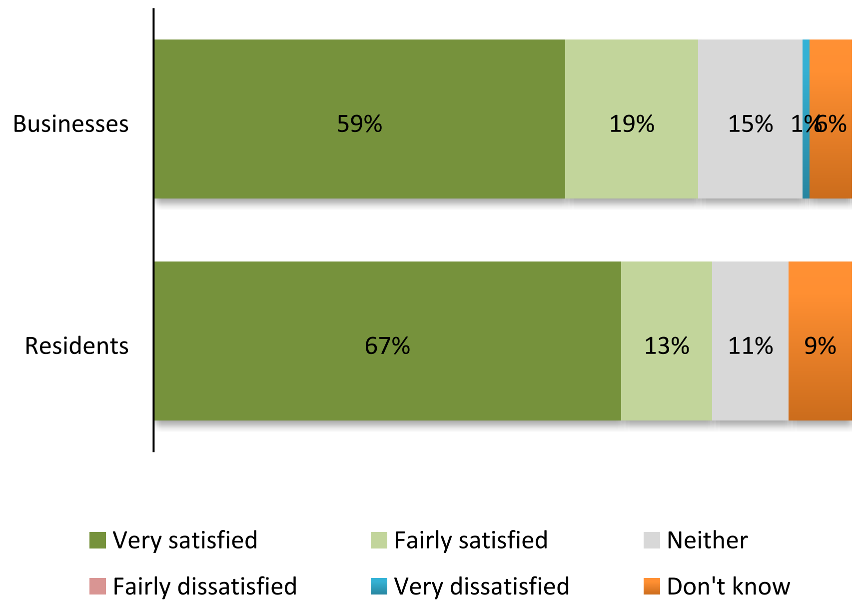
All respondents were asked how satisfied or dissatisfied they are with the service provided by DSFRS.

Four fifths (79%) of businesses were satisfied with the service provided, and only two respondents expressed dissatisfaction, yielding a net level of satisfaction of +78%. Views were consistent by LAD however, those in industry sector A to F had higher levels of satisfaction (100% compared to 67% for those in G to K and O). Levels of satisfaction significantly increased amongst those who had used a DSFRS service from 65% amongst those who have not used a service to 92%.

Four fifths (80%) of residents were satisfied with the service provided, and only one respondent expressed dissatisfaction, yielding a net level of satisfaction of +80%.

Levels of satisfaction significantly increased amongst those who had used a DSFRS service from 71% amongst those who have not used a service to 95%.

Figure 4: Satisfaction with the service provided by DSFRS (All respondents)



Unweighted sample base: 400 businesses, 400 residents

Only 2 businesses expressed dissatisfaction, and their reasons for doing so were as follows:

‘Bad experiences - have had to call out the fire service for residential and commercial fires. The firefighters didn't do much at all to help but did some ridiculous things.’

‘I think they have spent a tremendous amount of public money for no reason.’

Only 1 resident expressed dissatisfaction, and their reason for doing so were as follows:

‘I think that the call operatives are too far away to deal with it and they don't know the local area.’

3 Appendix 1: Profile Information

3.1 Businesses

The following tables outline the unweighted and weighted demographic profiles of the sample.

Table 2 – Local authority district

Local authority district	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
Torbay	12%	48	7%	26
Plymouth	13%	52	9%	35
Devon	45%	180	53%	211
Somerset	30%	120	32%	128

Table 3 – Industry sector

Industry Sector	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
A to F	23%	92	24%	96
G to N, R + S	77%	308	76%	304

NB: **A to F** includes the following sectors: A: Agriculture, Forestry and Fishing; B Mining and Quarrying; C Manufacturing; D Electricity, gas, steam and air conditioning supply; E Water supply, sewerage, waste management and remediation activities; F Construction.

G to N, R and S includes the following sectors: G Wholesale and retail trade; repair of motor vehicles and motorcycles; H Transportation and storage; I Accommodation and food service activities; J Information and communication; K Financial and insurance activities; L Real estate activities; M Professional, scientific and technical activities; N Administrative and support service activities; R Arts, entertainment and recreation; S Other service activities

Table 4 – Job title

Industry Sector	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
Owner/proprietor/managing director	40%	160	40%	161
Director	14%	54	13%	52
Manager/assistant manager	30%	121	30%	119
Partner	4%	15	4%	15
Company Secretary	2%	6	2%	6
Other	11%	42	11%	43

Table 5 – Gender

Gender	Unweighted		Weighted	
	%	Number	%	Number
Male	64%	254	64%	256
Female	37%	146	36%	144

Table 6 – Age

Age	Unweighted		Weighted	
	%	Number	%	Number
16 – 24 years	4%	14	4%	14
25 – 34 years	14%	54	13%	52
35 – 44 years	16%	64	16%	66
45 – 54 years	24%	94	23%	94
55– 64 years	30%	119	29%	118
65+	13%	53	14%	54
Prefer not to say	1%	2	<0.5%	2

Table 7 – Ethnic Origin

Ethnic Origin	Unweighted		Weighted	
	%	Number	%	Number
White	96%	385	97%	387
Black/Black British	1%	2	<0.5%	2
Asian/Asian British	1%	3	1%	3
Mixed/Other	1%	2	<0.5%	1
Prefer not to say	2%	6	1%	5

3.2 Residents

The following tables outline the unweighted demographic profile of the sample of residents.

Table 8 – Local authority district

Local authority district	Unweighted		Weighted	
	%	Number	%	Number
Torbay	25%	100	8%	32
Plymouth	25%	98	15%	61
Devon	25%	102	45%	181
Somerset	25%	100	32%	126

Table 9 – Age

Age	Unweighted		Weighted	
	%	Number	%	Number
16 – 24 years	2%	7	3%	13
25 – 34 years	7%	26	11%	45
35 – 44 years	18%	70	27%	109
45 – 54 years	15%	60	15%	58
55– 64 years	18%	70	18%	74
65+	42%	167	25%	101

Table 10 – Gender

Gender	Unweighted		Weighted	
	%	Number	%	Number
Male	50%	199	48%	193
Female	50%	201	52%	207

Table 11 – Ethnic Origin

Ethnic Origin	Unweighted		Weighted	
	%	Number	%	Number
White	97%	388	97%	388
Asian/Asian British	1%	2	<0.5%	2
Mixed	1%	2	<0.5%	2
Prefer not to say	2%	6	2%	7

4 Appendix 2: Call outcomes

The following tables show a breakdown of call outcomes.

4.1 Businesses

	Outcome	Contacts	% of total	% of in scope
In scope	**Complete**	**400**	**10%**	**21%**
	Refusal	712	17%	37%
	Respondent busy	796	19%	42%
	Sub-total	**1,908**	**46%**	**100%**
Out of scope	Unobtainable (modem, fax etc)	201	5%	9%
	Ineligible	183	4%	8%
	No contact made	1,817	44%	83%
	Sub-total	**2,201**	**54%**	**100%**
	Total	**4,109**		

4.2 Residents

	Outcome	Contacts	% of total	% of in scope
In scope	**Complete**	**400**	**5%**	**24%**
	Refusal	481	6%	29%
	Respondent busy	799	9%	48%
	Sub-total	**1,680**	**20%**	**100%**
Out of scope	Unobtainable (modem, fax etc)	1505	18%	22%
	Ineligible	368	4%	5%
	No contact made	4,997	58%	73%
	Sub-total	**6,870**	**80%**	**100%**
	Total	**8,550**		

Appendix: Statement of Terms

Compliance with International Standards

BMG complies with the International Standard for Quality Management Systems requirements (ISO 9001:2008) and the International Standard for Market, opinion and social research service requirements (ISO 20252:2012) and The International Standard for Information Security Management ISO 27001:2013.

Interpretation and publication of results

The interpretation of the results as reported in this document pertain to the research problem and are supported by the empirical findings of this research project and, where applicable, by other data. These interpretations and recommendations are based on empirical findings and are distinguishable from personal views and opinions.

BMG will not be publish any part of these results without the written and informed consent of the client.

Ethical practice

BMG promotes ethical practice in research: We conduct our work responsibly and in light of the legal and moral codes of society.

We have a responsibility to maintain high scientific standards in the methods employed in the collection and dissemination of data, in the impartial assessment and dissemination of findings and in the maintenance of standards commensurate with professional integrity.

We recognise we have a duty of care to all those undertaking and participating in research and strive to protect subjects from undue harm arising as a consequence of their participation in research. This requires that subjects' participation should be as fully informed as possible and no group should be disadvantaged by routinely being excluded from consideration. All adequate steps shall be taken by both agency and client to ensure that the identity of each respondent participating in the research is protected.

With more than 25 years' experience, BMG Research has established a strong reputation for delivering high quality research and consultancy.

BMG serves both the public and the private sector, providing market and customer insight which is vital in the development of plans, the support of campaigns and the evaluation of performance.

Innovation and development is very much at the heart of our business, and considerable attention is paid to the utilisation of the most up to date technologies and information systems to ensure that market and customer intelligence is widely shared.

<u>2018/19 Precept consultation online surveys</u>

1. Online Survey

1.1 The online survey was available from 15 November – 18 December 2017. The consultation period was promoted through our website, Facebook and Twitter. An example of the advert can be found in Appendix A.

1.2 In that period a total of 51 responses were received. As only one of these responses represented the business sector, the results have not been separated. The results are as follows.

