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
Website : www.dsfire.gov.uk

Date : 7 May 2019
Please ask for : Sam Sharman
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday 15 May 2019

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 - 6)**

of the previous meeting held on 7 February 2019 attached.

3 **Items Requiring Urgent Attention**

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

PART 1 - OPEN COMMITTEE

4 **Treasury Management Performance - Quarter Four and Annual Report 2018-19 (Pages 7 - 20)**

Report of the Director of Finance (Treasurer) (RC/19/8) attached.

5 **Provisional Financial Outtun 2018-19 (Pages 21 - 34)**

Report of the Director of Finance (Treasurer) (RC/19/9) attached.

6 **Reserves Strategy 2019-20 (Pages 35 - 46)**

Report of the Director of Finance (Treasurer) (RC/19/10) attached.

7 **Revisions to Capital Programme 2018-19 to 2021-22 (Pages 47 - 52)**

Report of the Director of Finance (Treasurer) (RC/19/11) attached.

8 **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 the following Paragraph(s) of Part 1 of Schedule 12A (as amended) to the Act:

- Paragraph 3 (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

9 **Red One Ltd Financial Performance 2018-19: Quarter 4**

Report of the Director of Finance (Treasurer) and Dr Sian George (Chair of the Board of Red One Ltd) (RC/19/12). (Hard copy report to be circulated separately).

10 **Red One Business Plan**

a Red One Ltd Business Plan 2019-20

Report of the Director of Finance (Treasurer) and Dr Sian George (Chair of the Board of Red One Ltd) (RC/19/13). (Hard copy report to be circulated separately).

b Red One Ltd Business Plan Assurance

Report of the Director of Finance (Treasurer) (RC/19/14). (Hard copy report to be circulated separately).

11 **Restricted Minutes of the Resources Committee held on 7 February 2019 (Pages 53 - 54)**

Restricted Minutes of the Resources Committee held on 7 February 2019 (attached).

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Coles (Chair), Biederman, Drean (Vice-Chair), Hendy, Hook, Peart and Radford

NOTES	
1.	**<u>Access to Information</u>** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the “Please ask for” section at the top of this agenda.
2.	**<u>Reporting of Meetings</u>** Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chair - 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 Chair or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
3.	**<u>Declarations of Interests at meetings (Authority Members only)</u>** If you are present at a meeting and you are aware that you have either a disclosable pecuniary interest, personal interest or non-registerable interest in any matter being considered or to be considered at the meeting then, unless you have a current and relevant dispensation in relation to the matter, you must: (i) disclose at that meeting, by no later than commencement of consideration of the item in which you have the interest or, if later, the time at which the interest becomes apparent to you, the existence of and – for anything other than a “sensitive” interest – the nature of that interest; and then (ii) withdraw from the room or chamber during consideration of the item in which you have the relevant 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 an interest of a sensitive nature. You must still follow (i) and (ii) above. Where a dispensation has been granted to you either by the Authority or its Monitoring Officer in relation to any relevant interest, then you must act in accordance with any terms and conditions associated with that dispensation. Where you declare at a meeting a disclosable pecuniary or personal interest that you have not previously included in your Register of Interests then you must, within 28 days of the date of the meeting at which the declaration was made, ensure that your Register is updated to include details of the interest so declared.
4.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
5.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Order 37, 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)

7 February 2019

Present:-

Councillors Coles (Chair), Biederman, Drean (Vice-Chair), Hendy, Hook, Peart and Radford

In attendance:-

Councillors Randall Johnson and Wheeler (in accordance with Standing Order 38)
Dr Sian George and Lisa Compton, [Red One Ltd.] and Councillors Saywell and Thomas [Authority appointed Non-Executive Directors on the Board of Red One Ltd. attended for items RC/24 and 25.

* **RC/16** **Minutes**

RESOLVED that the Minutes of the meeting held on 15 November 2018 be signed as a correct record.

* **RC/17** **Treasury Management Performance 2018-19: Quarter 3**

The Committee received for information a report of the Director of Finance (Treasurer) (RC/19/1) that set out details of the treasury management performance for the third quarter of 2018-19 (to December 2018) as compared to the agreed targets for 2018/19.

Adam Burleton, representing Link Asset Services – the Authority's Treasury Management Adviser – was present at the meeting and gave an overview of the Service's performance to date against the approved Treasury Management Strategy.

He made reference to the following points:

- The UK had experienced weak economic growth in Quarter 1 of only 0.1% but this had improved at Quarter 3 to 0.6% although uncertainty over Brexit looked likely to weaken this position in Quarter 4;
- inflation was currently running close to the Government's 2% target which gave scope for interest rates to be held at current rates for a longer period;
- A "no deal" Brexit was a risk but there did not appear to be an appetite in Parliament for a 'no deal' exit from the European Union. In the event of a "no deal" Brexit, it was likely that interest rates would be cut. If there was a deal negotiated, then interest rates would probably rise around May 2019 but there would be more certainty when a trade deal was negotiated;
- There had been no change to the Authority's investment strategy which remained focused as security and liquidity of its assets over yield;
- The Authority had outperformed the three month LIBID benchmark of 0.79% with a return of 0.92% in Quarter 3 and investment interest of £0.095m; and
- There had been no new borrowing and the Authority had not breached its Prudential Indicators (affordability limits).

RC/18 **Financial Performance Report 2018-19: Quarter 3**

The Committee considered a report of the Director of Finance (Treasurer) (RC/19/2) that set out the Service's financial performance during the third quarter of 2018-19 against the targets agreed for the current financial year. The report provided a forecast of spending against the 2018-19 revenue budget with explanation of the major variations.

The Committee noted that forecast spending by the year end would be £73.864m representing a saving of £0.007m, equivalent to 0.01% of the total budget. Reference was made to the proposed budget transfers set out at Tables 3a and 3b of the report. It was noted that the budget transfers set out at Table 3a were required to cover the costs of the work to repair the recently identified defects on three VEMA (aerial) appliances. Table 3b set out the budget transfers in excess of £0.150m which required Authority approval. The Director of Finance (Treasurer) advised the Committee that a prudent approach was being taken in recommending a provision for doubtful debt to the Authority due to the longevity of aged debt.

RESOLVED

(a) That the budget transfers below £0.150m shown in Table 3a of this report (and as set out at Appendix A to these Minutes for ease of reference) be approved;

(b) That the budget transfers above £0.150m shown in Table 3b of this report and reproduced below for ease of reference be recommended to the Devon & Somerset Fire & Rescue Authority for approval;

Virements greater than £0.150m

Line Ref	Description	Debit £m	Credit £m
	Transfer of budget for Uniforms following a change in responsibility for the management of the uniforms to Research & Development.		
18	Uniforms	0.425	
18	Uniforms		(0.425)
	Provision for Doubtful debts - increase the total provision available to £0.650m, a prudent approach due to ongoing levels of aged debt - the provision can be released back to the revenue budget upon debt repayment		
28	Provision for Doubtful debts	0.600	
30	Grants and reimbursements		(0.300)
4	Non-uniformed staff		(0.200)
1	Uniformed Pay		(0.100)
	Transfer budget to fund Fireground Radios to improve Firefighters' ability to communicate at operational incidents		
17	Communications	0.224	
2	On-Call firefighters		(0.224)
		1.249	(1.249)

(c) That the monitoring position in relation to projected spending against the 2018-19 revenue and capital budgets be noted;

(d) That the performance against the 2018-19 financial targets be noted.

RC/19 **Capital Strategy**

The Committee considered a report of the Director of Finance (Treasurer) (RC/19/3) that set out the proposed Capital Strategy prepared as a result of a requirement within the 2017 Prudential Code for all local authorities.

It was noted that the Strategy provided a high level overview of how capital expenditure and the way it was financed contributed to the provision of services within Devon and Somerset. It also gave an overview of how the associated risk was managed and the implications for the future financial sustainability of the Authority. The Strategy also provided the requisite governance for approval and monitoring of capital expenditure.

RESOLVED that the Authority be recommended to endorse the Capital Strategy as set out within report RC/19/3.

RC/20 **2019-20 Revenue Budget and Council Tax Levels**

The Committee considered a report of the Director of Finance (Treasurer) (RC/19/4) on options for the Authority's revenue budget and associated Council Tax level in 2019-20. It was a legislative requirement for the Authority to set a balanced budget and determine an associated Council Tax level prior to 1 March each year and this report set out the necessary financial background on which to consider the appropriate way forward for this Authority.

The Director of Finance (Treasurer) advised that the Minister for Housing, Communities and Local Communities had announced that the Council Tax referendum limit was 3% this year. The report therefore set out two options for consideration by the Committee in setting the level of Council Tax in 2019-20, namely:

- Option A – freeze council tax at 2018-19 level (£84.01 for a Band D property); or
- Option B – increase council tax by 2.99% above 2018-19 (an increase of £2.51 per annum to £86.52 for a Band D property)

Attention was also drawn to a supplementary paper circulated at the meeting (RC/19/4(a)) setting out revised figures following receipt of updated information from billing authorities regarding Council Tax and National Non Domestic Rates (NNDR) income. The combined changes to central government funding, Council Tax and NNDR income meant that there would be £0.085m less funding available to the Authority but the impact of this was offset by Section 31 grant resulting in an overall increase of £0.295m. This meant that the Authority was able to increase its revenue contribution to capital in setting a balanced budget for 2019-20. It was noted that the funding generated by an additional 1% in Council Tax was equivalent to £0.510m.

The revised net revenue budget requirement for the Authority emanating from the overall increase in funding was £75.142m (based on Option B, a Council Tax increase of 2.99%) or £73.617m (based on Option A, a Council Tax Freeze). The total savings requirement for 2019-20 had reduced to £1.3m under Option B or £2.8m under Option A.

Councillor Coles **MOVED** (seconded by Councillor Biederman):

> "that it be recommended to the Authority that the level of Council Tax in 2019-20 for a Band D property be set at £86.52, as outlined in Option B, representing a 2.99% increase over 2018 -19".

Upon a vote, this was **CARRIED** unanimously.

RESOLVED that it be recommended to the Authority that the level of Council Tax in 2019-20 for a Band D property be set at £86.52, as outlined in Option B of report RC/19/4(a), representing a 2.99% increase over 2018-19.

