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
CLYST ST GEORGE
EXETER
DEVON
EX3 0NW

Your ref :
Our ref : RC/MP/SS
Website : www.dsfire.gov.uk

Date : 5 February 2020
Please ask for : Sam Sharman
Email : ssharman@dsfire.gov.uk

Telephone : 01392 872200
Fax : 01392 872300
Direct Telephone : ssharman@dsfire.gov.uk

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Thursday 13 February 2020

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

M. Pearson
Clerk to the Authority

A G E N D A

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

1 **Apologies**

2 **Minutes (Pages 1 - 4)**

of the previous meeting held on 21 November 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 **2020-21 Revenue Budget and Council Tax Level (Pages 5 - 62)**

Report of the Director of Finance & Resourcing and Chief Fire Officer (RC/20/1) attached.

5 **Capital Programme 2020-21 to 2022-23 (Pages 63 - 70)**

Report of the Director of Finance & Resourcing (RC/20/2) attached.

6 **Capital Strategy (Pages 71 - 78)**

Report of the Director of Finance & Resourcing (RC/20/3) attached.

7 **Medium Term Financial Plan (Pages 79 - 90)**

Report of the Director of Finance & Resourcing (RC/20/4) attached.

8 **Treasury Management Strategy (including Prudential and Treasury Indicators) Report 2020-21 (Pages 91 - 112)**

Report of the Director of Finance & Resourcing (RC/20/5) attached.

9 **Treasury Management Performance 2019-20: Quarter 3 (Pages 113 - 120)**

Report of the Director of Finance & Resourcing (RC/20/6) attached.

10 **Financial Performance Report 2019-20 - Quarter 3 (Pages 121 - 130)**

Report of the Director of Finance & Resourcing (RC/20/7) attached.

11 **Exclusion of the Press and Public**

RECOMMENDATION 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 items of business on the grounds that they involve the likely disclosure of exempt information as defined in the following Paragraph of Part 1 of Schedule 12A (as amended) to the Act, namely:

- 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

12 **Restricted Minutes of Resources Committee held on 21 November 2019 (Pages 131 - 132)**

Restricted Minutes of Resources Committee held on 21 November 2019 attached.

13 **Red One Ltd. Financial Performance 2019-20: Quarter 3 (Pages 133 - 140)**

Report of the Director of Finance & Resourcing (RC/20/8) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Coles (Vice-Chair), Biederman, Drean (Chair), Peart, Radford, Tuffin and Yabsley

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)

21 November 2019

Present:-

Councillors Coles (Vice-Chair), Drean (Chair), Peart, Radford and Tuffin

Apologies:-

Councillors Biederman and Yabsley

* **RC/7** **Minutes**

RESOLVED that the non-restricted Minutes of the meeting held on 4 September 2019 be signed as a correct record.

* **RC/8** **Treasury Management Performance 2019-20 - Quarter 2**

NB. Adam Burleton, representing Link Asset Services - the Authority's treasury management adviser – was present for this item of business.

The Committee received for information a report of the Director of Finance & Resourcing (RC/19/18) that set out the Authority's performance relating to the second quarter of 2019-20 (to September 2019) in accordance with the Treasury Management in Public Service Code of Practice (published by the Chartered Institute of Public Finance and Accountancy {CIPFA}) and the CIPFA Prudential Code. The report set out how this Authority was demonstrating best practice in accordance with these Codes.

During consideration of this item, the following points were noted:

- there was concern in respect of the general weakening of growth in the major world economies including the United States and the European Union;
- The UK had seen growth of 0.5% in quarter 1 but this was boosted by stock building ahead of the original March Brexit deadline so it was expected that quarter 2 would be slightly negative and it came in at -0.2%;
- The bank base rate was not forecast to change for at least 12 months with inflation below target at 1.5%;
- That the annual treasury management strategy continued on a prudent approach, being underpinned by investment priorities based on security of capital, liquidity and yield with investment income of £0.098m in quarter 2 outperforming the LIBID benchmark rate of 0.66% by 0.19bp;
- None of the Prudential Indicators (affordability limits) had been breached in quarter 2 with external borrowing at 30 September 2019 being £25.491m, forecast to reduce to £25.444m by the end of the financial year with no new borrowing undertaken.

* **RC/9** **Financial Performance Report 2019-20 - Quarter 2**

The Committee considered a report of the Director of Finance & Resourcing (Treasurer) (RC/19/19) that set out the Service's financial performance during the second quarter of 2019-20 against the targets agreed for the current financial year. The report provided a forecast of spending against the 2019-20 revenue budget with explanation of the major variations.

The Committee noted that it was forecast that spending would be £0.508m (0.68%) less than budget. The Director of Finance & Resourcing (Treasurer) advised this was attributable largely to savings on the Fire Service Pension Recharge (£0.156m), an underspend on equipment and furniture budget (£0.155m) and an increase in the Authority's investment income (£0.071m) due to prudent investment planning by the Finance team.

The Director of Finance (Treasurer) also drew attention to proposed budget transfers totalling £1.187m as set out at Table 3 of the report.

RESOLVED

(a) That the budget transfers shown in Table 3 of report RC/19/19 be approved;

(b) That the monitoring position in relation to projected spending against the 2019-20 revenue and capital budgets be noted; and

(c) That performance against the 2019-20 financial targets be noted.

* **RC/10** **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 items of business on the grounds that they may involve the likely disclosure of exempt information as defined in the following paragraphs 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/11** **Restricted Minutes of Resources Committee held on 4 September 2019**

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 were present for this item in a non-voting capacity as Non-Executive Directors of Red One Ltd. (in support of Dr Sian George) but did not speak.

RESOLVED that the Restricted Minutes of the meeting held on 4 September 2019 be signed as a correct record.

***   RC/12   Red One Limited Financial Performance 2019-20: Quarter 2**

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 were present for this item in a non-voting capacity as Non-Executive Directors of Red One Ltd. (in support of Dr Sian George).

The Committee received for information a report of the Director of Finance & Resourcing (Treasurer) and Dr Sian George (Chair of the Board of Red One Ltd.) (RC/19/20) on the financial performance of Red One Ltd. in quarter 2 of 2019-20.

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

The Meeting started at 10.00 am and finished at 11.35 am

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REPORT REFERENCE NO.	**DSFRA/20/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**2020-21 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Director of Finance & Resourcing (Treasurer) and Chief Fire Officer**
RECOMMENDATIONS	***(a) that the Committee consider the contents of this report in order to make a recommendation to the Fire Authority budget meeting that either:*** ***(i) the level of council tax in 2020-21 for a Band D property be set at £86.52, as outlined in Option A in this report, representing no increase over 2019-20, and that accordingly a Net Revenue Budget Requirement for 2020-21 of £76,219,700 be approved;*** ***OR*** ***(ii) that the level of council tax in 2020-21 for a Band D property be set at £88.24, as outlined in Option B in this report, representing a 1.99% increase over 2019-20, and that accordingly a Net Revenue Budget Requirement for 2020-21 of £77,276,000 be approved;*** ***(b) that, as a consequence of the decisions at (a) above:*** ***(i) the tax base for payment purposes and the precept required from each billing authority for payment of total precept of £53,156,102 (Option A) OR £54,212,834 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;*** ***(ii) the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and*** ***(iii) that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances', as set out at Appendix B to this report, be endorsed.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 1 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2020-21 that would trigger a requirement to hold a Council Tax referendum is to be 2.0%. This report considers potential options A and B below for Council Tax in 2020-21: OPTION A – Freeze Council Tax at 2019-20 level **(£86.52 for a Band D Property).**

	OPTION B – Increase Council Tax by 1.99% above 2019-20 **(increase of £1.72 pa to £88.24 for Band D Property).** A budget book for each of these options is enclosed separately with the agenda for this meeting. The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 18 February 2020.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2020-21. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances. C. DSFRA response to the Department of Communities and Local Government consultation document “Local Government Finance Settlement – Technical Consultation Paper”. D. BMG Report on Precept Consultation for 2020-21 Revenue Budget E. Report on Precept Consultation via Social Media
LIST OF BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

1.1. The draft budget for 2020-21 provides an opportunity to support reform of Devon and Somerset Fire and Rescue Service (the Service) now and in the future. In January 2020 a number of significant changes to the Service Delivery Operating Model were approved by the Authority which will better align resources to risk. Underpinning the Safer Together programme is the new On Call payment system (Pay for Availability) which is expected to improve recruitment, retention and ultimately the safety of our communities by improving availability of fire engines. The system will be more expensive and therefore this budget includes an investment in the On Call duty system.

1.2. Whilst the number of fire engines across the Service will reduce and some savings will be made as a result of the change programme, the investment of £0.850m made in to Prevention and Protection last year will continue, enabling more community and business safety activity.

1.3. The way we work is changing as is the way we deliver services to the public. We increasingly use a diverse group of staff to carry out tasks and no longer follow the traditional approach of using uniformed staff on inflexible contracts. We have therefore moved away from defining our staff by the type of contract they hold and have presented this budget according to the type of work done. This change should support the reduction of barriers between staff groups and will also make our purpose clearer by emphasising the importance of prevention and protection work.

1.4. It is a legislative requirement that the Devon & Somerset Fire & Rescue Authority (the Authority) sets a level of revenue budget and Council Tax for the forthcoming financial year, before 1 March, in order that it can inform each of the fifteen Council Tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2020-21. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels of precept for the Authority.

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

1.6. On 19 December 2019, the Ministry of Housing, Communities and Local Government (MHCLG) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2020-21. This is to be 2.0% which, if exceeded, would trigger the need to hold a referendum. Given that the administration costs associated with holding a local referendum for the Service for one year are estimated to be in excess of £2.3m, this report does not include any proposals to go beyond the referendum limit.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2020-21

2.1. The provisional Local Government Finance Settlement for 2020-21 was announced on 19 December 2019, which provided local authorities with individual settlement funding assessment figures for one year only.

2.2. Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which results in an increase in 2020-21 of 1.61% over 2019-20 and an overall reduction of 24.12% since 2015-16:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)			
	SFA	**SFA Reduction**	
	£m	**£m**	**%**
2015-16	29.413		
2016-17	26.873	-2.540	-8.64%
2017-18	23.883	-2.990	-11.13%
2018-19	22.618	-1.265	-5.30%
2019-20	21.961	-0.657	-2.91%
2020-21	22.319	0.358	1.63%
Reduction over 2015-16		**-7.094**	**-24.12%**

2.3. In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a £81m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £424k for 2020-21. This grant will be paid as a Section 31 grant (which means it is not in base funding) and is therefore included as income within the draft budget proposed in this report.

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

3.1. Since 2013-14 there has been a requirement for an authority to hold a local referendum should it propose to increase Council Tax beyond a government set limit (principles), which for this Authority results in estimated referendum costs of £2.3m. The Service has asked MHCLG to consider an alternative set of principles for fire and rescue authorities (most recent letter to MHCLG in October 2019 – copy included at Appendix C to this report) that would apply a cash amount, e.g. £5, rather than applying a percentage increase.

3.2. On 19 December 2019, MHCLG announced the referendum threshold to be applied in 2020-21 would reduce to 2.0% from 3.0% in 2019-20. Whilst this is disappointing given that Police and Crime Commissioner areas have been given the flexibility to adopt a £24 threshold in 2020-21 and that the Fire Sector bid for a £5 flexibility, the current referendum limit at least recognises that Fire and Rescue Authorities are facing increasing inflationary pressures.

3.3. Due to the high proportion of people costs, pay awards have a significantly higher impact on the Authority's revenue budget than the effect of price rises on goods and services. Each 1% pay award for staff costs the Authority £0.589m and this budget proposal contains provision for a 2% pay award for all staff.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2020-21

Council Tax

4.1. There is no offer of a Council Tax Freeze Reward Grant to those authorities that freeze or reduce Council Tax in 2020-21.

4.2. It is, of course, an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2020-21, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2019-20 level (£86.52 for a Band D Property);
- **OPTION B** – Increase Council Tax by 1.99% above 2019-20 - an increase of £1.72 pa (14p a month) to £88.24 for Band D Property.

4.3. The Committee could decide to set any alternative level below 2%. Each 1% increase in Council Tax represents an 86p a year increase for a Band D property, and is equivalent to a £0.532m variation on the revenue budget. In relation to the referendum option, it is the Treasurer's view that given the costs of holding a referendum (circa £2.3m), it is not a viable option for the Authority to consider a Council Tax increase in excess of the 2% threshold.

4.4. Due to an inflationary increase on government grant funding and increased Council Tax base, both council tax options would represent an increase to the overall budget.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2020-21

	OPTION A Council Tax Freeze at £86.52 £m	OPTION B Council Tax Increase of 1.99% to £88.24 £m
TOTAL FUNDING 2019-20	**75.142**	**75.142**
Increase in Formula Funding	0.272	0.272
Decrease in Retained Business Rates from Business Rate Retention System.	0.378	0.378
Changes in Council Tax Precept		
- increase in Council Tax Base	0.602	0.602
- resulting from an increase in Council Tax	-	1.057
- decrease in Share of Billing Authorities Council Tax Collection Funds	(0.174)	(0.174)
Net Change in precept income	**0.428**	**1.485**
TOTAL FUNDING AVAILABLE 2020-21	**76.220**	**77.277**
NET CHANGE IN FUNDING	**1.078**	**2.135**

Council Tax Base

4.5. The total increase in government funding of £0.272m is in line with inflation of 1.7% and comes after significant reductions amounting to 24.1% since 2015-16. The Service had anticipated an increase in Council Tax receipts of 1.50% arising from house building in the area, although the actual increase has been lower than forecast at 1.15%. The Authority's share of Council Tax collection fund surplus has decreased by £0.174m which reflects a slight decline in the rate of Council Tax collection by districts.

Net Budget Requirement

4.6. Table 3 overleaf provides a summary of the Core Budget Requirement for 2020-21. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2020-21

	£m	%
Approved Net Revenue Budget Requirement 2019-20	**75.142**	
PLUS Provision for pay and price increases (Pay award assumed 2%)	1.442	*1.92%*
PLUS Inescapable Commitments	0.696	*0.93%*
PLUS New Investment	3.510	*4.67%*
MINUS Changes to income	(0.447)	*-0.59%*
CORE SPENDING REQUIREMENT 2020-21	**80.343**	
INCREASE IN BUDGET OVER 2019-20 (£m)	**5.201**	***6.92%***
Funding adjustments for 2020-21	(1.744)	*-2.32%*
MINUS Savings	(1.323)	*-1.76%*

4.7. As outlined in the foreword to this paper, this is an investment budget designed to support reform of the Service. £3.510m of new investment opportunities have been identified which will be offset by ongoing savings, reduced capital allocation and a one-off use of reserves:

- £1.144m for Pay for Availability, the new On Call duty system; assuming that the system will be in place mid-way through the year, ongoing investment will be double the amount;
- £0.872m for additional staff working on prevention and protection, particularly building safety following the report by Her Majesty's Inspectorate (HMICFRS) and the Hackitt review (post Grenfell);
- £0.322m for operational staff to support prevention capability and the matrix model introduced in 2019-20;
- £0.930m for professional and technical staff which includes investment in Health and Safety, Organisational Development and Fitness to support improvement against HMICFRS findings; and
- £0.242m for revenue equipment needed to fit out the new Medium Rescue Pumps per the capital programme.

Budget Savings

4.8. As is indicated in Table 3, the Core Budget Requirement for 2020-21 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £80.343m. This is more than the amount of funding available under Options A or B and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 overleaf provides an analysis of on-going savings identified to be delivered in 2020-21.

TABLE 4 – BUDGET SAVINGS 2020-21

REVENUE BUDGET SAVINGS	£m
Budget Management Savings – As in previous years the budget setting process has included the requirement for budget managers to scrutinise non-operational budget heads with a view to the identification of recurring savings. This process and challenge by managers has identified £0.118m of recurring savings relating to training following implementation of T4C and other minor variances	(0.106)
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.217)
Vacancy Margins – As a result of the current strategy to hold vacancies during phased implementation of the Safer Together plan	(1.000)
BUDGET SAVINGS (£m)	**(1.323)**

4.9. Whilst the Service is confident that savings of £1.323m can be delivered, under both Council Tax scenarios there will be a budget shortfall in the coming year. The recommendation is to utilise reserves to fund the gap in the short term until the Safer Together programme benefits are better understood. If Council Tax is frozen, the funding shortfall will increase from £1.743 to £2.800m. The shortfall is outlined in Table 5.

TABLE 5 – BUDGET SHORTFALL 2020-21

SUMMARY OF ADDITIONAL SAVINGS REQUIREMENT	OPTION A	OPTION B
Net change in funding over 2019-20	1.078	2.135
Increase in spending requirement since 2019-20	5.201	5.201
Savings requirement 2020-21	(4.123)	(3.066)
Less Budget savings already achieved	(1.323)	(1.323)
FUNDS REQUIRED TO BALANCE BUDGET	**(2.800)**	**(1.743)**

4.10. It is proposed that the Revenue Contribution to Capital is reduced if Council Tax is frozen, which will enable the Authority to set a balanced budget whilst the Safer Together programme is further refined to deliver additional savings over the medium term. However, there are implications for the long term affordability of the Capital Programme.

4.11. Elsewhere on this agenda is the Capital Programme for 2020-21 which also gives an indication of the proposed programme and sources of funding over the next five years. The Authority has a long term strategy to reduce reliance on borrowing and therefore it is essential that a healthy level of Revenue Contribution to Capital is maintained to fund investment in asset infrastructure.

4.12. In the event of a 1.99% increase to Council Tax (Option B), the revenue contribution to capital expenditure will need to be reduced by £0.0577m in order to balance the budget, reducing the funding available to £2.037m.

4.13. Table 6 below outlines the requirement under each scenario to reduce the revenue contribution to capital and draw on the Budget Smoothing reserve in order to fund the Pay for Availability model – it must be noted that reserves can only be used once and so this is not a sustainable funding option.

TABLE 6

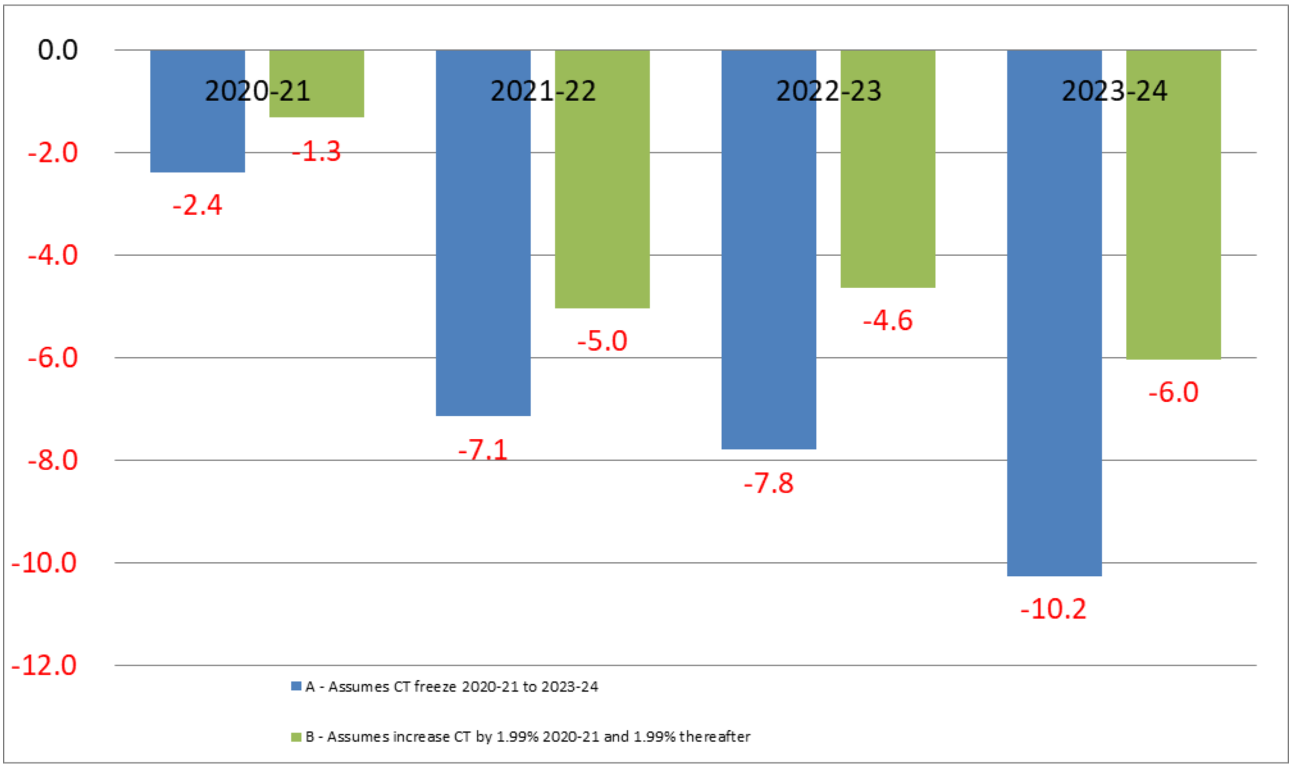
PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A	OPTION B
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	(1.634)	(0.577)
Transfer from Reserves – in order to fund the Payment for Availability system for On Call Staff, the Budget Smoothing Reserve is utilised	(1.167)	(1.167)
TOTAL BUDGET SAVINGS (£m)	**(4.124)**	**(3.067)**

5. MEDIUM TERM FINANCIAL PLAN

5.1. Given that the 2020/21 provisional Local Government Settlement is a one year settlement, the future funding position is less certain. Additionally, a new pensions burden has arisen from the Government Actuarial Department (GAD) valuation of the Firefighter Pension Schemes, which may result in a £4.1m cost for this Authority. The Government is indicating it will meet the pensions cost beyond 2020-21 and so the Medium Term Financial Plan (MTFP) assumes this will be funded. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document, which is elsewhere on the agenda.

5.2. The MTFP financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2020-21 to 2023-24. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2020 TO 2024 (BASE CASE) - £MILLIONS



5.3. Chart 1 overleaf illustrates that further savings will be required beyond 2020-21 to plan for a balanced budget over the next three years to 2023-24. Should the Authority decide to freeze Council Tax in 2020-21 (Option A) and the following three years then the MTFP forecasts that further savings of up to £7.8m need to be planned for.

Authority Plan 2020 onwards

5.4. This budget report proposes a balanced budget for the next financial year 2020-21 including proposals as to how budget savings can be achieved.

5.5. Looking beyond 2020-21 it is clear that the Authority needs to plan for the delivery of further recurring savings to ensure that balanced budgets can be set in each year of the Spending Review period. The strategic approach to deliver the required savings is being developed following approval of the Service Delivery Operating model by the Authority.

6. PRECEPT CONSULTATION 2020-21

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

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

6.3. The consultation process ran throughout November and December 2019 and involved:

- 6.3.1 A telephone survey of 400 business and 400 residents;
- 6.3.2 Use of an online survey promoted via social media and other DSFRS communication channels

6.4. The full results of the telephone survey and online survey can be found in Appendices D and E.

Results from the Telephone Survey

6.5. Over three in five (62%) businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2020/21, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement of +43%.

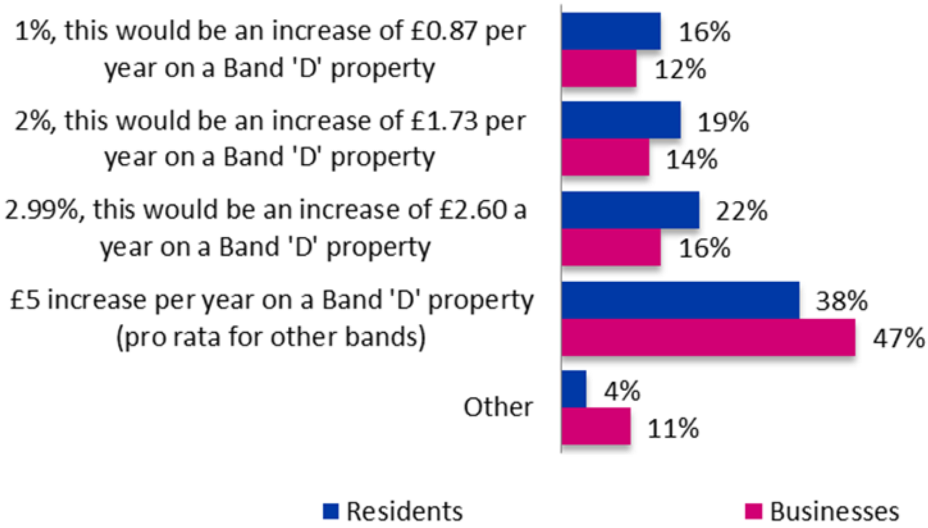
6.6. Agreement was consistent by Local Authority District (LAD), industry sector and gender. However, by LAD, agreement was significantly higher than average amongst businesses in Devon (68%) and significantly lower amongst businesses in Somerset (54%).