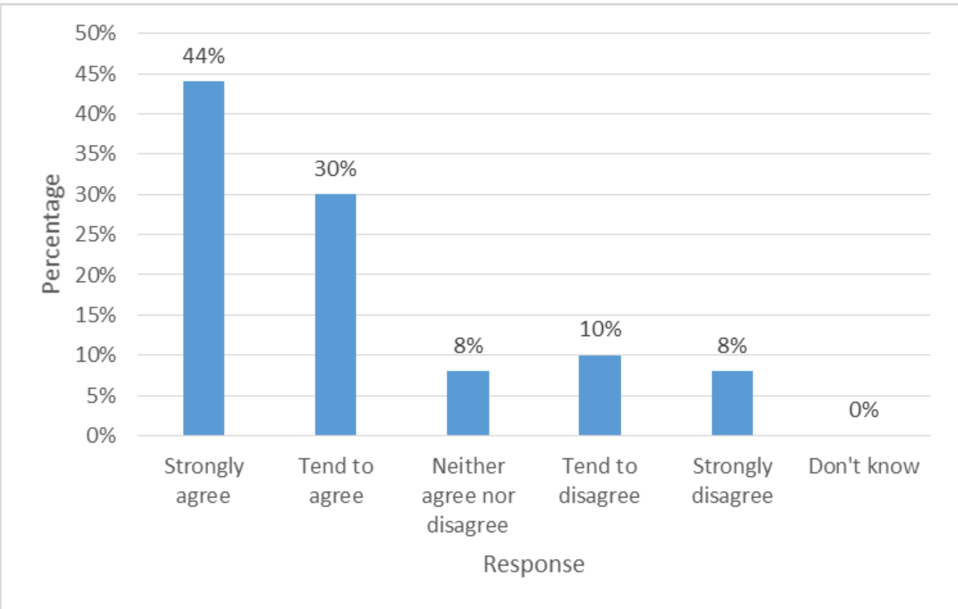
<u>RESULTS</u>

1.3 *Q1. How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2018/19 to lessen the impact of the funding cuts?*

<u>Table 1: Responses to Question 1</u>

Answer Option	**Response #**	**Response %**
Strongly agree	22	44.00
Tend to agree	15	30.00
Neither agree nor disagree	4	8.00
Tend to disagree	5	10.00
Strongly disagree	4	8.00
Don't know	0	0.00
Total	50	

<u>Chart 1: Results of agreement to consider increasing the precept</u>



1.4 The results indicate that 74% of respondents agree that the Authority should consider increasing its charges.

1.5 ***Q2. Of the following options, what increase would you consider it reasonable for the Authority to make to its element of the council tax?***

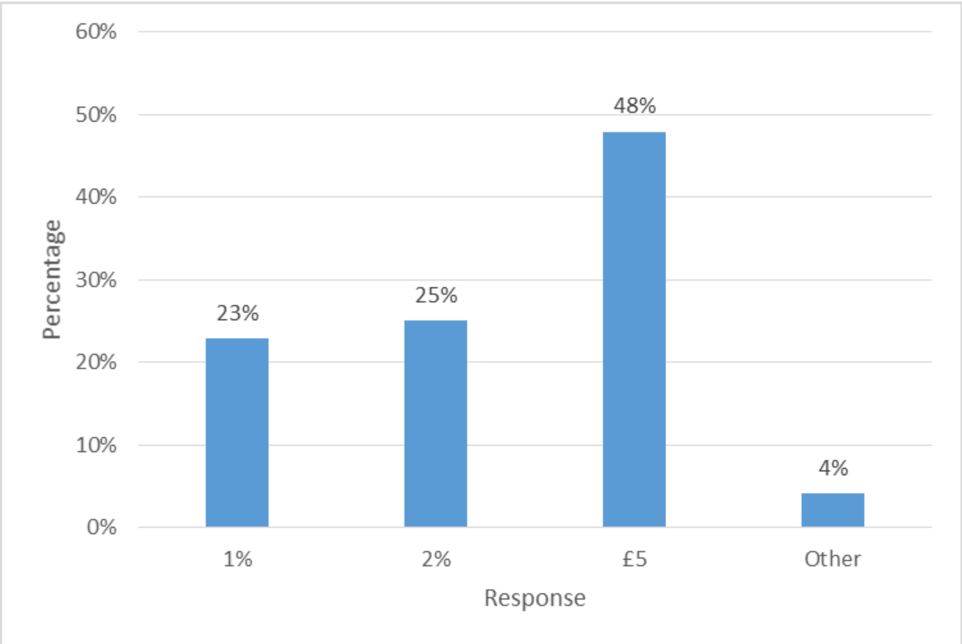
Table 2: Responses to Question 2

Answer Option	**Response #**	**Response %**
1% (An increase of 82p per year for a Band D property, increasing the total charge to £82.39)	11	22.92
2% (An increase of £1.63 per year for a Band D property, increasing the total charge to £83.22)	12	25.00
£5 (An increase of £5.00 per year for a Band D property (pro rata for other bands), increasing the total charge to £86.57)	23	47.92
Other	2	4.17
Total	48	

1.6 Those respondents who responded ‘Other’ were asked to provide comments. Comments made by respondents are below.

- should be across all property types in devon and somerset
- none

Chart 2: Results of options to increase the precept



1.7 The results indicate that 48% of respondents are in support of a £5 increase.

1.8 ***Q3 If you disagreed to Q1, why do you think it is not reasonable for the Authority to increase its element of the council tax charge?***

1.9 Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2018/19 were asked why they disagreed. Comments made by respondents are below.

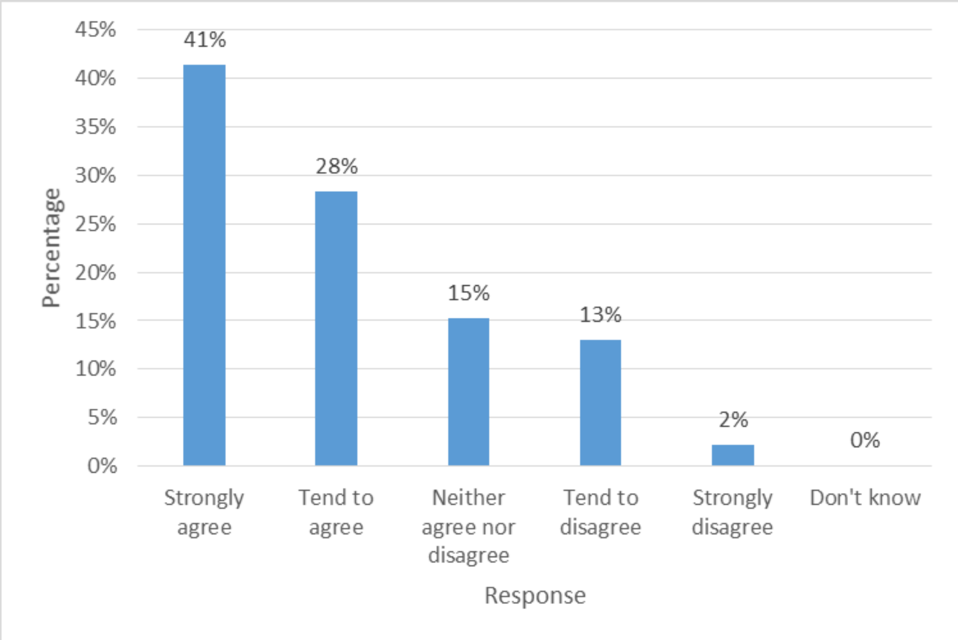
- The Service should make efficiencies to manage the impact of government reductions.
- I feel they should cut costs by reducing MP wages as they are overpaid.
- Any increase should be ring fenced to front line services only and not for increasing any backroom support services.
- Running costs should be lower with your intention to reduce the size of fire appliances and the number of crew on board. You seem to have money to spend on all the PC projects required by central government but cut front line appliances. Why should we pay more for less?
- Account should be taken of the Authorities reserves. With 1% public sector pay cap increase should be not more than 1%. All grades including executive officers pay should be capped at 1%. Ensure that no employees get pay rises above national rates.
- The local housing increases such as Cranbrook must be providing additional funding which will offset government cuts
- Savings should be made elsewhere.
- Our wages are not rising enough to cover our costs.
- All govt organisations need to cut waste and deliver services more efficiently. DSFRS should cope with less funding and explore options to overhaul their support services.

1.10 ***Q4. How strongly do you agree or disagree that the Service provides value for money?***

Table 3: Response to Question 4

Answer Option	Response #	Response %
Strongly agree	19	41.30
Tend to agree	13	28.26
Neither agree nor disagree	7	15.22
Tend to disagree	6	13.04
Strongly disagree	1	2.17
Don't know	0	0
Total	46	

Chart 3: Results of value for money question



1.11 The results indicate that the majority of respondents (69%) agreed that the Service provides value for money at £42 per head.

1.12 *Q5. If you disagreed to Q4, why do you think that the Service does not provide value for money?*

1.13 Those who disagreed that DSFRS provides value for money were asked why they disagreed, and, where provided, their reasons for this are listed below.