RC/21 **Capital Programme 2019-20 to 2021-22**

The Committee considered a report of the Director of Finance (Treasurer) (RC/19/5) that set out the proposals for a three year Capital Programme covering the years 2019-20 to 2021-22. The report outlined the difficulties in meeting the full capital expenditure requirements for this Authority given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced.

It was noted that the Capital Programme had been constructed on the basis of ensuring that borrowing was maintained below the 5% ratio of financial cost to net revenue stream, one of several Prudential Indicators previously agreed by the Authority. The funding requirement for the Capital Programme was £61.7m compared with only £41.8m of available funding. The Director of Finance (Treasurer) referred to the risk associated with the need to borrow further in future to meet the capital requirements in the light of reducing revenue funding and the associated potential breach of the Prudential Indicators. To inform long term planning, therefore, the Prudential Indicators had been profiled for a further two years beyond 2021-22 based upon indicative capital programme levels.

RESOLVED that the Authority be recommended:

(a) to approve the draft Capital Programme 2019-20 to 2021-22 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B respectively to report RC/19/5; and

(b) subject to (a) above, to note the forecast impact of the proposed Capital Programme (from 2021-22 onwards) on overall affordability and the 5% debt ratio Prudential Indicator as indicated in this report.

RC/22 **Treasury Management Strategy (including Prudential and Treasury Indicators) Report 2019-20**

The Committee considered a report of the Director of Finance (Treasurer) (RC/19/6) in respect of the Treasury Management Strategy and Annual Investment Strategy in accordance with the decision taken by the Authority on 18 December 2017. The report set out the proposed Treasury Management Strategy and Investment Strategy for 2019-20, including the Prudential Indicators associated with the capital programme for 2019-20 to 2021-22 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2019-20 was also included for approval.

The Director of Finance (Treasurer) reported upon the addition of a recommendation in respect of country investments (under the approved instruments for investment - paragraph 4.12 refers) which may be impacted adversely in the event of a “no deal” Brexit resulting in the downgrading of the UK sovereign rating. This might result in the Authority losing out on investment opportunities within the UK and therefore it was proposed to amend this to “Non UK countries with a minimum sovereign rating of AA-”.

RESOLVED that the Authority be recommended to approve:

(i) the Treasury Management Strategy and the Annual Investment Strategy for 2019-20;

(ii) the Minimum Revenue Provision (MRP) statement for 2019-20, as contained at Appendix B of report RC/19/6;

(iii) the amendment to Country Credit limits outlined in paragraph 4.12 of report RC/19/6 to allow for continued investment in the event that the UK sovereign rating was downgraded.

* **RC/23** **Exclusion of the Press and Public**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exception of Dr Sian George and Lisa Compton, [Red One Ltd.] and Councillors Saywell and Thomas [Authority appointed Non-Executive Directors on the Board of Red One Ltd.]) be excluded from the meeting for the following item of business on the grounds that they involved the likely disclosure of exempt information as defined in the following Paragraph of Part 1 of Schedule 12A (as amended) to the Act:

- Paragraph 3 (information relating to the financial and business affairs of any particular person – including the authority holding that information).

* **RC/24** **Restricted Minutes of the Resources Committee held on 15 November 2018**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public [with the exception of Dr Sian George and Lisa Compton, [Red One Ltd.] and Councillors Saywell and Thomas [Authority appointed Non-Executive Directors on the Board of Red One Ltd.]) were excluded from the meeting).

NB. Councillors Saywell and Thomas each declared a personal interest in this matter but in accordance with the dispensation granted by the Authority at its Annual Meeting on 8 June 2018 – Minute DSFRA/5(a) refers – remained for the debate).

RESOLVED that the Restricted Minutes of the meeting held on 15 November 2018 be signed as a correct record.

* **RC/25** **Red One Ltd. Financial Performance 2018-19: Quarter 3**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public [with the exception of Dr Sian George and Lisa Compton, [Red One Ltd.] and Councillors Saywell and Thomas [Authority appointed Non-Executive Directors on the Board of Red One Ltd.]) were excluded from the meeting).

NB. Councillors Saywell and Thomas each declared a personal interest in this matter but in accordance with the dispensation granted by the Authority at its Annual Meeting on 8 June 2018 – Minute DSFRA/5(a) refers – remained for the debate).

The Committee received for information a report of the Director of Finance (Treasurer) that gave an update on the current financial position in respect of Red One Ltd. for Quarter 3 of 2018-19.

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

The meeting started at 10.10 am and finished at 1.10 pm

0REPORT REFERENCE NO.	**RC/19/8**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 MAY 2019**
SUBJECT OF REPORT	**TREASURY MANAGEMENT – QUARTER FOUR AND ANNUAL REPORT 2018-19**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2018-19 including the fourth quarter, as set out in this report, be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted. The report includes a performance report relating to the final quarter of the 2018-19 financial year and a summary of annual performance. A representative (Adam Burleton) from Link Asset Services, the Authority external treasury management advisors, will be in attendance at the meeting to present the performance report.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISK AND BENEFIT ASSESSMENT (ERBA)	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Prudential indicators 2018-19 B. Glossary of Terms
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report to budget meeting held on the 16th February 2018 – Minute DSFRA/64c refers

1. INTRODUCTION

1.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). The Authority fully complies with the primary requirements of the Code, which includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
- The receipt by the Authority of an annual strategy report for the year ahead, a mid-year treasury update report and an annual review report of 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.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.
- Minimum reporting requirements, in addition, the Resources Committee has received quarterly treasury management update reports.

1.2. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

1.3. The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resources Committee before they were reported to the full Authority. Members have been supported in their scrutiny role through regular updates and the attendance at Committee meetings by the Authority's Treasury Management advisors, Link Asset Services.

1.4. A glossary of terms and acronyms used is provided at Appendix B of this report

2. THE ECONOMY AND INTEREST RATES

UK

2.1. After weak economic growth of only 0.1% in quarter one of 2018/19, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing individual country in the G7 in quarter 4.

2.2. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

2.3. As for CPI inflation itself, this has been on a falling trend, reaching 1.8% in January before rising marginally to 1.9% in February. However, in the February Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

2.4. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit

2.5. The Conservative minority government has so far), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a revised deadline of 31 October 2019 for the House of Commons to propose what form of Brexit it would support. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). If a longer delay were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Eurozone

2.6. Growth has been weak at 0.4% in quarter 2, 0.2% in quarter 3, 0.2% in quarter 4 and likely to be 0.1- 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. However, with its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the bottom of cutting rates. At its March meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

USA

2.7. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

China

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

Japan

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

World Growth

2.10. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overblown. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

3. <u>OVERALL TREASURY POSITION AS AT 31 MARCH 2019</u>

3.1. The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

3.2. At the end of 2018-19 the Authority's treasury position was as follows:

SUMMARY	31st March 2018 Principal	Rate/ Return	31st March 2019 Principal	Rate/ Return
Total Debt - PWLB (All fixed rate funding) -Other Long Term Liabilities Total	*£25.631m* *£1.299m* *£26.930m*	*4.233%*	*£25.537m* *£1.209m* *£26.747m*	*4.235%*
CFR	*£26.929m*		*£26.747m*	
Over/(under) borrowing	*(0.001)m*		*£0.000m*	
Total Investments	*£37.307m*	*0.55%*	*£38.476m*	*0.83%*
NET DEBT	***£(10.377)m***		***£(11.729)m***	

3.3. The maturity structure of the debt portfolio was as follows:

	31 March 2018 actual	2018/19 original limits	31 March 2019 actual
Under 12 months	£0.093m	£7.661	£0.093
12 months and within 24 months	£0.093m	£7.661	£0.593
24 months and within 5 years	£1.180m	£12.769	£1.080
5 years and within 10 years	£4,213m	£19.153	£3.831
Over 10 years	£20.033m	£25.537	£19.940

4. STRATEGY FOR 2018-19

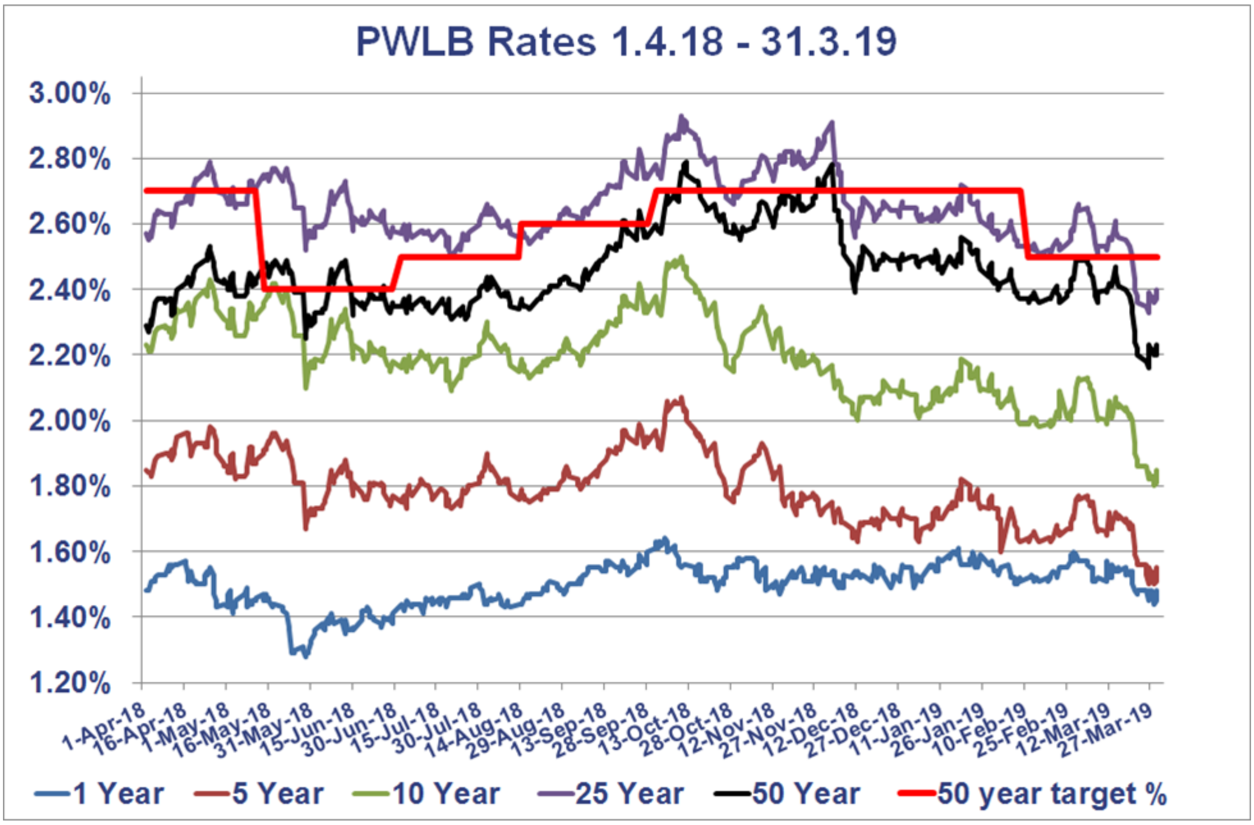
4.1. The expectation for interest rates within the treasury management strategy for 2018/19 anticipated that Bank Rate would not start rising from 0.50% until quarter 4 and not to rise above 1.25% by quarter 1 2021. There would also be gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2. In this scenario the strategy, in line with Capital Requirements, was to avoid any new borrowing and bring the level of external loans in line with the Capital Financing Requirement as at 31 March 2019. Opportunities to reschedule or repay loans would be reviewed to reduce external borrowing where viable. If short term interest rates remain low, the Authority will borrow internally to avoid the cost of holding higher levels of investment and to reduce counterparty risk.