6.7. Over three in five (68%) residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2020/21, while 16% disagreed, giving a net agreement of +52%.

6.8. Agreement was consistent by LAD, gender and age. Those respondents who had used a service in the last 12 months were more likely to agree than those who had not (80% cf. 64% who have not used a service).

Chart 1: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2020/21)

6.9.



f those respondents who agreed that a Council Tax increase would be reasonable 63% of businesses and 60% residents would support an increase of 2.99% or above.

6.10. 78% of businesses and 84% residents felt that the Service provides value for money.

6.11. Additional questions were included to determine satisfaction levels; overall 70% of businesses and 66% of residents said they were satisfied with the Service. Levels of satisfaction significantly increased amongst those who had used a service from 70% amongst those who have not used a service to 95%.

Results from the Online Survey

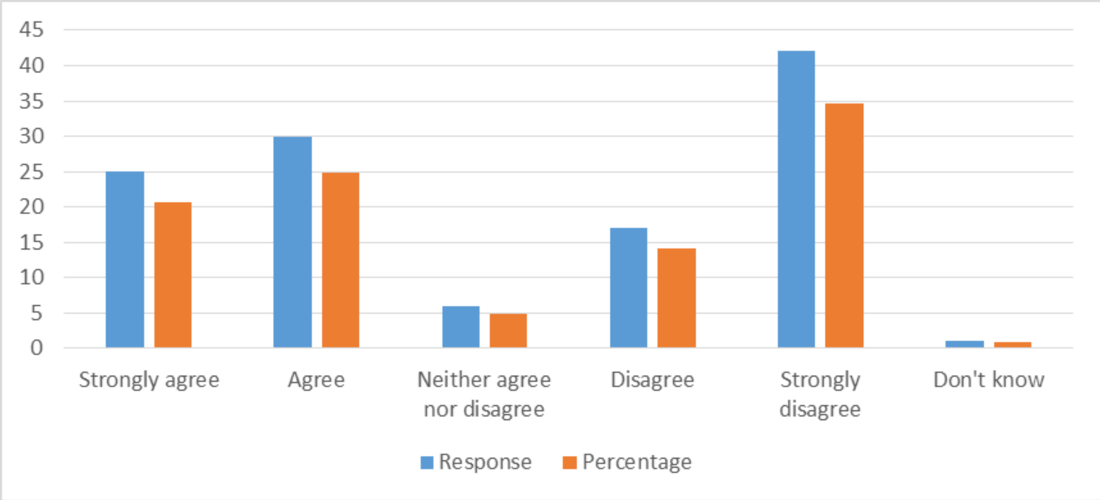
6.12. The online survey was available from 31 October -21 December 2019. The consultation was promoted through our website, press releases and adverts on Facebook and Twitter.

6.13. In that period, a total of 155 responses were received. 121 fully completed the questionnaire and 34 partially completed it. As only five of these responses represented the business sector, the results have not been separated.

6.14. This year's consultation exercise follows an earlier 3 month large scale public consultation process, which the Service undertook in the summer to gauge views on the proposed new Service Delivery Operating Model. It is important to note that the range of responses received through this earlier consultation, have influenced a number of respondents' viewpoints when compared to last year's responses.

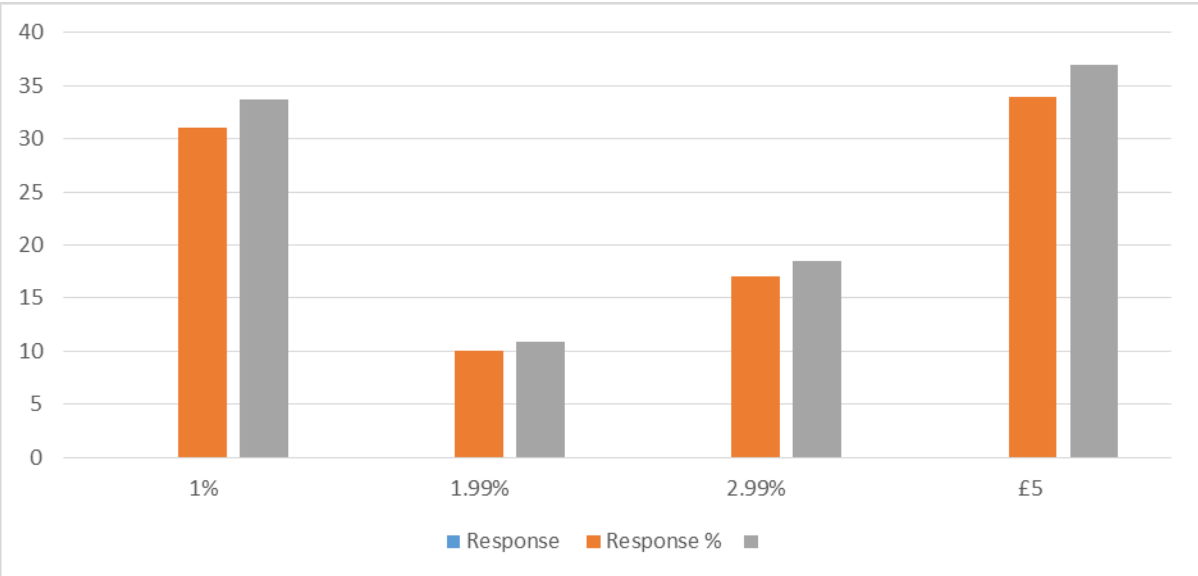
6.15. The results outlined in Chart 2 indicate that almost 35% of respondents strongly disagree that the Authority should consider increasing its charges, as opposed to approximately 21% who strongly agree. This is a significant change to last year's response where 70% of respondents agreed the Authority should consider increasing its charges.

Chart 2: Question 1 Results of agreement to consider increasing the precept



6.16. The results outlined in Chart 3, indicate that 37% of respondents are in support of a £5 increase and that in total, 55% of respondents support an increase of 2.99% or above.

Chart 3: Question 2 Results of options to increase the precept



6.17. he results indicate that over half of respondents (56%) agree that the Service provides value for money.

6.18. Additional questions were asked to ascertain whether respondents had interacted with the Service. The results indicate that 56% of respondents had not interacted with the Service in the last 12 months, however, (22%) had attended community events and almost a third of respondents (27%) had attended a public consultation event for the Safer Together programme.

6.19. In contrast with the phone survey, only 47% of respondents said they were satisfied or very satisfied with the service provided.

Survey Conclusion

6.20. The results of the consultation indicate that the majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 2020-21. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of an increase of 2.99% or above.

6.21. Both businesses and residents agree that the Service provides value for money and were satisfied with the service provided.

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

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

8. SUMMARY

8.1. The Authority is required to set its level of revenue budget and Council Tax for 2020-21 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.

8.2. The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the Authority, to be held on the 18 February 2020.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

APPENDIX A TO REPORT RC/20/1

	£'000	2020/2021 £000	%
Approved Budget 2019-20		**75,142**	
Provision for pay and prices increase			
Grey Book Pay Award (assume 2.0% from July 2020)	940		
Green Book Pay Award (assume 2% from April 2020)	237		
Prices increases (assumed 1.7% CPI from April 2020)	220		
Pensions inflationary increase (tracks CPI - 1.7%)	45		
		1,442	1.9%
Funding Adjustments			
Revenue Contribution to Capital	-577		
Reserve transfers	-1,167		
		-1,744	
Inescapable Commitments			
Support Staff Increments	148		
Light vehicles - lease change over costs & vehicle useage costs	119		
Increase in minumum revenue provision emanating from capital	34		
ICT Service Delivery	395		
Unforeseen budget requirements			
		696	
New Investment			
On Call Pay for availability	1,144		
Prevention and Protection Staff	872		
Operational staff including control	322		
Professional and Technical Staff	930		
Vehicle equipment linked to capital programme	242		
		3,510	
Income			
Decrease Red One Contribution target	5		
Decrease Co-responder Activity	-1		
Claim back Apprenticeship Levy - Apprentice firefighter scheme	-167		
Section 31 grants	-284		
		-447	
Anticipated savings			
Vacancy margin	-1,000		
Vacancy margin - whole-time staff			
Pensions - anticipate reduced Ill Health/ Injury leavers	-217		
Fire Safety School training & seminars	-64		
Cumulative minor budget variances	-42		
		-1,323	
CORE BUDGET REQUIREMENT		**77,277**	

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

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

THE ROBUSTNESS OF THE 2020-21 BUDGET

The net revenue budget requirement for 2020-21 has been assessed as £77.277m (Option B in report). In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Integrated Risk Management Plan and the Fire and Rescue Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2021, in which time external factors, which are outside of the control of the authority, may arise which will cause additional expenditure to be incurred. The most significant example of this is the increase in employers pension costs following the GAD Valuation and the unknown funding shortfall as a result, plus employer cost pressures arising from the unlawful application of transitional pensions protections. For example, the majority of On Call pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. Other budgets, such as fuel are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

Local government and the fire sector are entering a period of significant uncertainty over funding and cost pressures going forward. It is possible that further cuts of 5% in real terms may be made to fire funding which when combined with changes to the Business Rates Retention scheme and the Relative Needs Assessment Reviews could result in significant changes to available resources. Unfunded pension schemes and legal challenges over pension terms represent a significant risk to the Authority going forward. It is therefore vitally important that resourcing and investment decisions are made which minimise risks going forward to enable the Authority to be as resilient as possible in future years.

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a five year period covering the years 2020-21 to 2024-25. These forecasts include only prudent assumptions in relation future pay awards and prices increases, which will need to be reviewed in light of pay settlements and movement in the Consumer Prices Index.

TABLE 1 – BUDGET SETTING 2020-21 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2020-21 £m	*RISK AND IMPACT*	MITIGATION
Wholetime Pay Costs	31.4	Wholetime Pay represents nearly a third of Service costs. There is a high level of uncertainty around future pay increases, particularly whether pay awards will be linked to a change to the Firefighter role map to include emergency medical response. Each 1% pay award is equivalent to £0.470m of additional pressure on the revenue budget. It is not anticipated that any additional funding will be allocated for pay and therefore large increases could mean the Authority needs to utilise reserves in order to balance its budget.	An unfunded pay award of 2% has been factored in to the budget which represents a prudent approach.
On Call Pay Costs	15.8	A significant proportion of costs associated with on call pay is directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict e.g. spate weather conditions. Abnormally high or low levels of calls could result in significant variations against budget provision.	Using the budget smoothing reserve to offset pay for availability costs in year one, use of reserve can be extended if necessary
Fire-fighter's Pensions	2.5	Whilst net pension costs funded by the government through a top-up grant arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a General Reserve an allowance has been made for a potential overspend on this budget
Insurance Costs	0.9	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.	General Reserve
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.	General Reserve
Treasury Management Income	(0.2)	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income has been set at a prudent level of achieving only a 0.7% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.8)	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 and is dependent on the ability of Red One Ltd to generate income.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible. A provision for doubtful debts is available to protect the Authority from potential losses.
Capital Programme	10.7	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.	Capital projects are subject to risk management processes that quantify risks and identify appropriate management action. Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.
Revenue Contribution to Capital	2.0	£0.3m of the Contribution is dependent on maintaining trading income levels, if these are not achieved the capital budget will need to be reduced by this amount	Capital programme and strategy, £21.7m Capital Reserve
Business Rates	(1.4)	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	There is a specific reserve of £1.8m for budget smoothing which could be utilised to smooth in year changes.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2019 is £38.8m made up of Earmarked Reserves (committed) of £33.4m, and General Reserve (uncommitted) of £5.3m. This will decrease by the end of the financial year as a result of planned expenditure against those reserves during the year. A General Reserve balance of £5.3m is equivalent to 6.9% of the total revenue budget, or 25 days of Authority spending, the figure is subject to a risk assessment annually.

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

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

The Authority's Reserves Strategy is reviewed annually and is available on the website www.dsfire.gov.uk.

CONCLUSION

It is considered that the budget proposed for 2020-21 represents a sound and achievable financial plan, and will not increase the Authority's risk exposure to an unacceptable level. The estimated level of reserves is judged to be adequate to meet all reasonable forecasts of future liabilities.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

Local Government Finance Settlement 2020-21: Technical Consultation

If you are responding to this consultation by email or in writing, please reply using this questionnaire pro-forma, which should be read alongside the consultation document.

You should save the pro-forma on your own device, from which you can complete the survey at your own pace, and submit when you are ready.

There are 9 questions in this survey. You do not have to answer every question should you not wish to. The comments box will expand as you type into it should you need more space.

Should you wish to attach further evidence or supporting information, you may attach and send this with the pro-forma.

Please **email responses to:**
LGFsettlement@communities.gov.uk

Alternatively, **written responses should be sent to:**

Local Government Finance Settlement Team
Ministry of Housing, Communities and Local Government
2nd floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Your opinions are valuable to us. Thank you for taking the time to read the consultation document and respond.

Your Details (Required details are marked with an asterisk (*))

Full Name*	Amy Webb
Organisation*	Devon & Somerset Fire & Rescue Authority
Address*	Service Headquarters
Address 2	The Knowle, Clyst St. George
Town/City*	Exeter
Postcode*	EX3 0NW
Country	UK
Email address*	awebb@dsfire.gov.uk
Phone Number	01392 872202

Are the views Expressed on this form an official response from a:

London Borough

Metropolitan District

Unitary Authority

Shire County

Shire District

Fire and Rescue Authority

Greater London Authority

Combined Authority

Parish or Town Council

Local Authority Association or Special Interest Group

Other Local Authority Grouping

Local Authority Officer

Local Authority Councillor

Member of Parliament

Other Representative Group

Business

Business Organisation

Valuation Organisation

Voluntary Organisation

Member of the Public

Question 1

Do you agree with the Government's proposed methodology for the distribution of Revenue Support Grant in 2020-21?

<u>Yes</u>

No

No comment

Additional comments

With the 2020 comprehensive spending review, the fair funding review and the reform of business rates retention ahead against the ever-uncertain backdrop of Brexit and a potential general election; as much stability and certainty as is possible is needed. Given this the government's proposed methodology for the distribution of RSG in 2020-21 seems sensible.

Question 2

Should central government eliminate negative RSG in full through forgone business rates receipts?

<u>Yes</u>

No

No comment

Additional comments
the government's proposed approach regarding negative RSG seems consistent with the push for greater stability and certainty as stated above.

Question 3

Do you think that there should be a separate council tax referendum principle of 2% or £5, whichever is greater, for shire district councils in 2020-21?

Yes

No

No comment

Additional comments
Whilst the issue of shire districts' referendum principles has no direct effect on FRAs, the approach proposed seems sensible. Devon and Somerset FRA advocates for the government taking a similar approach for FRAs, allowing for a fixed increase to Council Tax precept. Similar referendum principles are required for FRAs to prevent the continued divergence of council tax, provide consistent funding protection for FRAs in all parts of England and importantly to invest in improving the service with a focus on fire protection.

Given the financial pressures faced by County Fire Services, the Authority would welcome an approach to precept flexibility which would allow all Fire and Rescue Services £5 flexibility on their element of overall precept.

Question 4

Do you have views on the proposed package of council tax referendum principles for 2020-21?

Yes

No

No comment

Additional comments
The government should set referendum principles which allow for consistent investment in reform arising from HMICFRS recommendations and fire protection activity.

Devon and Somerset FRA supports the National Fire Chief's Council (NFCC) proposal to allow an increase of £5 as this would level out council tax fire precepts, making council tax fairer; would increase local powers and devolution *and* improve fire safety and save lives.

Investment in Fire Protection

The Hackitt enquiry and HMICFRS have highlighted the significant reduction in the number of fire safety audits in recent years. Across England in 2010-11 there were 84,575 fire safety audits, which by 2018-19 had decreased to 49,327. Whilst the proportion of audits resulting in a satisfactory rating has improved from 56% to 67% it is unknown whether this is the result of improving fire safety or just fewer audits. Clearly there is a need to invest in fire protection activity to increase activity in this area and outcomes for businesses and high risk properties.

Due to local Integrated Risk Management Planning the way in which Fire and Rescue Services deliver their fire protection activity can vary, with a mixture of delivery by firefighter crews and specialised business safety officers. Cost per audit will also vary as a result, with estimations being between £580 and £1150 per completed audit. As an illustration, just returning to 2010-11 activity levels requires an additional 35,248 audits, which would equate to an additional investment in excess of £30m. According to Home Office statistics, between 2010 and 2018 there was a reduction in FTE firefighters of 22%; in 2010 there were approximately 42,000 firefighters whilst in 2018 there were 32,000. As a result the ability for Fire and Rescue Services to delivery business safety activity using firefighter crews has diminished.

In terms of business safety officers, at a salary including on costs of circa £45,000, an additional £47.8m of funding for the sector (£5 increase) could pay for the recruitment of a further 1,062 staff to deliver this vital improvement.

Sector Pressures

As above, firefighter numbers have decreased by 22%. Over this same period (2010 to 2018) average response times to primary fires have increased by 31 seconds to 8 minutes and 45 seconds (a 6% increase).

If a fire of the scale of Grenfell Tower occurred anywhere other than London, it would be a significant challenge for any FRA to resource – even with mutual assistance. The reductions in firefighter numbers also directly impact the availability of personnel to support national resilience capabilities. Regarding fire and rescue operations post-Grenfell, FRAs faced additional requirements for inspections in high rise properties, even before the full impact of legislative change is known.

The sector needs to respond to the HMICFRS inspection process, with Tranche 2 findings that whilst responding to emergencies is a strength, Fire Protection is a concern and often under resourced whilst the inconsistent capability to respond to national incidents is highlighted. Investment will be required to work together across the sector to deliver improved outcomes.

In addition to those pressures that are specific to the FRS (outlined above) the fire service is also facing pressures like those in the wider public sector. Namely; wage inflation and the demands caused by an aging population; 42% of fire-related deaths occur in a home where the residents are aged over 65, despite making up just 19% of the population.

Any consideration of Fire Authority funding should also consider the need for the continuation of the Home Office's 'Fire Pensions Grant' received in 2019-20 as this will have a significant impact on the financial sustainability of the Sector; for Devon & Somerset FRA it creates a £4.1m funding gap.

Although the MHCLG has clearly looked to maximise certainty for 2020-21, it is unfortunate that there is no such certainty from 2021-22 onwards. Whilst recognising that this is an issue for the Treasury and is subject to the 2020 comprehensive spending review (which in turn is subject to many economic factors), the Authority asks that as much certainty as possible be provided to FRAs as early as possible regarding 2021-22 onwards.

Question 5

Do you agree with the Government's proposals for social care funding in 2020-21?

Yes

No

<u>No comment</u>

Additional comments

Question 6

Do you agree with the Government's proposals for iBCF in 2020-21?

Yes

No

<u>No comment</u>

Additional comments

Question 7

Do you agree that there should be a new round of 2020-21 New Homes Bonus allocations for 2020-21, or would you prefer to see this funding allocated for a different purpose, and if so how should the funding be allocated?

Yes

No

<u>No comment</u>

Additional comments

Question 8

Do you agree with the Government's proposed approach to paying £81 million Rural Services Delivery Grant in 2020-21 to the upper quartile of local authorities, based on the super-sparsity indicator?

<u>Yes</u>

No

No comment

Additional comments
Devon & Somerset FRA covers a significant rural area and as such faces unique service pressures, such as the availability of On Call firefighters and extended travel distances/times. The Authority welcomes the additional funding from the Rural Services Delivery Grant.

Question 9

Do you have any comments on the impact of the proposals for the 2020-21 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Yes

No

No comment

Additional comments
Fire and Rescue Services target their activity at the most vulnerable in society and therefore reducing resources is likely to have an impact on those needing additional support, such as elderly and disabled people.

APPENDIX D TO REPORT RC/20/1

Research Report

Council Tax Precept Survey 2020/21

Prepared for: Devon and Somerset Fire and Rescue Service

Prepared by: Sharon Gowland, Research Manager

Council Tax Precept Survey 2020/21

Prepared for: Devon and Somerset Fire and Rescue Service
Prepared by: Sharon Gowland, Research Manager
Date: December 2019

Produced by BMG Research

www.bmgresearch.co.uk

Project: 1976

Registered in England No. 2841970

Registered office:

BMG Research
Beech House
Greenfield Crescent
Edgbaston
Birmingham
B15 3BE
UK
Tel: +44 (0) 121 3336006

Table of Contents

1 Introduction

1.1 Background and method

In October 2019, Devon and Somerset Fire and Rescue Service (DSFRS) commissioned BMG Research to undertake a survey amongst 400 businesses and 400 residents. The purpose of the surveys was to assess the opinions of business decision makers and residents on how DSFRS should approach setting its budget for 2020/21 and on whether the Service is currently deemed to be providing value for money.

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

In total, 395 interviews with businesses and 392 interviews with residents were completed during November and December 2019. Details of the profile of the sample can be found in Appendix 1.

On a sample of c.400 the confidence interval at the 95% level is +/- 4.9%. This means that if a statistic of 50% was observed, we can be 95% confident that the true response among the total population lies between 45.1% and 54.9%.

This report summarises the main findings from both surveys.

2 Survey Findings

2.1 Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2020/21

Respondents were provided with the following contextual information regarding DSFRS:

> *"Devon and Somerset Fire and Rescue Authority is committed to its ambitious plans to end preventable fire and rescue emergencies across the two counties while addressing the funding cuts passed down by the Government. The service provides 85 local fire stations across Devon and Somerset and employs about 2,000 staff, helping to keep safe a population of 1.7 million. On average, we attend about 16,400 incidents each year, which includes fires, road traffic collisions, flooding and other emergencies. The Authority is seeking feedback about the level of council tax precept for the coming year and how satisfied you are with the service it provides."*

They were then informed of the following:

> *"Devon & Somerset Fire & Rescue Authority is considering its Council Tax charges for 2020/21. The current charge is £86.52 a year for a Band 'D' property. Over the last few years the Government has reduced the funding provided for the fire and rescue service and this will continue. By 2023, Devon and Somerset Fire and Rescue Service need to reduce costs by £8.4 million. The service will need to plan a balanced budget that accommodates this while continuing to support communities."*

Respondents were asked how strongly they agree or disagree that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2020/21.

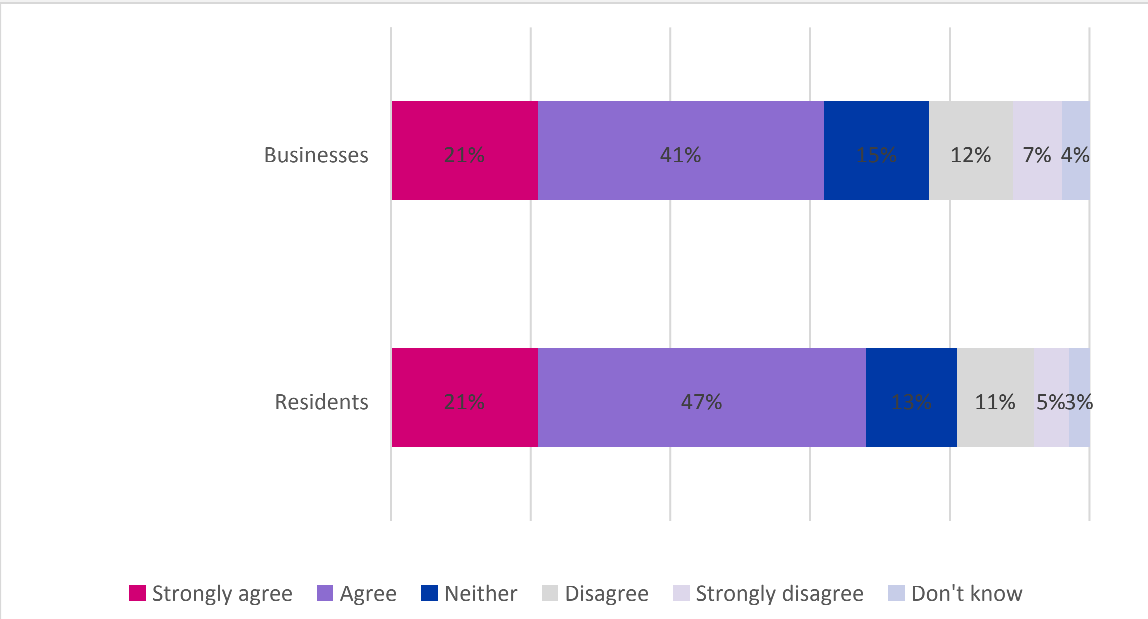
Over three in five (62%) businesses agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2020/21, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement[1] of +43%.