- I think the Service could do with modernisation, I believe many out of date practices still operate such as firemen being paid to sleep and exercise.
- resources aren't being used to the best possible way
- Expenditure should only be on statutory duties and not things that are nice to do. E.g road safety and first responder unless fully funded outside FRA budget.
- How does this compare to other Fire and rescue services in other parts of the country.
- lack of wholetime stations and relaying on retained crews who possibly could not be available witch impacts on the fire service turning up in a reasonable time
- The amount you can write in this box needs to be amended as it doesn't allow me to get my point across. Thank you.
- The amount of pumps of the run
-

1.14 *Q6. Have you received any of the following Devon and Somerset Fire and Rescue Services?*

1.15 To contextualise the findings reported above, all respondents were asked if they had used any of ten specific services provided across Devon and Somerset.

Table 4: Responses to Question 6

Answer Option	Response #	Response %
Emergency response – house fire	2	4.88
Emergency response – road traffic collision	0	0.00
Emergency response – flooding	0	0.00
Emergency response – co-responder	2	4.88
Emergency response – other rescue	1	2.44
Community use of fire stations	2	4.88
Home fire safety visit / smoke alarm fitting	1	2.44
Youth education	5	12.20
Fire safety audit / check in a business	1	2.44
Community event	4	9.76
Other fire safety advice	0	0.00
I have not used a DSFRS service	22	53.66
Other	1	2.44
Total	41	

1.16 Those responses to those who responded ‘Other’ are listed below.

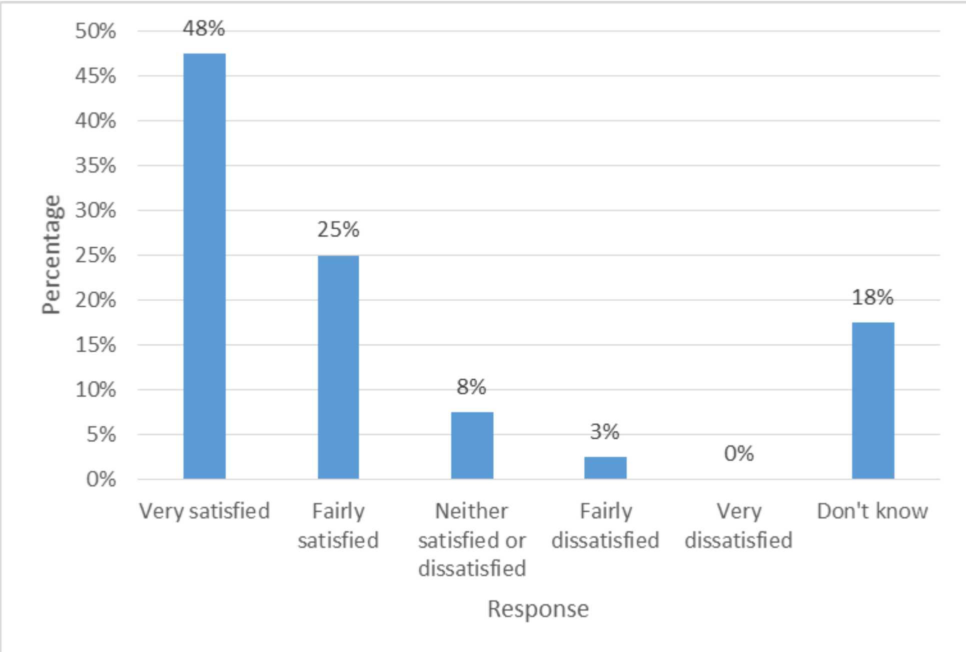
- I’m a firefighter

1.17 ***Q7. How satisfied or dissatisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?***

Table 5: Responses to Question 7

Answer Option	Response #	Response %
Very satisfied	19	47.50
Fairly satisfied	10	25.00
Neither satisfied or dissatisfied	3	7.50
Fairly dissatisfied	1	2.50
Very dissatisfied	0	0.00
Don't know	7	17.50
Total	40	

Chart 4: Results of levels of satisfaction with the service provided by DSFRS



1.18 The results indicate that the majority of respondents (73%) are satisfied with the level of service received by DSFRS.

1.19 ***Q8. Why are you dissatisfied with the service provided by Devon and Somerset Fire and Rescue Service?***

1.20 Of the respondents who expressed dissatisfaction, their reasons for doing so were as follows:

Comments:

- Fire cover in some towns served by on-call staff is being compromised by the relocation of special appliances. E.g. Totnes which at times has no fire crew because a special has been mobilised on a brigade basis out of station ground.
- Not used it.
- lack of wholetime firefighters

1.21 Breakdown of respondents

1.22 The following questions were asked to ensure that a cross section of people responded to the survey and to see if there were any trends by demographic groups. The sample size is too small to conduct any trend analysis or determine whether the sample is representative of Devon and Somerset.

Table 6: Responses to Question 9 – Are you…?

Answer Option	Response #	Response %
A member of the public	38	97.44
Representing a business	1	2.56
Total	39	

Table 7: Responses to Question 10 regarding age

Answer Option	Response #	Response %
16-24	4	10.26
25-34	10	25.64
35-44	8	20.51
45-54	7	17.95
55-64	6	15.38
65+	4	10.26
Prefer not to say	0	0.00
Total	39	

Chart 5: Results of question regarding age

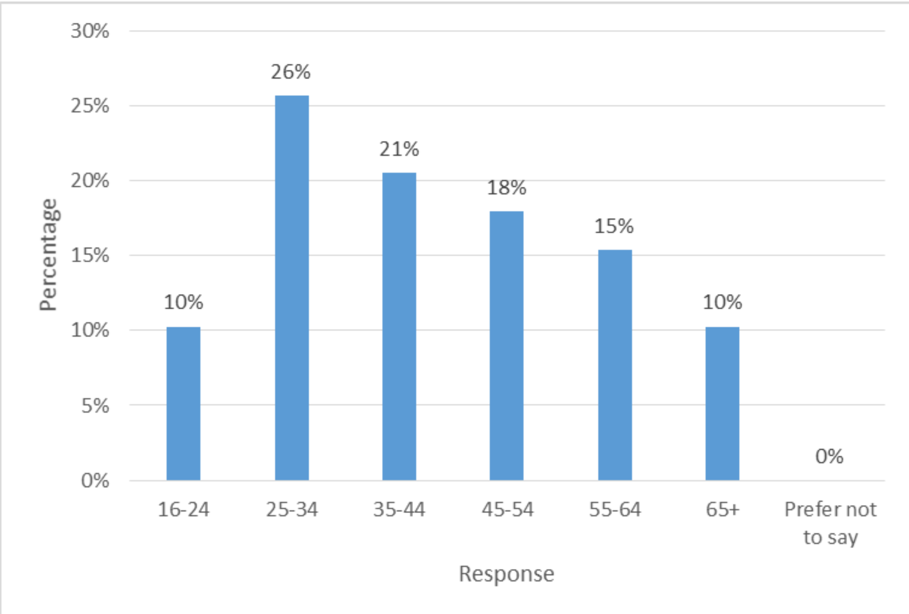


Table 8: Responses to Question 11 regarding gender

Answer Option	Response #	Response %
Male	27	69.23
Female	11	28.21
Transgender	0	0.00
Prefer not to say	1	2.56
Other	0	0.00
Total	39	