5. BORROWING

Public Works Loan Board (PWLB) borrowing rates 2018-19

5.1. The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.56%	1.86%	2.36%	2.20%
Date	29/05/2018	22/03/2019	22/03/2019	22/03/2019	22/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

DSFRA Borrowing Strategy

<u>Prudential Indicators</u>

5.2. It is a statutory duty for the Authority to determine and keep under review the "Affordable Borrowing Limits". The Authority's' approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.

5.3. During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

<u>Authority borrowing during and at the end of 2018-19</u>

5.4. No new borrowing was taken out in 2018-19 to support capital spending and therefore, because repayments of £0.093m loan principal have been made in year, the value of loans outstanding has decreased to £25.537m during the year. A summary of the loan (debt) position of the Authority is given in the table below. All existing borrowing has been taken out at Fixed Interest Rates.

5.5. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2018/19.

5.6. It is noted that the external borrowing figure of £25.537m as 31 March 2019 is the same as the Capital Financing Requirement (CFR), within rounding tolerance, which means that there is no over-borrowing position at the year-end. The Authority has complied with this prudential indicator. The table below demonstrates how the CFR is calculated and shows the CFR for 2018-19.

Capital Financing Requirement (£m)	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
Opening balance	27.098	26.929	26.930
Add borrowing applied in year	1.962	1.911	1.911
Less MRP/VRP*	2.056	2.004	2.004
Less PFI & finance lease repayments	0.075	0.090	0.090
Closing balance	26.930	26.746	26.747

5.7. No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of loan movements during 2018-19	Amount £m
Value of loans outstanding as at 1/4/2018	**26.631**
Loans taken during 2018-19	0.00
Loans repaid upon maturity during year	(0.093)
Loans rescheduled during year	0.00
Total value of loans outstanding as at 31/3/2019	**25.537**

6. INVESTMENTS

Authority Investment Strategy

6.1. The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

6.2. The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Authority Investments during and at the end of 2018-19

6.3. No institutions in which investments were made during 2018-19 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.4. A full list of investments held as at 31 March 2019 are shown in the table overleaf:

6.5.

Counterparty	Maximum to be invested	Amount Invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Aberdeen Standard Investment	5.000	0.150	C	Instant Access	Variable
		0.925	C	Instant Access	Variable
Bank of Scotland	7.000	3.400	T	12 mths	0.90%
		1.500	T	12 mths	0.90%
Barclays FIBCA	8.000	0.001	C	Instant Access	Variable
Eastleigh Burough Council	5.000	1.500	T	6 mths	0.97%
Goldman Sachs	7.000	2.000	T	6 mths	1.08%
		5.000	T	6 mths	1.20%
Santander	7.000	3.000	T	12 mths	0.94%
		1.000	T	6 mths	0.90%
		1.000	T	6 mths	1.00%
Standard Chartered	7.000	2.000	T	6 mths	0.96%
		5.000	T	9 mths	0.98%
Sumitomo Mitsui	7.000	5.000	T	6 mths	0.96%
		2.000	T	3 mths	0.80%
Thurrock Borough Council	5.000	3.500	T	12 mths	0.97%
		1.500	T	12 mths	1.09%
Total amount Invested		**38.476**			

Funds available for investment are on a temporary basis, the level of which are dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark – 3 month LIBID	**Average level of funds available for Investment £m**	**Benchmark Return**	**Authority Performance**	Investment Interest Earned £m
Quarter 1	36.284	0.53	0.71	(0.021)
Quarter 2	45.041	0.61	0.86	0.043
Quarter 3	44.274	0.79	0.92	0.095
Quarter 4	41.140	0.83	1.02	0.250
2018/19	41.702	0.69	0.83	0.345

6.6. The amount of investment income earned of £0.345m has exceeded the target by £0.201m as a result of levels of fund available for investment during the year being higher than anticipated and returns exceeding benchmark.

7. SUMMARY

7.1. In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2018-19. 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 during the year, with priority being given to liquidity and security over yield.

7.2. Continued uncertainty in the aftermath of the 2008 financial crisis and with unusual Brexit conditions promoted a cautious approach, whereby investments continued to be dominated by risk considerations resulting in relatively low returns compared to borrowing rates. Even so, the Authority is able to report that its returns are above the London Inter-Bank Bid Rate 3 month rate, the benchmark return for this type of short term investments.

AMY WEBB
Director of Finance (Treasurer)

PRUDENTIAL INDICATOR	**2017-18 £m actual**	**2018-19 £m approved**	**2018-19 £m Actual**
Capital Expenditure			
TOTAL	2.889	6.423	2.878
Ratio of financing costs to net revenue stream			
Non – HRA	4.18%	4.03%	3.83%
Capital Financing Requirement as at 31 March (borrowing only)			
TOTAL	26.929	26.747	26.747
Annual change in Cap. Financing Requirement			
TOTAL	(0.169)	(0.182)	(0.182)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	**£m**	**£m**
Authorised Limit for external debt -			
Borrowing	27.005	27,007	27.007
other long term liabilities	1.439	1,359	1.359
TOTAL	28.445	28.367	28.367
Operational Boundary for external debt -			
Borrowing	25.724	25.731	25.731
other long term liabilities	1.374	1.299	1.299
TOTAL	27.098	27.029	27.029
Actual external debt	26.929		26.747

	Actual 31st March 2019	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	100%	70%
Limits on borrowing at variable interest rates	0%	30%	0%
Maturity structure of fixed rate borrowing during 2018-19			
Under 12 months	0.37%	30%	0%
12 months and within 24 months	2.32%	30%	0%
24 months and within 5 years	4.23%	50%	0%
5 years and within 10 years	15.66%	75%	0%
10 years and above	78.08%	100%	50%

Glossary of Terms

ALMO: an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.

LAS: Link Asset Services, Treasury solutions – the council's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price inflation – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone
EU: European Union
EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed The Federal Reserve, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a yield and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); yields therefore change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: the London Interbank Bid Rate is a bid rate; the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MHCLG: the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, like government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main difference between RPI and CPI is in the way that housing costs are treated. RPI is often higher than CPI for that reason.

TMSS: the annual treasury management strategy statement report that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

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REPORT REFERENCE NO.	**RC/19/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 MAY 2019**
SUBJECT OF REPORT	**PROVISIONAL FINANCIAL OUTTURN 2018-19**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***(a) That the Authority be recommended to approve that the provisional underspend against the 2018-19 revenue budget of £1.892m be transferred to the Reserve for Capital Funding as outlined in paragraph 6.1 of this report;*** ***(b) That, subject to (a) above, the following be noted:*** ***(i) The draft position in respect of the 2018-19 Revenue and Capital Outturn position, as indicated in this report.*** ***(ii) That the underspend figure of £1.892m is after:*** ***A. Transfers in from Reserves of (£1.020m) relating to grants received in advance; and*** ***B. £0.095m for VEMA repairs, as agreed at previous Resources Committees;*** ***C. A transfer of £1.417m to the Reserve for Capital funding;*** ***D. A transfer of £0.918m to the Grants Unapplied Reserve as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised;*** ***E. Additional provisions relating to pension liabilities of £0.028m;*** ***F. Budget pressures identified of £0.075 for upgrade to Wi-Fi infrastructure and £0.070m for personal fitting of respiratory protection masks.***
EXECUTIVE SUMMARY	This report sets out the draft financial outturn position for 2018-19 against agreed financial targets. In particular, it provides a draft outturn spending position against the 2018-19 revenue budget with explanations of the major variations. Spending will be £1.892m below budget, (net of transfers to Earmarked reserves noted in this report) equivalent to 2.56% of the total budget. This saving is largely due to savings on staff costs made during the year, as vacancies have been held pending the Safer Together programme. Additional savings have been made on operational equipment arising from timing differences on capital projects which will now be funded from the 2019-20 revenue budget. Grant income and reimbursements have been significantly higher than budgeted with early payments being made by central government.

	The figures included in this report are provisional at this stage, subject to external audit of the Accounts during July 2019.
RESOURCE IMPLICATIONS	As indicated in the report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing equalities and human rights legislation.
APPENDICES	A. Provisional Revenue Outturn Position 2018-19. B. Summary of Reserve and Provision Balances at 31 March 2019
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1 This report provides the Authority with the final outturn position (subject to audit) for revenue and capital spending for the financial year 2018-19, and makes recommendations as to how the underspend against the revenue budget is to be utilised. The report is in two parts. Section 1 deals with the revenue outturn position while Section 2 deals with the position in relation to capital spending.

1.2 The Authority is well aware of the difficult financial climate that local authorities are currently operating under as a result of cuts in government funding. In setting the 2019-20 revenue budget for the Authority in February 2019, consideration of the Medium Term Financial Plan (MTFP) recognised that further recurring savings will be required over the next five years to 2023-24 over above the savings already achieved by the implementation of the changes agreed as part of the 2013 Corporate Plan. Further details of savings requirements, forecast within the MTFP targets, are included at section 7 of this report.

