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 : DSFRA/MP/SS
Website : www.dsfire.gov.uk
Date : 2 October 2020
Please ask for : Sam Sharman
Email : ssharman@dsfire.gov.uk
Telephone : 01392 872200
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Monday 12 October 2020

A meeting of the Resources Committee will be held on the above date, **commencing at 2.00 pm in Video Conference via Webex** to consider the following matters.

M. Pearson
Clerk to the Authority

PLEASE NOTE: This meeting will be livestreamed on the Devon & Somerset Fire & Rescue Service YouTube channel. This can be accessed by following the link below and then clicking on the Videos and Livestream buttons:

https://www.youtube.com/dsfireupdates

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 - 8)**

of the previous meeting held on 2 July 2020 attached.

3 **Items Requiring Urgent Attention**

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

PART 1 - OPEN COMMITTEE

4 **Treasury Management Performance 2020-21: Quarter 1 (Pages 9 - 18)**

Report of the Director of Finance & Resourcing (Treasurer) (RC/20/12) attached.

5 **Financial Performance Report 2020-21: Quarter 1 (Pages 19 - 30)**

Report of the Director of Finance & Resourcing (Treasurer) (RC/20/13) attached.

6 **Reserves Strategy 2020-21 (Pages 31 - 42)**

Report of the Director of Finance & Resourcing (Treasurer) (RC/20/14) attached.

7 **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 officers of Red One Ltd. and Councillors Saywell and Thomas [Authority appointed Non-Executive Directors of 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:

- 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

8 **Restricted Minutes of Resources Committee held on 2 July 2020 (Pages 43 - 44)**

Restricted Minutes of Resources Committee held on 2 July 2020 (attached).

9 **Red One Performance 2020-21: Quarter 1 (Pages 45 - 52)**

Report of the Director of Finance & Resourcing (Treasurer)/Dr Sian George – Chair of the Board of Red One Ltd. (RC/20/15) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Coles (Vice-Chair), Biederman, Drean (Chair), Peart, Radford, Wheeler 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>Recording of Meetings</u>** Given the social distancing measures introduced in response to the Covid-19 pandemic, Authority meetings will be held virtually and livestreamed on the Devon & Somerset Fire & Rescue Service YouTube channel. The meetings may also be recorded for subsequent viewing on the YouTube Channel. Any such recording does not constitute the official, Authority record of the meeting.
4.	**<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.

	NOTES
	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.
5.	**Part 2 Reports** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
6.	**Substitute Members (Committee Meetings only)** 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.
7.	**Other Attendance at Committees (Standing Order 38)** Any Authority Member wishing to attend a meeting of a Committee of which they are not a Member should contact the Democratic Services Officer (see “please ask for” on the front page of this agenda) in advance of the meeting to obtain details of the Webex meeting invitation.

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

2 July 2020

Present:

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

In attendance:

Councillor Randall Johnson – Authority Chair (in accordance with Standing Order 38(1).

* **RC/24** **Minutes**

RESOLVED that the Minutes of the meeting held on 13 February 2020 be signed as a correct record.

* **RC/25** **Urgency Decisions - 2019-20 Revenue Budget Outturn**

The Committee received for information a report of the Treasurer (RC/20/9) that set out the decisions taken under the Authority's urgency provisions in accordance with its Standing Order given the current government guidelines relating to social distancing during the Covid-19 pandemic.

The decisions taken on 2 June 2020 were:

(a). that, in accordance with Standing Order 39(4) and following consultation with the Chair of the Resources Committee, the following be approved:

(i) A transfer of £0.286m to the Grants Unapplied Reserve as required under International Financial Reporting Standards (IFRS) relating to grants received during the financial year but not utilised

(b). that, in accordance with Standing Order 27 and following consultation with the Authority Chair, the following be approved:

(i) A transfer of £2.348m to the Reserve for Capital funding;

(ii) revisions to the Capital programme for 2020-21 as set out in the paper REVISION TO CAPITAL PROGRAMME 2020-21 TO 2022-23

It was noted that the decisions taken under the urgency provisions were published on the Authority's website in accordance with Standing Orders.

* **RC/26** **Covid-19 Financial Implications**

The Committee received for information a report of the Treasurer (RC/20/10) that summarised the work undertaken to date in respect of the financial impact of the Covid-19 pandemic for 2020-21and which also set out the key risks in the future.

The Treasurer advised that this Authority had received two payment of £0.280m and £1.319m in Section 31 grant funding from central government as part of the £3.2bn of measures introduced to support local authorities during the Covid-19 pandemic. It was anticipated that this funding would be sufficient, however, that position may change in the event of a second wave of the virus in the South West region.

The Treasurer indicated that the long term financial stability of the Authority had been reviewed in light of Covid-19 with the Executive Board and it was felt that the revenue position for 2020-21 was positive overall. There had been a slowing down or ceasing of some of the activities planned. There would be significant impact on the Capital Programme due to issues with suppliers and further information on this would be provided in the next report to the Committee on Financial Monitoring. There would also be an impact on Council Tax in 2021-22 due to the issues with collection rates for local authorities in 2020-21. An announcement had been made by the Government on 2 July 2020 that major precepting authorities (including Police and Fire) would benefit from a scheme enabling any collection fund deficit to be repaid over 3 years. The Treasurer advised the Committee that she was unsure if this would mitigate the risks for the Authority and therefore, she would be looking carefully at the Authority's Reserves Strategy to ensure that any budget shortfall or resourcing requirements in 2021-22 could be covered.

Reference was made to the potential drop in income for some local authorities which it was estimated could be as much as 10% and the Government support that was forthcoming to cover this. The Treasurer responded that information released on 2 July 2020 indicated that this related to income in the year such as on fees and charges or parking receipts, amongst others. The Government had indicated that each local authority had to fund the first 5% of any losses in year and Government would fund 75% of the 95% remaining but this did not apply to Council Tax receipts. The Treasurer advised that the Service was eligible for this funding and she would forward a copy of the press release to Committee members for information.

The Chief Fire Officer reassured the Committee that the Service had undertaken a review of all of its activities in the light of Covid-19 and was refocussing the organisation accordingly; only spending money where necessary to ensure it was in a good position to meet its future financial pressures.

The Committee thanked the Treasurer and all staff at this point for the all the work that had been undertaken during this difficult period of time.