Chart 6: Results of question regarding gender

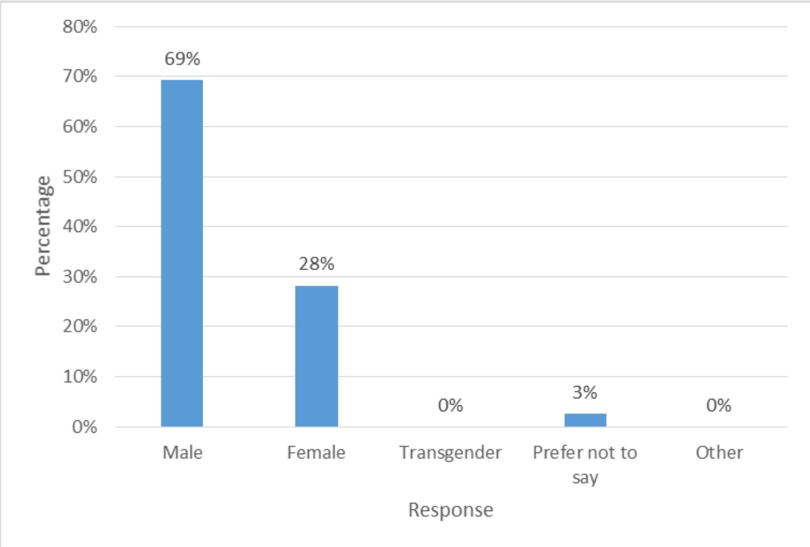


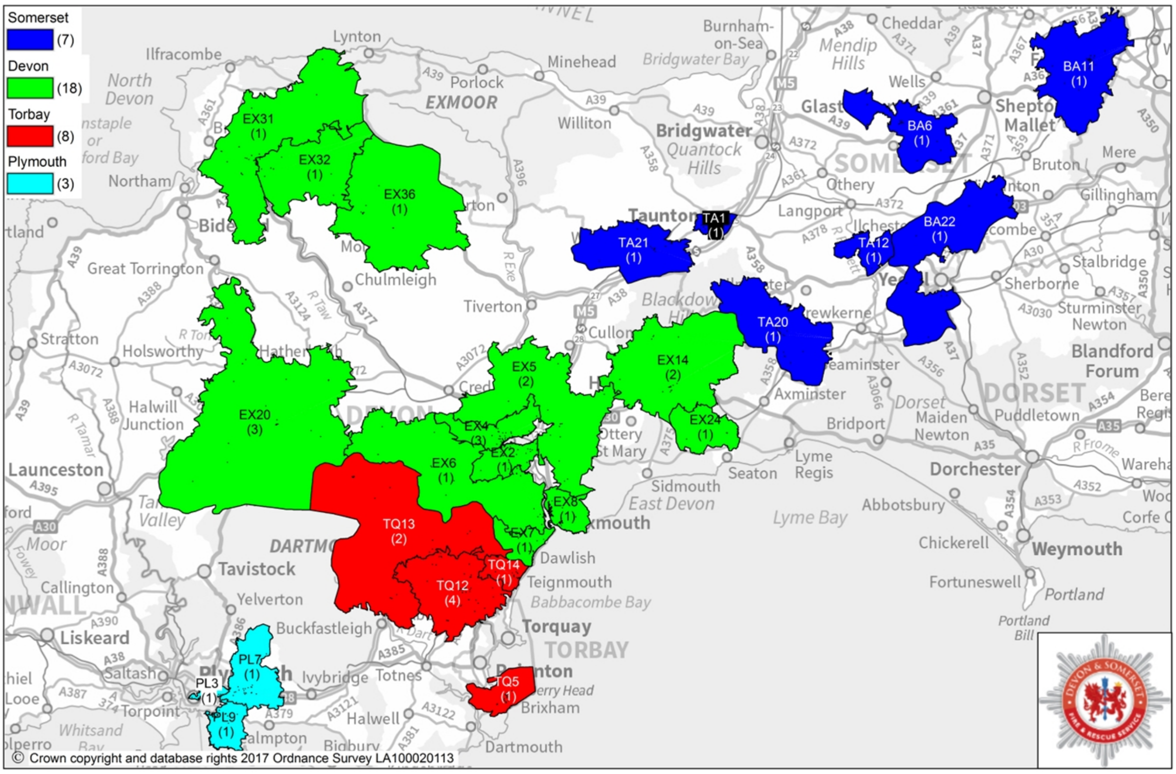
Table 9: Results of Question 12 regarding ethnic origin

Answer Option	Response #	Response %
White - English / Welsh / Scottish / Northern Irish / British	35	89.74
White - Irish	2	5.13
White - Gypsy or Irish Traveller	0	0.00
Black or Black British - African	0	0.00
Black or Black British - Caribbean	1	2.56
Asian or Asian British - Indian	0	0.00
Asian or Asian British - Pakistani	0	0.00
Asian or Asian British - Bangladeshi	0	0.00
Asian or Asian British - Chinese	0	0.00
Mixed or multiple ethnic groups - White and Black Caribbean	0	0.00
Mixed or multiple ethnic groups - White and Black African	0	0.00
Mixed or multiple ethnic groups - White and Asian	0	0.00
Other ethnic group - Arab	0	0.00
Prefer not to say	1	2.56
Other	0	0.00

1.23 Respondents were asked this question to ensure we had a cross section of responses from across Devon and Somerset. 36 respondents provided a postcode and these have been displayed on the map below and grouped in the four constituent authorities.

<u>Map displaying respondents' postcode areas</u>

Postcode Areas responding to Precept Consultation (Online)



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2. Twitter poll

2.1 The Fire Authority requested that social media be used as part of the consultation. Therefore it was agreed to undertake a Twitter poll – whilst there are some limitations to a Twitter poll, it has the advantage of being quick and easy to answer and may reach a different demographic group.

2.2 An example of the twitter poll has been provided in Appendix A. As with all Twitter posts the number of characters is limited, therefore the question and information provided was required to be shortened. Additionally, Twitter restricts the length of a poll to a week meaning a new poll had to be created to extend the response period. Once an individual has voted they are restricted on submitting another vote per poll – however unfortunately there is nothing to stop them voting again when a new poll is created.

2.3 The poll ran for two and a half weeks with three separate polls created. The Service received the following number of responses.

Table 10: Responses to Twitter poll

Week	# of responses	# of views	# of engagements*
Week 1	**64**	1945	99
Week 2	**78**	4245	104
Week 3	**36**	2,950	47
Total	**178**	9,140	47

*Twitter engagements include replies, retweets, mentions, likes etc.

2.4 The table above indicates that the Service received 178 responses, however it is not possible to determine whether any of the responses have been submitted by the same person.

RESULTS

2.5 The question posed on Twitter:

Devon and Somerset Fire and Rescue Authority is considering its Council Tax charges for 2018/19. The current charge is £81.57 a year for a Band 'D' property. What level of increase would you consider reasonable? For more information visit our website dsfire.gov.uk/consultation.

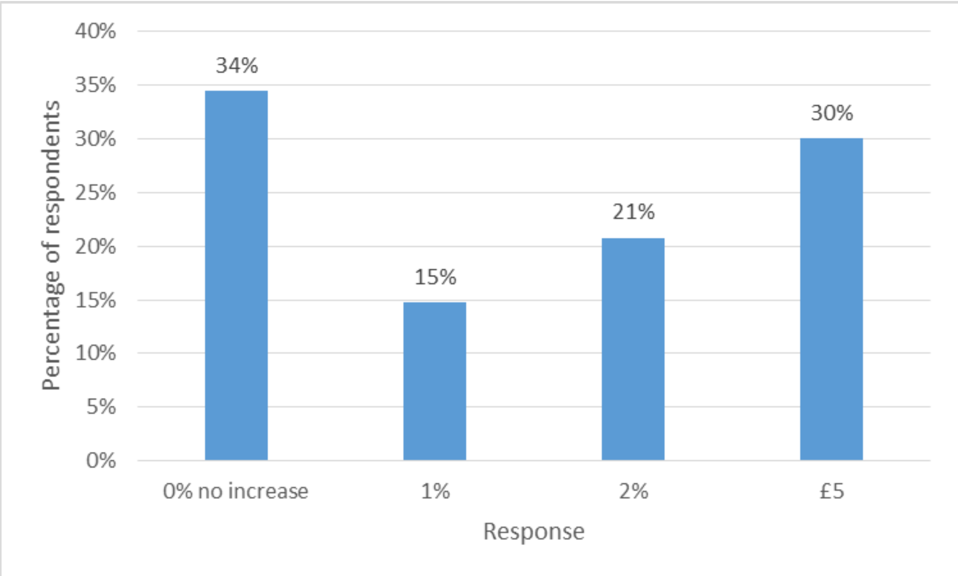
- 0% no increase
- 1%
- 2%
- £5 for band D (pro rata)

2.6 The results provided by Twitter include the total number of respondents and the percentage of responses per choice – therefore the number of per answer can be calculated to provide the total response rate.

Table 11: Responses to Twitter poll

Twitter poll	Week 1	Week 2	Week 3	Totals
0% no increase	33%	35%	36%	**34%**
1%	16%	14%	14%	**15%**
2%	17%	27%	14%	**21%**
£5	34%	24%	36%	**30%**
Total (#)	**64**	**78**	**36**	**178**