Agreement was consistent by industry sector, gender and age. However, by LAD, agreement was significantly higher than average amongst businesses in Devon (68%) and significantly lower amongst businesses in Somerset (54%).

Over three in five (68%) residents agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2020/21, while 16% disagreed, giving a net agreement of +52%.

Agreement was consistent by LAD, gender and age. Those respondents who had used a DSFRS service in the last 12 months were more likely to agree than those who had not (80% cf. 64% who have not used a DSFRS service).

Figure 1: Agreement or disagreement that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2020/21 (All respondents)



Unweighted sample base: 395 businesses, 392 residents

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

2.2 Level of increase that would be reasonable

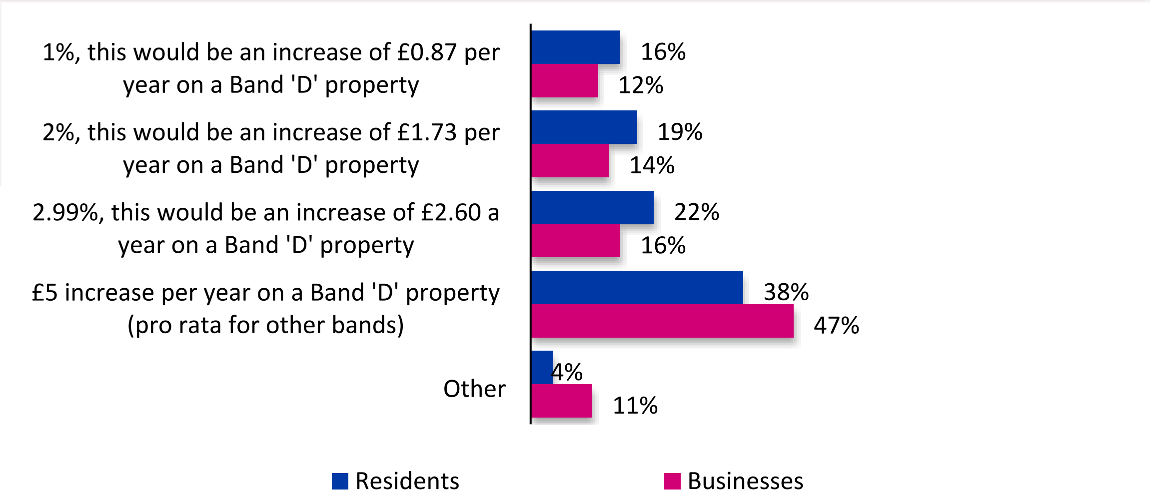
Those respondents who agreed that it is reasonable for DSFRS to consider increasing its Council Tax Charge for 2020/21 were asked at what level the increase should be;

- 1%, this would be an increase of £0.87 per year on a Band ‘D’ property – increasing the total charge to £87.39
- 1.99%, this would be an increase of £1.73 per year on a Band ‘D’ property – increasing the total charge to £88.25
- 2.99%, this would be an increase of £2.51 a year on a Band ‘D’ property – increasing the total charge to £89.12
- £5 increase per year on a Band ‘D’ property (pro rata for other bands) – increasing the total charge to £91.52
- Some other level of increase

The largest proportion of businesses opted for a £5 increase (47%) followed by either a 2.99% increase or a 2% increase (16% and 14% respectively) which was consistent by LAD, industry sector, gender and age.

Consistent with businesses the largest proportion of residents opted for a £5 increase (38%) followed by a 2.99% increase (22%) and a 2% increase (19%). However, there was some variation by LAD. Those in Plymouth were less likely than average to state a £5 increase (23%) but more likely to state a 2.99% increase (34%). Those in Devon were more likely than average to state a 1% increase (23%) and those in Somerset were less likely to mention this (7%).

Figure 2: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2020/21)



Unweighted sample base: 243 businesses, 269 residents

2.3 Reasons for disagreeing that it is reasonable for DSFRS to increase its element of the Council Tax charge for 2020/21

Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2020/21 (19% of businesses and 16% of residents) were asked why they disagreed. Typical comments made by respondents are highlighted below.

2.3.1 Businesses

“Doesn't make sense to cut funding and then increase taxes. I don't have a problem in the increase if it is passed to DSFRS and not used elsewhere, on silly things like parking, etc.”

“I think we are paying huge amounts on rates already for commercial property.”

“There’s other ways to raise money.”

“Expect more stations and fire fighters if council tax increases.”

“Happy for fire and rescue authority to have more money, but not sure where the money goes. It’s too much for small businesses already to manage the costs.”

“Council should provide funding, and stop wasting money on irrelevant things like Palm trees from abroad. We have them in this country. They should provide funding for more worthwhile and relevant services.”

“Mis-management of funds, not necessarily the fire and rescue service, unnecessary spending of money when they could be put to better use on the fire and safety instead.”

“They need to be efficient at the job instead of more funding.”

2.3.2 Residents

“Why would they want to charge us more when in return they are giving less service.”

“I think that central government that have made this cut needs to reverse them.”

“I think the government should pay for it.”

“I think the fire and rescue service have received a large spending budget and they tend to waste it on bureaucracy.”

“I can't afford it as a pensioner.”

“My council tax is very expensive now, can’t afford to pay anymore.”

“We pay a lot of money at the moment and it’s not always efficiently used.”

“They do a very a good job but its everything is just going up.”

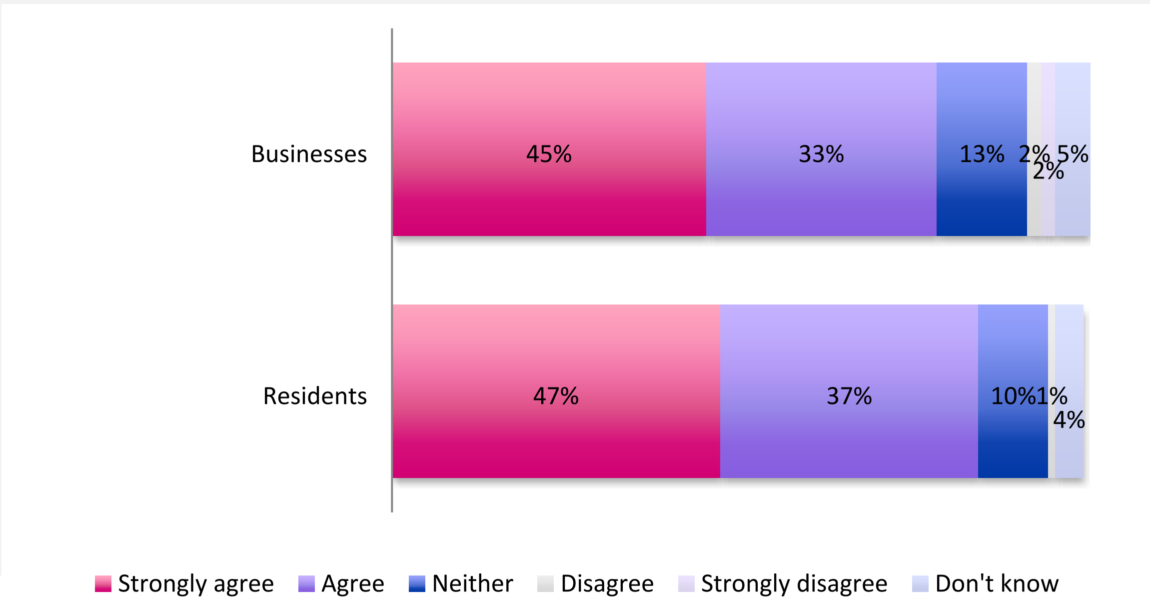
2.4 Agreement or disagreement that DSFRS provides value for money

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

Close to four in five (78%) businesses agreed that DSFRS does provide value for money, with only 3% disagreeing, resulting in a net agreement of +75%. Although we have seen a significant decrease in agreement this year from 84%, this is due to an increase in businesses saying neither agree nor disagree rather than an increase in those disagreeing. Those who had not used any DSFRS services in the last 12 months were more likely to say this (15% neither/nor cf. 5% of those who had used DSFRS services). Views were consistent by industry sector, gender and age. Businesses in Somerset were less likely to agree than the average overall (72% cf. 78%).

Views were even more positive among residents, with 84% agreeing that DSFRS does provide value for money and only 2% disagreeing, resulting in a net agreement of +82%. Views were consistent by LAD, gender and age. Residents who had used a DSFRS service in the last 12 months were noticeably more positive about value for money (92% agreed cf. 82% who had not used a DSFRS service).

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



Unweighted sample base: 395 businesses, 392 residents

2.5 Reasons for disagreeing that DSFRS provides value for money

The 12 businesses and 5 residents who disagreed that DSFRS provides value for money were asked why they disagreed, and, where provided, their reasons for this are listed below.

2.5.1 Businesses

“We haven't really used them anyway, if they cut in certain area's they could use that money anyway.”

“Can't really say because I’ve never had much experience with them.”

“They are too short handed, can’t get the service, it’s too far spread.”

“Spent money on buildings that they don't use.”

“Every encounter has been negative and they are encouraged to take sick days, not managed correctly.”

“Funding should not come from local government. Should be funded by central government. Emergency services shouldn't be controlled by local government. It should be controlled independently.”

“Disagree with the service, as I was already doing things correctly, didn't need someone else to come and tell me I'm doing it correctly. On empty buildings you have to pay more council tax on, so an increase would affect my business.”

“Individuals are paying for others, business are not paying taxes as they operate as domestic, not assessed and paying, no fire extinguishers.”

“There's too many people employed that aren't doing their jobs as efficiently as the could be doing.”

“Spend too much on sickness, pensions, and low retirement age. Other people have to work until older, whilst they can retire at a younger age.”

“Price is high dangerous job they do but doesn’t warrant increase.”

2.5.2 Residents

"They sit down and do nothing, but do provide value for money when they are working."

"I think there are too many fire stations and too many employees."

"I never see any services provided by them."

"They have too much equipment and have bigger wages. They get too much money and they aren't very good at putting out fires."

2.6 Services used

To contextualise the findings reported above, all respondents were asked if they had used any of ten specific services provided across Devon and Somerset in the last 12 months. Respondents had previously been asked whether they had ever used any of the services.

Overall, one in five (20%) businesses reported using at least one of the services in the last 12 months, most commonly a fire safety audit/check (13%) at a business with businesses in Plymouth significantly more likely than average to mention this (27%).

Similarly, for residents over one in five (22%) reported using at least one of the services in the last 12 months, with a community event being the most common (10%) followed by home fire safety visit (8%).

Residents in Torbay were more likely than average to say they had used a service in the last 12 months (33%).

Table 1 Services used

	Businesses	Residents
Fire safety audit / check in a business	13%	5%
Home fire safety visit / smoke alarm fitting	2%	8%
Community event	3%	10%
Emergency response - house fire	2%	4%
Community use of fire stations	1%	4%
Youth education	1%	5%
Emergency response - road traffic collision	1%	3%
Emergency response - rescue	1%	2%
Emergency response - flooding	1%	2%
Public consultation event for the Safer Together Programme	1%	5%
Other service	1%	2%
I have not used a Devon and Somerset Fire and Rescue service	80%	78%
Unweighted sample base: 395 businesses, 392 residents		

2.7 Satisfaction with the service provided by DSFRS

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

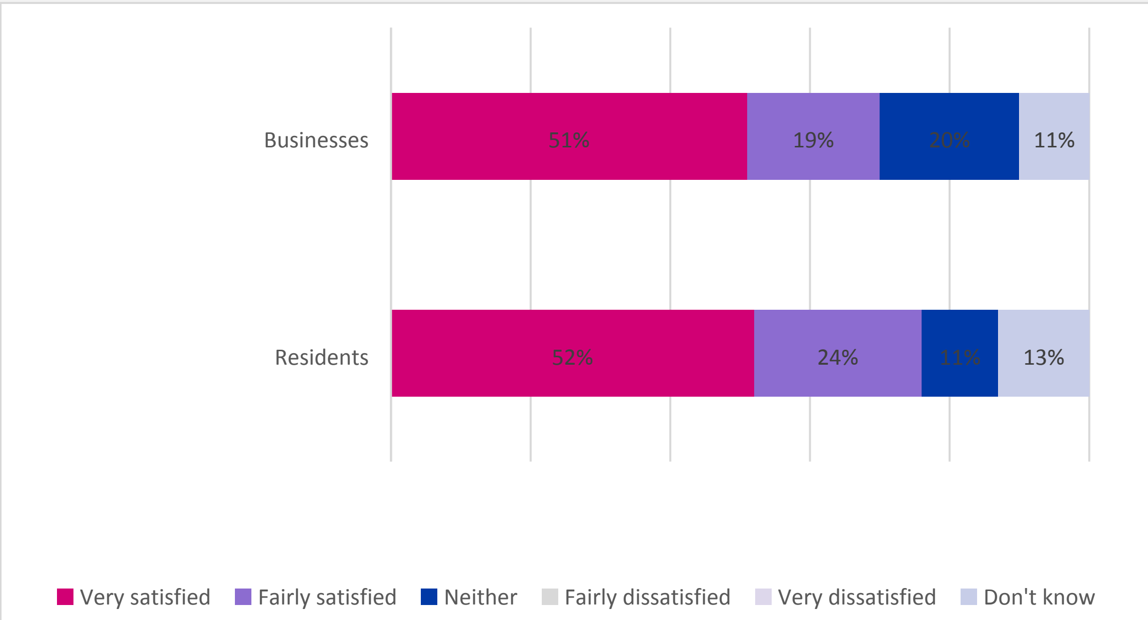
Close to seven in ten (69%) businesses were satisfied with the service provided, and only 1% expressed dissatisfaction, yielding a net level of satisfaction of +68%. Although again this is a significant decrease from the 80% agreement seen previously, this is due to an increase in businesses saying neither satisfied nor dissatisfied (20%).

Levels of satisfaction significantly increased amongst those who had used a DSFRS service in the last 12 months from 65% amongst those who have not used a service to 86%.

Three quarters of residents (75%) were satisfied with the service provided, and less than 0.5% expressed dissatisfaction, yielding a net level of satisfaction of +75%. Although satisfaction has decreased significantly from 83% last year, this is due to an increase of residents stating neither/nor rather than being dissatisfied.

Levels of satisfaction significantly increased amongst those who had used a DSFRS service in the last 12 months from 70% amongst those who have not used a service to 95%.

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



Unweighted sample base: 395 businesses, 392 residents

Only 3 businesses expressed dissatisfaction, and their reasons for doing so were as follows:

“We're local and they struggle with getting out to us.”

“You don't need the checks, waste of time.”

“Bad review when reviewed hotel.”

Only 3 residents expressed dissatisfaction, and their reason for doing so were as follows:

"They have reduced our volunteers and work hours, the nearest fire station is 6 miles away by the time they get to us we will be burnt and crispy."

"They waste money and use too much bureaucracy. They waste money on too many new buildings."

"Keep the smaller stations open, the bigger stations have to go through narrow ways just to get to their destination."

3 Appendix 1: Profile Information

3.1 Businesses

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

Table 2 – Local authority district

Local authority district	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
Torbay	11	45	6	22
Plymouth	13	52	8	31
Devon	46	180	53	208
Somerset	30	118	34	134

Table 3 – Industry sector

Industry Sector	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
A to F	25	97	23	93
G to N, R + S	75	298	77	302

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

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

Table 4 – Job title

Industry Sector	Unweighted		Weighted	
	%	**Number**	**%**	**Number**
Owner/proprietor/managing director	31	124	30	119
Director	31	122	33	131
Manager/assistant manager	20	80	20	77
Other	17	67	17	64
Prefer not to say	1	2	<0.5%	1

Table 5 – Gender

Gender	Unweighted		Weighted	
	%	Number	%	Number
Male	66	262	67	266
Female	34	133	33	129

Table 6 – Age

Age	Unweighted		Weighted	
	%	Number	%	Number
16 – 24 years	2	5	2	9
25 – 34 years	11	43	11	44
35 – 44 years	19	77	18	72
45 – 54 years	25	100	25	99
55– 64 years	30	117	30	118
65+	11	44	12	47
Prefer not to say	2	6	1	6

Table 7 – Ethnic Origin

Ethnic Origin	Unweighted		Weighted	
	%	Number	%	Number
White	97	382	97	384
Asian/Asian British	1	3	<0.5	1
Mixed/Other	1	4	1	4
Prefer not to say	2	6	1	6

3.2 Residents

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

Table 8 – Local authority district

Local authority district	Unweighted		Weighted	
	%	Number	%	Number
Torbay	23	92	8	30
Plymouth	26	100	15	58
Devon	26	100	46	179
Somerset	26	100	32	124

Table 9 – Age

Age	Unweighted		Weighted	
	%	Number	%	Number
16 – 24 years	1	4	3	10
25 – 34 years	7	26	11	44
35 – 44 years	11	45	22	85
45 – 54 years	12	47	12	46
55– 64 years	22	86	20	79
65+	44	173	29	112
Prefer not to say	3	11	4	15

Table 10 – Gender

Gender	Unweighted		Weighted	
	%	Number	%	Number
Male	51	200	48	190
Female	49	191	52	202

Table 11 – Ethnic Origin

Ethnic Origin	Unweighted		Weighted	
	%	Number	%	Number
White	93	366	94	368
Asian/Asian British	1	2	<0.5	2
Mixed	<0.5	1	<0.5	2
Prefer not to say	6	23	5	20

4 Appendix 2: Call outcomes

The following tables show a breakdown of call outcomes.

4.1 Businesses

	Outcome	Contacts	% of total	% of sub total
In scope	**Complete**	**395**	**3%**	**6%**
	Refusal	415	4%	6%
	Respondent busy	5878	52%	88%
	Sub-total	**6688**	**59%**	**100%**
	Outcome			% of out of scope
Out of scope	Unobtainable (modem, fax etc)	628	6%	13%
	Ineligible	185	2%	4%
	No contact made	3864	34%	83%
	Sub-total	**4677**	**41%**	**100%**
	Total	**11,365**		

4.2 Residents

	Outcome	Contacts	% of total	% of sub total
In scope	**Complete**	**392**	**1%**	**7%**
	Refusal	160	1%	3%
	Respondent busy	5278	17%	91%
	Sub-total	**5830**	**19%**	**100%**
	Outcome			% of out of scope
Out of scope	Unobtainable (modem, fax etc)	2931	10%	12%
	Ineligible	395	1%	2%
	No contact made	21402	70%	87%
	Sub-total	**24728**	**81%**	**100%**
	Total	**30,558**		

Appendix: Statement of Terms

Compliance with International Standards

BMG complies with the International Standard for Quality Management Systems requirements (ISO 9001:2015) and the International Standard for Market, opinion and social research service requirements (ISO 20252:2012) and The International Standard for Information Security Management (ISO 27001:2013).

Interpretation and publication of results

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

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

Ethical practice

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

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

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

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

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

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

1. Online survey

1.1 The online survey was available from 31 October – 21 December 2019. The consultation period was promoted through our website, adverts on Facebook and Twitter. Examples of the Facebook adverts and the banner on our website can be found in Section 4 of this report. The extent of promoting the consultation was impacted by the Purdah pre-election period imposed prior to the General Election on 12 December 2019.

1.2 In that period a total of **155** responses were received. Of those 155 responses, 121 fully completed the questionnaire and 34 partially completed it. As only five of these responses represented the business sector, the results have not been separated. Total number of responses differ for each question as some people chose not to respond to every question.

1.3 This year's consultation exercise follows a three-month large scale public consultation process, which the Service undertook in the summer to gauge views on the proposed new Service Delivery Operating Model. It is important to note that, from the range of responses received, this earlier consultation has influenced a number of respondents' viewpoints when compared to last year's responses.

This report summarises the main findings from the survey.

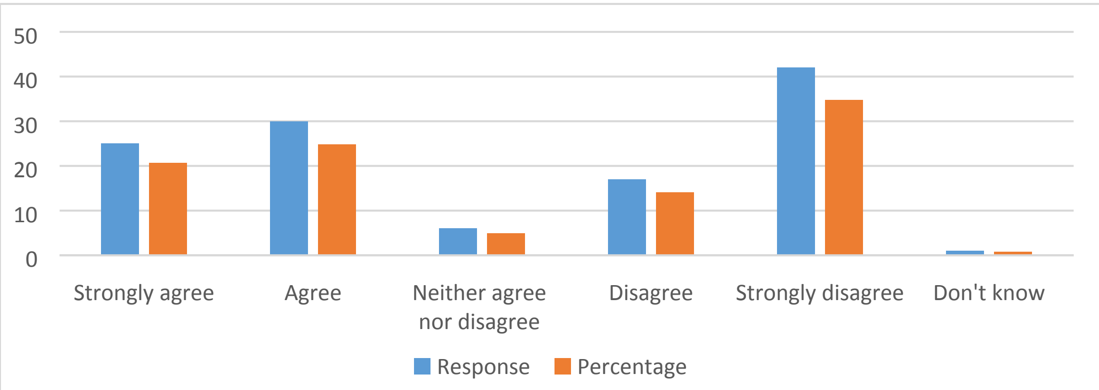
2. Results

2.1 Q1. How much do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2020/21?

Table 1: Responses to Question 1

Answer Option	Response	Response %
Strongly agree	25	20.66
Agree	30	24.79
Neither agree nor disagree	6	4.96
Disagree	17	14.05
Strongly disagree	42	34.71
Don't know	1	0.83
Total	121	

Chart 1: Results of agreement to consider increasing the precept



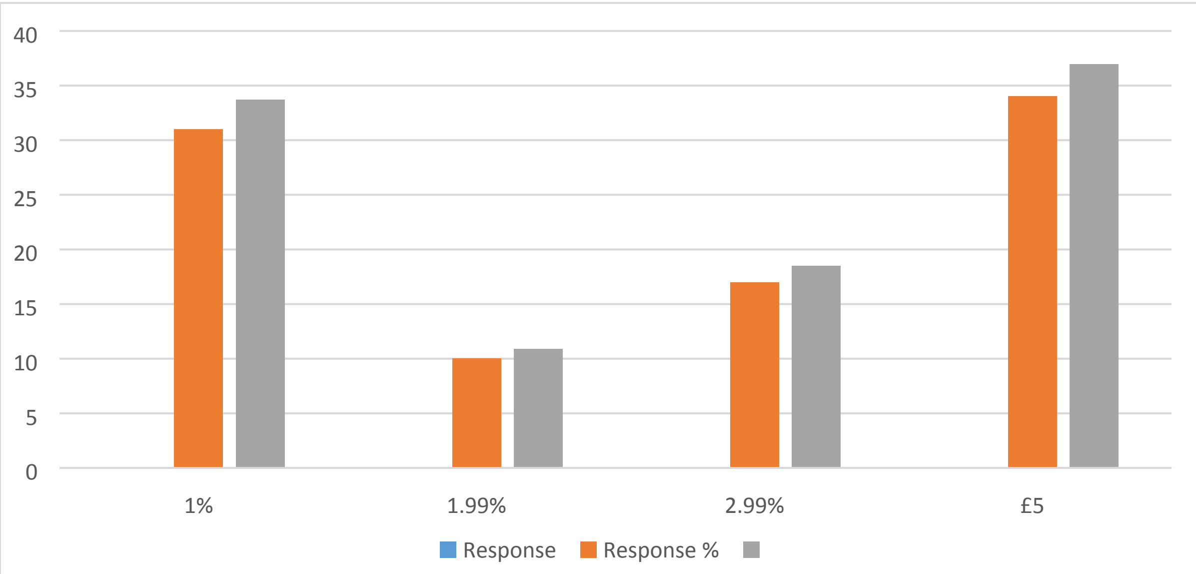
2.2 The results indicate that almost 35% of respondents strongly disagree that the Authority should consider increasing its charges, as opposed to approximately 21% who strongly agree. This is a significant change to last year's response where 70% of respondents agreed the Authority should consider increasing its charges.