* **RC/27** **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 the officers of 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 involved the likely disclosure of exempt information as defined in the following Paragraph of Part 1 of Schedule 12A (as amended) to the Act:

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

* **RC/28** **Restricted Minutes of Resources Committee held on 13 February 2020**

(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 the officers of 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).

RESOLVED that the Restricted Minutes of the meeting held on 13 February 2020 be signed as a correct record.

* RC/29 **<u>Red One Limited Financial Performance 2019-20: Quarter 4</u>**

(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 the officers of 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.

The Committee received for information a report of the Treasurer and Dr Sian George (Non-Executive Chair of the Board of Red One Ltd.) (RC/20/11) on the financial performance of Red One Ltd. in quarter 4 of 2019-20.

Reference was made to the financial position for Red One Ltd. going forward into 2020-21 and beyond. It was confirmed that a significant, long term contract had recently been won by Red One. It was noted that further information would be released to the Authority in due course.
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***DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 2.15 pm and finished at 3.45 pm

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REPORT REFERENCE NO.	**RC/20/12**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**12 OCTOBER 2020**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2020-21 – QUARTER 1**
LEAD OFFICER	**DIRECTOR OF FINANCE & RESOURCING (TREASURER)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2020-21 (to June 2020) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 June 2020.
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 18 February 2020 – Minute DSFRA/38c 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 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December 2019 which settled the Brexit issue. However, the three monthly Gross Domestic Product (GDP) statistics in January 2020 were disappointing, being stuck at 0.0% growth.

2.2 Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 of 2020-21 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April 2020 when it came in at -24.5% y/y after the closedown of whole sections of the economy. The position is still unclear, however, on:

- the extent of the damage that will have been caused to businesses by the end of the lockdown period;
- how consumer confidence and behaviour may be impacted afterwards;

- whether there could be a second wave of the outbreak; and
- how soon a vaccine will be created and then how quickly it can be administered to the population.

2.3. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

2.4. Although the UK left the European Union (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. At the end of June 2020, the UK government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal Brexit**.** However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

2.5 After the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March 2020 forced it into making two emergency cuts in Bank Rate - first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June 2020, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

2.6. The Government and the Bank were also very concerned to stop people losing their jobs during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June 2020 while the country was locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October 2020, but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

2.7. The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March 2020, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June 2020 were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

2.8. **Inflation.** The annual inflation rate dropped to 0.5% in May 2020 from 0.8% in April 2020 and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession. This has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

2.9. **USA.** Growth in quarter 1 of 2020 fell by an annualised 5.0% and will fall sharply in quarter 2. Once coronavirus started to impact the US in a big way, the Federal Bank (Fed) took decisive action by cutting rates twice by 0.50%, and then 1.00% in March 2020, all the way down to 0.00 – 0.25%. Near the end of March 2020, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

2.10 The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition there was $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

2.11 Non-farm payrolls unexpectedly increased by 2.5 million jobs in May 2020, beating market expectations of an 8 million fall, and after declining by a record 20.7 million in April. The figures suggest that the economic recovery in the US may happen much faster than initially expected. Some states started reopening in mid-May after a two-month shutdown but a few have had to re-impose localised lockdowns since then.

2.12. **EUROZONE.** The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. So far, the European Central Bank (ECB) has been by far the most important institution in helping to contain the impact of coronavirus and the crisis on financial markets. Since 12 March 2020, it has implemented a range of new policies including providing additional cheap loans for commercial banks and easing capital requirements for the banking sector. Most importantly, the ECB has stepped up and reformed its asset purchase programmes. So far, it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month which it was already committed to. The new purchases consist of an additional €120bn within the existing Public Sector Purchase Programme (PSPP), and €1,350bn in the Pandemic Emergency Purchase Programme (PEPP).

2.13. At its 4 June 2020 monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases under the PEPP until at least the end of June 2021 and to continue to reinvest maturing principal payments under the PEPP until at least end-2022. It has also made clear that it would not hesitate to top up PEPP as much as needed to contain the risk of a crisis. Just as important as the size of the PEPP is its flexibility. Whereas previous asset purchase programmes adhered to strict issuer limits, the PEPP was designed to be flexible across “time, asset classes and jurisdictions”.

2.14. This means that the ECB can act in the interests of the euro-zone as a whole rather than having to treat each national bond market equally. However, while this overall programme will provide protection over the next year or so, some vulnerable countries, particularly Italy, already started the crisis with a high level of debt to GDP and the crisis will make that level even worse at the same time as GDP growth prospects will have worsened. This leaves a big question over ‘what happens after then when financial markets will be concerned that those debt levels are unsustainable?’ What is currently missing is a major coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure. The EU’s recently-proposed rescue fund, (officially designated “Next Generation EU”), is a major first step towards financial integration in the EU. However, it is striking just how small this package is as the proposed €500 billion of grants amount to about 0.6% of average annual euro-zone GDP (over the seven-year budget period). It will therefore supply relatively little support to the weaker and more vulnerable countries within the EU. This has therefore left individual national governments to implement a patchwork of support measures within each country. This shows up how far away the EU is from being an effective fiscal union.

2.15. **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lockdown of the country and a major contraction of economic activity in February-March 2020. The Chinese economy shrank 6.8% y/y in Q1 2020, following 6% y/y growth in Q4 of 2019. Ongoing economic issues remain, in needing to make major progress 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. The post Covid government measures to stimulate more infrastructure investment are likely to result in an increase in inefficient low reward investment.

2.16 **JAPAN** has been struggling to stimulate consistent significant GDP growth for years 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. Japan appears to have escaped the worst effects of the virus - as yet.

2.17 **WORLD GROWTH.** The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

Interest Rate Forecasts

2.18. The Authority's treasury advisor, Link Asset Services, has provided the following forecast (as set out overleaf):

Link Asset Services Interest Rate View	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

2.19. Uncertainty over Brexit caused the MPC to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%. It is now unlikely to rise for the next two years pending a protracted recovery of the economy from this huge set back.

2.20. Their central assumption is that there will be some form of muddle through agreement on a reasonable form of Brexit trade deal but the coronavirus outbreak could affect the timing of reaching a deal. As there is so much uncertainty around the impact of, and pace of recovery from this outbreak, the above forecasts currently only cover two years, not three as provided in the past.

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 18 February 2020. It outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

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

3.3 Creditworthiness.

Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during this quarter, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. Although CDS prices, (these are market indicators of credit risk), for UK banks spiked upwards at the end of March due to the liquidity crisis throughout financial markets, those CDS prices have returned to more average levels since then.