1.3 Mindful of this difficult outlook the strategy adopted during the last financial year 2018-19 was to balance the budget using Revenue contribution to Capital whilst focussing on development of the Authority's strategy to improve the Service and release savings in the future. The Authority took a prudent approach to determining its staffing budget, planning for a 3% pay award for firefighters, which has yielded in year savings as the pay award was set at 2%. Budget monitoring reports submitted to meetings of the Resources Committee during the financial year have identified further in year savings and the provisional outturn figure for 2018-19, now included in this report, is for an under spend of £1.892, equivalent to 2.56% of the total budget

1.4 This is, of course, a welcome result and provides the opportunity to transfer this amount into Reserve balances to be utilised in the best possible way to assist future budget setting. However, this is a one-off saving and can therefore be used only once. It is not a sustainable solution to the Authority's forecast budget shortfalls. Members will recall that in setting a balanced budget in February 2018 for the previous financial year (2018-19), an amount of £2.000m has already been taken from the base budget as part of on-going revenue saving requirements.

2. SECTION 1 – REVENUE OUTTURN 2018-19

2.1 Total revenue spending in 2018-19 was £72.903m compared to an agreed budget of £73.871m, resulting in an underspend of £1.892m, equivalent to 2.56% of total budget. A summary of spending is shown in Table 1 overleaf and Appendix A provides a more detailed analysis of spending against individual budget heads.

TABLE 1 – SUMMARY OF REVENUE SPENDING 2018-19

	£m	£m	£m
Approved Budget			**73.871**
Gross Spending (Appendix A Line 28)	75.902		
Gross Income (Appendix A Line 34)	(5.478)		
Net Spending		70.424	
PLUS Transfers to Earmarked Reserves			
- Transfers to Reserves (Appendix A Line 35)	(0.780)		
- Capital Funding (Appendix A Line 36)	1.417		
- Grants Unapplied (Appendix A Line 37)	0.918		
Total Transfer to Earmarked Reserves (Appendix A Line 38)		1.555	
TOTAL NET SPENDING			71.979
NET UNDERSPEND			**(1.892)**

2.2 These figures are based upon the spending position at the end of March 2019 and whilst they provide a provisional financial performance for the year, are subject to final accounting adjustments and audit scrutiny for the year end.

2.3 The underspend is after several variances against budget as reported in Appendix A to this report but is mainly due to staff savings as outlined above; being lower than anticipated pay award and vacancy management.

2.4 Variances against other budget heads e.g. Uniformed staffing costs, Training Expenses and Capital Financing Costs are also reported. Explanations of the more significant variations from budget (over £50k variance) are explained below.

3. VARIATION AGAINST BUDGET

Wholetime Staff

3.1 Wholetime uniform staff – expenditure exceeded the budget of £28.551m by £0.347m – Temporary arrangements to support the On-call system have been in place throughout the year and resulted in total costs of £0.824m and £0.211m on Community Firefighters. Also included in this amount is a year-end provision of £0.028m towards potential back pay of pensions on allowances. Some of these issues will persist in to 2019-20 until full implementation of a risk based service delivery model and will be closely monitored by officers.

On-Call Firefighters

3.2 On-Call firefighters – this budget line is underspent by £0.654m against budget. Lower than average activity in the final quarter of the year along with the actual pay award being lower than budgeted has contributed to savings in this area. As outlined above, alternative models are being utilised to cover vacancies in the on-call model which are paid from different budget lines. The revised service delivery model will seek to address this.

Non-Uniformed Staff

3.3 Support Staffing costs were £0.140m lower than budgeted. This is mostly due to vacancies being held during the year.

Training Expenses

3.4 Training Expenses – Underspend of £0.157m which has resulted from savings in numerous departments; professional training in support and administration departments is £0.050k under spent and the Training Academy is showing savings of £0.062m following a review of resourcing resulting and greater use of internal instructors.

Running Costs and Insurances

3.5 Fleet running costs and insurances are £0.105m over spent against budget of £1.194m following an increase in fuel costs and spare parts to maintain the ageing fleet. Significant Capital expenditure is anticipated in refreshing the operational fleet over the medium term financial plan and therefore this should be a temporary issue.

Travel & Subsistence

3.6 Savings of £0.085m have been achieved service wide on these budget lines, in part due to a review by the fleet department of use of service vehicles against hire cars.

Equipment and Furniture

3.7 Equipment & Furniture – An outturn position of £2.728m against a budget of £3.022m – savings of £0.294m. Savings have been achieved of £0.037m on Breathing Apparatus maintenance, as new sets are being introduced in May 2019. Operational Equipment is underspent by £0.205m, of which timing differences of £0.102m have arisen from the delayed introduction of Incident Support Units (capital project slowed awaiting the Service Delivery Model), whereby the equipment for these appliances will not be purchased until the vehicles are delivered.

Hydrants

3.8 Due to vacancies in the Hydrants team, fewer routine checks and repairs have been completed than planned during the year, resulting in an under spend of £0.060m.

Communications

3.9 Savings against budget of £0.069m. The saving is due to slippage on a scheme to upgrade Wi-Fi infrastructure which will now be delivered in 2019-20 and is subject to an earmarked reserve request.

Printing, Stationery and Office Expenses

3.10 Savings of £0.093m are spread across multiple departments, most significantly £0.020m on printing, £0.017m on subscriptions and £0.017m on consultation fees.

Support Services Contracts

3.11 The over spend of £0.079m on support services contracts has arisen from several legal and employment cases which have exceeded budget by £0.043m and £0.089m respectively. This has been partially offset by savings on contributions to billing authorities' council tax reduction schemes of £0.025m.

Revenue contribution to Capital Spending

3.12 Revenue Contribution to Capital – savings of £1.417m against budget. The full budget is still required in order to deliver planned projects in the future. The variance is due to timing differences per Section 2 of this report and is subject to transfer to the earmarked reserve for Capital.

Investment Income

3.13 Investment income – has returned £0.144m greater than the budget of £0.201m. Due to timing differences within the Capital scheme, we have larger balances to invest which, when combined with strong yield performance has resulted in a greater return than budgeted.

Grants and Re-imbursements

3.14 Grants and Reimbursements, £1.704m greater than budget and as a result of central government funding being sent in advance of need. There have been significant movements on this budget line throughout 2018-19 and therefore a summary is shown in the table below.

Item	**£m**
Opening budget	**2.600**
Airwave received in advance	0.918
Business Rates reconciliation for 2017-18	0.249
Levy Account Surplus	0.240
Secondments e.g. Chief Fire Officer	0.091
Hinkley Point income applied from prior year	0.128
Learn to Live	0.030
Reimbursement of Legal costs	0.028
Other minor variations	0.020
Outturn position	**4.304**

As above, officers were notified during the year that the Authority would receive its 2019-200 grant for Airwave early and therefore a transfer to reserves of £0.918m is requested.

4. DIRECT REVENUE CONTRIBUTIONS TO CAPITAL

4.1 Appendix A reflects that savings of £1.417m on Revenue Contribution to Capital arising in year are transferred directly to Earmarked reserves, made up timing differences in the Capital Programme. The funding is still required and will be transferred to the Capital Funding Reserve.

5. CONTRIBUTION TO EARMARKED RESERVES

5.1 A summary of predicted balances on Reserves and Provisions is shown in Appendix B to this report. These figures include those proposed transfers to Earmarked Reserves and provision outlined in this report and referenced in Appendix B which are recommended for approval:

a. **Budgeted Transfers to Reserves (£1.020m)** - Transfers for Airwave £0.890m and National Resilience £0.130m grants received in advance were included in the budget for 2019-20 as transfers in from reserves.

b. **VEMA repairs (£0.095 m)** – a transfer of £0.095m is required for VEMA repairs as agreed by a previous Resources Committee. It should be noted that this is £0.005m less than originally requested due to successful cost negotiation.

c. **Capital Funding (£1.417 m)** – as outlined in Paragraph 4.1 above, the balance of funding which was included in the Revenue budget for Capital funding is to be transferred to the Earmarked Reserve.

d. **Grants Unapplied (£0.918m)** - under International Financial Reporting Standards (IFRS) accounting arrangements, any unused grants at the year-end, which are not subject to repayment, are to be identified and carried forward to 2019-20 via an Earmarked reserve. There was one such grant which has been received which was not included in the budget: An amount has been received from the Home Office which relates to the Airwave communications system.

e. **Provisions (£0.028m)** - As detailed in paragraph 3.1 of this report, a further enhancement to the Provision for Firefighters pension scheme is recommended for the Pensionable Allowances 2018-19 element of £0.028m.

f. **Budget Pressures (£0.145m)**- Budget pressures identified of £0.075 for upgrade to Wi-Fi infrastructure and £0.070m for personal fitting of respiratory protection masks

6. PROPOSALS FOR UTILISATION OF THE UNDERSPEND

6.1 The Authority is asked to approve the recommendation that the underspend figure of £1.892m be used to fund a further transfer into the Capital Reserve to support its strategy to reduce reliance on borrowing and improve long term financial sustainability.

6.2 A summary position of Reserves and Provisions as at 31 March 2019, including the recommendations included in this report, is included as Appendix B to this report.