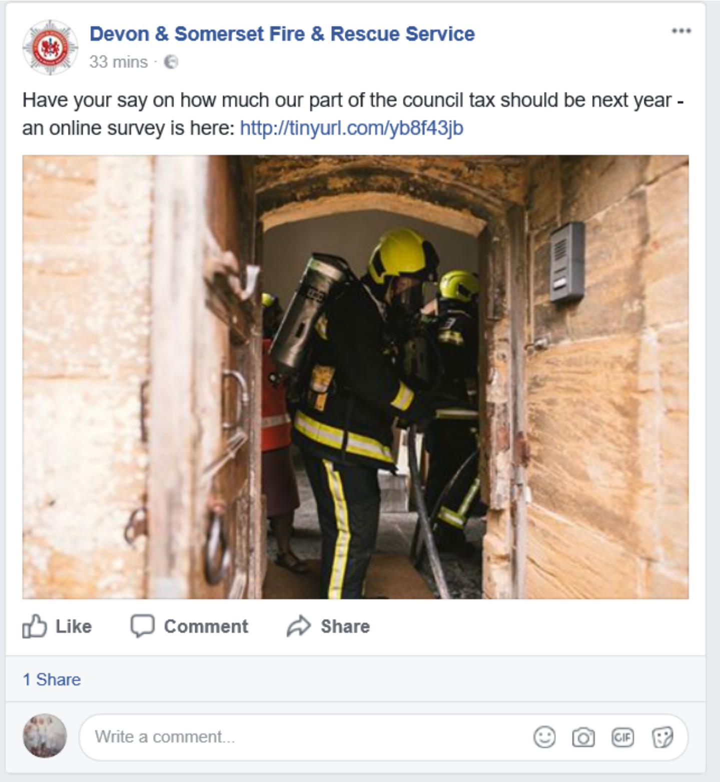
Chart 7: Results of Twitter poll



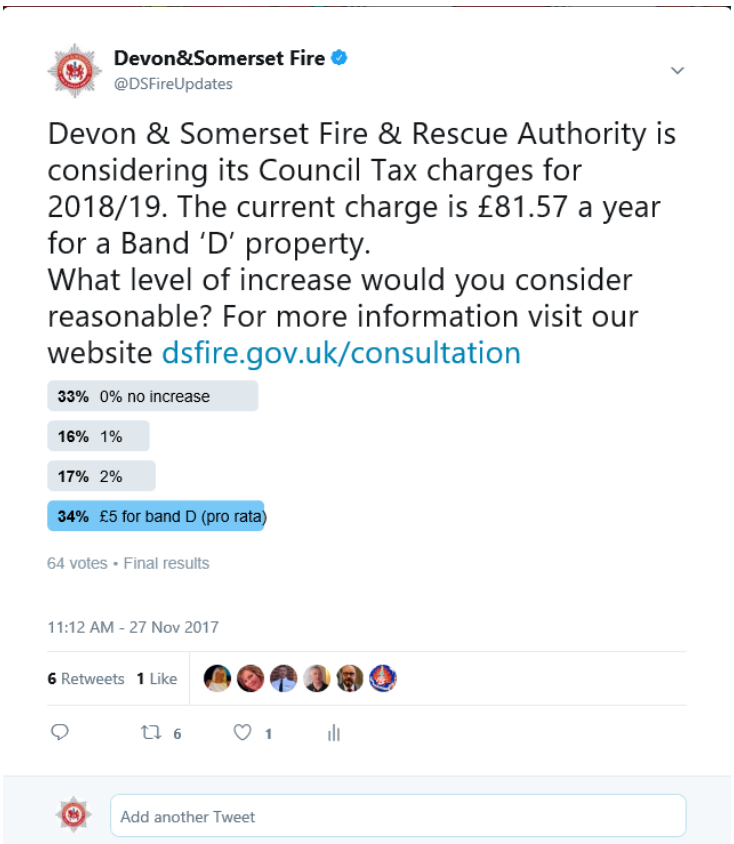
2.7 The chart above indicates that the highest number of responses received (34%) was for the option of no increase to the council tax charges.

Appendix A

Example of post shared on Facebook advertising the online survey.



Example of the Twitter poll.



REPORT REFERENCE NO.	**RC/18/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2018**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2018-19 TO 2020-21**
LEAD OFFICER	**Chief Fire Officer and Treasurer**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority be recommended:*** ***(a) to approve the draft Capital Programme 2018-19 to 2020-21 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B respectively to this report; and*** ***(b) subject to (a) above, to note the forecast impact of the proposed Capital Programme (from 2021-22 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2018-19 to 2020-21 and also outlines the difficulties in meeting the full capital expenditure requirement for this Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. All aspects of the capital requirement have been considered and the programme has been constructed based on the principle that debt charges emanating from external borrowing are kept within the 5% Prudential Indicator limit (debt charges as a percentage of the Revenue Budget) set by the Authority. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget and has supported the Treasurer’s recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. To inform longer term planning the Prudential Indicator has been profiled for a further three years beyond 2020-21 based upon indicative capital programme levels for the years 2021-22 to 2023-24
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2018-19 to 2020-21 (and indicative Capital Programme 2021-22 to 2023-24).

	B. Prudential Indicators 2018-19 to 2020-21 (and indicative Prudential Indicators 2021-22 to 2023-24).
LIST OF BACKGROUND PAPERS	None

1. **INTRODUCTION**

1.1 Each year, the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. In constructing the programme, considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously agreed by the Devon and Somerset Fire and Rescue Authority (hereinafter referred to as “the Authority”).

1.2 Up until 2015-16, the Authority was in receipt of some direct grant funding towards capital spending as a share of a government allocation of £70m per annum towards Fire Sector capital investment. In 2014-15, this allocation was £1.4m and in previous years, as much as £2m. However, as part of government austerity measures, this funding has now been withdrawn meaning that from 2015-16 onwards the Authority no longer receives any direct grant funding towards its capital investment plans.

1.3 To mitigate the impact of this withdrawal of funding to the 5% debt ratio, the Authority agreed as part of the previous year budget setting to replace this funding with a significant revenue base contribution to funding the capital programme and building a capital reserve for the medium term.

1.4 The Fleet replacement programme continues with the smaller type appliances into the Service with 25 Rapid Intervention Vehicle planned to be completed during 2018-19 as well as other appliance replacements.

1.5 The Estates programme has been prepared using information from the Estate Review after appropriate consultation to ensure the programme meets all operational and risk considerations.

1.6 The Authority has set a strategy to reduce reliance on external borrowing and therefore the proposed Capital Programme 2018-19 to 2020-21 and indicative Capital Programme 2021-22 to 2023-24 have been produced on the basis that no new borrowing will occur in the 6 year period.

2. **FINANCING OF THE PROPOSED CAPITAL PROGRAMME**

2.1 The tests of affordability of future capital spending are measured by compliance with the Chartered Institute of Public Financial Accountants (CIPFA) Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.2 The proposed programme and funding, as contained in this report, decreases the external borrowing requirement to £24.9m by 2020-21, and ensures that the debt ratio is maintained below 5% (forecast to be 4.11% or 4.20% if no council tax increase). This compares to a current external borrowing of £25.6m as at 31 March 2018. Looking further ahead the external borrowing requirement is forecast to reduce to £23.8m by 2023-24.

2.3 The focus of this Authority over many years has been to control spending within the 5% limit. To achieve this, the Service has utilised revenue funding wherever possible through allocation of budget or revenue underspends. This approach has been successful because neither the 5% prudential indicator has been breached nor has external borrowing increased.

2.4 With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that a strategy of long term affordability will be followed, with the indicative programme showing that no new external borrowing will be required over the 6 year period to 2023-24.

2.5 Due to current interest rates, it is not economically viable for the Authority to repay loans early. This means that whilst no new borrowing will be required, existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed with a view to early repayment if this option becomes more affordable.

2.6 Elsewhere on the agenda for this meeting is a separate report “2018-19 Revenue Budget and Council Tax Levels”. The draft 2018-19 revenue budget included in that report makes provision for a ‘one off’ reduced revenue contribution towards capital of £1.22m if Council Tax is increased by 2.99% or nil if Council Tax is not increased. The Committee has been made aware that, in order that the capital programme can be achieved without the need to increase borrowing, then a revenue contribution to Capital will be required. This needs to be built into revenue base budget to replace the direct grant funding previously received from the government but withdrawn from 2015-16. This figure will need to be reviewed annually as part of the annual budget setting process.

Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2018-19 and therefore, the figures quoted as a Revenue Contribution to Capital will be subject to change. The impact of any changes will be reported at the meeting.

3. <u>REVISED CAPITAL PROGRAMME FOR 2018-19 to 2020-21</u>

3.1 Appendix A of this report provides an analysis of the proposed programme for the three years 2018-19 to 2020-21 as contained in this report. This programme represents a net decrease in overall spending of £4.5m over the previously agreed indicative programme as illustrated in Figure 1 overleaf:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2017-18	2.4	5.1	7.5
2018-19	5.4	7.3	12.7
2019-20 (provisional)	2.4	4.4	6.8
2020-21 (provisional)	3.3	2.9	6.2
Total 2017-18 to 2020-21	13.5	19.7	33.2
Proposed Programme			
2017-18 (forecast spending)	2.1	1.9	4.0
2018-19	3.3	7.0	10.3
2019-20 (provisional)	4.7	4.4	9.1
2020-21 (provisional)	2.5	2.9	5.4
Total 2017-18 to 2020-21	12.6	16.2	28.8
Proposed change	-0.9	-3.5	-4.4

ESTATES

3.2 After a period of significant investment, the Estates programme was reduced from 2013/14 to accommodate other capital programmes. As a result, there was a reduced investment in some key stations over a number of years whilst a revised Integrated Risk Management Plan (IRMP) was developed and an Estate Development Review undertaken to review potential options.

3.3 A range of range of options and scenarios (including modelling of new and alternative sites to any impact on emergency response times) has been reviewed with the two Assistant Chief Fire Officers to assess the value and merit of the various options within the context of the IRMP to meet current and forecast community risks.

3.4 As a result, a programme of improvement can commence to improve stations whose future strategic importance is now confirmed and where investment into the facilities and site is appropriate and viable.

3.5 Collaboration activities with our Bluelight partners in the region seek to identify further opportunities to co-locate or other development opportunities, as each partner's operational strategy develops. To date this has been successfully achieved for little investment by any party. Consequently, no specific capital budget has been allocated for collaboration projects. Should such a requirement for capital investment emerge, it would be subject to submission of a detailed business case.

OPERATIONAL ASSETS

Vehicle Replacements/Equipment

3.6 The Authority has implement a Tiered Response to vehicle replacement; meeting future service delivery arrangements with more cost effective vehicles, improved service to local communities, alongside firefighter safety. This started with Light Rescue Pumps with the final appliances of this replacement cycle coming into service during 2016/17. It continues with the introduction of up to 45 (plus 5 reserve) Rapid Intervention Vehicles (RIV) over the next 3 years (2018/19 to 2020/21). This will complete the catch-up that has been required to update and realign the outdated vehicles and will result in a reduced need for capital expenditure after this replacement cycle. The full business case that supports the RIV recommendation identifies over £20m in capital expenditure saving over the previous “one size fits all” approach during the 12 year lifespan of the appliances.