2.3 Q2. What level of increase would you consider is reasonable for the Authority to increase its element of the council tax charge by?

Table 2: Responses to Question 2

Answer Option	Response	Response %
1% (An increase of 87p a year for a Band D property, increasing the total charge to £87.39)	31	33.70
1.99% (An increase of £1.73 a year for a Band D property, increasing the total charge to £88.25)	10	10.87
2.99% (An increase of £2.60 a year for a Band D property, increasing the total charge to £89.12)	17	18.48
£5 (An increase of £5 a year for a Band D property (pro rata for other bands), increasing the total charge to £91.52)	34	36.96
Total	92	

Chart 2: Results of levels of increase to the precept



2.4 The results indicate that almost 37% of respondents are in support of an £5 increase, whereas almost 34% support an increase of 1%.

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

2.6 Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the council tax charge for 2020/21 were asked why they disagreed.

The common emerging themes highlighted by respondents indicated:

- Impact of potential service cuts offering a reduced service
- Review existing internal spending
- Review of senior management structure before asking public to pay more
- Fire cover not available or to standard expected
- Willing to pay increase if it resulted in fire stations being kept open
- Seek increase in funds from Central Government

A sample range of comments made by respondents are listed below:

- *'Due to potential cuts in the service, I don't see how you can ask for more money for a reduced service.'*

- *The Authority needs to ensure that the money already provided is spent efficiently. The Fire Service is very top heavy in management terms and this could/should be reduced to save money before asking the public to pay more.'*

- *'Fire cover that my council tax pays for is often not available or to the standard expected.'*

- *'I would pay more if my local fire station stays open.'*

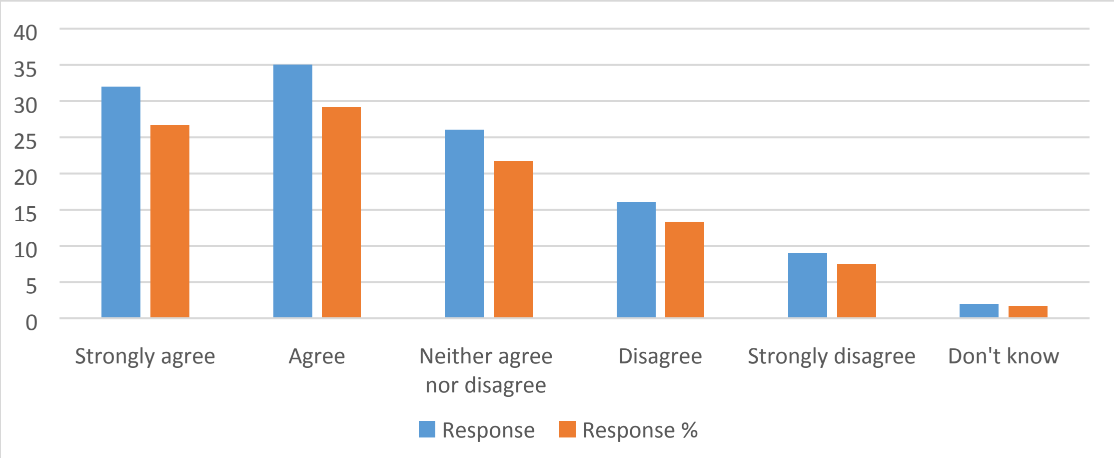
- *'I believe the increase in funds required should come from central government not the tax payer. They should respect what a great job emergency services do and fund them accordingly.'*

2.7 Q4. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?

Table 3: Responses to Question 4

Answer Option	**Response**	**Response %**
Strongly agree	32	26.67
Agree	35	29.17
Neither agree nor disagree	26	21.67
Disagree	16	13.33
Strongly disagree	9	7.50
Don't know	2	1.67
Total	120	

Chart 3: Results of value for money question



2.8 The results indicate that over half of respondents (56%) agree or strongly agree that the Service provides value for money.

2.9 Q5. If you disagreed to Q4, why do you feel the Service does not provide value for money?

2.10 Those who disagreed that DSFRS provides value for money were asked why they disagreed.

The common emerging themes from respondents highlighted:

- Concerns over future of service, if proposed changes are implemented
- Public perception that money is not being used efficiently
- Service should introduce charging for attendance at incidents
- Duplication of work that could be done regionally/nationally
- Firefighters already provide value for money

A sample range of comments made by respondents are listed below:

- *'At the moment it does, in the future it might not, if these changes go ahead.'*
- *'Not efficient, too many managers, staff paid to sleep.'*
- *'From press reports money seems to be wasted elsewhere and is not being used to support my local community.'*
- *'The service could charge for attendances that are not part of the normal service provided. More change is needed around processes to provide value for money.'*
- *'Again the amount of duplication of work that could be done regionally/ nationally. The constant waste in house of re-inventing the wheel; promotion changes, training recording systems, re arranging the 'top table'............'*
- *'It's the Firefighters that give good value for money. Not the chief or his minions. It's the Firefighters on the ground risking their own lives and safety to make sure that we, the general public are safe.'*

2.11 Q6. Have you interacted with Devon and Somerset Fire and Rescue Service in the last 12 months?

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

Table 4: Response to Question 6

Answer Option	**Response**	**Response %**
Yes, house fire	1	0.92
Yes, road traffic collision	2	1.83
Yes, flooding	0	0.00
Yes, rescue	3	2.75
Yes, home fire safety check/visit	5	4.59
Yes, business safety check/audit	3	2.75
Yes, community use of fire station	4	3.67
Yes, youth education	5	4.59
Yes, community event	24	22.02
Yes, at a public consultation event for our Safer Together Programme	29	26.61
No, I have not used a Devon and Somerset Fire and Rescue service	61	55.96
Other	3	1.83
Total	140	

Other responses received included the following:

- Assessment Team – 1 response
- Employment of retained staff – 2 responses

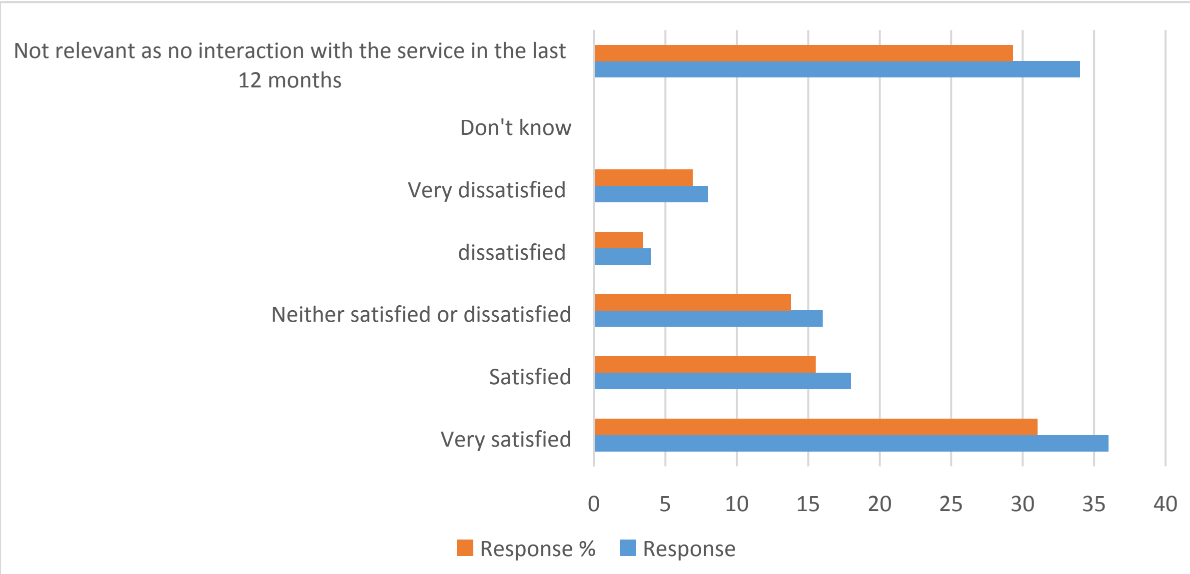
2.13 The results indicate that almost (56%) of respondents have not interacted with the Service in the last 12 months, however, (22%) had attended community events and over a quarter of respondents (27%) had attended a public consultation event for the Safer Together programme.

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

Table 5: Response to question 7

Answer Option	Response	Response %
Very satisfied	36	31.03
Satisfied	18	15.52
Neither satisfied or dissatisfied	16	13.79
dissatisfied	4	3.45
Very dissatisfied	8	6.90
Don't know	0	0.00
Not relevant as no interaction with the service in the last 12 months	34	29.31
Total	116	

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



The results indicate that almost (47%) of respondents were satisfied or very satisfied with the level of service received by DSFRS.

2.15 Q8. What has influenced how you answered question 7?

2.16 Respondents were asked to provide comments on what influenced their level of satisfaction/dissatisfaction with the service provided by DSFRS. It was evident as mentioned earlier that the earlier summer public consultation had influenced a number of responses to this question.

The common emerging themes from respondents highlighted:

- Recognition of dedicated front line staff but concerns over support from management
- Acknowledgement of good response times to incidents
- Willingness to increase precept charge
- Awareness of fire appliances not being available

- Effects of recent consultation process and proposed changes to the Service
- Seeking public reassurance around emergency response when contacting 999

A sample range of comments made by respondents are listed below:

- *'The frontline staff clearly are dedicated and response seems good on most occasions. Not sure they are supported enough by the management within the Authority and standards may be reducing as a result.'*

- *'Fire appliances not available.'*

- *'As a DSFRS employee (support) I have an understanding of the huge effort it takes to operate an effective front line emergency service and the resources required to support the communities of Devon and Somerset. The transformation required by the Government comes at a financial price but this should not be allowed to adversely affect the incredible work the Service provides keeping our region safe - if we as a community want the Fire and Rescue Service we deserve then an small increase in the precept will help.'*

- *'Media, contact with local firefighters and other employees, review of committee papers and other publicly available documents.'*

- *'I want to pay for the stations, fire engines & firefighters that exist now. No closures or reductions.'*

- *'It is immaterial until it goes wrong. When it goes wrong I want to be able to call 999 safe in the knowledge the right resources are available to attend in the shortest time. Services are NOT businesses and they need proper funding.'*

- *'Staff spoken with are so dedicated and passionate about their job. They care so much for the communities they serve.'*

3. Profile of Respondents

3.1 The following questions provided an opportunity to gather local intelligence from respondents and ascertain whether a cross section of people had responded to the survey.

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

Answer Option	Response	Response %
A member of the public	78	67.24
A member of DSFRS staff	21	18.10
Representing a business	5	4.31
Prefer not to say	9	7.76
Other	3	2.59
Total	116	

Other responses received included the following:

- How is this relevant?
- DSFRS firefighter

- Welfare Volunteer

Table 7: Responses to Question 10 – regarding age

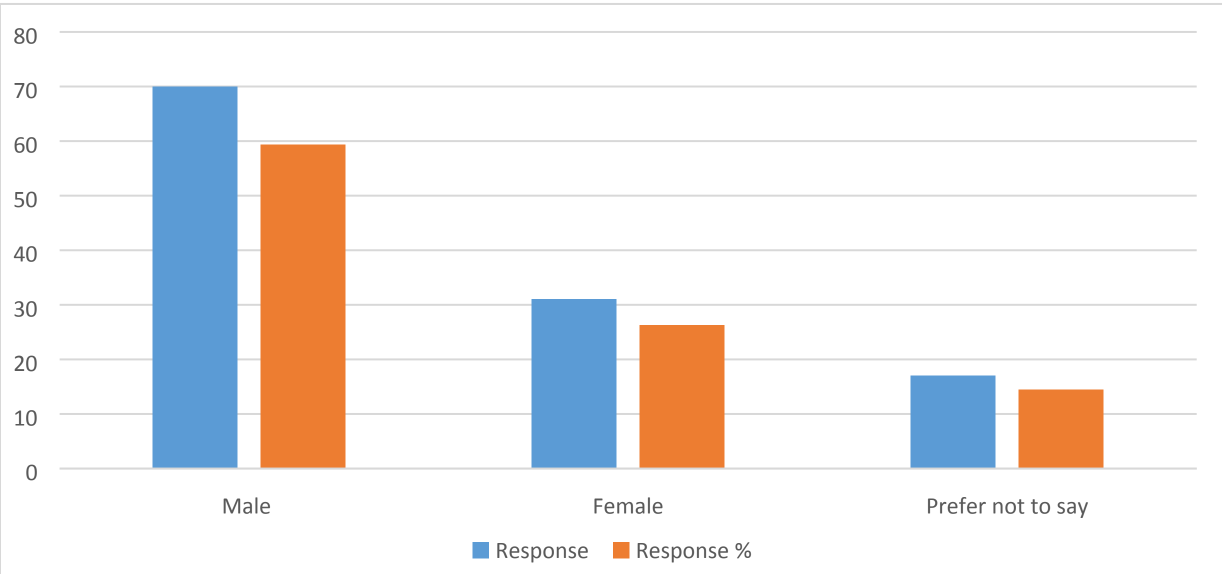
Answer Option	Response	Response %
16-24	11	9.24
25-34	23	19.33
35-44	24	20.17
45-54	21	17.65
55-64	13	10.92
65-74	15	12.61
75-84	2	1.68
84+	0	0.00
Prefer not to say	10	8.40
Total	119	

3.2 The results indicate that the majority of respondents were aged between the categories of 25-34 (19%), 35-44 (20%) and 45-54 (18%). There was a very low response rate from those aged between 75-84 (2%) and no response from anyone aged over 84 years.

Table 8: Responses to Question 11 – regarding gender

Answer Option	Response	Response %
Male	70	59.32
Female	31	26.27
Prefer not to say	17	14.41
Total	118	

Chart 5: Results of question relating to gender



3.2 The results indicate that the majority of respondents were male (59%).

Table 9: Responses to Question 12 – regarding gender identity

Answer Option	Response	Response %
Yes	92	78.63
No	0	0.00
Prefer not to say	25	21.37
Total	117	

3.3 This question asked respondents to confirm their gender identity matched their sex as registered at birth. The results indicate that the majority of respondents (78%) confirmed that their gender identity did match their sex as registered at birth.

Table 9: Responses to Question 13 regarding sexual orientation

Answer Option	Response	Response %
Hetrosexual or straight	81	72.32
Gay man	2	1.79
Gay Woman	0	0.00
Bi-Sexual	3	2.68
Asexual	0	0.00
Prefer not to say	23	20.54
Other	3	2.68
Total	112	

3.4 The three ‘Other’ responses received were comments which questioned the relevance of asking for this information.

Table 10: Responses to Question 14 – regarding relationship status

Answer Option	Response	Response %
Single (never married or in a civil partnership)	15	13.16
Cohabiting	16	14.04
Married	53	46.49
In a civil partnership	1	0.88
Seperated (but still legally married or in a civil partnership)	0	0.00
Divorced or civil partnership dissolved	2	1.75
Widowed or a surviving partner from a civil partnership	3	2.63
Prefer not to say	22	19.30
Other	2	1.75
Total	114	

3.5 The two ‘Other’ responses received were comments which questioned the relevance of asking for this information.

Table 11: Responses to Question 15 – regarding disability, long term illness or health condition.

Answer Option	Response	Response %
Yes	7	5.98
No	87	74.36
Prefer not to say	23	19.66
Total	117	

3.6 The results indicate that the majority of respondents (74%) stated that they did not have a disability, long term illness or health condition.

Table 12: Responses to Question 16 – regarding caring responsibilities.

Answer Option	Response	Response %
None	63	54.31
Primary carer of a child or children (under 2 years)	9	7.76
Primary carer of a child or children (between 2 and 18 years)	18	15.52
Primary carer of a disabled child or children	1	0.86
Primary carer or assistant for a disabled adult (18 years and over)	1	0.86
Primary carer or assistant for an older person or people (65 years and over)	3	2.59
Secondary carer (another person carries out main caring role)	6	5.17
Prefer not to say	23	19.83
Total	124	

3.7 The results indicate that (54%) of respondents do not currently have any caring responsibilities.

Table 13: Responses to Question 17 – regarding religion

Answer Option	Response	Response %
No Religion	59	51.75
Christian all denominations	25	21.93
Buddhist	0	0.00
Hindu	0	0.00
Jewish	0	0.00
Muslim	0	0.00
Sikh	0	0.00
Prefer not to say	27	23.68
Other	3	2.63
Total	114	

3.8 The results indicate that almost (52%) of respondents have no religion and almost (22%) state their religion as Christian all denominations.

3.9 The three ‘Other’ responses received were:

- Raelian
- Agnostic
- How is this relevant?

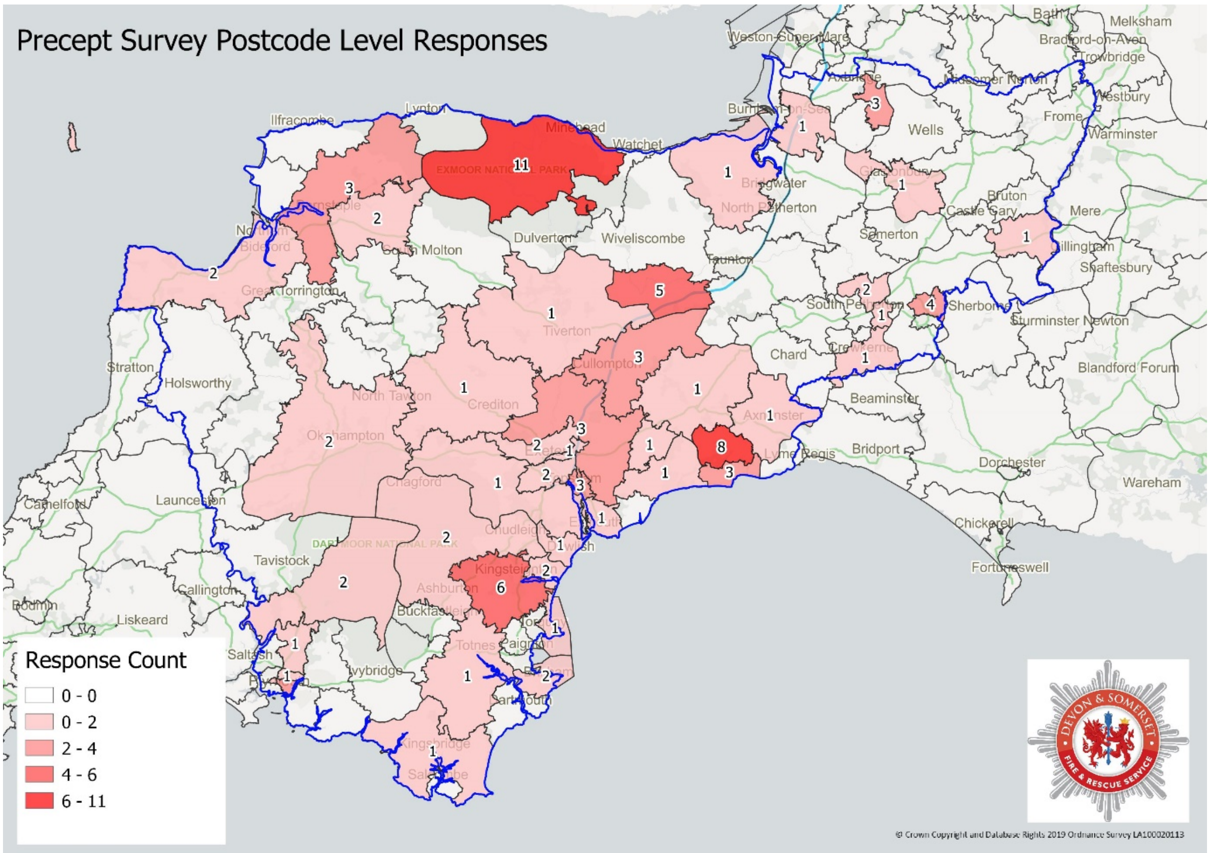
Table 14: Responses to Question 18 – regarding ethnic origin.

Answer Option	Response	Response %
White - English / Welsh / Scottish / Northern Irish / British	91	78.45
White - Irish	1	0.86
White - Gypsy or Irish Traveller	0	0.00
Any other white background	1	0.86
White and black Caribbean	0	0.00
White and black African	0	0.00
White and Asian	0	0.00
Any other mixed multiple ethnic background	0	0.00
Asian / Asian British - Indian	0	0.00
Asian / Asian British - Pakistani	0	0.00
Asian / Asian British - Bangladeshi	0	0.00
Asian / Asian British - Chinese	0	0.00
Any other Asian background	0	0.00
Black / black British - African	0	0.00
Black / black British - Caribbean	0	0.00
Any other black background	0	0.00
Other ethnic groups - Arab	0	0.00
Prefer not to say	23	19.83
Total	116	

3.10 The results indicate that the majority of respondents (78%) stated they were White – English / Welsh / Scottish / Northern Irish / British.

3.11 Respondents were asked to provide their postcode, this helps us to understand whether we received a cross section of responses from across Devon and Somerset. Of the 155 total respondents, 106 provided a postcode and thee have been displayed on the map on page 12.

Map displaying respondents’ postcode areas



4. Promoting the consultation

4.1 The consultation was promoted using Facebook and Twitter and the website homepage. (See posts on Facebook and website banner on page 13). The advertising of the consultation was cut short due to the Purdah pre-election period which was announced shortly after we commenced with initial posts on social media.

4.2 The Facebook post reached 7,373 people and 197 people clicked through from Facebook to the survey page. There was quite an active discussion on Facebook with 79 comments – these were mostly negative and in relation to the consultation and the timing of the precept survey.

4.3 The tweet had 3.6K impressions, 72 click throughs and 2 comments. The comments were similar to those on Facebook.

4.4 A banner was featured on the website homepage from the date when the survey opened but this was taken down once the Purdah period began.


Devon & Somerset Fire & Rescue Service
We're reviewing our Council Tax charges for 2020/21. Complete our survey and help us decide on next year's budget. socsi.in/pbHlq
Tag photo
Add location
Edit
7,373
People reached
1,357
Engagements
Boost Post
79 comments 26 shares
Like
Comment
Share
Most relevant
FIRE
FIRE


Devon&Somerset Fire
@DSFireUpdates
Follow
We're reviewing our Council Tax charges for 2020/21. Complete our survey and help us decide on next year's budget. socsi.in/kxjOJ
FIRE
FIRE
1:29 am - 7 Nov 2019
1 Retweet 5 Likes
Stopfirecuts
Replying to @DSFireUpdates
How do you expect people to decide what is reasonable without telling them what impact each choice will have on the service? People don't agree to spend more unless they know what they are paying for.


Help us decide on next year's Council Tax charges
Complete our survey

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REPORT REFERENCE NO.	**RC/20/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2020-21 TO 2022-23**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 18 February 2020 be recommended to:*** ***(a) approve the draft Capital Programme 2020-21 to 2022-23 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively; and*** ***(b) note, subject to (a) above, the forecast impact of the proposed Capital Programme (from 2023-24 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2020-21 to 2022-23 and also outlines the difficulties in meeting the full capital expenditure requirement for the Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget. The Committee has supported the Treasurer's recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2022-23 based upon indicative capital programme levels for the years 2023-24 to 2024-25.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2020-21 to 2022-23 (and indicative Capital Programme 2023-24 to 2024-25). B. Prudential Indicators 2020-21 to 2022-23 (and indicative Prudential Indicators 2023-24 to 2024-25).
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

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

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

1.3. To mitigate the impact of this withdrawal of funding to the 5% debt ratio, the Authority agreed as part of the previous year budget setting to replace this funding with a significant revenue base contribution to funding the capital programme and building a capital reserve for the medium term. Due to cost pressures and grant funding cuts, it is becoming increasingly difficult to sustain the revenue contribution to capital available in previous years.

1.4. On the 10th of January 2020 the Authority approved changes to the Service Delivery Operating Model, which have been incorporated into the proposed capital programme. The changes will reduce pressures on the capital requirement by removing two fire stations from the estate and reducing by eight fire appliances. This paper outlines an ambitious capital programme, including plans to introduce 25 new Medium Rescue Pumps (MRP, our largest fire appliances) into the fleet over the next three years at a cost of £6.6m. At time of writing, the chassis for 15 MRPs have been ordered with a total price of £1.5m. This fleet replacement programme, when combined with multiple station rebuilds, will see a significant draw on the capital reserve which is now expected to be used up by 2023/24.