3.4 A full list of investments held as at 30 June 2020 are shown in Appendix A.

3.5 The average level of funds available for investment purposes during the quarter was £42.117m (£39.886m at the end of 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 1
3 Month LIBID	0.26%	0.85%	£0.063m.

3.6 As illustrated overleaf, the Authority outperformed the 3 month LIBID benchmark by 0.59bp. It is currently anticipated that the actual investment return for the whole of 2020-21 will surpass the Authority's budgeted investment target of £0.201m by £0.071m. However, there is much economic uncertainty and low interest rates at the moment so this forecast is likely to be revised down.

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 2020-21, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to June 2020 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 30 June 2020 was £25.444m, forecast to reduce to £24.851m 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 4.21% and average life of 25 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

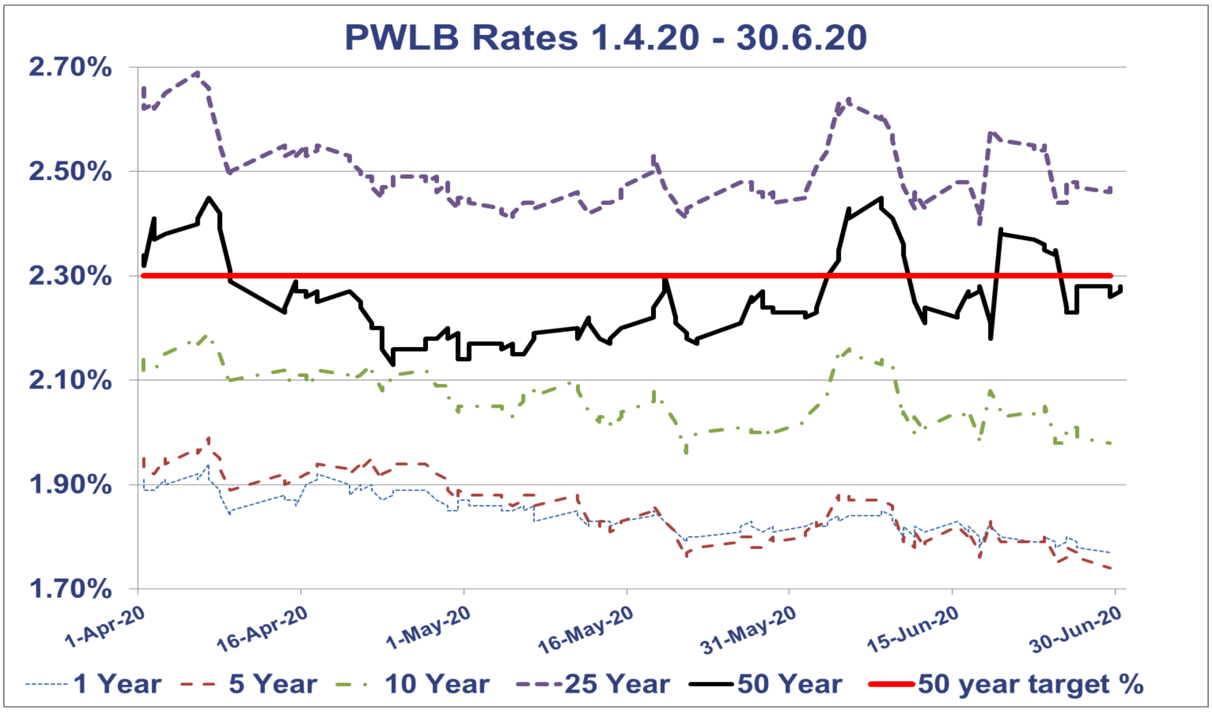
3.11 PWLB rates have not been on any consistent trend in this quarter. During the quarter, the 50 year PWLB target (certainty) rate for new long term borrowing was marginally reduced to 2.16%.

3.12 No new borrowing was undertaken during the quarter and none is planned during 2020-21 as a result of the Authority's adopted financial strategy to utilise revenue funds (revenue budget and reserves) to finance capital investment needs for the medium term.

PWLB rates quarter ended 30 June 2020

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.77%	1.74%	1.96%	2.40%	2.13%
Date	30/06/2020	30/06/2020	22/05/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.69%	2.45%
Date	08/04/2020	08/04/2020	08/04/2020	07/04/2020	07/04/2020
Average	1.84%	1.85%	2.07%	2.50%	2.26%

3.13 Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

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

4. SUMMARY AND RECOMMENDATION

4.1 In compliance with the requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the first quarter report on treasury management activities for 2020-21 to June 2020. 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 & Resourcing (Treasurer)

Investments as at 30 June 2020

Counterparty	Maximum to be invested	Amount Invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Goldman Sachs	7.000	2.000	T	12 mths	0.96%
Bank of Scotland	7.000	5.000	T	12 mths	1.25%
Mid & East Antrim Borough Council	8.000	1.500	T	12 mths	0.90%
London Borough of Enfield	7.000	5.000	T	12 mths	0.90%
Standard Chartered Bank	7.000	4.000	T	6 mths	1.06%
Blackpool Borough Council	7.000	5.000	T	6 mths	0.80%
Belfast City Council	7.000	5.000	T	10 mths	0.90%
Aberdeen Standard	7.000	6.000	C	Instant Access	Variable
Black Rock	7.000	5.000	C	Instant Access	Variable
Barclays Bank	7.000	0.001	C	Instant Access	Variable
Total Amount Invested		**38.501**			

REPORT REFERENCE NO.	**RC/20/13**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**12 OCTOBER 2020**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2020-21 – QUARTER 1**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 3 of this report, be recommended to the Devon & Somerset Fire & Rescue Authority for approval;*** ***(b) That the monitoring position in relation to projected spending against the 2020-21 revenue and capital budgets be noted;*** ***(c) That the performance against the 2020-21 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the first quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2020-21 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £0.566m less than budget, a saving of 0.73% 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 2020-21.
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 June 2020. As well as providing projections of spending against the 2020-21 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators. At this early stage of the financial year, no recommendations are made as to the use of any surplus.