Provisions

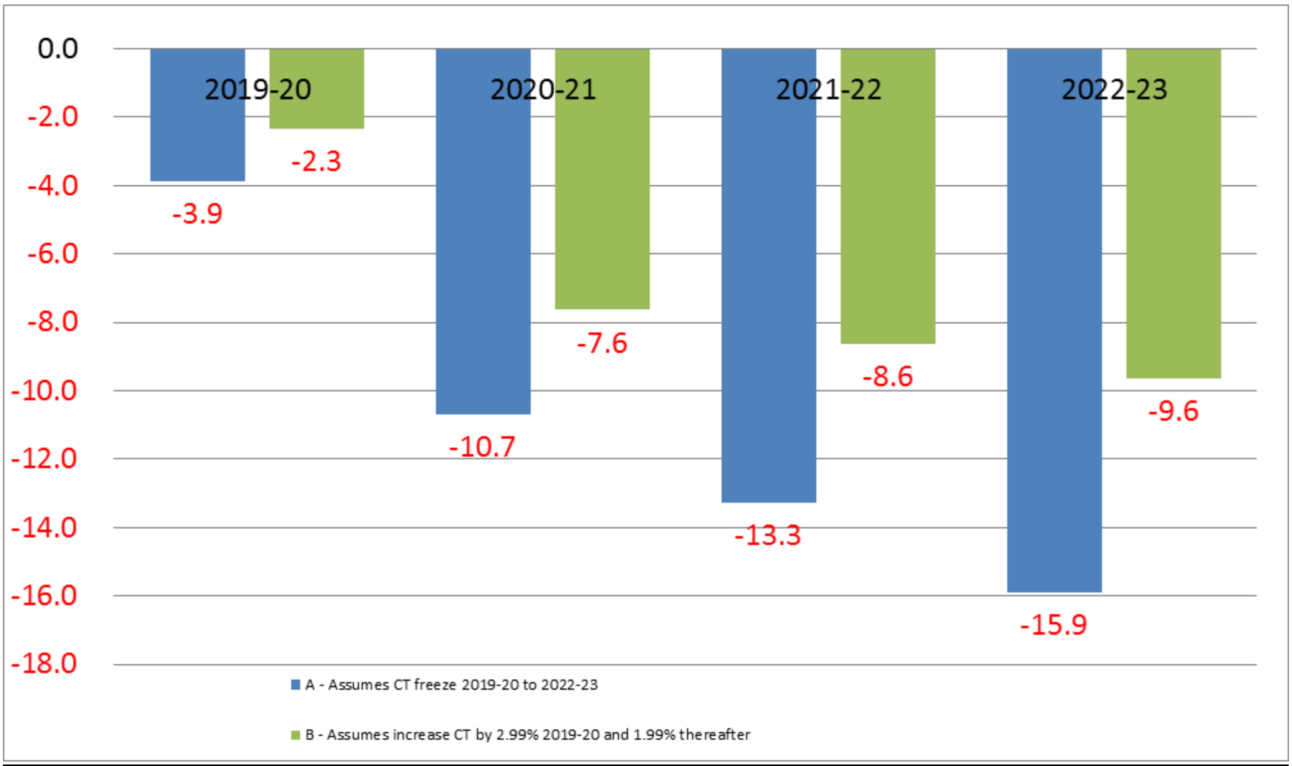
6.3 Included in Appendix B is a summary of the Provision balances as at 31 March 2019. As part of the year-end process the Authority is required to review the adequacy of Provision balances and consider whether any changes during the year require additional amounts to be set aside. As a result of the most recent review it has been assessed that an additional charge of £0.028m should be set aside in Provisions.

7. IMPACT TO MEDIUM TERM FINANCIAL PLANNING

7.1 The Authority is well aware of the difficult financial climate currently being faced by local authorities as a result of significant reductions in government funding. Following acceptance by the government, of an Efficiency Plan the Authority has received a four-year settlement to 2019-20. The grant has reduced by £7.5m over that period and the future funding position is uncertain. This means that the Medium Term Financial Plan (MTFP) needs to be planning for the significant reductions beyond 2019-20.

7.2 So far, the Authority has responded well, since 2011 a total of £18.5m of recurring efficiency savings have been identified and used to enable balanced budgets to have been set, including an amount of £2.3m in setting the budget for 2019-20. However the MTFP forecasts that a minimum of £7.3m of on-going savings will be required over the next three years to 2022-23 (if Council Tax is increased).

CHART 1 – SUMMARY OF SAVINGS REQUIRED TO 2022-23



7.3 As reported earlier the budget proposals included in the Corporate Plan agreed by the Authority in 2013 have now been fully implemented delivering total on-going savings of £6.8m.

7.4 The recommendation in this report, to provide a one-off contribution to the Capital Reserve of £1.892m, will enable the Authority to better respond to future austerity measures by reducing borrowing and providing a more sustainable model for capital funding in the future. Devon and Somerset faces unique pressures on its capital programme due to having the highest number of appliances and stations outside of London. The Capital Strategy published in February 2019 showed the need to sustain fleet and buildings and highlighted the potential funding gap of £20m over a five year period. Utilising the underspend to fund capital will reduce the gap to £18m.

8. SUMMARY OF REVENUE SPENDING

8.1 Budget monitoring reports considered during the financial year have shown in year savings across several budget lines and particularly staff costs. It is pleasing therefore that the strategy of retaining in year savings has resulted in a final underspend position of £1.892m. This report makes proposals as to how this underspend can best be utilised and the Authority is invited to consider these with a view to approving the proposals.

9 SECTION 2 – CAPITAL OUTTURN 2018-19

9.1 The 2018-19 capital programme was originally set at £10.3m at the budget setting meeting held in February 2018. This programme figure has reduced during the financial year to £6.4m, as a result of timing differences in spending from the previous year and revisions to the capital spending plan. As has been reported to the Resources Committee during the year, whilst these changes represent a change in the 2018-19 programme they do not represent any increase to the previously agreed borrowing requirement.

9.2 Table 2 below provides a summary of the provisional outturn position against the agreed 2018-19 capital programme. Against a final capital programme of £6.423m, capital spending in year was £2.878m, resulting in unspent programme of £3.545m, of which £3.267m relates to timing delays to be carried forward to 2019-20, and £0.278m of savings.

TABLE 2 – SUMMARY OF CAPITAL SPENDING IN 2018-19

PROJECT	2018/19 £000 Revised Budget	2018/19 £000 Forecast Outturn	2018/19 £000 Timing Differences	2018/19 £000 Re-scheduling/ Savings
Estate Development				
Site re/new build	200	83	(117)	0
Improvements & structural maintenance	3,113	838	(2,006)	(269)
Estates Sub Total	**3,313**	**921**	**(2,123)**	**(269)**
Fleet & Equipment				
Appliance replacement	2,129	1,585	(610)	66
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	125	0	(125)	0
Equipment	583	298	(187)	(98)
ICT Department	227	74	(176)	23
Water Rescue Boats	46	0	(46)	0
Fleet & Equipment Sub Total	**3,110**	**1,957**	**(1,144)**	**(9)**
Overall Capital Totals	**6,423**	**2,878**	**(3,267)**	**(278)**

Capital Spending 2019-20

9.3 This Authority has a three year rolling capital programme, reviewed annually. This reflects changes in circumstances within individual projects and slippage that will occur from time to time. This has particularly been the case in relation to the appliance replacement programme and some Estates projects. Those projects that have moved into 2019-20 will be reassessed and any potential savings identified.

9.4 Slippage in Estates projects relates to: Brixham (£0.117m); wash-down improvements (environmental protection) on various sites (£0.083m); station security (£0.060m); Cullompton (£0.234m); Camels Head ship structure (£0.455m); Camels Head (£0.429m); Chagford (£0.023m); Crownhill (£0.096m); Plympton (£0.020m); Plymstock (£0.020m); Wellington (£0.246m); SHQ security (£0.150m); SHQ buildings (£0.200m).

9.5 Slippage in Fleet & Equipment and ICT projects relates to: Incident Support Units (£0.210m); 4x4 replacements (£0.400m); Water bowser (£0.125m); LRP RTC upgrade (£0.187m); SQL server (£0.176m); Water Rescue Boats (£0.046m).

10. FINANCING THE 2018-19 CAPITAL PROGRAMME

10.1 Table 3 overleaf provides an analysis of how the 2018-19 capital spending of £2.878m is to be financed.

TABLE 3 – SUMMARY OF CAPITAL FINANCING IN 2018-19

	Actual Financing Required £m
Application of existing borrowing	**1.911**
Other financing sources:	
Revenue contribution to capital	0.667
Red One contribution to capital	0.300
Sub-total – Direct revenue funding/earmarked reserve	**1.892**
Total Financing	**2.878**

Borrowing

10.2 The amount of external borrowing at the beginning of the financial year stood at £25.631m. No new borrowing was taken out during the year and an amount of £0.093m has been repaid, resulting in an overall reduction of external borrowing to £25.537m as at 31 March 2019. This level of borrowing is well below the agreed maximum borrowing figure of £28.367m allowed under the Prudential Code.

11. DRAFT PRUDENTIAL INDICATORS

11.1 The prudential indicators at this time can only be regarded as provisional subject to the completion of the Statement of Accounts and resultant audit scrutiny.

Capital Expenditure

11.2 This prudential indicator reports actual capital spending for the year against the approved programme. Spending has proved to be £3.545m less than anticipated as a consequence of delays on progressing Estates & Fleet capital projects.

	£m
Approved Budget	6.423
Actual Expenditure	2.878
Variance	(3.545)

Capital Financing Requirement– External Borrowing

11.3 The Capital Financing Requirement (CFR) reflects the underlying need to borrow for capital purposes. Given that existing borrowing has been applied to the spending in 2018-19 the need to borrow to fund capital spending has remained static.

	£m
Approved CFR	25.538
Revised CFR (Based on Actual Spending)	25.538
Variance	0.000

Capital Financing Requirement– Other Long Term Liabilities

11.4 This Capital Financing Requirement (CFR) reports long term financing liabilities other than external borrowing, e.g. Private Finance Initiative (PFI) and Finance Leases, which under accounting rules are required to be reported alongside traditional borrowing liabilities.

	£m
Approved CFR	1.209
Revised CFR (Based on Actual Spending)	1.209
Variance	0.000

Authorised Limit and the Operational Boundary for External Debt

11.5 Actual external debt as at 31 March 2019 was £25.537m. This is within the revised authorised limit (absolute maximum borrowing approval) of £28.367m and the operational boundary of £27.029m.

Ratio of Financing Cost to Net Revenue Stream

11.6 This ratio aims to show the percentage of revenue resources which are applied to financing debt. The Authority’s estimate was that 4.03% would be applied, a better ratio has been achieved as a result of strong investment returns.

	£m
Capital Financing Costs	3.178
Interest on Investments	(0.345)
Net Financing Costs	2.833
Net Revenue	73.871
Percentage	3.83%
Budgeted	4.03%
Variance	(0.20) bp

12. DETERMINATION OF CAPITAL FINANCE

12.1 The Authority is required to determine its use of capital finance as defined by capital control legislation. The following use of capital finance resources is proposed:

- That an amount of £1.911m of external borrowing from previous years be utilised to fund the Capital programme;
- That an amount of £1.892m is capitalised and funded from revenue contributions to capital spending, either directly from the 2018-19 revenue budget or from balances in Earmarked Reserves.