3.7 The capital programme for the 4 year period between 2017/18 and 2020/21 has decreased due to several reasons. Vehicle requirements have been amended with a reduction in the number of Incident Support Units, Incident Command Units and 4x4 Medium Rescue Pumps (MRP) needed. The MRP replacement programme has slipped and the cost of equipment to go on replacement vehicles has been realigned to revenue budgets to conform with our capital expenditure classification.

4. FORECAST DEBT CHARGES

4.1 Appendix A also provides indicative capital requirements beyond 2020-21 to 2023-24. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2.

Figure 2 - Summary of Estimated Capital Financing Costs and future borrowing

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	25.537	25.444	24.851	24.757	24.264	23.771
Base budget for capital financing costs and debt charges	3.178	3.233	3.219	3.189	2.944	2.856
Change over previous year		0.055	(0.014)	(0.030)	(0.245)	(0.088)
Debt ratio	4.19%	4.18%	4.11%	4.02%	3.65%	3.54%

4.2 The forecast figures for external debt and debt charges beyond 2020-21 are based upon the indicative programmes as included in Appendix A for the years 2021-22 to 2023-24. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

5. PRUDENTIAL INDICATORS

5.1 Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have reduced from current levels of £25.6m to £23.8m (including impact of proposed revenue contributions) by 2023-24.

5.2 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2023-24, this will only be possible with appropriate annual revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

6. CONCLUSION

6.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire appliances required to be maintained and eventually replaced, and also keeping debt charges within the 5% limit.

6.2 The capital programme has been constructed on the basis that the revenue budget contribution to capital will be reinstated in future years which will avoid the need for any new borrowing over the next 6 years. However, the programme proposed in this report does not commit any spending beyond 2020-21. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The programme is therefore recommended for approval.

Glenn Askew
Chef Fire Officer

Amy Webb
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/18/3

Capital Programme 2018/19 to 2023/24

2017/18 £000 Budget	2017/18 £000 Forecast Outturn	Item	PROJECT	2018/19 £000 Budget	2019/20 £000 Budget	2020/21 £000 Budget	2021/22 £000 Indicative Budget	2022/23 £000 Indicative Budget	2023/24 £000 Indicative Budget
			Estate Development						
0	0	1	Site re/new build (subject to formal authority approval)	400	500	0	0	0	0
2,401	2,133	2	Improvements & structural maintenance	2,943	4,200	2,500	1,800	1,800	1,800
2,401	**2,133**		**Estates Sub Total**	**3,343**	**4,700**	**2,500**	**1,800**	**1,800**	**1,800**
			Fleet & Equipment						
3,567	1,137	3	Appliance replacement	4,150	3,700	2,500	2,700	2,700	2,700
187	187	4	Specialist Operational Vehicles	125	600	200	0	0	0
502	201	5	Equipment	1,985	100	200	200	200	200
800	400	6	ICT Department	627	0	0	0	0	0
46	0	7	Water Rescue Boats	46	0	0	0	0	0
5,102	**1,925**		**Fleet & Equipment Sub Total**	**6,933**	**4,400**	**2,900**	**2,900**	**2,900**	**2,900**
7,503	**4,058**		**Overall Capital Totals**	**10,276**	**9,100**	**5,400**	**4,700**	**4,700**	**4,700**
			Programme funding - 0% increase in CT						
2,158	262	8	Earmarked Reserves:	8,065	4,150	455	0	0	0
3,362	1,813	9	Revenue funds:	300	2,989	3,498	2,762	3,417	3,502
1,962	1,962	10	Application of existing borrowing	1,911	1,961	1,447	1,938	1,283	1,198
7,503	**4,058**		**Total Funding**	**10,276**	**9,100**	**5,400**	**4,700**	**4,700**	**4,700**
			Programme funding - 2.99% increase in CT						
2,158	262	12	Earmarked Reserves:	7,144	4,150	455	0	0	0
3,362	1,813	13	Revenue funds:	1,221	2,989	3,498	2,762	3,417	3,502
1,962	1,962	14	Application of existing borrowing	1,911	1,961	1,447	1,938	1,283	1,198
7,503	**4,058**		**Total Funding**	**10,276**	**9,100**	**5,400**	**4,700**	**4,700**	**4,700**

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2019/20 to 2021/22		
	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2022/23 £m Estimate
Capital Expenditure						
Non - HRA	10.276	9.100	5.400	4.700	4.700	4.700
HRA (applies only to housing authorities)						
Total	10.276	9.100	5.400	4.700	4.700	4.700
Ratio of financing costs to net revenue stream						
Non - HRA	4.19%	4.18%	4.11%	4.02%	3.65%	3.54%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,538	25,444	24,851	24,758	24,264	23,771
HRA (applies only to housing authorities)	0	0	0	0	0	0
Other long term liabilities	1,209	1,112	1,010	907	791	656
Total	26,747	26,556	25,861	25,665	25,055	24,427
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	(182)	(191)	(694)	(197)	(807)	(1,238)
HRA (applies only to housing authorities)	0	0	0	0	0	0
Total	(182)	(191)	(694)	(197)	(807)	(1,238)
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	£0.07	£0.11	£0.14	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	26,907	26,810	26,687	26,089	25,971	25,453
Other long term liabilities	1,359	1,265	1,162	1,056	947	823
Total	28,267	28,074	27,849	27,144	26,918	26,276
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,631	25,537	25,444	24,851	24,757	24,264
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	26,929	26,747	26,556	25,861	25,665	25,055
Maximum Principal Sums Invested over 364 Days						
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000	5,000

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REPORT REFERENCE NO.	**DSFRA/18/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2018**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2018-19 TO 2019-20)**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***(a) That the Devon & Somerset Fire & Rescue Authority at its meeting on 16 February 2018 be recommended to approve:*** ***(i) the Treasury Management Strategy and the Annual Investment Strategy;*** ***(ii) the Minimum Revenue Provision (MRP) statement for 2018-19, as contained as Appendix B of this report;*** ***(b) That the requirement to review the Treasury Management Strategy and Annual Investment Strategy, as outlined in Paragraph 1.8 of this report, following updated CIPFA guidance be noted;*** ***(c) That the requirement to develop a Capital Strategy for 2019-20, as outlined in Paragraph 1.11 of this report be noted.***
EXECUTIVE SUMMARY	As agreed at the Fire & Rescue Authority meeting of 18 December 2018, there is a new requirement for Resources Committee to review the Treasury Management Strategy for recommendation to the Full Authority. This report sets out a treasury management strategy and investment strategy for 2018-19, including the Prudential Indicators associated with the capital programme for 2018-19 to 2020-21 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2018-19 is also included for approval.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2018-19 to 2020-21. B. Minimum Revenue Provision Statement 2018-19.
LIST OF BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code. Treasury Management Strategy Update to Resources Committee 15 November 2017.

1. INTRODUCTION

Background

1.1 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives. Treasury management is defined as:

1.3 The management of the organisation's borrowing, 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.

Statutory requirements

1.4 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.

1.5 The Act therefore requires the Authority to set outs its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 8 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.

1.6 The Department of 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

1.7 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

- 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.
- 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.
- 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.

1.8 In November 2017 DCLG issued consultation documents on changes to key documents related to the Treasury Management and Investment Activities of Local Authorities. The consultation closed on 22 December 2017 and at the time of writing this report final guidance is yet to be issued by CIPFA. Key changes as outlined in the consultation and implications for this Authority are outlined below.

- Investment Strategy – development of strategy to include non-Treasury Management Investments such as property and investments in other local bodies which may not meet current investment criteria (for example by returning social value against reduced security or yield).

1.9 The Authority does not currently hold any of this class of investment. The Annual Investment Strategy will be updated and taken to the Fire Authority for approval when final guidance is issued by CIPFA.

Minimum Revenue Provision (MRP) Policy

1.10 Suggested revisions to MRP Policy have been reviewed by officers and the Authority's current policy is considered to be in line with proposed guidance. If any changes are required in year following the release of final guidance a revised Policy will be taken to the Fire Authority for approval.

1.11 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

1.12 The aim of this report is to ensure that all elected members on the Fire & Rescue Authority fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

1.13 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

Treasury Management Strategy for 2018-19

1.14 The suggested strategy for 2018-19 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, Link Asset Services (Link).

1.15 The strategy for 2018-19 covers two main areas:

Capital Issues

- capital plans and prudential indicators
- the Minimum Revenue Provision (MRP) strategy

Treasury Management Issues

- treasury limits in force which will limit the treasury risk and activities of the Authority
- treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

Training

1.16 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A proportionate training plan will be developed for members of the Resources Committee. The training needs of treasury management officers are periodically reviewed.

Treasury Management Advisors

1.17 The Authority uses Link Asset Services, Treasury solutions as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.18 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2018-19 TO 2020-21

2.1 The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.2 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts as proposed in the Capital Programme report considered elsewhere on the agenda. Other long term liabilities such as PFI and leasing arrangements which already include borrowing instruments are excluded.

Proposed Capital Expenditure	2017-18 (forecast spending)	2018-19	2019-20 (provisional)	2020-21 (provisional)
	£m	£m	£m	£m
Estates	2.133	3.343	4.700	2.500
Fleet & Equipment	1.925	6.933	4.400	2.900
Total	4.058	10.276	9.100	5.400

2.3 The following table summarises the financing of the capital programmes shown above. Additional capital finance sources may become available during the year, for example, additional grants or external contributions. The Authority will be requested to approve increases to the capital programme to be financed from other capital resources as and when the need arises.

Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2018-19 and therefore the Revenue funding available may change. The impact of any changes will be reported at the meeting.

Furthermore, the Revenue Funding outlined below is conditional upon the Fire Authority decision over levels of Council Tax for 2018-19 at its budget setting meeting of 16 February 2018 – figures below are based on a Council Tax increase of 2.99%.

Capital Financing	2017-18 (forecast spending)	2018-19	2019-20 (provisional)	2020-21 (provisional)
	£m	£m	£m	£m
Capital receipts	0.000	0.000	0.000	0.000
Capital grants	0.021	0.000	0.000	0.000
Capital reserves	0.262	7.144	4.150	0.455
Revenue	1.813	1.221	2.989	3.498
Application of existing borrowing	1.962	1.911	1.961	1.447
Total	4.058	10.276	9.100	5.400

The Authority's Borrowing Need (Capital Financing Requirement)

2.4 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.6 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £1.299m of such schemes within the CFR.

2.7 The Authority is asked to approve the CFR projections below as included in Appendix A:

Capital Financing Requirement (CFR)	2017-18 (forecast spending)	2018-19	2019-20 (provisional)	2020-21 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	25.630	25.538	25.444	24.851
Other Long Term Liabilities	1.299	1.209	1.112	1.010
Total CFR	26.929	26.747	26.556	25.861
Movement in CFR	(2.300)	(2.276)	(2.343)	(2.836)
Less MRP	(2.131)	(2.093)	(2.152)	(2.141)
Net movement in CFR	(0.169)	(0.182)	(0.191)	(0.694)

Core funds and expected investment balances

2.8 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed overleaf are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Estimated Year end Resources	2017-18	2018-19	2019-20	2020-21
	£m	£m	£m	£m
Reserve Balances	33.522	24.378	18.228	17.773
Capital receipts	0.000	0.000	0.000	0.000
Provisions	0.695	0.195	0.000	0.000
Other	6.989	8.899	10.860	12.307
Total core funds	41.206	33.472	29.088	30.080
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	42.206	34.472	30.088	31.080

*Working capital balances shown are estimated year-end; these may be higher mid-year

Minimum Revenue Provision (MRP) Strategy

2.9 The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.10 CLG regulations have been issued which require the full Authority to approve **an MRP Statement** in advance of each year. A variety of options are provided under which MRP could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

2.11 Although four main options are provided under the guidance, the Authority has adopted

The Asset Life Method

2.12 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when MRP commences and not changed after that.

2.13 MRP should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make MRP until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.

2.14 As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

2.15 A draft MRP statement for 2018-19 is attached as Appendix B for Authority approval. The financing of the approved 2018-19 capital programme, and the resultant prudential indicators have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

2.16 The previous sections of the report cover the overall limits for capital expenditure and borrowing, but within the overall framework indicators are also included to demonstrate the affordability of capital investment plans.

2.17 A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2018-19 to 2020-21 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2017-18 (forecast spending)	2018-19	2019-20 (provisional)	2020-21 (provisional)
Annual cost	4.18%	4.19%	4.18%	4.11%

3. BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current borrowing position

3.2 The Authority's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table overleaf shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	2017-18 (forecast spending)	2018-19	2019-20 (provisional)	2020-21 (provisional)
	£m	£m	£m	£m
Debt at 1 April	25.724	25.631	25.537	25.444
Expected change in Debt	(0.093)	(0.093)	(0.093)	(0.593)
Other long-term liabilities (OLTL)	1.374	1.299	1.209	1.112
Expected change in OLTL	(0.075)	(0.090)	(0.098)	(0.101)
Actual gross debt at 31 March	26.929	26.747	26.556	25.861
CFR	26.929	26.747	26.556	25.861
Under/ Over borrowing	0.000	0.000	0.000	0.000

3.3 Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.4 The Director of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Limits to Borrowing Activity

3.5 Two Treasury Management Indicators control the level of borrowing. They are:

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Estimated Operational Boundary	2017-18	2018-19	2019-20	2020-21
	£m	£m	£m	£m
Non-HRA expenditure	25,724	25,631	25,537	25,444
Other Long Term Liabilities	1,374	1,299	1,209	1,112
Total	27,098	26,929	26,747	26,556

- **The authorised limit for external debt**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.6 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authority's plans, or those of a specific Authority, although this power has not yet been exercised.

3.7 The Authority is asked to approve the following authorised limit:

Estimated Authorised Limit	2017-18	2018-19	2019-20	2020-21
	£m	£m	£m	£m
Non-HRA expenditure	27,005	26,907	26,810	26,687
Other Long Term Liabilities	1,439	1,359	1,265	1,162
Total	28,445	28,267	28,074	27,849

Prospects for interest rates

3.8 The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives our central view.

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

3.9 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

3.10 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

3.11 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

3.12 From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

3.13 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.14 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.

- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries3.14 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

3.15 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

3.16 Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

3.17 Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

3.18 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

Borrowing strategy

3.19 As reported in the separate report on this agenda "Capital Programme 2018-19 to 2020-21", it is the strategic intent of the Authority not to increase its exposure to external borrowing during the next six years. To achieve this a recommendation the Authority has supported the inclusion in the base revenue budget a revenue contribution to capital investment (£1.2m in 2018-19).

3.20 This being the case there is no intention to take out any new borrowing during 2018-19. Should this position change then the Treasury Management Strategy will need to be reviewed to reflect any change to the borrowing strategy and would be subject to a further report to the full Authority.

Policy on borrowing in advance of need

3.21 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

Debt rescheduling

3.22 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the authority's maturity profile as in recent years there has been a skew towards longer dated PWLB.

3.23 Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.24 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil the adopted borrowing strategy, and
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

3.25 All rescheduling will be reported to the Resources Committee, at the earliest meeting following its action.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1 The Authority's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Authority's investment priorities will be security first, portfolio liquidity second, then return.

4.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

4.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

4.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties..

Creditworthiness Policy

4.5 This Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s.
The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.6 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.

4.7 The Link Asset Services’ creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.

4.8 Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.9 All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

4.10 Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.
Approved Instruments for Investments

4.11 Investments will only be made with those bodies identified by the authority for its use through the Annual Investment Strategy.

4.12 **Country Limits** The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA
- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Finland
- Hong Kong
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- U.K.

AA-
- Belgium
- Qatar

Non-specified Investments

4.13 Non specified investments are those which do not meet the Specified Investment Criteria and covers those counterparties where there is either no recognised credit rating and/or an anticipation that an investment will be for greater than one year in duration.

4.14 The Authority had not previously placed non-specified investments as a result of its prudent approach to place security and liquidity over yield. However from April 2015 it was agreed that the strategy be amended to include investments with maturity of longer than 364 days. The maximum duration limit on any non-specified deposit will be determined by the colour assigned to the Counterparty on the Link Asset Services credit list on the date the investment is placed, but typically will be for no longer than 24 months. Where such investments are placed via the Secondary Market i.e. buying the remaining term of an existing instrument, then the term will be for 24 months.

4.15 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in Table 13 overleaf.

4.16 The maturity limits recommended will not be exceeded. Under the delegated powers the Section 151 Officer can set limits that are based on the latest economic conditions and credit ratings.

4.17 The following table shows those bodies with which the Authority will invest.

Specified Investments	Non Specified Investments
Deposits with the Debt Management Agency Deposit Facility	
Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals)	Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals) Non-credit rated building societies. ***The total amount of non-specified investments will not be greater than £5m in value.***
Banks nationalised/part nationalised or supported by the UK government	Banks nationalised/part nationalised or supported by the UK government
Money Market Funds	
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

4.18 The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

Investment Strategy

4.19 In-house funds: The Authority's in-house managed funds are mainly cash-flow derived and investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

4.20 **Investment returns expectations**. Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

4.21 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

4.22 The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively. .

4.23 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 days			
£m	**2018-19**	**2019-20**	**2020-21**
Principal sums invested > 364 days	£5m	£5m	£5m

End of year investment report

4.24 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

Policy on the use of external service providers

4.25 The Authority uses Link as its external treasury management advisers. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

4.26 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Treasury Management Scheme of Delegation

Full Authority:

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Approving the selection of external service providers and agreeing terms of appointment.
- Reviewing the treasury management policy and procedures and making recommendations to the Authority.

Resources Committee:

- Receiving and reviewing regular monitoring reports and acting on recommendations
- Review of annual strategy prior to recommendation to full authority

Role of the Section 151 officer (Director of Finance)

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit and liaising with external audit
- Recommending the appointment of external service providers.