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

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2020-21

	Key Target	Target	Forecast Outturn Quarter 1	Forecast Outturn Previous Quarter	Forecast Variance Quarter 1 %	Forecast Variance Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£77.277m	£76.710m	n/a	(0.73%)	n/a
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.88%	n/a	(1.88)bp*	n/a
	Capital Targets					
3	Spending within agreed capital budget	£11.217m	£11.217m	n/a	(0.00%)	(0.00%)
4	External Borrowing within Prudential Indicator limit	£24.850m	£26.787m	n/a	(7.23%)	(0.00%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	3.99%	n/a	(1.01)bp*	(0.00)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2020-21.
- **SECTION B** – Capital Budget and Prudential Indicators 2020-21.
- **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 2020-21

2.1. Table 2 below 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 £76.710m, representing a saving against the budget of £0.566m equivalent to 0.73% of the total budget. The forecast incorporates the budget virements requested in Table 3 within this report.

TABLE 2 – REVENUE MONITORING STATEMENT 2020-21

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2020/21

Line No	SPENDING	2020/21 Budget £000	Year To Date Budget £000	Spending to Month 3 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	EMPLOYEE COSTS					
1	Service Delivery Staff	48,937	11,877	10,964	48,643	(294)
3	Professional and technical support staff	13,333	3,327	3,240	13,298	(36)
4	Training investment	670	168	343	483	(187)
5	Fire Service Pension costs	2,489	817	234	2,456	(33)
		65,429	**16,189**	**14,782**	**64,879**	**(550)**
	PREMISES RELATED COSTS					
6	Repair and maintenance	1,023	256	82	1,023	-
7	Energy costs	575	97	88	574	(1)
8	Cleaning costs	494	123	102	491	(3)
9	Rent and rates	1,990	556	571	2,037	47
		4,082	**1,032**	**843**	**4,125**	**43**
	TRANSPORT RELATED COSTS					
10	Repair and maintenance	704	176	111	701	(3)
11	Running costs and insurances	1,836	656	351	1,719	(117)
12	Travel and subsistence	905	192	486	807	(98)
		3,444	**1,025**	**948**	**3,226**	**(218)**
	SUPPLIES AND SERVICES					
13	Equipment and furniture	3,545	886	627	3,545	-
14	Hydrants-installation and maintenance	151	38	3	151	-
15	Communications Equipment	2,347	587	43	2,360	13
16	Protective Clothing	619	155	47	608	(11)
17	External Fees and Services	103	26	3	142	39
18	Partnerships & regional collaborative projects	275	69	77	275	-
19	Catering	56	14	1	53	(3)
		7,095	**1,774**	**801**	**7,133**	**38**
	ESTABLISHMENT COSTS					
20	Printing, stationery and office expenses	236	91	35	214	(22)
21	Advertising including Community Safety	37	9	12	39	2
22	Insurances	411	381	201	411	-
		683	**481**	**248**	**663**	**(20)**
	PAYMENTS TO OTHER AUTHORITIES					
23	Support service contracts	709	139	65	727	18
		709	**139**	**65**	**727**	**18**
	CAPITAL FINANCING COSTS					
24	Loan Charges & Lease rentals	3,493	4	22	3,460	(33)
25	Revenue Contribution to Capital Spending	2,037	-	-	2,037	-
		5,530	**4**	**22**	**5,497**	**(33)**
26	**TOTAL SPENDING**	**86,974**	**20,644**	**17,709**	**86,252**	**(722)**
	INCOME					
29	Treasury management income	(201)	(50)	94	(272)	(71)
30	Grants and reimbursements	(7,520)	(1,880)	(9,491)	(9,292)	(1,772)
31	Other income	(809)	(202)	(125)	(576)	233
33	**TOTAL INCOME**	**(8,530)**	**(2,133)**	**(9,522)**	**(10,141)**	**(1,611)**
34	**NET SPENDING**	**78,443**	**18,511**	**8,187**	**76,110**	**(2,333)**
35	Transfer to/(from) Earmarked Reserves	(1,167)	-	-	600	1,767
	NET SPENDING	**77,277**	**18,511**	**8,187**	**76,710**	**(566)**

2.2. These forecasts are based upon the spending position at the end of June 2020, 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 £0.050m variance) are explained below.

2.4. This is the first report to Members where we use the new headings for staff incorporating all Service Delivery colleagues together (previously; Wholetime, On-Call and Control). This also now includes anyone employed in a front-line, Service Delivery role such as Prevention and Protection.

3. NARRATIVE ON VARIANCES AGAINST BUDGET

Service Delivery Staff

3.1. At this stage it is projected that spending against this line will be £0.294m underspent. The forecast saving is due to the termination of several fixed-term contracts for Wholetime firefighters and the delay, due to the restrictions surrounding Covid, in recruiting to 49.5 vacant posts. The vacancies were held whilst watch numbers were restricted during business continuity. It is assumed that the enhanced On Call pay model, “Pay for Availability”, is agreed and implemented by November 2020 so there is a level of uncertainty over this forecast.

Training Investment

3.2. Due to the restrictions associated with the Covid pandemic, the ability to train and develop our staff in person has been hindered, causing timing differences of £0.187m. Mitigations such as virtual drill nights were put in place to share information and develop understanding for On Call staff. In line with recovery plans, the Academy recommenced risk-critical training in July 2020 and has plans to ensure that training to keep our staff safe and competent takes place this financial year.

Running Costs and Insurances

3.3. This is forecast to underspend by £0.117m. Restrictions on travel coupled with free fuel from BP during the initial pandemic and a reduction in fuel prices have resulted in reduced spend.

Travel and Subsistence

3.4. Due to the restrictions on movement of staff and a reduction in travelling to training and events, the Service is forecasting savings against this category of £0.098m.

Investment Income

3.5. Interest on the Authority's investments is expected to outperform the budget of £0.201m by £0.071m, this is due to careful investment planning by the Finance Team which enables longer term investments to be made with a stronger yield. Due to the low Bank of England rate, there is a risk that investment returns will diminish.

Grants and reimbursements

3.6. Forecasting to over recover by £1.772m the majority of which (£1.319m) is the receipt of the Covid-19 grant from Central Government. Rural Services Delivery grant of £0.423m has also been paid, confirmation of this grant had not been received when the 2020/21 budget was set, so was not included.

Other Income

3.7. This is forecast to under recover by £0.233m. Of this, £0.143m is from Red One and the temporary cessation of their trading for 2020/21 due to COVID-19. There is an anticipated loss in income of £0.141m associated with the apprenticeship programme hosted by a local college, again, due to the programme being suspended for the time being. However, £0.041m additional income is forecast as a result of provision of drivers to SWAST over the pandemic period. A few minor variations make up the balance.