13. RESERVES

13.1 A new requirement was introduced in 2018 under CIPFA guidance for the Fire Authority to publish a Reserves Strategy which outlines the intended use of reserves over the medium term financial period and this is included elsewhere on the agenda.

13.2 The Authority reserves position at the end as at 31 March 2019 is £38.870m, subject to approval of the recommendations in this report, the details of which are shown at Appendix B and in paragraph 5.1 above.

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/19/9

SUBJECTIVE ANALYSIS OF REVENUE SPENDING

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY		2018/19 Budget £000	Outturn £000	Projected Variance over/ (under) £000
Line No	**SPENDING**			
	EMPLOYEE COSTS			
1	Wholetime uniform staff	28,348	28,694	347
2	On Call firefighters	12,596	11,942	(654)
3	Control room staff	1,447	1,419	(28)
4	Support staff	10,881	10,741	(140)
5	Training expenses	726	569	(157)
6	Fire Service Pensions recharge	2,703	2,665	(38)
		56,701	**56,030**	**(672)**
	PREMISES RELATED COSTS			
7	Repair and maintenance	1,136	1,165	30
8	Energy costs	573	548	(26)
9	Cleaning costs	458	457	(1)
10	Rent and rates	1,747	1,764	16
		3,914	**3,933**	**19**
	TRANSPORT RELATED COSTS			
11	Repair and maintenance	646	684	39
12	Running costs and insurances	1,194	1,299	105
13	Travel and subsistence	1,470	1,385	(85)
		3,310	**3,368**	**58**
	SUPPLIES AND SERVICES			
14	Equipment and furniture	3,022	2,728	(294)
16	Hydrants-installation and maintenance	190	129	(60)
17	Communications	2,325	2,255	(69)
18	Uniforms	644	655	11
19	Catering	65	60	(5)
20	External Fees and Services	144	142	(2)
21	Partnerships & regional collaborative projects	237	218	(19)
		6,625	**6,188**	**(438)**
	ESTABLISHMENT COSTS			
22	Printing, stationery and office expenses	906	813	(93)
23	Advertising	20	48	28
24	Insurances	356	349	(7)
		1,282	**1,210**	**(72)**
	PAYMENTS TO OTHER AUTHORITIES			
25	Support service contracts	669	748	79
		669	**748**	**79**
	CAPITAL FINANCING COSTS			
26	Capital charges	3,502	3,459	(43)
27	Revenue Contribution to Capital spending	2,384	967	(1,417)
		5,886	**4,426**	**(1,461)**
28	**TOTAL SPENDING**	**78,387**	**75,902**	**(2,485)**
	INCOME			
29	Treasury management investment income	(201)	(345)	(144)
30	Grants and Reimbursements	(2,600)	(4,304)	(1,704)
31	Other income	(777)	(810)	(33)
32	Internal Recharges	(18)	(19)	(1)
33	**TOTAL INCOME**	**(3,596)**	**(5,478)**	**(1,882)**
34	**NET SPENDING**	**74,791**	**70,424**	**(4,367)**
	TRANSFERS TO EARMARKED RESERVES			
35	Transfers to reserves	(920)	(780)	140
36	Transfer to Capital funding	0	1,417	1,417
37	Grants Unapplied	0	918	918
		(920)	**1,555**	**2,475**
36	**NET SPENDING**	**73,871**	**71,979**	**(1,892)**

APPENDIX B TO REPORT RC/19/9

SUMMARY OF RESERVES AND BALANCES AS AT 31 MARCH 2019

RESERVES AND PROVISIONS							
RESERVES	**Note**	**Balance as at 1 April 2018 £000**	**Approved Transfers £000**	**Proposed Transfers £000**	**Spending to Month 12 £000**	**Proposed Balance as at 31 March 2019 £000**	
Earmarked reserves							
Grants unapplied from previous years	a/d	(1,376)	1,020	(918)	1,149	(1,145)	
Invest to Improve		(6,424)	-	-	486	(5,937)	
Budget Smoothing Reserve		(918)	(900)	-	-	(1,818)	
Direct Funding to Capital	c	(16,647)	-	(3,309)	-	(19,956)	
Projects, risks, & budget carry forwards							
PFI Equalisation		(295)	-	-	-	(295)	
Emergency Services Mobile Communications Programme		(921)	-	-	(11)	(932)	
Breathing Apparatus Replacement		(1,650)	-	-	201	(1,449)	
Mobile Data Terminals Replacement		(800)	-	-	419	(381)	
PPE & Uniform Refresh		(504)	-	-	16	(488)	
Pension Liability reserve		(1,525)	900	-	164	(461)	
National Procurement Project		(215)	-	-	124	(90)	
Budget Carry Forwards		(598)			235	(363)	
Commercial Services		(72)	-	-	72	-	
Upgrade Wi-Fi & Internet Connection	f	-	-	(75)	-	(75)	
Respiratory Protection Masks - Personal Fit	f	-	-	(70)	-	(70)	
Vema Outriggers	b	-	(95)	-	-	(95)	
Total earmarked reserves		**(31,944)**	**925**	**(4,372)**	**2,855**	**(33,556)**	
General reserve							
General Fund balance		**(5,315)**	-	**-**	**-**	**(5,315)**	
Percentage of general reserve compared to net budget							7.19%
TOTAL RESERVE BALANCES		**(37,259)**				**(38,870)**	
PROVISIONS							
Doubtful Debt		(50)	(600)	-	-	(650)	
Fire fighters pension schemes	e	(754)	-	(28)	23	(759)	

The notes in this table refer to Paragraph 5.1 outlining the transfers to reserves and provisions

REPORT REFERENCE NO.	**RC/19/10**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 MAY 2019**
SUBJECT OF REPORT	**RESERVES STRATEGY 2019-20**
LEAD OFFICER	**Director of Finance**
RECOMMENDATIONS	***That the Committee recommends the Reserves Strategy to the Authority for publication***
EXECUTIVE SUMMARY	The Fire and Rescue National Framework for England introduced a requirement for fire and rescue authorities to prepare and publish a Reserves Strategy setting out the purpose of each Earmarked Reserve, an analysis of the General Fund and the expected timing of expenditure from the reserves. The requirement commenced in 2018 and this is the second such strategy. This report includes a risk assessment of the General Fund and a section on each of the Earmarked Reserves – which it is proposed should be combined into broader categories to simplify the way that Reserves are reported on. It should be noted that this report has been prepared under those new categories.
RESOURCE IMPLICATIONS	As set out within this report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	
APPENDICES	A. Risk Assessment of the Adequacy of General Reserves B. Projected Reserve Balances over MTFP
LIST OF BACKGROUND PAPERS	The Fire and Rescue National Framework for England Reserves Strategy 2018-19

1. INTRODUCTION AND BACKGROUND

1.1. Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

1.2. Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

1.3. In May 2018 the Government published the new Fire and Rescue National Framework for England. This introduces a requirement for fire and rescue authorities to publish a Reserve Strategy on their website and outlines the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan or be a stand-alone document.

1.4. The Reserves Strategy for this Authority has been prepared as a stand-alone document for 2019-20 and is subject to adoption of the recommendations in the Draft Financial Outturn for 2018-19.

2. STRATEGIC CONTEXT

2.1 There are a number of reasons why a Local Government Authority might hold reserves, these include to:

(a) mitigate potential future risks such as increased demand and costs;

(b) help absorb the costs of future liabilities;

(c) temporarily plug a funding gap should resources be reduced suddenly;

(d) enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;

(e) spread the cost of large scale projects which span a number of years.

2.2 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

3. LONG-TERM SUSTAINABILITY

3.1 Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term. Due to the fact that funding for future Capital Projects is held as an Earmarked Reserve, the overall level of reserves held by the Authority is currently still high, but will reduce significantly as the capital programme progresses.

3.2 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

3.3 There are two different types of reserve, and these are:

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; and

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.

3.4 In addition to reserves the Authority may also hold provisions which can be defined as: 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.

4. RISK ASSESSMENT TO DETERMINE THE ADEQUACY OF THE GENERAL RESERVE

4.1 A well-managed multi-purpose authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, this Authority has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

4.2 This Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties (such as the Local Government Employers and Government departments) have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for, e.g. the 2020/21 funding gap on the Firefighters Pension scheme.

4.3 The Authority has set its Prudential Indictor for the General Reserve at 5% of annual budget which is a commonly used benchmark across the Fire Sector. At the start of 2019-20, the General Reserve represented 7.07% of the Authority's net revenue budget which is a positive variance. Due to varying revenue budgets, maintaining a consistent level of General Reserve will result in the percentage varying over time. Transfers in or out of the General Reserve to conform to the 5% indicator would only be considered if there was significant variance or if resources were earmarked to another project.

4.4 The prudential indicator is a useful control measure but is a rudimentary way of assessing the adequacy of the general reserve and a more meaningful approach is to develop a risk assessment. The Authority will consider both measures as part of its annual reserve strategy.

4.5 A risk assessment of the adequacy of the Authority's General Reserve will be carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the current financial year, 2019-20, has been expanded on that prepared as part of the budget setting process and is shown in Appendix A. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £5.216m. At the start of 2019-20 the General Reserve equalled £5.315m and therefore it will not be necessary to amend the amount based on the current risk assessment.

5. ANNUAL REVIEW OF EARMARKED RESERVES

5.1. The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy. When the Authority approves the Reserves Strategy for publication it will be made available on its website.

5.2. As part of the annual review of reserves 2018-19, Earmarked Reserves were re-categorised and are now presented as below.

Grants received in advance

5.3. These reserves relate to grants which have been given to the Authority which have either not been fully spent or have been received in advance of the intended expenditure period. Where a grant has been received in advance the Authority's policy and accounting rules dictate that the funding be transferred to an Earmarked Reserve to be spent in future years. Specifically, timing differences of £0.917m have arisen from Home Office grants relating to the Airwave communication system, the Authority has a commitment to the expenditure in the following financial year and therefore the funding will be transferred out of reserves and in to the revenue budget.

5.4. Any smaller grants will be reviewed annually as part of the budget monitoring process to assess whether they are still needed. It is not anticipated that any of the current balances will be carried forward beyond the medium term financial plan period of 2019-24.