5. SUMMARY AND RECOMMENDATIONS

5.1 The Authority is required to consider and approve the treasury management strategy to be adopted prior to the start of the financial year. This strategy must also include proposed prudential indicators and a minimum provision statement (MRP). Approval of the strategy for 2018-19 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

AMY WEBB
Director of Finance (Treasurer)

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2019/20 to 2021/22		
	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2022/23 £m Estimate
Capital Expenditure						
Non - HRA	10.276	9.100	5.400	4.700	4.700	4.700
HRA (applies only to housing authorities)						
Total	10.276	9.100	5.400	4.700	4.700	4.700
Ratio of financing costs to net revenue stream						
Non - HRA	4.08%	4.07%	4.00%	3.91%	3.54%	3.43%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,538	25,444	24,851	24,758	24,264	23,771
HRA (applies only to housing authorities)	0	0	0	0	0	0
Other long term liabilities	1,209	1,112	1,010	907	791	656
Total	26,747	26,556	25,861	25,665	25,055	24,427
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	(182)	(191)	(694)	(197)	(807)	(1,238)
HRA (applies only to housing authorities)	0	0	0	0	0	0
Total	(182)	(191)	(694)	(197)	(807)	(1,238)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	26,907	26,810	26,687	26,089	25,971	25,453
Other long term liabilities	1,359	1,265	1,162	1,056	947	823
Total	28,267	28,074	27,849	27,144	26,918	26,276
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,631	25,537	25,444	24,851	24,757	24,264
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	26,929	26,747	26,556	25,861	25,665	25,055
Maximum Principal Sums Invested over 364 Days						
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000	5,000

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2017/18		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

MINIMUM REVENUE STATEMENT (MRP) 2018-19

Supported Borrowing

The MRP will be calculated using the regulatory method (option 1). MRP will therefore be calculated using the formulae in the old regulations, since future entitlement to RSG in support of this borrowing will continue to be calculated on this basis.

Un-Supported Borrowing (including un-supported borrowing prior to 1 April 2008)

The MRP in respect of unsupported borrowing under the prudential system will be calculated using the asset life method (option 3). The MRP will therefore be calculated to repay the borrowing in equal annual instalments over the life of the class of assets which it is funding. The repayment period of all such borrowing will be calculated when it takes place and will be based on the finite life of the class of asset at that time and will not be changed.

Finance Lease and PFI

In the case of Finance Leases and on balance sheet PFI schemes, the MRP requirement is regarded as met by a charge equal to the element of the annual charge that goes to write down the balance sheet liability. Where a lease of PFI scheme is brought, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion of the charge, for the year in which the restatement occurs, of an amount equal to the write-down for the year plus retrospective writing down of the balance sheet liability that arises from the restatement. This approach produces an MRP charge that is comparable to that of the Option 3 approach in that it will run over the life of the lease or PFI scheme and will have a profile similar to that of the annuity method.

MRP will normally commence in the financial year following the one in which the expenditure was incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone the beginning to make MRP until that year. Investment properties will be regarded as becoming operational when they begin to generate revenues.

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REPORT REFERENCE NO.	**RC/18/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2018**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2017-2018: QUARTER 3**
LEAD OFFICER	**DIRECTOR OF FINANCE (TREASURER)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2017-18 (to December 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 31 December 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 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.** After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 was disappointingly weak in the first half of the year; 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 GDP, has seen weak growth as consumers cut back on their expenditure.

2.2 However, growth picked up in quarter 3 to 0.4% and in quarter 4 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 GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole. Growth in quarter 4 is expected to be around 0.4% again which would see annual growth in 2017 coming in at around 1.7 – 1.8%, almost as strong as the recently upwardly revised figure for 2016 of 1.8%, (which meant that the UK was equal to Germany as having the strongest GDP growth figure for the G7 countries in 2016).

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 its words warning that Bank Rate will need to rise. Recent Bank of England Inflation Reports have flagged up that they expected CPI inflation to peak at just over 3% in late 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 3.1% in November. The reason why the MPC became so aggressive with its wording in September and November around increasing Bank Rate was due to 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 MPC 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 faces competition from overseas labour e.g. in outsourcing work to third world countries, 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.

2.4 It was therefore no surprise that the MPC increased Bank Rate by 0.25% to 0.5% in November. However, their forward guidance of two more increases of 0.25% by 2020 was viewed as being more dovish than markets had expected. However, some forecasters are flagging up that they expect growth to improve significantly in 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 weaker services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on more than one increase 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), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and 0.6% in quarter 3 (2.6% 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 November inflation was only 1.2%. It is therefore unlikely to start on an upswing in rates until possibly towards the end of 2019.

2.7 **USA.** Growth in the American economy has been volatile in 2015 and 2016. 2017 followed that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%, the first time since 2014 that two successive quarters have been over 3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1% in November, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on an upswing in rates with four increases since December 2016 to lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. In October, the Fed became the first major western central bank to make a start on unwinding quantitative easing by phasing in a start to a gradual reduction of reinvesting maturing debt.

2.8 **Chinese economic growth** Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and 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** GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation anywhere near to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecasts

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

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

2.11 Link Asset Services undertook its last review of interest rate forecasts on 7 November after the quarterly Bank of England Inflation Report and MPC meeting. As expected, the MPC policy raised Bank Rate by 0.25% to 0.50%. The MPC also gave forward guidance that they expected to raise Bank Rate by 0.25% only twice more in the next two years to reach 1.0% by 2020. This was very much in line with previous guidance that Bank Rate would only go up very gradually and to a limited extent.

2.12 The overall balance of risks to economic recovery in the UK is probably currently to the downside due to the uncertainties around Brexit; however, given those uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

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

3.3 A full list of investments held as at 31 December 2017 are shown in Appendix A.

3.4 The average level of funds available for investment purposes during the quarter was £41.179m (£40.4397 in Quarter 2). These funds were available on a temporary basis and the level of funds was dependent on the level of reserves, timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 3
3 Month LIBID	0.35%	0.59%	£0.082m.

3.5 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.24bp. 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 by £108k.

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

Current external borrowing

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 31 December 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

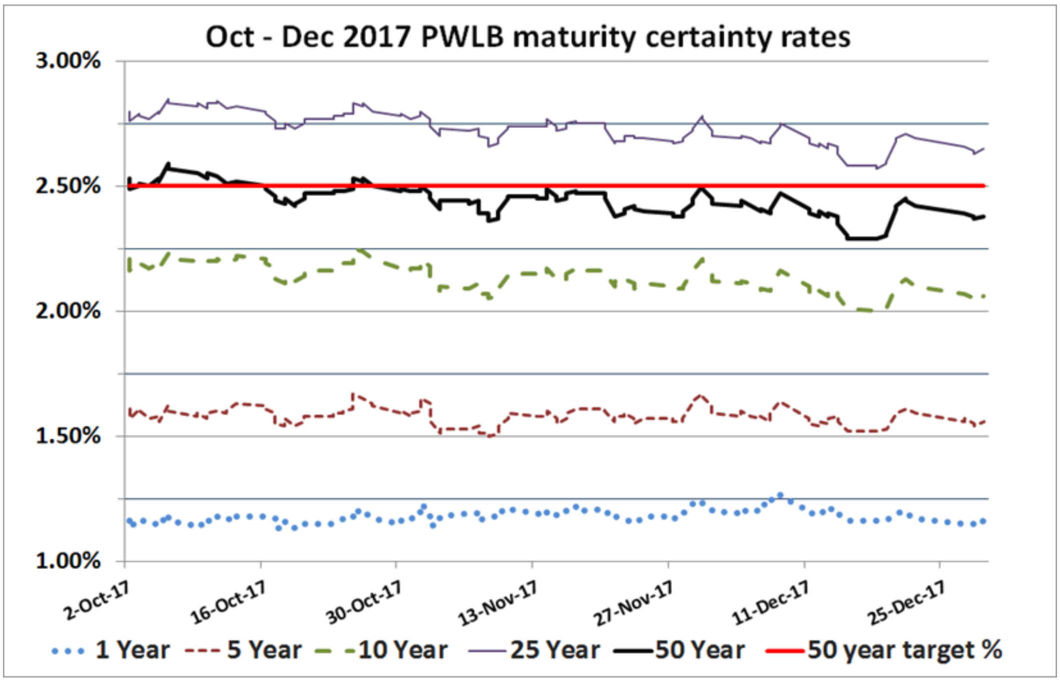
3.10 As depicted in the graph(s) below, there has been significant volatility in PWLB rates during the final weeks of quarter 2 following the September MPC meeting and the suggestion that Bank Rate will need to increase sooner than markets initially anticipated, partly because of inflation concerns and 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 31 December 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.13%	1.50%	2.00%	2.57%	2.29%
Date	02/10/2017	08/11/2017	18/12/2017	18/12/2017	15/12/2017
High	1.27%	1.67%	2.25%	2.85%	2.59%
Date	08/12/2017	25/10/2017	25/10/2017	06/10/2017	06/10/2017
Average	1.18%	1.58%	2.13%	2.73%	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 December 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

APPENDIX A TO REPORT RC/18/5

Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	**£m**			
Santander	7	1	T	6 Months	0.34
		2	T	6 Months	0.34
		1	T	6 Months	0.40
		1	T	6 Months	0.53
Qatar National Bank	1	1	T	1 Year	0.82
Bank of Scotland	7	2.1	T	6 Months	0.36
		1.5	T	6 Months	0.36
Goldman Sachs	7	2	T	6 Months	0.67
		5	T	6 Months	0.58
Sumitomo Mitsui	7	3.2	T	6 Months	0.31
		1.8	T	6 Months	0.44
Lloyds Bank	2	2	T	1 Year	0.90
Nationwide	4	2	T	6 Months	0.30
Barclays FIBCA	2	0.001	C	Instant Access	Variable
Barclays	8	3	T	1 Year	0.55
		2	T	6 Months	0.30
		3	T	6 Months	0.42
Standard Life Money Market Fund	6	2.7	C	Instant Access	Variable
Local Authority	5	2	T	6 Months	0.52
Total invested as at 31 December 2017		**38.301**			