Transfer to/(from) Earmarked Reserves

3.8. When the budget for 2020-21 was set, it was expected that £1.167m of reserves funding would be needed to balance the budget. Due to forecast savings in some areas and additional income, this will no longer be required.

3.9. At this stage in the financial year, it is forecast that there will be a net surplus on COVID-19 grant of £0.600m, which is expected to be subject to an Earmarked Reserve request at the year-end. However, due to uncertainty over further COVID response requirements, no recommendation or decision is required at this stage. The forecast is shown for completeness in table 1 as the funding has been provided for a specific purpose not general use.

3.10. The Committee is asked to recommend to the Authority the budget virements (transfers between budget lines) shown in Table 3 overleaf for approval. The transfers are reflected in Table 2 - budget monitoring statement and a narrative behind each budget transfer is provided within the table.

TABLE 3 – BUDGET TRANSFERS

Line Ref	Description	Debit £m	Credit £m
	Academy restructure move of cost centres - the net effect is nil		
1	Increase Service Delivery staff	1.334	
1	Decrease Service Delivery staff		(1.334)
	IFRS16 Lease accounting for vehicles and property rentals was included in leasing budget as a finance cost but now deferred to 2020-21, so budget remains as a direct cost charge rather than financing cost		
9	Increase Rent and Rates	0.100	
12	Increase Running Costs and Insurances	0.518	
24	Decrease Loan Charges and Lease Rentals		(0.618)
		1.952	**(1.952)**

4. RESERVES AND PROVISIONS

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

Reserves

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

Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required, and the amount is greater than the delegated limited allocated to the Treasurer, 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.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES

RESERVES	Balance as at 1 April 2020 £000	Approved Transfers £000	Proposed Transfers £000	Spending to Month 03 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000
Earmarked reserves						
Grants unapplied from previous years	(383)	-	-	-	311	(72)
Invest to Improve	(4,844)	-	-	1,086	1,775	(3,069)
Budget Smoothing Reserve	(1,818)	1,167	-	-	-	(1,818)
Direct Funding to Capital	(22,308)	-		-	5,958	(16,350)
Projects, risks, & budget carry forwards						
PFI Equalisation	(150)	-	-	-	-	(150)
Emergency Services Mobile Communications Programme	(877)	-	-	18	218	(658)
Mobile Data Terminals Replacement	(279)	-	-	-	279	-
PPE & Uniform Refresh	(147)	-	-	59	-	(147)
Pension Liability reserve	(1,423)	-	-	403	403	(1,020)
Environmental Strategy	(308)	-	-	-	-	(308)
Budget Carry Forwards	(960)	-	-	70	708	(251)
Business Continuity (COVID-19 grant)	-	-	(600)	-	-	(600)
Total earmarked reserves	**(33,496)**	**1,167**	**(600)**	**1,637**	**9,651**	**(24,445)**
General reserve						
General Fund balance	**(5,316)**	-	**-**	**-**	**-**	**(5,316)**
Percentage of general reserve compared to net budget						6.88%
TOTAL RESERVE BALANCES	**(38,812)**				**9,651**	**(29,761)**
PROVISIONS						
Doubtful Debt	(655)		-	-	-	(655)
Fire fighters pension schemes	(659)		-	-	27	(632)

5. SUMMARY OF REVENUE SPENDING

5.1. At this early stage in the year, it is forecast that spending will be £0.566m below the budget figure for 2020-21. At the moment, no recommendations are made as the use of these savings – it is also worth noting that there are risks associated with a potential second wave of the pandemic.

Covid-19

5.2. The Home Office secured funding for the Fire Service to assist with the costs associated with the COVID-19 pandemic. This Service received 2 tranches of grants, one in late 2019/20 of £0.280m, the second early in 2020/21 of £1.319m – a total of £1.599m.

5.3. The balance of the initial grant of £0.249m was moved into an Earmarked Reserve at year-end and has now been spent. The forecast of costs attributable to the grant received in 2020/21 can be found in Table 5 below.

TABLE 5 – CORONAVIRUS GRANT

Coronavirus 2019	£000's
Grant funding received (2020/21)	(1.319)
Expenditure	
Staffing	£0.655
Protective Equipment	£0.049
Other Costs	£0.014
Total Additional Costs	£0.718
Balance	**(0.601)**

SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2020-21

Monitoring of Capital Spending in 2020-21

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

6.2. At the end of Quarter 1, we are forecasting to spend to budget – which included an optimism bias built in to allow for some timing differences. In the Estates department, £0.750m to rebuild Plymstock Fire Station will now be spent in 2021 (full planning permission received August 2020).

6.3. Due to factory closedown, there is a delay in receiving the replacement fire engines to the value of £2.709m. Discussions are ongoing with the supplier to see if this programme can be accelerated.

TABLE 6 – FORECAST CAPITAL EXPENDITURE 2020-21

PROJECT	2020/21 £000 Revised Budget	2020/21 £000 Forecast Outturn	2020/21 £000 Timing Differences	2020/21 £000 Re-scheduling / Savings
Estate Development				
Site re/new build	3,557	2,807	(750)	-
Improvements & structural maintenance	5,591	5,591	-	-
Optimism bias	(2,700)	(341)	2,359	-
Estates Sub Total	**6,448**	**8,057**	**1,609**	**-**
Fleet & Equipment				
Appliance replacement	5,034	2,625	(2,409)	-
Specialist Operational Vehicles	630	330	(300)	-
ICT Department	159	159	-	-
Water Rescue Boats	46	46	-	-
Optimism bias	(1,100)	-	1,100	-
Fleet & Equipment Sub Total	**4,769**	**3,160**	**(1,609)**	**-**
Overall Capital Totals	**11,217**	**11,217**	**-**	**-**
Programme funding				
Earmarked Reserves:	7,592	7,579	-	(13)
Revenue funds:	2,097	2,110	-	13
Application of existing borrowing	1,528	1,528	-	-
Total Funding	**11,217**	**11,217**	**-**	**-**

Prudential Indicators (including Treasury Management)

6.4. Total external borrowing with the Public Works Loan Board (PWLB) as at 30 June 2020 stands at £25.444m and is forecast to reduce to £24.821m as at 31 March 2021. This level of borrowing is well within the Authorised Limit for external debt of £27.949m (the absolute maximum the Authority has agreed as affordable). No new external borrowing is planned in this financial year.