RESERVES	Balance as at 1 April 2019 £000	Projected Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	Projected Spend 2021-24 £000	Proposed Balance as at 31 March 2024 £000
Grants unapplied from previous years	(1,145)	918	(227)	227	-

Invest to Improve

5.5. A significant amount of funding has been set aside in Reserves to support the change activity within the Service. Following release of the Integrated Risk Management Plan, which addresses Community risk, and the Fire and Rescue Plan, which addresses organisational risk, the Service has developed its Safer Together programme. Invest to Improve reserves will be used to invest in projects such as digital transformation and development of our people which will support the modernisation of the Service. If restructure is required, reserve funding could be required to pay for any associated redundancy costs.

5.6. The Authority has approved the Service's Safer Together programme which will identify the requirement to invest in improvement activity and the resulting benefits which will then be fed in to the Medium Term Financial Plan for 2019-20 and beyond. The Invest to Improve reserve will be subject to regular budget monitoring and forecasting by the Service Programme Board. Of the current forecast up to 2022, £3.2m is committed to existing projects with the remaining expenditure being an estimate of the Safer Together programme costs.

RESERVES	Balance as at 1 April 2019 £000	Projected Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	Projected Spend 2021-24 £000	Proposed Balance as at 31 March 2024 £000
Invest to Improve	(5,937)	1,500	(4,437)	4,437	-

Budget smoothing

5.7. The budget smoothing reserve is intended to support any shortfalls in future revenue budgets which are identified during the development of the Medium Term Financial Plan. The reserve has arisen from a surplus of funding in previous financial years, particularly where non-domestic rates or grant income have exceeded the budget requirement. The Medium Term Financial Plan for the period 2019-20 to 2021-24 has identified a potential funding shortfall of between £8.4m and £13.1m which, if not addressed through changes to the way we work, will need to be funded from reserves.

5.8. The Safer Together programme is expected to release significant savings but these will be subject to public consultation and Authority approval. The Reserve may also be used where benefits realised from changes to the operating model are released over several years.

At the moment, it is forecast that the Budget Smoothing reserve will be exhausted within the Medium Term Financial Planning Period.

RESERVES	Balance as at 1 April 2019 £000	Projected Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	Projected Spend 2021-24 £000	Proposed Balance as at 31 March 2024 £000
Budget Smoothing Reserve	(1,818)	-	(1,818)	1,818	-

Capital Funding

5.9. At £20.0m, Capital Funding is the largest of the Authority's earmarked reserves. There is a long term strategy in place to reduce borrowing to fund capital expenditure and this reserve has been built up over several years from under spends in the Capital Programme along with savings made in other areas. Due to the long term nature of the Capital Programme and low levels of expenditure in recent years the reserve has grown significantly and represents an opportunity to reduce borrowing in the future as well as the associated costs.

5.10. If the Authority hadn't taken out any borrowing to fund capital expenditure it could save £1.1m per year in debt charges. Borrowing currently stands at £25.5m and the loan portfolio is regularly reviewed for opportunities to pay off loans where there would be a long term benefit but this is dependent on economic conditions. If the Authority does opt to pay off loans early, use of the Capital Funding reserve will accelerate. Currently it is forecast that the programme will require £3.4m of reserve funding in 2019-20 and for the reserve to be exhausted over the medium term. However, a measured approach has been taken when projecting spend over the 2021-24 period to reflect the current pace of expenditure on the programme. If the Safer Together programme identifies a need for further investment in our Estate, infrastructure, vehicles and equipment the reserve can be called upon to fund the acquisition or enhancements, subject to long-term affordability.

5.11. Planning for the Capital Programme is undertaken as part of the annual budget setting programme and so each year the Authority will have the opportunity to review the funding options of the programme. The forecast use of the Capital Funding reserve will be determined by that programme. Given that it is prudent to maintain the long term strategy to reduce, ideally remove, reliance on external borrowing to fund Capital expenditure, a healthy reserve will be maintained wherever possible.

RESERVES	Balance as at 1 April 2019 £000	Projected Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	Projected Spend 2021-24 £000	Proposed Balance as at 31 March 2024 £000
Direct Funding to Capital	(19,956)	3,439	(16,517)	10,000	(6,517)

Specific projects, budget carry forwards or risks identified

5.12. The Authority holds several Earmarked Reserves for items which have been identified through a business case, to address a specific risk or where timing differences have arisen in the revenue budget. These items form part of the planning cycle but either address a risk or maintain the status quo rather than being potential improvement activities. Examples of this are a refresh of Breathing Apparatus or Personal Protective equipment and replacement roofing. Expenditure on these items will normally be spread over several financial years within the Medium Term Financial Plan but there are instances where a longer term risk has been identified and provided for which may exceed the 2019-2024 period.

5.13. These one off reserves will be reviewed annually and either maintained or enhanced. Any unspent funds remaining at the end of the project will, subject to the relevant approval, be transferred to an alternative reserve such as the Invest to Improve or Capital Funding reserve.

RESERVES	Balance as at 1 April 2019 £000	Projected Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	Projected Spend 2021-24 £000	Proposed Balance as at 31 March 2024 £000
Projects, risks, & budget carry forwards					
PFI Equalisation	(295)	-	(295)	-	(295)
Emergency Services Mobile Communications Programme	(932)	200	(732)	732	-
Breathing Apparatus Replacement	(1,449)	1,449	-	-	-
Mobile Data Terminals Replacement	(381)	381	-	-	-
PPE & Uniform Refresh	(488)	488	-	-	-
Pension Liability reserve	(461)	-	(461)	461	-
National Procurement Project	(90)	45	(45)	45	-
Budget Carry Forwards	(363)	100	(263)	263	-
Upgrade Wi-Fi & Internet Connection	(75)	75	-	-	-
Respiratory Protection Masks - Personal Fit	(70)	70	-	-	-
Vema Outriggers	(95)	95	-	-	-
Total	**(4,700)**	**2,903**	**(1,797)**	**1,502**	**(295)**

5.14. Explanation of specific reserves:

- *PFI Equalisation* – The Authority is part of a tri-service Private Finance Initiative which covers the Severn Park training facility. Due to the nature of the contract and its longevity (will mature in 2028) the amount due at the end of the contract is dependent on various factors such as interest rates and investment performance. The reserve is held to mitigate the risk at the end of the contract period.
- *Emergency Services Mobile Communications Programme (ESMCP)* – The Authority has committed to be part of the ESMCP national project which provides the technology and network to allow Emergency Services a dedicated method of communication whilst being more financially efficient than its predecessor. Whilst funding has been allocated on a regional basis there is a need to support the project beyond the funding (which has been allocated for discrete time periods) because of the South West region being the last to transition which is why the reserve was established. The reserve also holds grant funding from central government to support the establishment of Emergency Services Network capability. The national project is currently under scrutiny of the Public Accounts Committee and may be subject to change or cancellation. If cancelled, there is a risk that the current Airwave facility will cost the Authority more although at this stage that cannot be quantified.
- *Breathing Apparatus Replacement* – The Authority has committed to replacement of aging (and soon to be obsolete) breathing apparatus equipment and has completed a procurement exercise. The new equipment will harmonise sets throughout the Service and improve firefighter safety due to improved functionality including enhanced communications. Delivery of the new sets commenced in May 2019 and so the project will be completed in the 2019-20 financial year.
- *Mobile Data Terminals (MDT) Replacement* – MDTs are computers in appliances which provide site specific risk and technical information to firefighters when they respond to incidents. Due to the age of the current suite of MDTs, which are purchased and maintained under the Airwave Communications system, replacements are required in advance of the roll out of the new Emergency Services Mobile Communications Project. Refreshing the safety critical information available to firefighters at incidents supports the Authority's underlying principles of Public Safety and Firefighter safety.

- *PPE and Uniform refresh* – Firefighters are required to wear a specific range of Personal Protective Equipment (PPE) when responding to incidents and each set has a finite life dependant on the number and type of incidents attended. The Service has determined a provision for lightweight PPE and staff were measured for fitting in April 2019. The project supports the safety and wellbeing of our staff.
- *Pension Liability reserve* – There are ongoing legal cases which may impact on future employers' costs and therefore a pension reserve has been established to contribute towards the revenue budget if a liability arises.
- *National Procurement Project* – The Service has seconded a member of staff to manage the National Procurement Project on behalf of the National Fire Chiefs Council. Grant funding has been received to support the project and is therefore held in a specific reserve until those funds are exhausted.
- *Budget Carry Forwards* – Arise as a result of timing differences, where a revenue project has been unable to complete in year and therefore the under spend on a particular budget line has been transferred to Earmarked Reserves. As reserve funds can span several financial years these are expected to be used in the short term, but the reserve may be enhanced at a later date if there are timing differences in the 2019-20 budget and beyond.
- *Wi-Fi upgrade, Respiratory Protection masks and VEMA outriggers* – These cost pressures were identified as emerging issues as part of the 2018-19 year end process. As these are pressing organisational or operational requirements the reserve funding will be fully utilised in 2019-20.