1.5. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2020-21 to 2022-23 and indicative Capital Programme 2023-24 to 2024-25 show that, despite the reduced number of assets, the Authority will need to borrow up to £10m. Alternatively, there may be a need to restrict the amount of funding available to the Capital Programme and task the Service with further rationalising its assets.

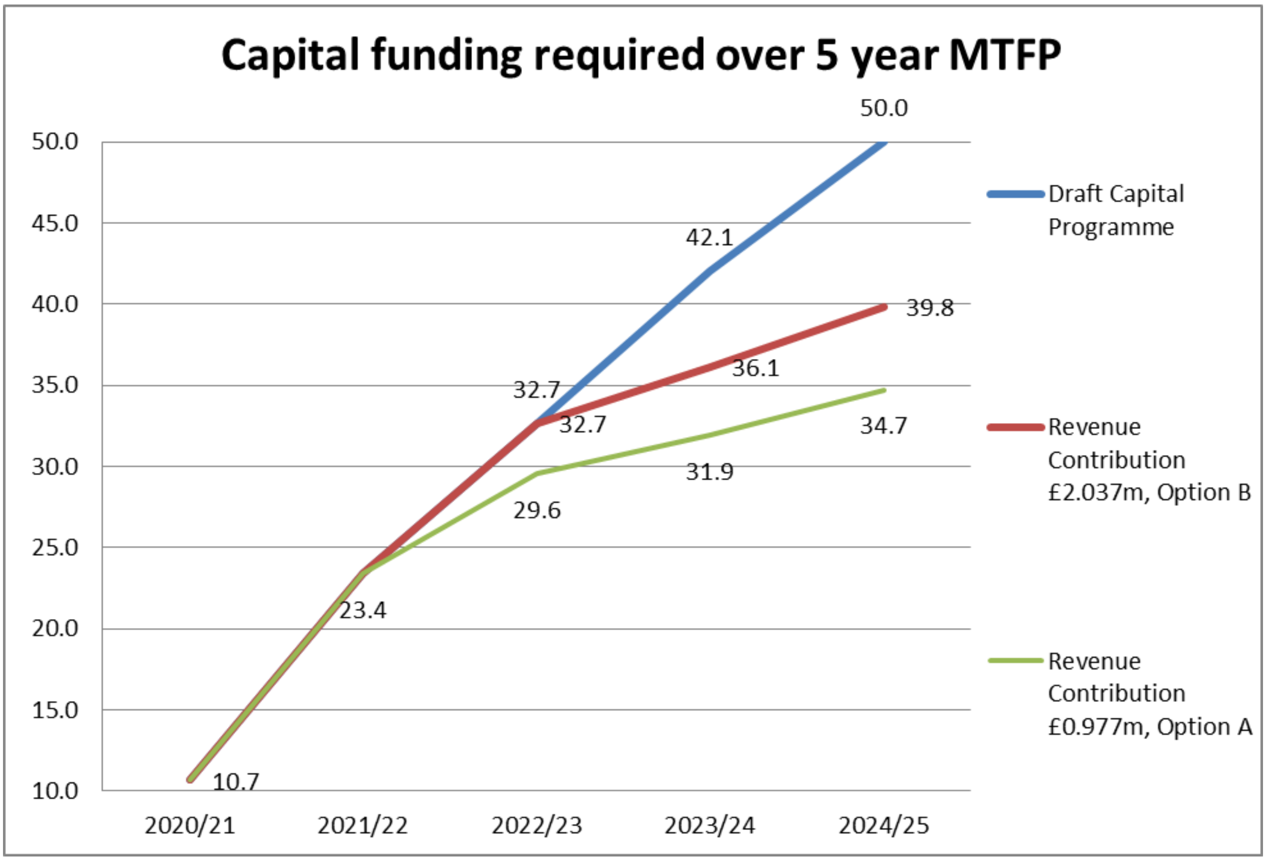
2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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

2.2. The proposed programme and funding, as contained in this report, decreases the external borrowing requirement to £24.3m by 2022-23 (£27.4m if Council Tax is not increased each year), and the debt ratio is pushed towards the 5% maximum limit by 2024/25 (forecast to be 4.09% or 4.47% if council tax is not increased). This compares to current external borrowing of £25.4m as at 31 March 2020 and a debt ratio of 3.9%.

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

2.4. With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that increasing the Revenue Contribution to Capital will not be possible over the MTFP period and therefore, new borrowing will be undertaken. However, as the Authority has a long term strategy to reduce borrowing, the capital programme has been redesigned for 2020-21 as a result of the project to align our Service Delivery resources to risk. However, significant pressures still remain and the chart below shows the gap between the costs of maintaining the new asset base and an affordable capital programme based on utilisation of revenue contribution, existing borrowing and the capital reserve.



2.5. The funding gap demonstrates a clear requirement to consider further consider asset rationalisation in alignment with the Authority's future Integrated Risk Management Planning and review the requirement for specialist vehicles.

2.6. Due to current interest rates and the potential need to borrow in the future, it is not currently recommended that the Authority repay loans early. This means that existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed to maximise economy of funding sources.

2.7. Elsewhere on the agenda for this meeting is a separate report “2020-21 Revenue Budget and Council Tax Levels”. The draft 2020-21 revenue budget included in that report makes provision for a revenue contribution towards capital of £2.037m if Council Tax is increased by 1.99% or £0.977m if Council Tax is not increased. The Committee has been made aware that, in order that a sustainable capital programme be prepared, then a revenue contribution to Capital will be required. This needs to be built into revenue base budget to replace the direct grant funding previously received from the government but withdrawn from 2015-16. This figure will need to be reviewed annually as part of the annual budget setting process.

3. REVISED CAPITAL PROGRAMME FOR 2020-21 to 2022-23

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2020-21 to 2022-23 as contained in this report. This programme represents a net decrease in overall spending of £15.6m over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2019-20	5.0	3.8	8.8
2020-21	10.2	6.3	16.5
2021-22 (provisional)	7.9	4.9	12.8
2022-23 (provisional)	9.3	3.8	13.1
Total 2019-20 to 2022-23	32.4	18.8	51.2
Proposed Programme			
2019-20 (forecast spending)	1.3	1.6	2.9
2020-21	6.2	4.5	10.7
2021-22 (provisional)	5.9	6.8	12.7
2022-23 (provisional)	5.7	3.6	9.3
Total 2019-20 to 2022-23	19.1	16.5	35.6
Proposed change	-13.3	-2.3	-15.6

Estates

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

3.3. As a result of decisions to change the Service Delivery Operating Model, a programme of improvement has commenced to improve or replace stations whose future strategic importance is now confirmed and where investment into the facilities and site is appropriate and viable. The current programme anticipates that this investment will increase over the next 5 years to meet our future operational needs. However, the affordability considerations detailed in this paper will mean that those plans may have to be revisited.

3.4. Public Consultation over proposed station closures clearly indicated a preference to merge fire stations; this would mean sourcing new sites and building new stations at a significant cost and the Service will commence feasibility studies for potential mergers in the near future. Any such mergers would be subject to public consultation and decision by the Authority.

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

Operational Assets

3.6. The Service has developed a Fleet, Equipment and Water Supply Strategy which recognises that our service delivery model is changing. A whole life costing review of the Rapid Intervention Vehicles (RIV) appliance and complete fleet of 121 pumping appliances was undertaken and will be reviewed in light of the decision to reduce the fleet by 8 fire engines.

3.7. A review of the fleet profile of RIV, Light Rescue Pump and Medium Rescue Pumps (MRP) will be undertaken to confirm operational requirements of the new Service Delivery Operating Model. It is anticipated that further RIVs will be introduced to the fleet.

3.8. The project to replace MRPs is well underway, with a contract awarded in January 2020 to renew a considerable number of vehicles over the next three year period. The first 15 vehicles are expected to be delivered in the 2020-21 financial year, which will see a significant draw on the capital reserve. The Service has also instigated a project to review and replace Aerial Ladder platforms and review other specialist appliances. Wildfire 4x4 vehicles have now been delivered and appropriate locations are being determined; this capability will be fully rolled out in 2020-21 subject to training of our staff.

3.9. A 10 year vehicle replacement programme has been developed along with an equipment replacement programme (which is funded from revenue due to the low value of each individual asset). The Asset Management Project will enable the Service to assess the whole life costs of our assets in the future. However, as indicated in this paper, the programme will be subject to review due to affordability of the whole capital programme.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2022-23 to 2024-25. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2.

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

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	24.851	24.757	24.264	29.723	33.456
Base budget for capital financing costs and debt charges	3.885	3.812	3.312	3.236	3.656
Change over previous year		(0.073)	(0.500)	(0.076)	0.420
Debt ratio	4.61%	4.46%	3.77%	3.62%	4.09%

4.2. The forecast figures for external debt and debt charges beyond 2022-23 are based upon the indicative programmes as included in Appendix A for the years 2023-24 to 2024-25. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

5. PRUDENTIAL INDICATORS

5.1. Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £27.3m to £34.4m (including impact of proposed revenue contributions) by 2024-25.

5.2. The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority and the ability to baseline revenue contribution. Whilst the programme now presented maintains borrowing within 5% to 2024-25, this will only be possible with appropriate annual revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

6. CONCLUSION

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

6.2. The capital programme has been constructed on the basis that the revenue budget contribution to capital will be maintained in future years and highlights that unless capital assets are further rationalised, there will be a need to borrow in 2023-24. The programme proposed in this report does not commit any spending beyond 2022-23. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The programme is therefore recommended for approval and a future affordability review will be undertaken.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

APPENDIX A TO REPORT RC/20/2

Capital Programme 2020/21 to 2024/25								
2019/20 £000 Budget	**2019/20 £000 Forecast Outturn**	**Item**	**PROJECT**	**2020/21 £000 Budget**	**2021/22 £000 Budget**	**2022/23 £000 Budget**	**2023/24 £000 Indicative Budget**	**2024/25 £000 Indicative Budget**
			Estate Development					
1,117	352	1	Site re/new build (subject to formal authority approval)	3,495	500	0	0	0
3,902	937	2	Improvements & structural maintenance	5,423	4,100	6,100	3,800	3,700
		3	Optimism bias	(2,700)	1,300	(400)	1,800	
5,019	**1,289**		**Estates Sub Total**	**6,218**	**5,900**	**5,700**	**5,600**	**3,700**
			Fleet & Equipment					
1,793	0	4	Appliance replacement	5,034	3,200	1,600	2,200	3,300
1,134	1,089	5	Specialist Operational Vehicles	300	3,600	1,100	1,100	900
553	380	6	Equipment	0	0	0	0	0
268	92	7	ICT Department	176	300	0	0	0
46	0	8	Water Rescue Boats	46				
		9	Optimism bias	(1,100)	(300)	900	500	
3,794	**1,561**		**Fleet & Equipment Sub Total**	**4,456**	**6,800**	**3,600**	**3,800**	**4,200**
8,813	**2,850**		**Overall Capital Totals**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**
			Programme funding - revenue funding at £2.037m					
4,195	0	10	Earmarked Reserves:	7,055	8,646	5,904	135	0
2,614	846	11	Revenue funds:	2,037	2,037	2,037	2,037	2,037
0	0	12	Capital receipts:	60	0	0	0	0
2,004	2,004	13	Borrowing - internal	1,522	2,017	1,359	1,276	1,672
		14	Borrowing - external				5,952	4,191
8,813	**2,850**		**Total Funding**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**
			Programme funding - revenue funding at £0.977m					
4,195	0	15	Earmarked Reserves:	8,175	9,706	3,859	0	0
2,614	846	16	Revenue funds:	977	977	977	977	977
0	**0**	17	Capital receipts	60	0	0	0	0
2,004	2,004	18	Borrowing - internal	1,522	2,017	1,359	1,347	1,841
0	0	19	Borrowing - external	0	0	3,105	7,076	5,082
8,813	**2,850**		**Total Funding**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**

The “Optimism Bias” incorporates learning that these figures will change throughout the year, the reasons for any such changes will be outlined in subsequent papers

PRUDENTIAL INDICATORS

	2020/21	2021/22	2022/23	2023/24	2024/25
				INDICATIVE INDICATORS 2022/23 to 2023/24	
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure					
Non - HRA	10.674	12.700	9.300	9.400	7.900
HRA (applies only to housing authorities)					
Total	10.674	12.700	9.300	9.400	7.900
Ratio of financing costs to net revenue stream					
Non - HRA	4.61%	4.46%	3.77%	3.62%	4.09%
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	24,851	24,757	24,264	29,723	33,456
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	2,481	1,834	1,425	1,148	900
Total	27,332	26,592	25,690	30,870	34,356
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	776	(741)	(902)	5,181	3,486
HRA (applies only to housing authorities)	0	0	0	0	0
Total	776	(741)	(902)	5,181	3,486
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,787	26,189	26,071	31,802	35,687
Other long term liabilities	3,298	2,573	1,906	1,482	1,193
Total	30,085	28,762	27,976	33,285	36,880
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	25,544	24,951	24,857	30,316	34,014
Other long term liabilities	3,174	2,481	1,834	1,425	1,148
Total	28,718	27,432	26,692	31,741	35,162
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	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2020/21		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

REPORT REFERENCE NO.	**RC/20/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**CAPITAL STRATEGY**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATION	***That the Authority endorses the Capital Strategy as set out in this report.***
EXECUTIVE SUMMARY	The 2017 Prudential Code included the requirement for all Local Authorities to produce an annual capital strategy that is agreed by the Authority. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high level overview of how capital expenditure and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017

1. INTRODUCTION

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 included a new requirement for local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

1.2. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high level overview of how capital expenditure and the way it is financed contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.

2. CAPITAL EXPENDITURE

2.1. Capital expenditure is incurred on the acquisition or creation of assets that yield benefits for a period of more than one year and carry significant cost; for this Authority the capital de minimis level is set as £20,000. It includes land, new buildings, enhancement to existing buildings within the estate and the acquisition of vehicles and major items of equipment. Intangible assets such as software can also be classed as capital expenditure; this is in contrast to revenue expenditure which represents spending on day to day running costs such as salaries, heat and light.

3. CAPITAL EXPENDITURE COMPARED TO TREASURY MANAGEMENT INVESTMENTS

3.1. Treasury Management investments arise from the organisation's cash flows and debt management activity, and ultimately represent balances which can be invested until the cash is required for use in the course of business. As an example, the Authority sets aside an amount each year to reflect the usage of an asset (Minimum Revenue Provision – see Section 17 below). This amount is invested but cannot be used to fund future capital expenditure as it is required to pay off a loan on maturity.

3.2. For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the annual Treasury Management Strategy Statement.

3.3. Performance on Treasury Management investments is reported to the Resources Committee at the end of each quarter.

4. CAPITAL REQUIREMENTS

4.1. This Authority has experienced significant revenue grant reductions since 2010 and no longer receives any capital grant. With further revenue grant reductions a possibility and increasing cost pressures, new ways of working are being implemented so that the Service can address the risks within our communities and balance the budget. The Safer Together programme has identified those risks and helps quantify the resources needed in terms of premises and vehicles that are needed in each location. The Integrated Risk Management Plan (IRMP), along with the Fire and Rescue National Framework, identifies emerging challenges such as the continued threat of terrorism, the impacts of climate change and impacts of an ageing population.

4.2. The Authority currently has 85 fire stations across the counties of Devon and Somerset, two of these are due to close in 2020/21 as part of the Safer Together Programme.

4.3. Currently, the Service has 121 front-line fire engines (which will reduce to 112 in 2020/21) and 19 Special Appliances, many of these have surpassed their economic life. Ensuring prioritisation over where capital resources are used to best utilise our Estate and Fleet of vehicles is paramount.

5. PROJECT INITIATION

5.1. Capital projects are subject to a robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken.

5.2. Proposals are commissioned by the Executive Board and then monitored through regular meetings between capital leads, procurement and finance officers. The Safer Together Programme Board considers variations to plan and monitors milestones.

5.3. A formal process of project management is followed with a project manager or building surveyor assigned to each Capital scheme to ensure they are subject to thorough oversight for the duration of the project. The project manager will oversee planning, delivery, management, skills assessment and governance of capital projects.

5.4. Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure;
- Identified need – e.g. vital repairs and maintenance to existing assets;
- Achievability – this may include alternatives to direct expenditure such as partnerships;
- Affordability and resource use – to ensure investment remains within sustainable limits;
- Practicality and deliverability; and
- Resource time is assessed when considering projects to ensure both delivery of projects and day-to-day work is covered.

5.5. To support a robust governance process, for larger capital investment projects, the Service uses the "Five Case" model to develop the business case as recommended by HM Treasury. The model provides a discipline and structure to arrive at the best possible decision and considers; The strategic case (the case for change), the economic case (value for money), the commercial case (it is commercially viable and attractive to the market), the financial case (to ensure the proposed spend is viable) and finally the management case (that the requirement is achievable).

6. THE SERVICE CAPITAL PROGRAMME 2020/21 – 2024/25

6.1. The Service capital programme for 2020/21 – 2024/25 is considered annually and is set out in Table 1 below.

Capital Programme 2020/21 to 2024/25

2019/20 £000 Budget	2019/20 £000 Forecast Outturn	Item	PROJECT	2020/21 £000 Budget	2021/22 £000 Budget	2022/23 £000 Budget	2023/24 £000 Indicative Budget	2024/25 £000 Indicative Budget
			Estate Development					
1,117	352	1	Site re/new build (subject to formal authority approval)	3,495	500	0	0	0
3,902	937	2	Improvements & structural maintenance	5,423	4,100	6,100	3,800	3,700
		3	Optimism bias	(2,700)	1,300	(400)	1,800	
5,019	**1,289**		**Estates Sub Total**	**6,218**	**5,900**	**5,700**	**5,600**	**3,700**
			Fleet & Equipment					
1,793	0	4	Appliance replacement	5,034	3,200	1,600	2,200	3,300
1,134	1,089	5	Specialist Operational Vehicles	300	3,600	1,100	1,100	900
553	380	6	Equipment	0	0	0	0	0
268	92	7	ICT Department	176	300	0	0	0
46	0	8	Water Rescue Boats	46				
		9	Optimism bias	(1,100)	(300)	900	500	
3,794	**1,561**		**Fleet & Equipment Sub Total**	**4,456**	**6,800**	**3,600**	**3,800**	**4,200**
8,813	**2,850**		**Overall Capital Totals**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**
			Programme funding - revenue funding at £2.037m					
4,195	0	10	Earmarked Reserves:	7,055	8,646	5,904	135	0
2,614	846	11	Revenue funds:	2,037	2,037	2,037	2,037	2,037
0	0	12	Capital receipts:	60	0	0	0	0
2,004	2,004	13	Borrowing - internal	1,522	2,017	1,359	1,276	1,672
		14	Borrowing - external				5,952	4,191
8,813	**2,850**		**Total Funding**	**10,674**	**12,700**	**9,300**	**9,400**	**7,900**

7. FUNDING THE CAPITAL PROGRAMME

7.1. There are several funding sources available to meet the Authority's capital expenditure requirements. These are explored in more detail below.

8. REVENUE FUNDING

8.1. The Authority agreed on 24 February 2014 that an element within the Revenue budget for each year will go towards funding the capital programme and this has continued into each subsequent financial year. The amount awarded to assist with the capital programme is based on affordability and is specific to that year. Table 1 above identifies the amount the Authority is hoping to fund from Revenue each year.

9. PRUDENTIAL BORROWING

9.1. The Authority is permitted to take out regulated external borrowing. The Local Government Act 2003 refers to affordability and the requirement that the local authorities in England and Wales keep under review the amount of money they borrow for capital investment.

9.2. The Code requires that “The local authority shall ensure all of its capital and investment plans and borrowing are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt (including Minimum Revenue Provision) and consideration of risk and the impact on the overall fiscal sustainability”. The impact of borrowing is outlined within the Treasury Management Strategy Statement and monitored by the Resources Committee on a quarterly basis.

10. RESERVES

10.1. It has been the strategy of the Authority to utilise revenue contribution to fund capital expenditure. Following approval by the Authority, an amount of the in-year revenue budget underspend has been set-a-side and moved in to a Reserve to fund the future capital programme. The amount of Earmarked Reserve funding identified to fund the Capital programme is shown in Table 1 above. No additional external borrowing has been taken out - the last loan the Authority took out was in 2012. Depending on the size of the Capital programme, there could be a requirement for new borrowing within financial year 2022/23 if the quantity and type of assets remain the same.

11. MONITORING CAPITAL EXPENDITURE

11.1. The performance of the capital programme is reported to Officers each Month and to Members each quarter and forms part of the Financial Performance report. Any timing differences are also identified within the report.

12. RISK MANAGEMENT

12.1. The Prudential Code recognises that in making its capital investment decisions, the authority must have explicit regards to option appraisal and risk:

> “The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability.”

12.2. Each Capital scheme project will have its own risk register and options appraisal to manage the operational risk arising from the project, however this section of the strategy focuses on strategic risks arising from capital investment activity.

12.3. Every item will go through a rigorous justification process so that a greater scrutiny can be achieved over what is included within the capital programme. This will become even more critical if collated bids exceed the available funding. All investment will be aligned to the Integrated Risk Management Plan and the Fire & Rescue Plan to ensure that the Service is replacing the right assets, at the right location to address the risk and at the same time reducing our revenue costs to help balance the budget.

12.4. The Capital budget requirement is determined on an annual basis. The process starts at the end of the summer with relevant departments determining their requirements. Once formalised, the requirements are discussed and scrutinised with the relevant Director. Following that, they are presented to the Executive Board in Late November/early December before being presented to the Authority in February for approval in advance of the financial year to which it relates.

13. CREDIT RISK

13.1. There is a risk that a supplier becomes insolvent and cannot complete the agreed contract. Appropriate due diligence is carried out before a contract is as part of the procurement process.

14. LIQUIDITY RISK

14.1. This is the risk that the timing of cash inflows from a project will be delayed. In the main, the Authority's capital projects are self- funded and therefore don't rely on other organisations contributing or failing to make their contributions when agreed. Under the collaboration agenda it is likely that an increasing number of Capital projects will be shared across organisations. Liquidity risk and the impact on cash flows is monitored on a daily basis by the Treasury Management function.

15. FRAUD, ERROR AND CORRUPTION

15.1. This is the risk that financial losses will occur due to error, fraudulent or corrupt activities. The Authority has procedures in place to minimise the risk of fraud especially regarding changing of bank details for suppliers. There are also policies in place to address some of the risk such as the Whistleblowing Code, the Strategy on Protection and Detection of Fraud and the Declaration of Interests.

16. LEGAL AND REGULATORY RISK

16.1. This is the risk that changes to laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. An example of this is the potential for tariffs to be applied to import of vehicles chassis following Brexit, which could add tens of thousands to each appliance. Before entering into a capital project, officers will determine the powers under which any investment is made with input from our Treasury Management advisors.

16.2. Capital schemes must comply with legislation (Disability and Discrimination Act as an example) and also consider Authority Regulations, Service plans and Policies such as:

- Fire & Rescue Plan;
- Integrated Risk Management Plan;

- Contract Standing Orders; and
- Financial Regulations.

17. MINIMUM REVENUE PROVISION

17.1. Within the Local Government Act 2003, local authorities are required to have regard to the statutory guidance on Minimum Revenue Provision. The Ministry of Housing, Communities and Local Government has produced statutory guidance which local authorities must have regard to.

17.2. Minimum Revenue Provision represents the minimum amount that must be charged to an authority's revenue budget each year for financing capital expenditure, where it has initially been funded from borrowing. The Minimum Revenue Provision accounting practice allows the Authority to set aside an amount of money each year to ensure that it can pay off the debts it has from buying capital assets.

17.3. The Minimum Revenue Provision Policy is reviewed annually and is outlined within the Authority's Treasury Management Strategy Statement.

18. AFFORDABILITY OF THE CAPITAL PROGRAMME

18.1. A variety of factors are taken into account when determining the affordability of the Capital programme, including the impact on revenue budgets and reserves:

- Minimum revenue provision;
- Interest payable;
- Interest receivable;
- Revenue contribution to capital;
- The Authority's affordability indicator, that debt charges must be <5% of net revenue budget in each financial year.