6.5. Investment returns in the quarter yielded an average return of 0.85% which outperforms the LIBID 3 Month return (industry benchmark) of 0.26%. It is forecast that investment returns from short-term deposits will surpass the budgeted figure by £0.071m at 31 March 2021.

6.6. Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2020-21, 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 1 were £1.409m table 6 below provides a summary of all debt outstanding as at 30 June 2020.

7.2. Of this figure an amount of £0.829m was due from debtors relating to invoices that are more than 85 days old, equating to 58.9% of the total debt outstanding.

TABLE 7 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	432,698	30.7%
1 to 28 days overdue	24,351	1.7
29-56 days overdue	82,966	5.9%
57-84 days overdue	39,852	2.8%
Over 85 days overdue	828,805	58.9%
Total Debt Outstanding as at 30 June 2020	**1,408,672**	**100.00%**

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

TABLE 8 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	Total Value	Action Taken
Red One Ltd	51	£772,252	A repayment plan for 2020-21 has been agreed with the subsidiary company, which has been revised as a result of COVID-19 and is presented elsewhere on the agenda.
Various	31	£56,552	Invoices with small debtors are being chased using standard procedures and pursued with our debt recovery office where appropriate. This has been hampered through Covid due to unavailability of the debt collection agency.

AMY WEBB
Director of Finance and Resourcing (Treasurer)

APPENDIX A TO REPORT RC/20/

PRUDENTIAL INDICATORS 2020-21

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		**11.217**	**11.217**	**(0.000)**
External Borrowing vs Capital Financing Requirement (CFR) - Total		**26.556**	**26.556**	**£0.000**
- Borrowing		24.850	24.851	
- Other long term liabilities		1.010	1.010	
External borrowing vs Authorised limit for external debt - Total		**25.860**	**25.861**	**(0.01)**
- Borrowing		24.850	26.787	
- Other long term liabilities		1.010	1.162	
Debt Ratio (debt charges as a %age of total revenue budget		**3.99%**	**5.00%**	**(1.01)bp**
Cost of Borrowing – Total		**1.077**	**1.077**	**(0.000)**
-Interest on existing debt as at 31-3-20		1.077	1.077	
-Interest on proposed new debt in 2020-21		0.000	0.000	
Investment Income – full year		**0.278**	**0.201**	**(0.077)**
		Actual (30 June 2020) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return		**0.85%**	**0.26%**	**(0.13)bp**
Prudential Indicators and Treasury Management Indicators	**Forecast (30 March 2021) %**	**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	1.94%	30.00%	0.00%	(28.06%)
2 years to 5 years	4.11%	50.00%	0.00%	(45.89%)
5 years to 10 years	13.43%	75.00%	0.00%	(61.57%)
10 years and above	**77.83%**	**100.00%**	**50.00%**	**(22.17%)**
- 10 years to 20 years	14.71%			
- 20 years to 30 years	13.76%			
- 30 years to 40 years	49.36%			
- 40 years to 50 years	0.00%			

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REPORT REFERENCE NO.	**RC/20/14**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**12 OCTOBER 2020**
SUBJECT OF REPORT	**RESERVES STRATEGY 2020-21**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Committee recommends the Reserves Strategy to the Authority for publication***
EXECUTIVE SUMMARY	The Fire and Rescue National Framework for England introduced a requirement for fire and rescue authorities to prepare and publish a Reserves Strategy setting out the purpose of each Earmarked Reserve, an analysis of the General Fund and the expected timing of expenditure from the reserves. The requirement commenced in 2018 and this is the third such strategy. This report includes a risk assessment of the General Fund and a section on each of the Earmarked Reserves – which it is proposed should be combined into broader categories to simplify the way that Reserves are reported on. It should be noted that this report has been prepared under those new categories.
RESOURCE IMPLICATIONS	As set out within this report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	
APPENDICES	A. Risk Assessment of the Adequacy of General Reserves B. Projected Reserve Balances over MTFP
LIST OF BACKGROUND PAPERS	The Fire and Rescue National Framework for England Reserves Strategy 2019-20

1. INTRODUCTION AND BACKGROUND

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

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

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

1.4. The Reserves Strategy for this Authority has been prepared as a stand-alone document for 2020-21.

2. STRATEGIC CONTEXT

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

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

(b) help absorb the costs of future liabilities;

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

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

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

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

3. LONG-TERM SUSTAINABILITY

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

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

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

Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised; and

General Reserve – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

3.4. In addition to reserves the Authority may also hold provisions which can be defined as: a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

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

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

4.2. This Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties (such as the Local Government Employers and Government departments) have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for, e.g. the 2021-22 funding gap on the Firefighters Pension scheme.

4.3. The Authority has set its Prudential Indictor for the General Reserve at 5% of annual budget which is a commonly used benchmark across the Fire Sector. At the start of 2020-21, the General Reserve represented 6.88% of the Authority's net revenue budget which is a positive variance. Due to varying revenue budgets, maintaining a consistent level of General Reserve will result in the percentage varying over time. Transfers in or out of the General Reserve to conform to the 5% indicator would only be considered if there was significant variance in budgets, an emerging risk, or if resources were earmarked to another project.

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

4.5. A risk assessment of the adequacy of the Authority's General Reserve will be carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the current financial year, 2020-21, has been expanded on that prepared as part of the budget setting process and is shown in Appendix A. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £5.133m. At the start of 2020-21 the General Reserve equalled £5.316m and therefore it will not be necessary to amend the amount based on the current risk assessment.

5. ANNUAL REVIEW OF EARMARKED RESERVES

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

Grants received in advance

5.2. These reserves relate to grants which have been given to the Authority which have either not been fully spent or have been received in advance of the intended expenditure period. Where a grant has been received in advance the Authority's policy and accounting rules dictate that the funding be transferred to an Earmarked Reserve to be spent in future years.

5.3. Any smaller amounts will be reviewed annually as part of the budget monitoring process to assess whether they are still needed. It is not anticipated that any of the current balances will be carried forward beyond the medium term financial plan period of 2020-25.