AMY WEBB
Director of Finance

Risk Assessment of the Adequacy of General Reserves

Budget Head	Budget Provision 2019-20 £m	RISK	Likelihood	Impact £m	Net Impact £m
Wholetime Pay Costs	31.2	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, which might attract a significant Pay award. An unfunded pay award of 2% has been factored in to the budget for 2019-20.	Medium	0.935	0.467
		Overspend due to supernumerary staff whilst Change Programme is developed - the impact of this has reduced since last year as the majority of these costs are now budgeted	High	0.500	0.375
Retained Pay Costs	14.4	A significant proportion of costs associated with retained pay is directly as a result of the number of calls responded to during the year.	Low	1.442	0.360
		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, which might attract a significant Pay award	Medium	0.433	0.216
Major Incident - Belwin		A major incident occurs which qualifies for central government funding under the Belwin Scheme - the first 0.2% of budget, or £0.151m is funded by the Local Authority.	Low	0.151	0.038
Firefighter's Pensions	2.7	The Authority is required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme. There were fewer retirees than budgeted in 2017-18 which has increased the likelihood of those individuals retiring in 2019-20.	High	0.500	0.375
Insurance Costs	0.9	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority. The Insurance Mutual holds a reserve which will enable the pool to absorb a reasonable level of claims.	Low	0.500	0.125
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.	High	0.182	0.137
Treasury Management Income	(0.2)	Reduced Interest Income, rates to 0%. The target income for 2019-20 has been set at a prudent level of achieving only a 0.6% return on investments.	Low	0.201	0.050
Income	(0.6)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.6m 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.	Low	0.282	0.071
Capital Programme	8.8	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. The risk of contract deviation up to 10% of value.	Low	0.881	0.220
Business Rates	(0.9)	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.	Low	0.225	0.056
External Contracts		The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier or a customer. The Authority maintains a bad debt provision based on aged debtor analysis but it would be insufficient to fully fund a loss from a major contract. Additionally, Public Sector procurement processes and contracts are coming under increasing scrutiny and could be open to legal challenge.	Low	2.000	0.500

Budget Head	Budget Provision 2019-20 £m	RISK	Likelihood	Impact £m	Net Impact £m
Legal Issues		Given the nature of the work of the Authority there is a possibility that it could suffer a major health and safety or environmental failure.	Low	3.000	0.750
System/ Infrastructure Issues		In the event that a key system, such as the control mobilising system or system networks, were to fail, it is possible that urgent consultancy or replacement equipment would be required within short time constraints.	Low	1.500	0.375
Funding Issues		The changes to the funding mechanism for local government, introduced following the Local Government Resource Review, transferred potentially significant levels of financial risk to the Authority.	Medium	1.000	0.500
Inflation		Whilst allowances for inflation have been made within specific budget lines, generally at 2.4% per annum, the uncertainty surrounding Brexit and the UK economy might lead to increased inflation.	Medium	0.200	0.100
Employment Issues		Issues that might arise in respect of pay settlements or other factors which might lead to industrial action would, in the first instance, be managed within the revenue budget. Prolonged Action or issues would require funding from Reserves.	Medium	1.000	0.500
Estimated Reserve Requirement					5.216

Projected Reserve Balances over Medium Term Financial Plan Period (2019-24)

RESERVES	Balance as at 1 April 2019 £000	Projected Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	Projected Spend 2021-24 £000	Proposed Balance as at 31 March 2024 £000
Earmarked reserves					
Grants unapplied from previous years	(1,145)	918	(227)	227	-
Invest to Improve	(5,937)	1,500	(4,437)	4,437	-
Budget Smoothing Reserve	(1,818)	-	(1,818)	1,818	-
Direct Funding to Capital	(19,956)	3,439	(16,517)	10,000	(6,517)
Projects, risks, & budget carry forwards					
PFI Equalisation	(295)	-	(295)	-	(295)
Emergency Services Mobile Communications Programme	(932)	200	(732)	732	-
Breathing Apparatus Replacement	(1,449)	1,449	-	-	-
Mobile Data Terminals Replacement	(381)	381	-	-	-
PPE & Uniform Refresh	(488)	488	-	-	-
Pension Liability reserve	(461)	-	(461)	461	-
National Procurement Project	(90)	45	(45)	45	-
Budget Carry Forwards	(363)	100	(263)	263	-
Upgrade Wi-Fi & Internet Connection	(75)	75	-	-	-
Respiratory Protection Masks - Personal Fit	(70)	70	-	-	-
Vema Outriggers	(95)	95	-	-	-
Total	**(33,556)**	**8,760**	**(24,796)**	**17,985**	**(6,812)**
General reserve					
General Fund balance	**(5,315)**	**-**	**(5,315)**	**-**	**(5,315)**
Percentage of general reserve compared to net budget					
TOTAL RESERVE BALANCES	**(38,870)**	**8,760**	**(30,111)**	**17,985**	**(12,126)**
PROVISIONS					
Doubtful Debt	(650)	-	(650)		
Fire fighters pension schemes	(759)	100	(659)	659	-
TOTAL PROVISIONS	**(759)**	**100**	**(659)**	**659**	**-**

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REPORT REFERENCE NO.	**RC/19/11**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**15 MAY 2019**
SUBJECT OF REPORT	**REVISION TO CAPITAL PROGRAMME 2019-20 TO 2021-22**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That it be recommended to the Authority that the revised capital programme and associated prudential indicators for 2019-20 to 2021-22, as included in this report, be approved.***
EXECUTIVE SUMMARY	A three year capital programme for 2019-20 to 2021-22 was approved at the budget meeting in February 2019. This report proposes a revision to that programme to reflect: a) An amount of money not spent in 2018-19 to be carried forward to 2019-20; The proposed revision does not require any adjustments to the Authority's external borrowing requirements. The Authority has not taken any new borrowing in the last seven years and, currently, there is no new borrowing required to support the Authority's Capital Programme covering 2019-20 to 2021-22.
RESOURCE IMPLICATIONS	As indicated within the Report
EQUALITY IMPACT ASSESSMENT	The contents of this report are considered compatible with existing equalities and human rights legislation.
APPENDICES	A. Capital Programme 2019-20 to 2021-22. B. Revised Prudential Indicators 2019-20 to 2021-22.
LIST OF BACKGROUND PAPERS	Capital Programme 2019-20 to 2021-22 report to DSFRA on 19 February 2019 (DSFRA/19/4).

1. INTRODUCTION

1.1 The current capital programme covering the three years 2019-20 to 2021-22 was approved at the budget meeting in February 2019.

1.2 This report seeks approval of the Authority to revise this programme to reflect budget not spent in 2018-19.

1.3 It should be noted that the proposed changes do not require any additional external borrowing, over and above what has already been agreed, and therefore places no further burden on the revenue budget in terms of debt charges.

2. CURRENT CAPITAL PROGRAMME 2019-20 TO 2021-22

2.1 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.

2.2 At the budget meeting on 19 February the Authority considered and approved a three year capital programme covering the years 2019-20 to 2021-22. This approved programme is included at Appendix A (2019/20 Approved Budget column).

3. PROPOSED REVISION TO THE CAPITAL PROGRAMME

3.1 Appendix A to this report also provides a revised capital programme for the years 2019-20 to 2021-22. The changes included in the revised programme reflect:

a) Since setting the original programme for 2019-20 to 2021-22 in February 2019, there is further variance against budget in 2018/19 of £1.1m. This is made up of savings of £0.3m and budget unspent in 2018/19 of £0.8m which will align the capital programme with the future aspirations of the service going forward. The £0.8m unspent budget is still required (carried forward to 2019-20) but reflects only a change to the timing of spend rather than an increase to funding requirements.

3.2 A summary of the impact to the overall programme of these changes is provided in Figure 1 below.

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Original Programme			
2018-19 (predicted outturn)	1.8	2.1	3.9
2019-20	4.4	3.6	8.0
2020-21 (provisional)	10.2	6.3	16.5
2021-22 (provisional)	7.9	4.9	12.8
Total 2018-19 to 2021-22	24.3	16.9	41.2
Revised Programme			
2018-19 (actual outturn)	0.9	2.0	2.9
2019-20	5.0	3.8	8.8
2020-21 (provisional)	10.2	6.3	16.5
2021-22 (provisional)	7.9	4.9	12.8
Total 2018-19 to 2021-22	24.0	17.0	41.0
Proposed change	-0.3	0.1	-0.2

Figure 1

3.3 Appendix B to this report provides a summary of the revised prudential indicators emanating from the revised programme. The current forecasts are that the ratio of financing costs to net revenue stream 5% ceiling will not be breached in the medium term as reported to the Authority in February 2019. The next review of capital spending plans will take place in good time to inform the budget setting process for 2020-21.

4. SUMMARY AND RECOMMENDATION

4.1 This report provides a revision to the agreed capital programme for the year 2019-20. The Committee is asked to recommend this revision, and associated prudential indicators, to the next meeting of Authority to be held on the 7th June 2019.

AMY WEBB
Director of Finance (Treasurer)

PROJECT	2019/20 £000 Approved Budget	2019/20 £000 Slippage & Approvals	2019/20 £000 Revised Budget	2020/21 £000 Approved Budget	2021/22 £000 Approved Budget	2022/23 £000 Indicative Budget	2023/24 £000 Indicative Budget
Estate Development							
Site re/new build	1,100	17	1,117	3,100	200	0	0
Improvements & structural maintenance	3,307	595	3,902	7,100	7,700	9,300	7,000
Estates Sub Total	**4,407**	**612**	**5,019**	**10,200**	**7,900**	**9,300**	**7,000**
Fleet & Equipment							
Appliance replacement	1,793	0	1,793	3,800	3,300	2,700	2,200
Specialist Operational Vehicles	1,134	0	1,134	2,300	1,400	900	1,900
Equipment	366	187	553	200	200	200	200
ICT Department	268	0	268	0	0	0	0
Water Rescue Boats	46	0	46	0	0	0	0
Fleet & Equipment Sub Total	**3,607**	**187**	**3,794**	**6,300**	**4,900**	**3,800**	**4,300**
Overall Capital Totals	**8,014**	**799**	**8,813**	**16,500**	**12,800**	**13,100**	**11,300**
Programme funding							
Earmarked Reserves:	3,439	756	4,195	11,145	4,628	0	0
Revenue funds:	2,614	0	2,614	2,614	2,614	2,614	2,614
Capital receipt							520
Application of existing borrowing	1,961	43	2,004	1,491	5,308	10,436	5,905
Contributions			0	1,250	250	50	2,261
Total Funding	**8,014**	**799**	**8,813**	**16,500**	**12,800**	**13,100**	**11,300**

PRUDENTIAL INDICATORS

	2019/20	2020/21	2021/22	2022/23	2023/24
				INDICATIVE INDICATORS 2022/23 to 2023/24	
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure					
Non - HRA	8.813	16.500	12.800	13.100	11.300
HRA (applies only to housing authorities)					
Total	8.813	16.500	12.800	13.100	11.300
Ratio of financing costs to net revenue stream					
Non - HRA	4.09%	4.03%	4.06%	4.04%	4.54%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000
Non - HRA	25,444	24,851	28,081	36,667	40,390
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	1,112	1,010	907	791	656
Total	26,556	25,861	28,988	37,457	41,045
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(191)	(695)	3,127	8,469	3,588
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(191)	(695)	3,127	8,469	3,588
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,910	26,787	29,678	39,094	43,003
Other long term liabilities	1,265	1,162	1,056	947	823
Total	28,174	27,949	30,733	40,041	43,826
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	25,637	25,544	28,274	37,260	40,983
Other long term liabilities	1,209	1,112	1,010	907	791
Total	26,847	26,656	29,284	38,168	41,774
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000

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

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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