18.2. The cheapest and most sustainable method to fund a Capital Programme is to set aside an amount from revenue each year to purchase assets, with any variations to the programme being smoothed out using an Earmarked Reserve for Capital.

18.3. Historically, the Authority received a Capital Grant of up to £2m per year and funded its capital programme using borrowing. It became apparent that the 5% indicator of affordability would soon be breached and therefore restrictions were placed on the asset replacement schedule, with the life of assets being extended.

The Authority's strategy is to reduce borrowing

18.4. As at 31 March 2020 external debt will be £25.4m.

18.5. Due to the introduction of a baselined revenue contribution to capital, budget and in year savings a healthy capital reserve has been built up, meaning that the Authority could spend c£40m over the next five years replacing and improving its assets without needing to borrow any more.

18.6. As a result of restrictions on the Capital programme over the past decade, there are now a considerable number of assets needing replacement or enhancement and the proposed programme totals £50.0m over the next five years. As only £39.8m of funding is available, officers will need to develop further plans to prioritise expenditure and avoid borrowing in the future.

18.7. The Safer Together programme has reviewed the Service Delivery Operating Model with focus on the way Vehicles and Equipment are managed. Both of these programmes have presented opportunities to rationalise the asset base which have fed into this iteration of the Capital Programme and Medium Term Financial Plan.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

REPORT REFERENCE NO.	**RC/20/4**
MEETING	**RESOURCES COMMITTEE (Budget Meeting)**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**MEDIUM TERM FINANCIAL PLAN 2020/21**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That the Devon & Somerset Fire & Rescue Authority be recommended to endorse the Medium Term Financial Plan as appended to this report.***
EXECUTIVE SUMMARY	The requirement to produce and publish a Medium Term Financial Plan is included in the current iteration of the Fire & Rescue National Framework for England. The document now attached outlines funding, income and expenditure forecasts for the Authority for the next five financial years (to 2024-25). The Plan identifies how the financial forecast is constructed (including funding sources and expenditure/cost pressures) together with savings targets over the period covered and the Change & Improvement Programme (Safer Together) which will be the principal vehicle for delivering these savings. As such, the Medium Term Financial Plan should be considered alongside the Safer Together Programme (which aims to deliver against those objectives in the community-facing Integrated Risk Management Plan and organisation-facing Fire & Rescue Plan) and the Reserves Strategy. The Medium Term Financial Plan will be updated at least annually as part of the budget setting process and will be refreshed more frequently as soon as any information making a material difference becomes available.
RESOURCE IMPLICATIONS	As set out in the Medium Term Financial Plan appended to this report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing Equalities and Human Rights legislation.
APPENDICES	A. Medium Term Financial Plan

LIST OF BACKGROUND PAPERS	Fire & Rescue Plan Integrated Risk Management Plan Report RC/19/10 (Reserves Strategy 2019-20) to the Resources Committee meeting on 15 May 2019, together with the Minutes of that meeting and the Minutes of the Authority Ordinary Meeting held on 7 June 2019 Fire & Rescue National Framework for England 2018

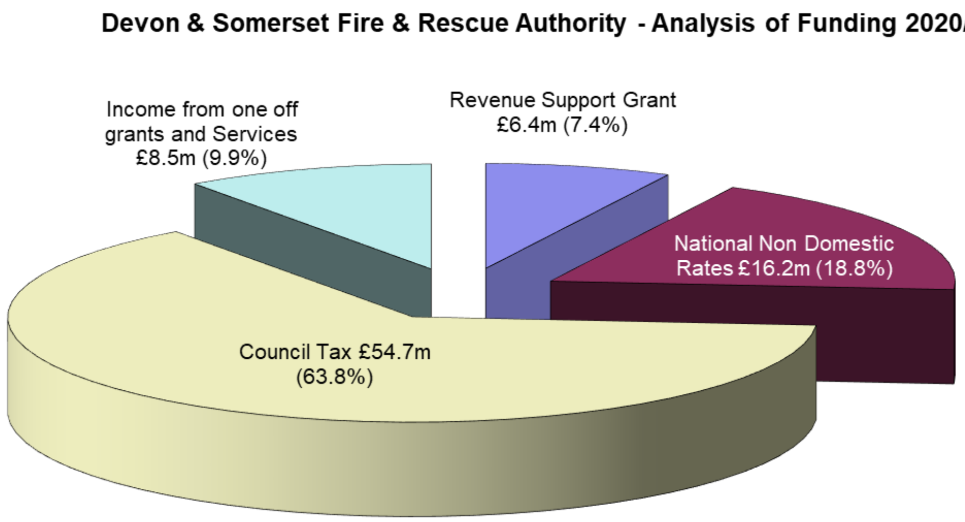
Introduction

Devon & Somerset Fire& Rescue Authority (the Authority) covers a diverse geographical area across two counties; with large towns and cities, market towns and isolated rural areas together with major roads and two extensive lengths of coastline. The current budget of £77.3m is used to resource 83 fire stations, 112 fire engines in addition to numerous special appliances. Over 2,000 staff deliver fire prevention and protection activity, respond to emergency calls and incidents and provide professional support functions. The Authority is progressing an ambitious change programme which will result in better alignment of resources to risk and see a significant investment in our On Call service. 2020/21 is the first year where the Authority will be budgeting for the new operating model and uses reserves to offset some of the investment, with benefits being realised over the medium term.

This document is the Medium Term Financial Plan and outlines funding, income and expenditure forecasts for the next five years. The Medium Term Financial Plan will be updated annually as part of the budget setting process and will be refreshed more frequently if information which makes a material difference becomes available. Understanding the Authority's finances is really important when making decisions about the future and this document should be read alongside the Authority's Fire and Rescue Plan, Integrated Risk Management Plan, Safer Together Programme and Reserves Strategy.

Funding and Income

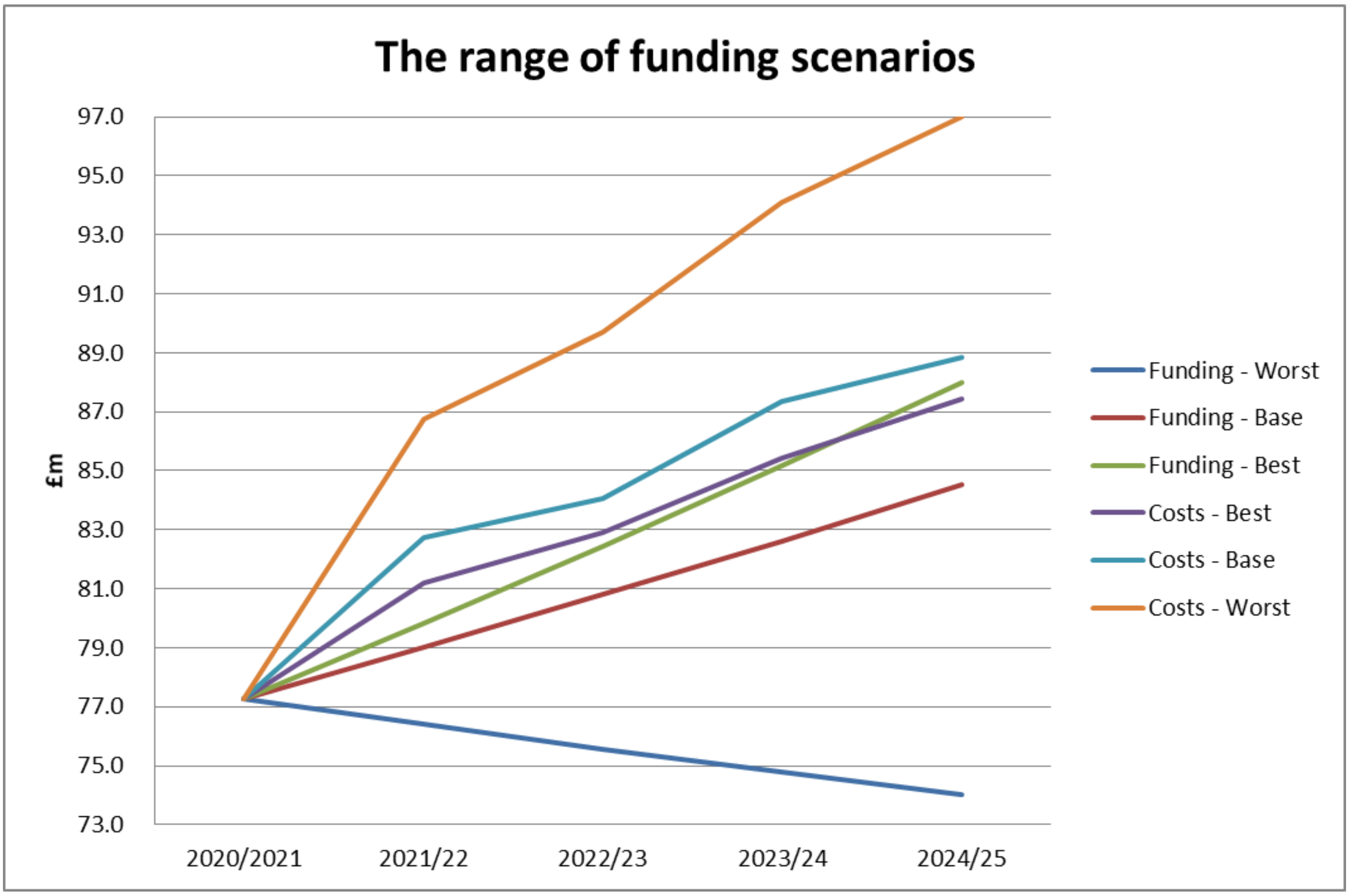
The Authority has three main sources of revenue funding; Council Tax Precept, National Non-Domestic Rates Scheme and Revenue Support Grant. Additionally, income from one-off grants, recharges and services is offset against our expenditure in order to reach the "net revenue budget" in each year.



Building the Medium Term Financial Forecast

Planning for different scenarios: The forecasts in this document represent a "base case" scenario which has been built on the latest information from government, sector knowledge and experience of finance officers. "Worst case" and "best case" scenarios are also developed to show the impact of various funding and cost pressures:

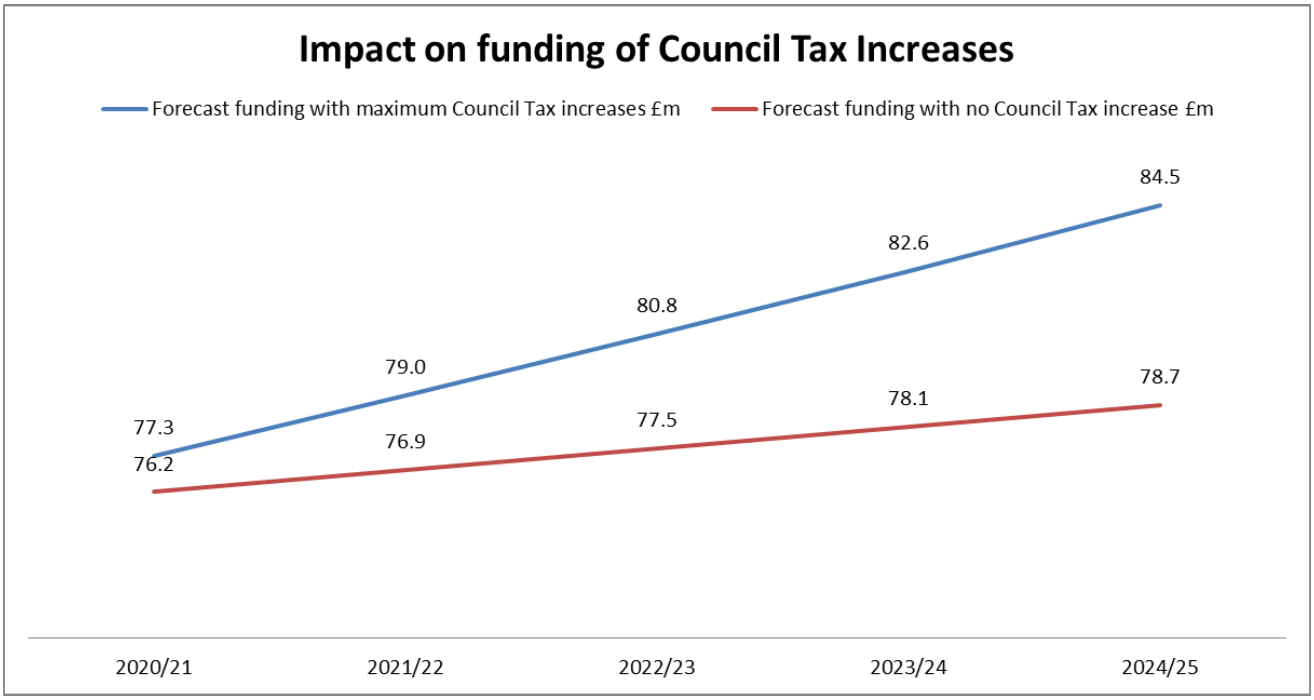
- In the Worst case; government grants are cut, pay and inflation see a steep increase, pension costs are unfunded , Council Tax is frozen and the base doesn't grow.
- In the Best case; government grants, pay and inflation remain steady, pension costs are funded and Council Tax is increased every year, with the council tax base achieving the 2% growth estimated by government.
- In the Base case, which is presented here; government remain static, pay and inflation remain steady, pension costs are funded and Council Tax growth tracks at the average for the area. This is what we consider to be the most likely scenario.
- The Base case is presented to the Authority with options over Council Tax and where savings targets are fed back into the budget setting process each year.



The range of scenarios presented in the chart above demonstrates that the savings gap (the difference between funding and costs) could vary from a deficit of £23m to a benefit of £0.6m over the next five years. The base case represents the most likely scenario and informs the Medium Term Financial Plan.

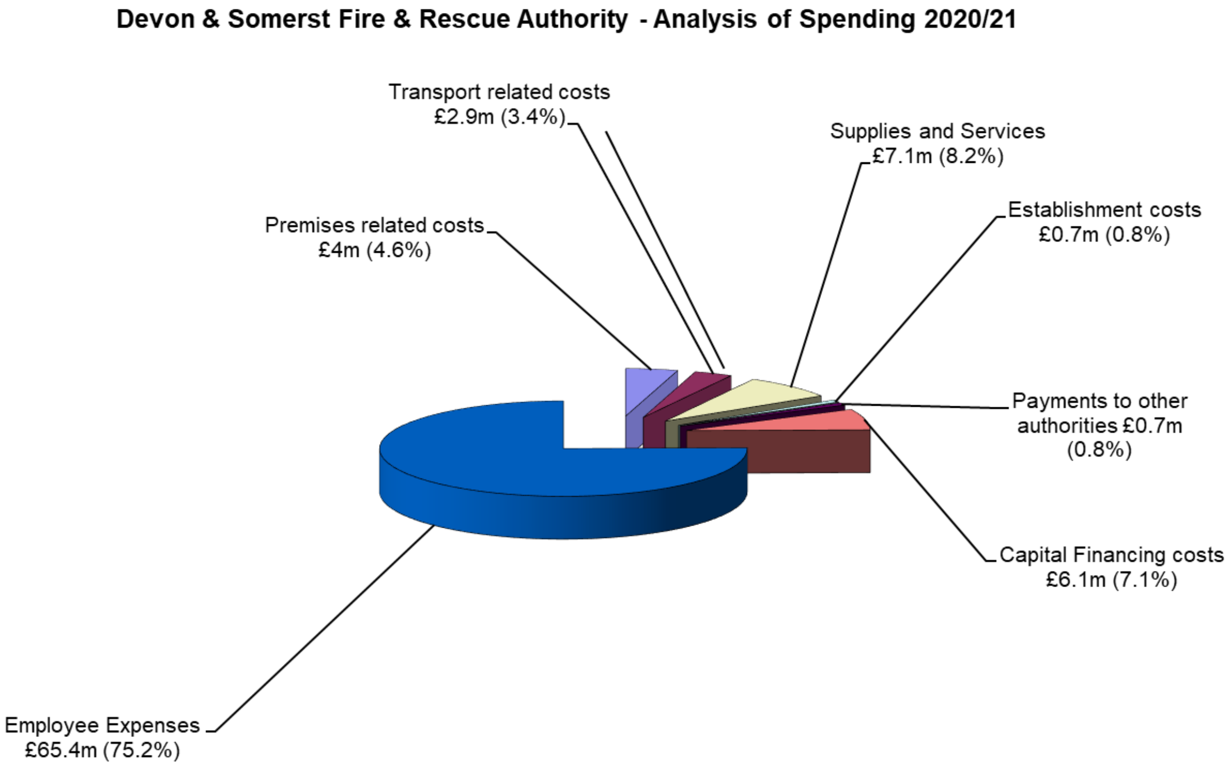
Because the Plan is reviewed annually, variations can be built in and projections are refined at regular intervals, short term exceptions can also be smoothed out using reserves.

Funding: When building the five year forecast, assumptions are made about each of the funding sources and how they may change in the coming years. A range of scenarios can then be used to calculate the anticipated funding available. The Authority only has direct control over the level of Council Tax raised each year and the following graph shows the impact on funding of maximum raises against no increases, which could amount to a difference of £5.8m over the next five years.



Expenditure: Assumptions are also made about forecast expenditure. The Authority can control some of its costs by managing its budget effectively; other elements are dependent on national drivers such as inflation, superannuation (pension) costs and pay awards. Expenditure is shown in the chart below and highlights that 75.2% of our costs are related to employees, meaning that increases in this area can have a significant impact on the budget.

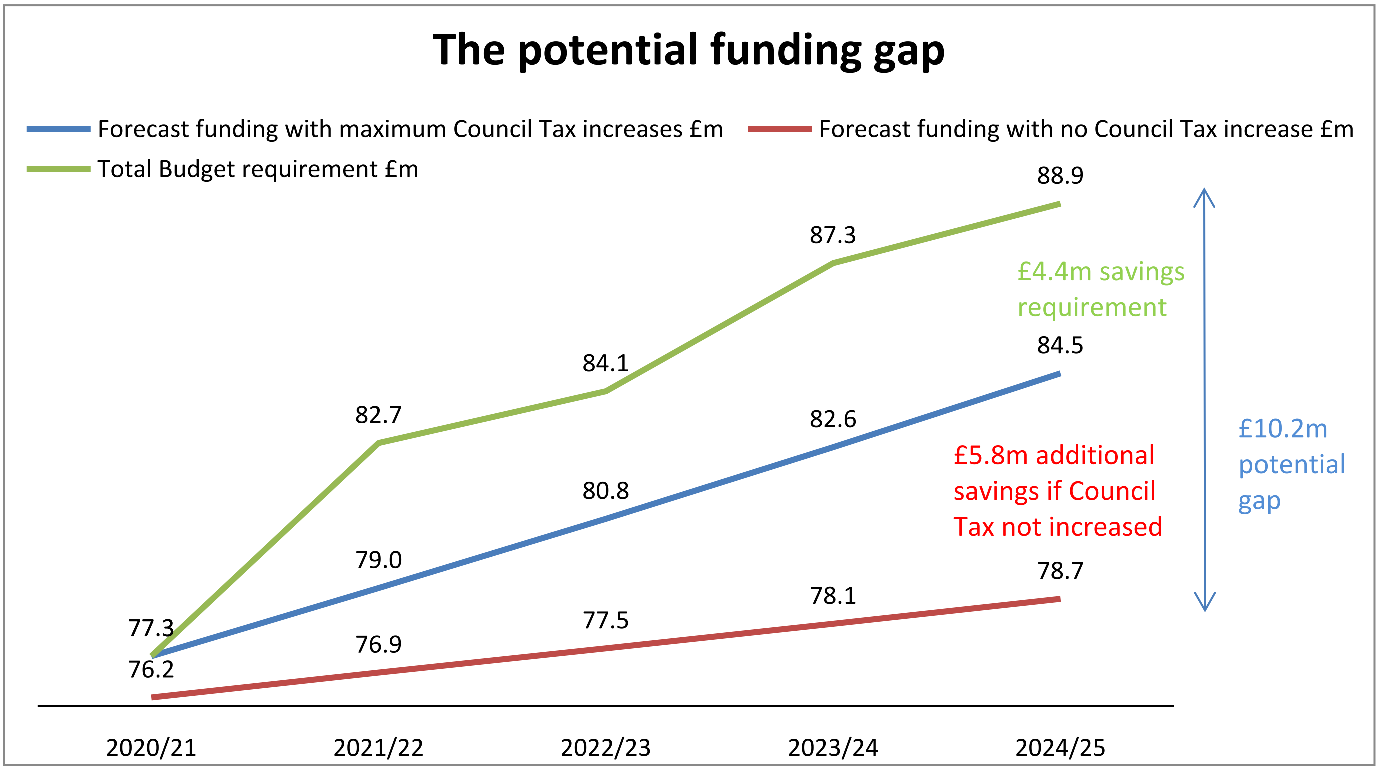
The Capital Programme is also paid for through Revenue funds; a combination of money set aside to pay for historic borrowing, budget provision to fund future capital expenditure and Reserves designated for Capital Use.



Cost Pressures: The medium term financial forecast identifies the following cost pressures within the next five years which are added to the current budget to reach the future budget requirement:

- Pay increases
- Inflation
- Pension increases
- Reduction to one-off grant income
- Capital investment

The most significant cost pressure at time of writing is firefighters' superannuation costs, which have increased to 30.4% of pay following the latest governmental valuation and which equates to approximately £4.1m per year extra. Whilst the majority of this increase (£3.9m) will be covered by one-off central government grant in 2020/21, the future position is uncertain. If the full cost is to be covered locally it will have a material impact on the Authority's finances.



Savings targets and the Safer Together Programme

The chart above shows the gap between potential funding available versus the budget requirement, including cost pressures. This is known as the funding gap. Over five years the funding gap could reach £10.2m if Council Tax is frozen, falling to £4.4m if increased in line with assumed referendum limits set by HM Treasury.

The Authority has an excellent history of achieving savings targets, with £13.5m saved over the five years to 2019/20 and also delivered in year savings which have been transferred to reserves.

Given the big challenge posed by the funding gap and the need to reform the Service, plans have been approved to future proof the organisation and deliver budget savings. The Fire and Rescue Plan describes what needs to change (and why) and together with the Integrated Risk Management Plan this has informed the development of the Safer Together Programme. The programme is the principal vehicle for realising the financial savings required to close the funding gap but the purpose is to improve the service to our communities. The changes to the Service Delivery Operating Model agreed in January 2020 will in fact represent an increase in costs rather than any overall savings as a result of investment in On Call Pay for Availability. The full Fire and Rescue Plan can be found at http://www.dsfire.gov.uk/AboutUs/WhatWeDo/OurCorporatePlan/documents/OurFireRescuePlan_000.pdf.

Both potential financial and non-financial benefits will be mapped at the programme level and then at the project level to ensure they continue to align with the Authority's vision and show how the programme contributes to the savings targets for the next four years.

The programme will be resourced through reserves in particular the 'invest to improve' reserve, details of which can be found in the Reserves Strategy.

The initial focus of the programme is the following four work streams.

Service Delivery Operating Model

This theme will develop a new model for Service Delivery. It will consist of a number of complex interdependent projects that together will deliver the new 'operational' model. It will be driven by the Integrated Risk Management Plan and will ensure that the operating model for Prevention, Protection and Response matches resources to the greatest risk.

This programme is designed to deliver the following key benefits:

- Financial savings from restructuring
- Prevention and Protection activity centrally managed to ensure a consistent service that focusses resources where the risk is greatest
- Improved recruitment and retention and a more flexible and diverse workforce
- More accurately matching resources to risk
- Availability of On Call fire engines appropriate to the local risk
- A reduction in fires and fire related injuries particularly amongst the most vulnerable groups of people

The Digital Strategy

This is an enabling work stream and will run intrinsically through every project, ensuring we are turning data into intelligence. The primary focus will be on Service Delivery with the development of supporting technology for the new Service Delivery Model. This will enable the Service to work smarter ensuring the use technology to improve the ability to perform well on the incident ground, taking a digital by default approach where that is appropriate.

The development and implementation of the Digital Strategy will provide clarity on the digital solutions that are required to enable service improvements, support new ways of working and to realise savings.