RESERVES	Balance as at 1 April 2020 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000	Projected Spend 2021-25 £000	Proposed Balance as at 31 March 2025 £000
Grants unapplied from previous years	(383)	311	(72)	72	-

Invest to Improve

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

5.5. The Authority has approved the Safer Together programme and new Service Delivery Operating Model which identified the requirement to invest in improvement activity and the resulting costs and benefits have been fed in to the Medium Term Financial Plan for 2020-21 and beyond. The Invest to Improve reserve will be subject to regular budget monitoring and forecasting by the Service Programme Board. Of the current forecast up to 2022, £1.8m is committed to existing projects with the remaining expenditure being an estimate of the Safer Together programme costs.

RESERVES	Balance as at 1 April 2020 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000	Projected Spend 2021-25 £000	Proposed Balance as at 31 March 2025 £000
Invest to Improve	(4,844)	1,775	(3,069)	3,069	-

Budget smoothing

5.6. The budget smoothing reserve is intended to support any shortfalls in future revenue budgets which are identified during the development of the Medium Term Financial Plan. The reserve has arisen from a surplus of funding in previous financial years, particularly where non-domestic rates or grant income have exceeded the budget requirement. The Medium Term Financial Plan for the period 2020-21 to 2024-25 has identified a potential funding shortfall of between +£0.6m and £26m which, if not addressed through changes to the way we work, will need to be funded from reserves. The COVID-19 pandemic has introduced further uncertainty over financial security of all public services, a spending review in the Autumn of 2020 is likely. Regardless of central government, the impact of the pandemic in economic terms is likely to be felt for many years, potentially reducing council tax and business rates income. It is therefore forecast that the Budget Smoothing reserve will be exhausted within the Medium Term Financial Planning Period.

RESERVES	Balance as at 1 April 2020 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000	Projected Spend 2021-25 £000	Proposed Balance as at 31 March 2025 £000
Budget Smoothing Reserve	(1,818)	-	(1,818)	1,818	-

Capital Funding

5.7. At £22.3m, Capital Funding is the largest of the Authority's earmarked reserves. There is a long term strategy in place to reduce borrowing to fund capital expenditure and this reserve has been built up over several years from under spends in the Capital Programme along with savings made in other areas. Due to the long term nature of the Capital Programme and low levels of expenditure in recent years the reserve has grown significantly and represents an opportunity to reduce borrowing in the future as well as the associated costs.

5.8. If the Authority hadn't taken out any borrowing to fund capital expenditure, it could save £1.1m per year in debt charges. Borrowing currently stands at £25.4m and the loan portfolio is regularly reviewed for opportunities to pay off loans where there would be a long term benefit but this is dependent on economic conditions. If the Authority does opt to pay off loans early, use of the Capital Funding reserve will accelerate. Currently it is forecast that the programme will require £6m of reserve funding in 2020-21 and for the reserve to be exhausted over the medium term. This level of expenditure is now likely due to the order of a significant upgrade to our fire engine fleet and several major Estates projects which have been formally commissioned.

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

RESERVES	Balance as at 1 April 2020 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000	Projected Spend 2021-25 £000	Proposed Balance as at 31 March 2025 £000
Direct Funding to Capital	(22,308)	5,958	(16,350)	10,000	(6,350)

Specific projects, budget carry forwards or risks identified

5.10. The Authority holds several Earmarked Reserves for items which have been identified through a business case, to address a specific risk or where timing differences have arisen in the revenue budget. These items form part of the planning cycle but either address a risk or maintain the status quo rather than being potential improvement activities. Examples of this are a refresh of Personal Protective equipment and replacement roofing. Expenditure on these items will normally be spread over several financial years within the Medium Term Financial Plan but there are instances where a longer term risk has been identified and provided for which may exceed the 2021-25 period.

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

RESERVES	Balance as at 1 April 2020 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000	Projected Spend 2021-25 £000	Proposed Balance as at 31 March 2025 £000
Projects, risks, & budget carry forwards					-
PFI Equalisation	(150)	-	(150)	-	(150)
Emergency Services Mobile Communications Programme	(877)	218	(658)	658	-
Mobile Data Terminals Replacement	(279)	279	-	-	-
PPE & Uniform Refresh	(147)	147	-	-	-
Pension Liability reserve	(1,423)	403	(1,020)	-	(1,020)
Environmental Strategy	(308)	-	(308)	308	-
Budget Carry Forwards	(960)	708	(251)	-	(251)
Business Continuity (COVID-19 grant)	-	-	(600)	600	-
Total	**(4,143)**	**1,755**	**(2,988)**	**1,566**	**(1,422)**

5.12. Explanation of specific reserves:

- *PFI Equalisation* – The Authority is part of a tri-service Private Finance Initiative which covers the Severn Park training facility. Due to the nature of the contract and its longevity (will mature in 2028) the amount due at the end of the contract is dependent on various factors such as interest rates and investment performance. The reserve is held to mitigate the risk at the end of the contract period.
- *Emergency Services Mobile Communications Programme (ESMCP)* – The Authority has committed to be part of the ESMCP national project which provides the technology and network to allow Emergency Services a dedicated method of communication whilst being more financially efficient than its predecessor. Whilst funding has been allocated on a regional basis there is a need to support the project beyond the funding (which has been allocated for discrete time periods) because of the South West region being the last to transition which is why the reserve was established. The reserve also holds grant funding from central government to support the establishment of Emergency Services Network capability. The national project is currently under scrutiny of the Public Accounts Committee and may be subject to change or cancellation. If cancelled, there is a risk that the current Airwave facility will cost the Authority more although at this stage that cannot be quantified.

- *Mobile Data Terminals (MDT) Replacement* – MDTs are computers in appliances which provide site specific risk and technical information to firefighters when they respond to incidents. Due to the age of the current suite of MDTs, which are purchased and maintained under the Airwave Communications system, replacements are required in advance of the roll out of the new Emergency Services Mobile Communications Project. Refreshing the safety critical information available to firefighters at incidents supports the Authority's underlying principles of Public Safety and Firefighter safety. The project is due to complete in 2020-21.
- *PPE and Uniform refresh* – Firefighters are required to wear a specific range of Personal Protective Equipment (PPE) when responding to incidents and each set has a finite life dependant on the number and type of incidents attended. The Service has determined a provision for lightweight PPE and this was delivered in late 2019. The project has now moved on to ensuring that appropriate stocks and sizing of female firefighter PPE are maintained. The project supports the safety and wellbeing of our staff.
- *Pension Liability reserve* – There are ongoing legal cases which may impact on future employers' costs and therefore a pension reserve has been established to contribute towards the revenue budget if a liability arises.
- *Environmental Strategy* – This new reserve has been established to support the Authority's environmental strategy, assessing the impact of services and seeking to adapt and mitigate to reduce emissions.
- *Budget Carry Forwards* – Arise as a result of timing differences, where a revenue project has been unable to complete in year and therefore the under spend on a particular budget line has been transferred to Earmarked Reserves. As reserve funds can span several financial years these are expected to be used in the short term, but the reserve may be enhanced at a later date if there are timing differences in the 2020-21 budget and beyond.
- *Business Continuity* – This reserve is not yet established and will be subject to Authority approval. It is currently forecast that the COVID-19 grant not expended in 2020-21 be carried forward to support preparedness for further COVID-19 disruption or other business continuity events.