This work stream is designed to deliver the following key benefits:

- Efficiencies leading to financial savings
- Improved compatibility and simplification of existing systems
- Staff will have ready access to comprehensive, accurate, up to date information
- Enhanced use of mobile technology that reflects people's everyday use of technology
- Increased automation, reduced duplication and improved productivity
- Improved information management and security

Management of Fleet and Equipment.

This work stream will concentrate on the development of a robust framework for managing vehicles and equipment. It will outline a new mobile asset management strategy that will lead to new and improved processes and policies and a well-managed asset register. This will ensure the Service can always track its assets and is managing and using them in the most effective and efficient way.

This work steam is designed to deliver the following key benefits:

- The development of fleet strategy to support new service delivery models, bring in new technology and reducing costs.
- Ensuring adequate resources to manage planned maintenance and defects
- Make improvements in systems and administration to secure effective and efficient ways of working and controls
- All fleet and equipment purchases are made through Fleet & Equipment department to provide greater quality and control

Learning and Development

This work stream will concentrate on defining the Service's learning culture and a new model for developing its staff and ensuring people have the right skills at the right time to deliver the capabilities needed in an ever changing environment. The principal project for this work stream for the next 2 years is **Training for Competence.**

This work stream is designed to deliver the following key benefits:

- Financial savings from new ways of working
- All personnel maintain appropriate standards of competence relevant to risks in their role and location increasing firefighter safety.
- Training is targeted leading to an increase in quality and removal of a 'sheep dip' approach.
- Systems provide managers with better interrogation & better visibility of where the organisation is in relation to competence.
- Increased fire engine availability through improved compliance with competency requirements.
- Cultural change where the individual is aware and able to manage their own competence qualification and maintenance, which is scalable to the changing requirements of the Service.

Summary

The medium term financial forecast is indicating significant budget pressures over the next five year period and robust plans must be made to meet the challenge. The Service is progressing well with change plans and will need to start realising the benefits within the next year to ensure longer term financial sustainability. In addition to savings realised from the Safer Together programme, ongoing work will be done to reduce costs through budget management, procurement, collaboration and efficiency reviews.

Glossary and methodology for calculating assumptions

Council Tax Precept. Each household receives an annual Council Tax Bill which is made up of charges for various services such as County, Unitary, District and Parish Councils, Police and Fire. The charge is known as the Council Tax Precept and is determined by the Authority each year and is usually quoted as the amount for a Band D property. In Devon & Somerset there are 15 billing authorities made up of district and unitary councils and those bodies are responsible for sending out bills to households and collecting the money which is then paid over to the Authority.

Council Tax income received in each year is based on three elements and these are forecast separately:

- The amount of Council Tax Precept that each household pays is set by the Authority each year and in 2020/21 is subject to a maximum of 1.99% increase (any increase above that level would require a local referendum to be held).
- The number of households in the area (the Council Tax Base) which is estimated based on housing growth.
- The success of billing authorities in collecting their Council Tax; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Authority (Council Tax Surplus/Deficit).

National Non-Domestic Rates, also known as Business rates retention scheme, is made up of two elements; a proportion of business rates collected by billing authorities and paid directly to the Authority and a “Top-up grant” from central government which is intended to make up the difference between the Authority’s baseline funding and actual income (calculated by central government based on a proportion of total business rates funding across the fire sector).

National Non-Domestic Rates income received in each year is based on three elements and these are forecast separately:

- The amount of Business Rates Income
- The success of billing authorities in collecting their Business Rates; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Authority (Surplus/Deficit)
- The amount of Top-Up Grant due to the Authority which is notified by central government annually

Revenue Support Grant is received directly from central government and is based on the Settlement Funding Agreement which is determined based on analysis of spending requirement across English Fire Services. The Settlement Funding Agreement can be set annually or for a longer period. In 2016/17 a four year funding settlement was offered and accepted by the Authority, which meant that there was certainty over the Revenue Support Grant up to 2019/20. A one year settlement was made for 2020/21. Beyond that period assumptions have to be made as to the level of grant income to be received.

Medium Term Financial Plan Assumptions	2020/21	2021/22	2022/23	2023/24	2024/25
Council Tax Precept	1.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base	1.15%	1.20%	1.20%	1.20%	1.20%
Council Tax Surplus	-5.00%	0.00%	-5.00%	-5.00%	-5.00%
National Non-Domestic Rates	0.00%	0.00%	0.00%	0.00%	0.00%
Revenue Support Grant	1.70%	0.00%	0.00%	0.00%	0.00%
Total Impact on net funding £m	**2.1**	**1.7**	**1.8**	**1.8**	**1.9**
Forecast funding with maximum Council Tax increases £m	**77.3**	**79.0**	**80.8**	**82.6**	**84.5**
Forecast funding with no Council Tax increase £m	**76.2**	**76.9**	**77.5**	**78.1**	**78.7**

Section 31 Grants are made from central government and determined on an annual basis. The biggest grants for the Authority are Small Business Rates Relief (reimbursement from the government for reduced business rates income), Rural Services and Transition Grants.

Grants, Reimbursements and Other Income. The Service undertakes a range of activities outside of its statutory duties, some of which are paid for by third parties. This can include Co-responding to Ambulance Service incidents, rent on our premises and running training courses.

Cost Pressures:

Pay Awards are subject to agreement by the relevant National Joint Council (pay bodies for public sector) and apply to English and Welsh Fire and Rescue Authorities. Pay awards are often agreed annually within the financial year they apply and are therefore subject to variation against the forecast. Assumptions are benchmarked against the Fire Sector at least annually.

Inflation. The Authority is responsible for funding inflationary increases'. The rate is set for pensions on an annual basis (1.7% for 2020/21) and prices for goods and services may fluctuate depending on the contract in place for purchasing them.

Superannuation. The Authority is responsible for paying employer pension contributions (also known as superannuation) which are based on a percentage of pensionable pay. There are several pension schemes for firefighters and support staff and the employer contribution percentage rates are determined every three years via an actuarial valuation. Superannuation currently accounts for around 20% of expenditure on employee costs so variations to rates can have a significant impact. Estimated increases are included in the Medium Term Financial Plan as a cost pressure.

Capital Programme. Significant purchases of assets costing £20,000 or more with a useful life beyond one year are classified as Capital expenditure. Can include purchasing vehicles and equipment, building new stations, extensions and major refurbishment, as well as ICT infrastructure.

Medium Term Financial Plan Assumptions	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Firefighter pay awards	2.00%	2.00%	2.00%	2.00%	2.00%
Support staff pay awards	2.00%	2.00%	2.00%	2.00%	2.00%
Inflation and Pensions	1.70%	2.00%	2.00%	2.00%	2.00%
Superannuation (to be funded locally)	14.00%	14.00%	14.00%	14.00%	114.00%
Cost Pressures £m	**2.1**	**5.5**	**1.3**	**3.3**	**1.5**
Total Budget requirement £m	**77.3**	**82.7**	**84.1**	**87.3**	**88.9**

REPORT REFERENCE NO.	**RC/20/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2020-21 TO 2022-23)**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve:*** **(a)** ***the Treasury Management Strategy and the Annual Investment Strategy; and*** **(b)** ***the Minimum Revenue Provision statement for 2020-21, as contained at Appendix B;***
EXECUTIVE SUMMARY	As agreed at the Authority meeting of 18 December 2017, there is a requirement for Resources Committee to review the Treasury Management Strategy for recommendation to the Authority. This report sets out a treasury management strategy and investment strategy for 2020-21, including the Prudential Indicators associated with the capital programme for 2020-21 to 2022-23 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2020-21 is also included for approval.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2020-21 to 2022-23. B. Minimum Revenue Provision Statement 2020-21.
LIST OF BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice

1. INTRODUCTION

Background

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

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

1.3. The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4. Treasury management is defined as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.5. The Authority has not engaged in any commercial investments and has no non-treasury investments.

Statutory requirements

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

1.7. The Act therefore requires the Authority to set outs its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 8 of this report); this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.8. The Minister for Housing and Local Government (MHCLG) issued revised investment guidance which came into force from 1 April 2018. This guidance was captured within the revised CIPFA Treasury Management Code 2017.

CIPFA requirements

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

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
- Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a mid-year review report and an annual report (stewardship report) covering activities during the previous year.
- Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices - for the Authority the delegated body is Resources Committee - and for the execution and administration of treasury management decisions - for the Authority the responsible officer is the Treasurer.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and polices to a named body - for the Authority the delegated body is Resources Committee.

Treasury Management Strategy for 2020-21

1.10. The suggested strategy for 2020-21 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, Link Asset Services (Link).

1.11. The strategy for 2020-21 covers two main areas:

Capital Issues

- capital plans and prudential indicators;
- the Minimum Revenue Provision statement;

Treasury Management Issues

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

- creditworthiness policy;
- policy on use of external service providers.

Training

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

1.13. The training needs of treasury management officers are periodically reviewed.

Treasury Management Advisors

1.14. The Authority uses Link Asset Services, Treasury solutions as its external treasury management advisors.

1.15. The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, its treasury advisers.

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

2. CAPITAL PRUDENTIAL INDICATORS FOR 2020-21 TO 2022-23

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

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

Proposed Capital Expenditure	2019-20 (forecast spending)	2020-21	2021-22 (provisional)	2022-23 (provisional)
	£m	£m	£m	£m
Estates	1.289	6.218	5.900	5.700
Fleet & Equipment	1.561	4.456	6.800	3.600
Total	2.850	10.674	12.700	9.300

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

The Revenue Funding outlined below is conditional upon the Authority decision over levels of Council Tax for 2020-21 – figures below are based on a Council Tax increase of 1.99%.

Capital Financing	2019-20 (forecast spending)	2020-21	2021-22 (provisional)	2022-23 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.000	0.060	0.000	0.000
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	0.000	7.055	8.646	5.904
Revenue	0.846	2.037	2.037	2.037
Existing and New borrowing	2.004	1.522	2.017	1.359
Total	2.850	10.674	12.700	9.300

The Authority's Borrowing Need (Capital Financing Requirement)

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

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

2.6. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI via a public-private partnership lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £1.113m of such schemes within the CFR.

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

Capital Financing Requirement (CFR)	2019-20 (forecast spending)	2020-21	2021-22 (provisional)	2022-23 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	25.444	24.851	24.757	24.264
Other Long Term Liabilities	1.112	2.481	1.834	1.425
Total CFR	26.556	27.332	26.592	25.690
Movement in CFR	(2.386)	(2.032)	(3.498)	(3.163)
Less MRP	(2.195)	(2.808)	(2.758)	(2.261)
Net movement in CFR	(0.191)	0.776	(0.741)	(0.902)

Core funds and expected investment balances

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

Estimated Year end Resources	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Reserve Balances	35.225	28.170	19.524	13.620
Capital receipts/ contributions	0.000	0.060	0.000	0.000
Provisions	1.304	0.804	0.304	0.000
Other	10.903	12.426	14.443	15.802
Total core funds	47.433	41.460	34.271	29.422
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	48.433	42.460	35.271	30.422

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

Minimum Revenue Provision Strategy

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

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

2.11. The Authority does not plan to make any Voluntary Revenue Provisions within the next three years.

2.12. Although four main options are provided under the guidance, the Authority has adopted:

The Asset Life Method

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

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

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

2.16. A draft Minimum Revenue Provision statement for 2020-21 is attached as Appendix B for Authority approval.

2.17. The financing of the approved 2020-21 capital programme, and the resultant prudential indicators have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

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

2.19. A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2020-21 to 2022-23 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2019-20 (forecast spending)	2020-21	2021-22 (provisional)	2022-23 (provisional)
Annual cost	3.90%	4.58%	4.39%	3.68%

3. BORROWING

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

Current borrowing position

3.2. The Authority's treasury portfolio position at 31 March 2019 and current are summarised below.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.19	31.3.19	31.12.19	31.12.19
Treasury investments	£000	%	£000	%
banks	30,901	80%	25,001	65%
building societies - unrated	0	0%		0%
building societies - rated	0	0%	4,000	10%
local authorities	6,500	17%	8,000	21%
DMADF (H.M.Treasury)	0	0%		0%
money market funds	1,075	3%	1,180	3%
certificates of deposit	0	0%		0%
Total managed in house	**38,476**	**100%**	**38,181**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**38,476**	**100%**	**38,181**	**100%**
Treasury external borrowing				
local authorities	0	0%		0%
PWLB	25,537	100%	25,491	100%
LOBOs		0%		0%
Total external borrowing	**25,537**	**100%**	**25,491**	**100%**
Net treasury investments / (borrowing)	**12,939**	**0**	**12,690**	**0**

3.3. The Authority's forward projections for borrowing are summarised below. The table below shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	2019-20 (forecast spending)	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Debt at 1 April	25.537	25.444	24.851	24.757
Expected change in Debt	(0.093)	(0.593)	(0.093)	(0.493)
Other long-term liabilities (OLTL)	1.209	1.112	2.481	1.834
Expected change in OLTL	(0.098)	1.370	(0.647)	(0.409)
Actual gross debt at 31 March	26.556	27.332	26.592	25.689
CFR	26.556	27.332	26.592	25.690
Under/ Over borrowing	0.000	0.000	0.000	0.000

3.4. Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020-21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

Limits to Borrowing Activity

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

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

Estimated Operational Boundary	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Non-HRA expenditure	25,637	25,544	24,951	24,857
Other Long Term Liabilities	1,209	3,174	2,481	1,834
Total	26,847	28,718	27,432	26,692

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

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

The Authority is asked to approve the following authorised limit:

Estimated Authorised Limit	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Non-HRA expenditure	26,910	26,787	26,189	26,071
Other Long Term Liabilities	1,265	3,298	2,573	1,906
Total	28,174	30,085	28,762	27,976

Prospects for interest rates

3.7. The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table and narrative in paragraphs 3.32 to 3.34 gives their view.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

ECONOMIC BACKGROUND

Global Outlook

3.8. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at a disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

3.9. This weak global growth outlook for 2020 and beyond therefore means that central banks are likely to come under more pressure to support growth by looser monetary policy measures; this will militate against central banks increasing interest rates and reversing the distortions in financial markets caused by a decade of ultra-low interest rates.

3.10. The trade war between the US and China has been a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, (though such fears have largely dissipated towards the end of 2019). These concerns resulted in government bond yields falling sharply in 2019 in the developed world. 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). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

UK

3.11. General election December 2019 returned a large Conservative majority on a platform of getting Brexit done. UK to leave the EU by 31 January 2020. There is still considerable uncertainty about whether the UK and EU will be able to agree the details of a trade deal by the deadline set by the prime minister of December 2020. This leaves open the potential risks of a no deal or a hard Brexit.

3.12. **GDP growth** has been weak in 2019 and is likely to be around only 1% in 2020. November and December Monetary Policy Committee (MPC) meetings were concerned about weak UK growth caused by the dampening effect of Brexit uncertainties and by weak global economic growth. There has been no change in Bank Rate in 2019.

3.13. **Inflation** CPI inflation has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to, or under 2% over the next two years and so it does not pose any immediate concern to the MPC.

3.14. **Labour market**. Employment growth has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8%.

3.15. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As 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.

USA

3.16. Growth in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3; fears of a recession in 2020 have largely dissipated but growth is likely to be relatively weak. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening.

3.17. **Interest Rates** The Federal Bank finished its series of increases in rates to 2.25 – 2.50% in December 2018. It has cut rates by 0.25% in July, September and October to end at 1.50 – 1.75%. In August it also ended its programme of quantitative tightening, (selling its holdings of treasuries etc. at $50bn per month during 2019). At its September meeting the Federal Bank said it was going to start buying Treasuries again, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. In the first month, it will buy $60bn.

3.18. **Trade war with China**. The trade war is depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. However, progress has been made in December on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE

3.19. Growth has been slowing from +1.8 % in 2018 to around half of that at the end of 2019; there appears to be little upside potential in the near future.

3.20. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and during 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 various new measures to stimulate growth starting in March. Since then, the downturn in Eurozone and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt for an unlimited period. These purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme.

3.21. **Growth** It is doubtful whether the various monetary policy easing measures in 2019 will have much impact on growth and, unsurprisingly, the ECB has stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

3.22. **Governments** Several EU countries have coalition governments. More recently, Austria, Spain and Italy have been in the throes of trying to form coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA

3.23. 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 shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN

3.24. It 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.

INTEREST RATE FORECASTS

3.25. The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged. In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

3.26. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

3.27. **Bond yields / Public Works Loan Board (PWLB) rates**. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

3.28. During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

3.29. One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

3.30. **Monetary Policy** Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

3.31. The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

3.32. **PWLB rates** have been subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

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

3.34. **Investment and borrowing rates**

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is likely that this Authority will seek to use internal borrowing for the next three years, or until such time as the extra 100 bps margin is removed (amend as appropriate).
- While this authority will not be able to avoid borrowing to finance new capital expenditure in the medium term following the rundown of reserves there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing strategy

3.35. As reported in the separate report on this agenda "Capital Programme 2020-21 to 2022-23", it is the strategic intent of the Authority not to increase its exposure to external borrowing during the next three years. To achieve this a recommendation the Authority has supported the inclusion in the base revenue budget a revenue contribution to capital investment (£2.0m in 2020-21).

3.36. This being the case there is no intention to take out any new borrowing during 2020-21 as the Authority can rely on its prudent Capital Reserve. Should this position change then the Treasury Management Strategy will need to be reviewed to reflect any change to the borrowing strategy and would be subject to a further report to the Authority.

Policy on borrowing in advance of need

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

Debt rescheduling

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

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

3.40. The reasons for any rescheduling to take place will include:

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

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

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1. The Authority's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2018. The Authority's investment priorities will be security first, portfolio liquidity second, then yield.

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

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

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

Creditworthiness Policy

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

4.6. The credit ratings of counterparties are supplemented with the following overlays:

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

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

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

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

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

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

Approved Instruments for Investments

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

4.13. **Country Limits** The Authority will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. At the time of writing this was AA long term and F1+ short term. It is possible that the credit rating agencies could downgrade the sovereign rating for the UK but as we have no minimum sovereign rating applying to the UK this approach will not limit the number of UK counterparties available to the Council. Therefore, to ensure our credit risk is not increased outside the UK, the sovereign rating requirement for investments was amended to "Non UK countries with a minimum sovereign rating of AA-".

4.14. **IFRS9 Lease Accounting** As a result of the change in accounting standards for 2019/20 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.). The Authority does not currently hold any finance leases to which this accounting standard would apply.

Non-specified Investments

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

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

4.17. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in the Table at paragraph 4.19 overleaf.

4.18. The maturity limits recommended will not be exceeded. Under the delegated powers the Section 112 Officer (Treasurer) can set limits that are based on the latest economic conditions and credit ratings.

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

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

4.20. The Authority's detailed risk management policy is outlined in the Treasury Management Policy which is reviewed and considered on an annual basis. The above criteria have been amended since last year to reflect the potential change to UK sovereign ratings.

Investment Strategy

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

4.22. Investment returns: On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

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

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

4.24. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

4.25. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

4.26. In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

Maximum principal sums invested > 364 days			
£m	**2020-21**	**2021-22**	**2022-23**
Principal sums invested > 364 days	£5m	£5m	£5m

End of year investment report

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

Treasury Management Scheme of Delegation

The Authority;

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities

- Approving the selection of external service providers and agreeing terms of appointment.
- Reviewing the treasury management policy and procedures and making recommendations to the Authority.

Resources Committee;

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

Role of the Section 112 officer (Director of Finance and Resourcing/ Treasurer)

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

5. SUMMARY AND RECOMMENDATIONS

5.1. The Authority is required to consider and approve the treasury management strategy to be adopted prior to the start of the financial year. This strategy must also include proposed prudential indicators and a Minimum Revenue Provision statement. Approval of the strategy for 2020-21 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2022/23 to 2023/24	
	2020/21 £m Estimate	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
Capital Expenditure					
Non - HRA	10.674	12.700	9.300	9.400	7.900
HRA (applies only to housing authorities)					
Total	10.674	12.700	9.300	9.400	7.900
Ratio of financing costs to net revenue stream					
Non - HRA	4.58%	4.39%	3.68%	3.50%	3.92%
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	24,851	24,757	24,264	29,723	33,456
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	2,481	1,834	1,425	1,148	900
Total	27,332	26,592	25,690	30,870	34,356
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	776	(741)	(902)	5,181	3,486
HRA (applies only to housing authorities)	0	0	0	0	0
Total	776	(741)	(902)	5,181	3,486
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,787	26,189	26,071	31,802	35,687
Other long term liabilities	3,298	2,573	1,906	1,482	1,193
Total	30,085	28,762	27,976	33,285	36,880
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	25,544	24,951	24,857	30,316	34,014
Other long term liabilities	3,174	2,481	1,834	1,425	1,148
Total	28,718	27,432	26,692	31,741	35,162
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	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2020/21		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

MINIMUM REVENUE STATEMENT 2020-21

Supported Borrowing

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

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

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

Finance Lease and PFI

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

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

Minimum Revenue Provision Overpayments

A change introduced by the revised MHCLG Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory Minimum Revenue Provision, Voluntary Revenue Provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total Voluntary Revenue Provision overpayments were £nil.

REPORT REFERENCE NO.	**RC/20/6**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2019-20 – QUARTER 3**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2019-20 (to December 2019) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 31 December 2019.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 19 February 2019 – Minute DSFRA/36c refers.

1. INTRODUCTION

1.1 The Treasury Management Strategy for Devon and Somerset Fire & Rescue Authority has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. The Code recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report, therefore, ensures this Authority is implementing best practice in accordance with the Code and includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities;
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives;
- The receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.2 Treasury management in this context is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

2.1 **UK. Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 back up to +0.4% and quarter 4 expected to come in around zero. Political and Brexit uncertainty have dampened growth in 2019.

2.2 Despite political uncertainty ending with a decisive overall majority for the Conservative government in the December 2019 General Election which clears the way for the UK to leave the EU on 31 January 2020, there is still much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020.

2.3 After the Monetary Policy Committee (MPC) 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. It is unlikely there will be any further action from the MPC until these remaining uncertainties over the likely type of Brexit become clear. If there was a no deal exit, it is likely that Bank Rate would be cut in order to support growth. However, if growth was to flag significantly in any event, the MPC could also cut Bank Rate in 2020.

2.4 The Government has announced some major spending increases and is expected to make further commitments in the spring budget; these will provide some support to growth and will take some pressure off the MPC to act to stimulate growth by either cutting Bank Rate or implementing other monetary policy measures.

2.5 The MPC did have some concerns over the trend in wage inflation, which was on a rising trend and peaked at a new post financial crisis high of 3.9% in June 2019. Since then, however, it has been falling steadily back to 3.5% in October 2019, (3 month average figure, excluding bonuses). Growth in employment picked up again to 24,000 in the three months to October, after a fall in the previous month's figures. However, this is still well below the 2018 average, although the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

2.6 As for CPI inflation itself, this fell to 1.5% in October and November 2019 and is likely to remain between 1.5% and 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound. The strong wage inflation figure and the 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 2.0%, i.e. a real term 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

2.7 **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarter 3. The strong growth in employment numbers during 2018 has subsided into a weaker trend of growth during 2019, indicating that the economy is cooling, while inflationary pressures have also been weakening. After the Federal Bank (Fed) increased rates by 0.25% in December 2018 to between 2.25% and 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July, September and October in order to counter the downturn in the outlook for US and world growth. The Fed is now likely to pause to see how the economy responds during 2020.

2.8 **EUROZONE.** The annual rate of growth has been steadily falling, from 1.8% in 2018 to only 1.1% y/y in quarter 3 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in Eurozone growth, 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.

2.9 At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Longer-Term Refinancing Options (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.

2.10 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. However, since then, the downturn in Eurozone and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

2.11 **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. The trade war with the US does not appear currently to be having a particularly significant impact on growth. Major progress still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

2.12 **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.

2.13 **WORLD GROWTH.** The trade war between the US and China on tariffs is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Cconcerns are focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during the first ten months of 2019. 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. This would impact 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. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been weak which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during 2020 is expected to be weak.

Interest Rate Forecasts

2.14 The Authority's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

2.15 The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside. In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

3. TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY

3.1 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 19 February 2019. It outlines the Authority's investment priorities as follows:

- Security of Capital;
- Liquidity; and
- Yield.

3.2 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a significant proportion of investments short term. This will not only cover short term cash flow needs but will also seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Link suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Link.

3.3 A full list of investments held as at 31 December 2019 are shown in Appendix A.

3.4 £11m of the £38.1m invested at 31 December 2019 was with 'Green' deposits, which represented 28% of our portfolio. These 'Green' deposits meet the agreed Security, Liquidity, Yield (SLY) criteria approved by the Authority, but the funds are used by the counterparty to invest in underlying assets/schemes which deliver environmental/green objectives.

3.5 The average level of funds available for investment purposes during the quarter was £43.209m (£45.904m at the end of Quarter 2 2019/20). These funds were available on a temporary basis and the level of funds was dependent on the level of reserves, timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 3
3 Month LIBID	0.66%	0.85%	£0.080m.

3.6 As illustrated, the Authority outperformed the 3 month LIBID benchmark by 0.19bp. It is anticipated that the actual investment return for the whole of 2019-20 will surpass the Authority's original budgeted investment target of £0.201m by £0.071m. This budget has been rebaselined for the remainder of the financial year to £0.271m.

BORROWING STRATEGY

Prudential Indicators:

3.7 It is a statutory duty for the Authority to determine and keep under review the “Affordable Borrowing Limits”. The Authority’s’ approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

3.8 A full list of the approved limits (as amended) are included in the Financial Performance Report 2019-20, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2019 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.9 The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 31 December 2019 was £25.491m, forecast to reduce to £25.444m by the end of the financial year as a result of standard loan repayments. All of this debt is at fixed rate with the remaining principal having an average rate of 4.23% and average life of 25.6 years.

Loan Rescheduling

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

New Borrowing

3.11 PWLB rates have not been on any consistent trend in this quarter. During the quarter, the 50 year PWLB target (certainty) rate for new long term borrowing was marginally increased to 3.05%.

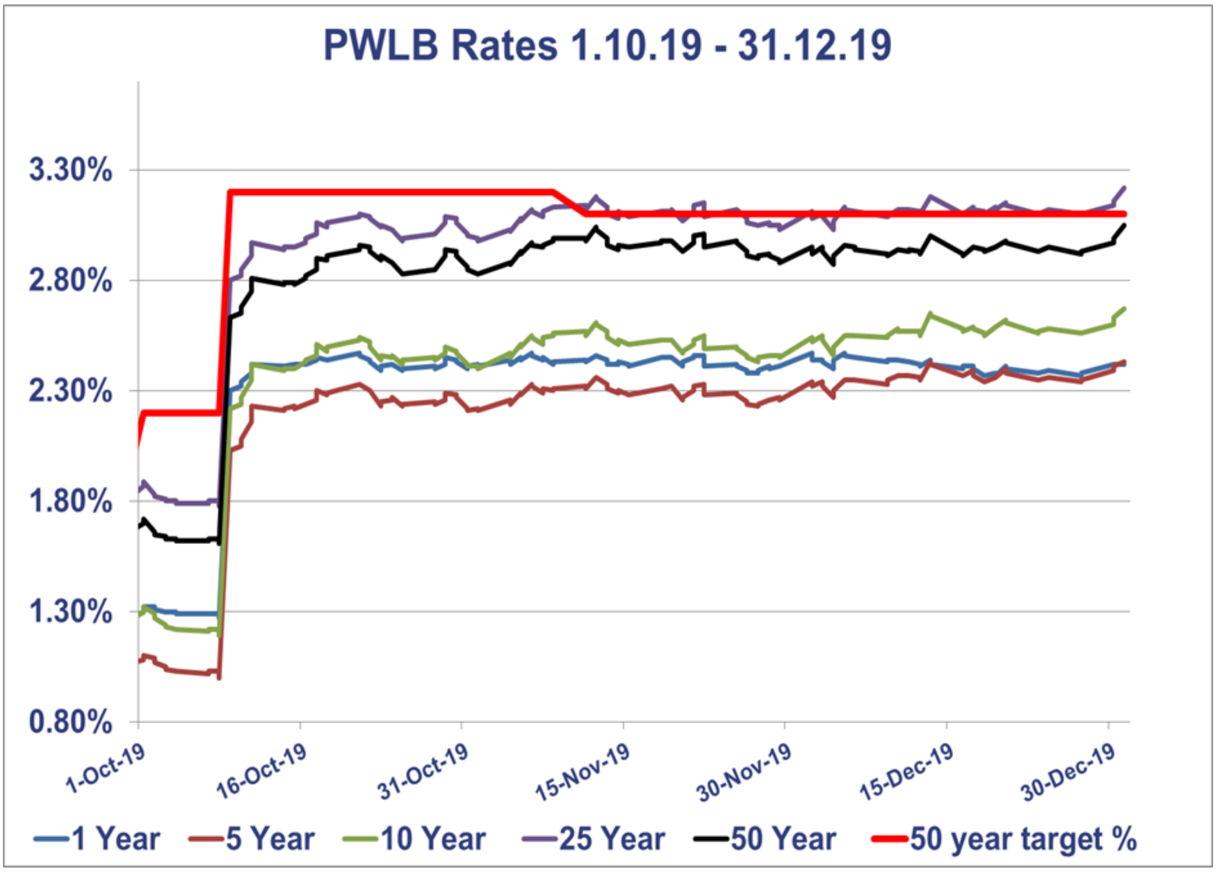
3.12 No new borrowing was undertaken during the quarter and none is planned during 2019-20 as a result of the Authority’s adopted financial strategy to utilise revenue funds (revenue budget and reserves) to finance capital investment needs for the medium term.

3.13 On 9 October, the Treasury increased the margin on PWLB rates by 100 bps (1%). Over the last quarter, rates have been on a rising trend. The 50 year PWLB target (certainty) rate for new long term borrowing started the quarter at 2.20% and ended at 3.10%.

PWLB rates quarter ended 31 December 2019

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.43%	2.67%	3.22%	3.05%
Date	21/10/2019	13/12/2019	31/12/2019	31/12/2019	31/12/2019
Average	1.70%	1.64%	1.88%	2.45%	2.31%

3.14 Borrowing rates for this quarter are shown below.



<u>Borrowing in Advance of Need</u>

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

4. <u>SUMMARY AND RECOMMENDATION</u>

4.1 In compliance with the requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the second quarter report on treasury management activities for 2019-20 to December 2019. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are recovering as a result of the increase in interest rates, the Authority is still anticipating that investment returns will meet the budgeted target, as rates were forecast to rise when the budget was set.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

Investments as at 31 December 2019					
Counterparty	Maximum to be invested	Amount Invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Goldman Sachs	7.000	5.000	T	6 mths	0.83%
		2.000	T	12 mths	0.96%
Coventry Building Society	7.000	2.800	T	9 mths	0.85%
		1.200	T	9 mths	0.91%
Thurrock Borough Council	7.000	1.500	T	12 mths	1.09%
Bank Of Scotland	7.000	2.000	T	9 mths	1.05%
		5.000	T	12 mths	1.25%
Standard Chartered Green Desposit	7.000	3.000	T	6 mths	0.85%
Mid & East Antrim Borough Council	7.000	1.500	T	12 mths	0.90%
London Borough of Enfield	7.000	5.000	T	12 mths	0.90%
Barclays 95 Green Deposit	8.000	8.000	C	Variable	Variable
Barclays FIBCA		0.001	C	Variable	Variable
Aberdeen Standard	6.000	1.180	C	Variable	Variable
Total amount Invested		**38.181**			

REPORT REFERENCE NO.	**RC/20/7**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2020**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2019-20 – QUARTER 3**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 3 of this report be approved;*** ***(b) That the monitoring position in relation to projected spending against the 2019-20 revenue and capital budgets be noted;*** ***(c) That the performance against the 2019-20 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2019-20 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £0.497m less than budget, a saving of 0.66% of total budget.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Prudential Indicators 2019-20.
LIST OF BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the first quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 2019. As well as providing projections of spending against the 2019-20 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2. Table 1 below provides a summary of performance against the key financial targets.

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2019-20

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 3	Previous Quarter	Quarter 3 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£75.142m	£74.645m	£74.634m	(0.66%)	(0.68%)
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.19%	7.19%	(2.19)bp*	(2.19)bp*
	Capital Targets					
4 3	Spending within agreed capital budget	£8.813m	£2.850m	£6.865m	(33.34%)	(22.10%)
4	External Borrowing within Prudential Indicator limit	£26.847m	£26.556m	£26.556m	(1.08%)	(1.08%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	3.86%	3.90%	(1.14)bp*	(1.10)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2019-20.
- **SECTION B** – Capital Budget and Prudential Indicators 2019-20.
- **SECTION C** – Other Financial Indicators.

1.4. Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. SECTION A - REVENUE BUDGET 2019-20

2.1. Table 2 overleaf provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending by the year end will be £74.6453m, representing a saving against the budget of £0.497m equivalent to 0.66% of the total budget. The forecast incorporates the budget virements requested in Table 3 within this report.

TABLE 2 – REVENUE MONITORING STATEMENT 2019-20

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2019/20

Line No		2019/20 Budget £000	Year To Date Budget £000	Spending to Month 9 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	30,853	23,105	23,524	30,834	(19)
2	On-call firefighters	14,234	10,378	9,859	13,905	(329)
3	Control room staff	1,419	1,063	1,079	1,437	17
4	Professional and Technical Support Staff	11,929	8,941	9,189	12,067	138
5	Training costs	722	579	599	658	(64)
6	Fire Service Pensions recharge	2,458	2,198	1,863	2,453	(5)
		61,615	**46,263**	**46,112**	**61,353**	**(262)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	992	744	755	995	3
8	Energy costs	529	381	246	489	(40)
9	Cleaning costs	471	353	411	464	(7)
10	Rent and rates	1,866	1,675	1,641	1,814	(52)
		3,858	**3,153**	**3,053**	**3,762**	**(96)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	629	472	409	614	(15)
12	Running costs and insurances	1,283	1,032	1,287	1,246	(37)
13	Travel and subsistence	1,290	895	1,379	1,413	123
		3,202	**2,399**	**3,074**	**3,273**	**71**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,944	2,208	1,841	2,920	(24)
16	Hydrants-installation and maintenance	151	113	83	154	3
17	Communications Equipment	2,333	1,749	1,984	2,413	80
18	Uniforms	601	451	350	582	(19)
19	Catering	56	42	45	60	4
20	External Fees and Services	159	119	182	159	-
21	Partnerships & regional collaborative projects	186	140	1	153	(33)
		6,429	**4,822**	**4,485**	**6,440**	**11**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	260	206	178	249	(11)
23	Advertising	23	17	21	30	7
24	Insurances	411	401	568	392	(19)
		694	**624**	**767**	**671**	**(23)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	701	493	515	731	30
		701	**493**	**515**	**731**	**30**
	CAPITAL FINANCING COSTS					
26	Capital charges	3,493	572	583	3,526	33
27	Revenue Contribution to Capital spending	2,614	-	-	846	(1,768)
		6,107	**572**	**583**	**4,372**	**(1,735)**
29	**TOTAL SPENDING**	**82,605**	**58,327**	**58,590**	**80,602**	**(2,003)**
	INCOME					
30	Investment income	(271)	(134)	(168)	(272)	(1)
31	Grants and Reimbursements	(8,191)	(4,939)	(5,650)	(8,143)	48
32	Other income	(343)	(219)	(461)	(651)	(308)
34	**TOTAL INCOME**	**(8,805)**	**(5,291)**	**(6,279)**	**(9,067)**	**(262)**
35	**NET SPENDING**	**73,800**	**53,036**	**52,311**	**71,535**	**(2,265)**
	TRANSFERS TO EARMARKED RESERVES					
36	Transfer to (from) Earmarked Reserve	1,342	626	(918)	1,342	-
37	Capital Funding	-	-	-	1,768	1,768
		1,342	**626**	**(918)**	**3,110**	1,768
38	**NET SPENDING**	**75,142**	**53,662**	**51,394**	**74,645**	**(497)**

2.2. These forecasts are based upon the spending position at the end of December 2019, historical trends, and information from budget managers on known commitments. It should be noted that, whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report.

2.3. Explanations of the more significant variations from budget (over £50k variance) are explained below.

3. NARRATIVE ON VARIANCES AGAINST BUDGET

On-Call Firefighters

3.1. It is anticipated that this line will underspend by £0.329m by the end of the year as a combination of vacancies and activity being lower than budget. Due to the nature of the claims for on-call side of the Service, there is potential for this to change as we progress through the year.

Professional, Technical and Support Staff

3.2. There is a forecasted overspend against this line of £0.138m. Greater costs associated with Business Safety Advocates (£0.035m) and vehicle allowances being paid directly to staff instead of leasing vehicles (0.078m, please see paragraph 3.5) contributing to the variance.

Training Expenses

3.3. In- year savings of £0.064m are expected against the budget of £0.722m for Training Expenses. Investment in recently promoted middle managers has been delayed this year resulting in the under spend.

Rent and Rates

3.4. Is looking to underspend by £0.052m as a result of the delay in the refurbishment at Camels Head, meaning temporary Station accommodation will not be required until the next financial year.

Travel and subsistence

3.5. Is forecasting to overspend by £0.123m. The overspend is as a result of 2 reasons; the need to extend leases on specialist vehicles which have been delayed whilst purchased 4x4 vehicles are being rolled out. In addition, there is unclaimable VAT on vehicles that can be used for freedom of movement – where staff, if on-call, are able to use their vehicle in the evenings to ensure a quick response if required.

The Service has moved from providing vehicles to staff under a contract car hire scheme to paying a vehicle allowance directly to staff members. When the budget was set for 2019/20, the savings were removed from this budget line but not allocated to Professional, Technical and Support Staff budgets, which is therefore showing an over spend as a result.

Communications Equipment

3.6. Communications equipment is forecasting to overspend by £0.080m by the end of the year following a decision to invest in a protective marking solution. This investment will enable us to be compliant for the Emergency Services Network code of connection.

Revenue Contribution to Capital Spending.

3.7. Due to reduced in-year capital expenditure as reported in Section B of this report, it is forecast that £1.768m of the Revenue Contribution to Capital will not be utilised in 2019-20. The final amount of unutilised budget at year end will be transferred to the Capital funding reserve for use in future years as per the Strategy.

Other Income

3.8. Other income is forecasted to over-recover by £0.308m. £0.049m of this is as a result of recovering pay made to a member of staff who also received compensation for loss of earnings from an insurance claim with £0.070m being due to a duplicate creditor entry made at year-end. Numerous initiatives within Departments has also generated additional income with activities such as income for the Apprenticeship Scheme and increased use of the Procurement framework rebates being two examples.

3.9. The Committee is asked to authorise the budget virements (transfers between budget lines) shown in Table 3 below for approval. The transfers are reflected in Table 2 - budget monitoring statement.

3.10. The addition to the Earmarked Reserve for pensions will allow the Service to pay off the Local Government Pension Scheme deficit for the next 3 years which attracts a 4.5% discount. It also means we can reduce the contribution rate for the following 3 years thus creating savings within the Revenue budget for 2020/21, 2021/22 and 2022/23 years.

3.11. There will also be a request to transfer the balance of the Revenue Contribution to Capital Spending at year-end as per paragraph 3.7 of the report.

TABLE 3 – BUDGET TRANSFERS

Line Ref	Description	Debit £m	Credit £m
	Creation of Earmarked Reserve to pay off LGPS pension deficit, thus reducing contribution rates going forward.		
5	Decrease Training Expenses		(0.050)
6	Decrease Fire Service Pensions Recharge		(0.200)
8	Decrease Energy Costs		(0.040)
10	Decrease Rent and Rates		(0.043)
30	Increase Investment Income		(0.070)
35	Transfer to Earmarked Reserve	0.403	
		0.403	**(0.403)**

4. RESERVES AND PROVISIONS

4.1. As well as the funds available to the Authority by setting an annual budget, the Authority holds reserve and provision balances. A reserves strategy is published annually which outlines the purpose of each reserve and expected expenditure over the medium term financial planning period. The reserves strategy is available here

http://www.dsfire.gov.uk/AboutUs/WhatWeSpend/documents/ReservesStrategy2019-20.pdf

Reserves

4.2. There two types of Reserves held by the Authority:

Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.
General Reserve – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

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

Provisions – a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

4.4. A summary of predicted balances on Reserves and Provisions is shown in Table 4 below. At the end of Quarter 3, reserves expenditure was £3.212m, the majority has been invested in improving the Health and Safety of our staff, with new Breathing Apparatus and Light Weight PPE being delivered this year.

4.5. Reserve balances are expected to reduce over the remainder of the financial year through expenditure on the Safer Together programme and in particular digital transformation. Expenditure from reserves to fund Capital in now expected in 2020-21.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 31 DECEMBER 2019

RESERVES AND PROVISIONS							
RESERVES	Balance as at 1 April 2019 £000	Approved Transfers £000	Proposed Transfers £000	Spending to Month 09 £000	Forecast Spend 2019-20 £000	Proposed Balance as at 31 March 2020 £000	
Earmarked reserves							
Grants unapplied from previous years	(1,145)	939		80	149	(57)	
Invest to Improve	(5,945)	50	-	878	1,261	(4,634)	
Budget Smoothing Reserve	(1,818)	-	-	-	-	(1,818)	
Direct Funding to Capital	(19,960)	-	(1,768)	-	-	(21,728)	
Projects, risks, & budget carry forwards							
PFI Equalisation	(295)	-	-	-	-	(295)	
Emergency Services Mobile Communications Programme	(932)	-	-	51	104	(828)	
Breathing Apparatus Replacement	(1,449)	(50)	-	1,478	1,487	(11)	
Mobile Data Terminals Replacement	(381)	-	-	93	403	-	
PPE & Uniform Refresh	(480)	-	-	398	384	(96)	
Pension Liability reserve	(461)	(559)	(403)	-	-	(1,423)	
National Procurement Project	(90)	-	-	7	90	-	
Budget Carry Forwards	(603)	-	-	227	389	(214)	
Station Mobilising Equipment	-	(380)	-	-	-	(380)	
Total earmarked reserves	**(33,560)**	**-**	**(2,171)**	**3,212**	**4,267**	**(31,485)**	
General reserve							
General Fund balance	**(5,315)**	-	**-**	**-**	**-**	**(5,315)**	
Percentage of general reserve compared to net budget							7.19%
TOTAL RESERVE BALANCES	**(38,875)**				**4,267**	**(36,800)**	
PROVISIONS							
Doubtful Debt	(655)		-	-	-	(655)	
Fire fighters pension schemes	(759)		-	-	30	(729)	

5. SUMMARY OF REVENUE SPENDING

5.1. At this stage in the year, it is forecast that spending will be £0.497m below the budget figure for 2019-20. In year savings and additional income is providing an opportunity to invest in urgent equipment replacement. At the moment, no recommendations are made as the use of the balance of savings.

6. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2019-20

Monitoring of Capital Spending in 2019-20

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

6.2. At the end of Quarter 3 there is a forecast timing difference of £5.246m against the capital programme of £8.813m along with £0.402m of savings.

6.3. **Estates** £3.231m of timing differences are made up of: £0.315m to rebuild Plymstock and removal of a building at Service Headquarters (SHQ), both of which will now be delivered in 2020-21, £0.410m resulting from a delay in the commencement of works at Brixham (demolished December 2019) and £1.570m due to a review of requirements for Camels Head Fire Station. £0.150m is related to Station and SHQ Security which is awaiting the outcome of a review of intruder alarms. £0.304m for works at Bridgwater, tenders are due back in January 2020. £0.210m is for the Cullompton refurbishment as the scheme requirements are going to be revisited. The project to update Wellington will be going out to tender in Quarter 4, causing further timing differences of £0.260m.

6.4. **ICT** - replacement of a server will now be deferred following a recommendation by HMICFRS regarding its location, resulting in a forecasted timing difference of £0.173m

6.5. **Fleet** – there are rescheduled savings on equipment due to the delay in the delivery of the Medium Rescue Pumps (MRP) resulting from the unavailability of chassis build slots. The MRP's have been ordered and will now be delivered in 2020/21.

TABLE 5 – FORECAST CAPITAL EXPENDITURE 2019-20

Capital Programme 2019/20					
Item	PROJECT	2019/20 £000 Revised Budget	2019/20 £000 Forecast Outturn	2019/20 £000 Timing Differences	2019/20 £000 Re-scheduling/ Savings
	Estate Development				
1	Site re/new build	1,117	352	(765)	0
2	Improvements & structural maintenance	3,902	937	(2,781)	(184)
	Estates Sub Total	**5,019**	**1,289**	**(3,546)**	**(184)**
	Fleet & Equipment				
3	Appliance replacement	1,793	0	(1,793)	0
5	Specialist Operational Vehicles	1,134	1,089	0	(45)
6	Equipment	553	380	0	(173)
7	ICT Department	268	92	(176)	0
8	Water Rescue Boats	46	0	(46)	0
	Fleet & Equipment Sub Total	**3,794**	**1,561**	**(2,015)**	**(218)**
	Overall Capital Totals	**8,813**	**2,850**	**(5,561)**	**(402)**
	Programme funding				
	Earmarked Reserves:	4,195	0	(3,793)	(402)
	Revenue funds:				
11	Revenue contribution to capital in year	2,314	546	(1,768)	0
12	Red One contribution to captal	300	300	0	0
	Revenue funds:	2,614	846	(1,768)	0
14	Application of existing borrowing	2,004	2,004	0	0
	Total Funding	**8,813**	**2,850**	**(5,561)**	**(402)**

Prudential Indicators (including Treasury Management)

6.6. Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2019 stands at £25.491m and is forecast to reduce to £25.444m as at 31 March 2020. This level of borrowing is well within the Authorised Limit for external debt of £27.029m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

6.7. Investment returns in the quarter yielded an average return of 0.85% which outperforms the LIBID 3 Month return (industry benchmark) of 0.66%. Investment returns surpassed the original budgeted level so the budget has been set at a more ambitious level for the rest of the financial year.

6.8. Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2019-20, which illustrates that there is no anticipated breach of any of these indicators.

7. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

7.1. Total debtor invoices outstanding as at Quarter 3 were £740,798, table 6 below provides a summary of all debt outstanding as at 31 December 2019.

7.2. Of this figure an amount of £666,470 (£645,011 at Quarter 2) was due from debtors relating to invoices that are more than 85 days old, equating to 78.73% (80.5% at Quarter 2) of the total debt outstanding.

TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	105,773	12.49%
1 to 28 days overdue	36,841	4.35%
29-56 days overdue	2,350	0.28%
57-84 days overdue	35,137	4.15%
Over 85 days overdue	666,470	78.73%
Total Debt Outstanding as at 31 December 2019	**846,571**	**100.00%**

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

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Red One Ltd	45	£639,227	A repayment plan has been agreed with the subsidiary company following its revised business plan.
Various	14	£27,244	Invoices with small debtors are being chased using standard procedures and pursued with our debt recovery officer where appropriate.

AMY WEBB
Director of Finance & Resourcing (Treasurer)

APPENDIX A TO REPORT RC/20/7

PRUDENTIAL INDICATORS 2019-20

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	2.850	**8.813**	**(5.246)**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**26.556**	**26.556**	**(0.000)**
- Borrowing	25.444	25.444	
- Other long term liabilities	1.112	1.112	
External borrowing vs Authorised limit for external debt - Total	**26.556**	**26.847**	**(0.291)**
- Borrowing	25.444	25.637	
- Other long term liabilities	1.112	1.209	
Debt Ratio (debt charges as a %age of total revenue budget	**3.86%**	**5.00%**	**(1.10)bp**
Cost of Borrowing – Total	**1.081**	**1.081**	**(0.000)**
- Interest on existing debt as at 31-3-19	1.081	1.081	
- Interest on proposed new debt in 2019-20	0.000	0.000	
Investment Income – full year	**0.272**	**0.201**	**(0.071)**
	Actual (30 Dec 2019) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.85%**	**0.66%**	**(0.19)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2020) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	0.37%	30.00%	0.00%	(29.63%)
12 months to 2 years	2.32%	30.00%	0.00%	(27.68%)
2 years to 5 years	5.66%	50.00%	0.00%	(44.34%)
5 years to 10 years	13.52%	75.00%	0.00%	(61.48%)
10 years and above	**77.76%**	**100.00%**	**50.00%**	**(22.24%)**
- 10 years to 20 years	12.92%			
- 20 years to 30 years	13.71%			
- 30 years to 40 years	51.13%			
- 40 years to 50 years	0.00%			

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