AMY WEBB
Director of Finance and Resourcing (Treasurer).

Risk Assessment of the Adequacy of General Reserves

Budget Head	Budget Provision 2020-21 £m	RISK	Likelihood	Impact £m	Net Impact £m
Service Delivery Staff	51.2	Wholetime Pay represents nearly a third of Service costs. There is a high level of uncertainty around future pay increases, particularly whether pay awards will be linked to a change to the Firefighter role map to include emergency medical response, which might attract a larger Pay award. An unfunded pay award of 2% has been factored in to the budget for 2020-21. A significant proportion of costs associated with retained pay is directly as a result of the number of calls responded to during the year.	Medium	1.024	0.512
		Staffing costs associated with COVID-19 pandemic, whilst the government have provided some support the duration of this is uncertain.	High	0.655	0.491
Major Incident - Belwin		A major incident occurs which qualifies for central government funding under the Belwin Scheme - the first 2% of budget, or £0.146m is funded by the Local Authority.	Low	0.146	0.037
Firefighter's Pensions	2.5	The Authority is required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme. There were fewer retirees than budgeted in 2019-20 which has increased the likelihood of those individuals retiring in 2020-21.	High	0.500	0.375
Insurance Costs	0.9	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority. The Insurance Mutual holds a reserve which will enable the pool to absorb a reasonable level of claims.	Low	0.500	0.125
Fuel Costs	0.7	Fuel price fluctuation can have a signifcant impact on fleet running costs. This risk has been downgraded since 2019-20 due to reductions in fuel prices as a result of COVID-19.	Medium	0.187	0.094
Treasury Management Income	(0.2)	Reduced Interest Income, rates to 0%. The target income for 2020-21 has been set at a prudent level of achieving only a 0.6% return on investments. However, the COVID-19 pandemic is seeing interest rates fall with higher likelihood of negative rates. This risk has been upgraded as a result.	High	0.201	0.151
Income	(0.8)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.7m of external income whilst setting the reliance on the Service budget for Red One Income at £0.3m. Due to uncertainty this budget line is now at risk; whilst the government have provided some support the duration of this is uncertain and therefore this risk has been upgraded.	High	0.405	0.303
Capital Programme	11.2	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces. The risk of contract deviation up to 10% of value. This risk will be monitored as supply chain pressures are likely to be offset by low wage growth.	Low	1.122	0.280
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.	Low	0.358	0.089

Budget Head	Budget Provision 2020-21 £m	RISK	Likelihood	Impact £m	Net Impact £m
External Contracts		The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier or a customer. The Authority maintains a bad debt provision based on aged debtor analysis but it would be insufficient to fully fund a loss from a major contract. Additionally, Public Sector procurement processes and contracts are coming under increasing scrutiny and could be open to legal challenge.	Low	2.000	0.500
Legal Issues		Given the nature of the work of the Authority there is a possibility that it could suffer a major health and safety or environmental failure.	Low	3.000	0.750
System/ Infrastructure Issues		In the event that a key system, such as the control mobilising system or system networks, were to fail, it is possible that urgent consultancy or replacement equipment would be required within short time constraints.	Low	1.500	0.375
Funding Issues		The changes to the funding mechanism for local government, introduced following the Local Government Resource Review, transferred potentially significant levels of financial risk to the Authority.	Medium	1.000	0.500
Inflation		Whilst allowances for inflation have been made within specific budget lines, generally at 2.7% per annum, the uncertainty surrounding Brexit, COVID-19 and the UK economy might lead to increased inflation. This risk has been downgraded due to current inflation forecasts for 2020-21.	Low	0.200	0.050
Employment Issues		Issues that might arise in respect of pay settlements or other factors which might lead to industrial action would, in the first instance, be managed within the revenue budget. Prolonged Action or issues would require funding from Reserves.	Medium	1.000	0.500
Estimated Reserve Requirement					5.133

APPENDIX B TO REPORT RC/20/14

Projected Reserve Balances over Medium Term Financial Plan Period (2020-25)

RESERVES	Balance as at 1 April 2020 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000	Projected Spend 2021-25 £000	Proposed Balance as at 31 March 2025 £000
Earmarked reserves					
Grants unapplied from previous years	(383)	311	(72)	72	-
Invest to Improve	(4,844)	1,775	(3,069)	3,069	-
Budget Smoothing Reserve	(1,818)	-	(1,818)	1,818	-
Direct Funding to Capital	(22,308)	5,958	(16,350)	10,000	(6,350)
Projects, risks, & budget carry forwards					-
PFI Equalisation	(150)	-	(150)	-	(150)
Emergency Services Mobile Communications Programme	(877)	218	(658)	658	-
Mobile Data Terminals Replacement	(279)	279	-	-	-
PPE & Uniform Refresh	(147)	147	-	-	-
Pension Liability reserve	(1,423)	403	(1,020)	-	(1,020)
Environmental Strategy	(308)	-	(308)	308	-
Budget Carry Forwards	(960)	708	(251)	-	(251)
Business Continuity (COVID-19 grant)	-	-	(600)	600	-
Total earmarked reserves	**(33,496)**	**9,798**	**(24,297)**	**16,526**	**(7,772)**
General reserve					
General Fund balance	**(5,316)**	**-**	**(5,316)**	**-**	**(5,316)**
Percentage of general reserve compared to net budget					
TOTAL RESERVE BALANCES	**(38,812)**	**9,798**	**(29,613)**	**16,526**	**(13,088)**
PROVISIONS					
Doubtful Debt	(655)	-	(655)	-	(655)
Fire fighters pension schemes	(659)	27	(632)	632	-
TOTAL PROVISIONS	**(659)**	**27**	**(632)**	**632**	**(655)**

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