DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

To: The Chair and Members of the Resources Committee

(see below)

SERVICE HEADQUARTERS
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Our ref : RC/MP/SS
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday 10 February 2021

A meeting of the Resources Committee will be held on the above date, **commencing at 10.00 am by 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 - 6)**

of the previous meeting held on 12 October 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 **2021-22 Revenue Budget and Council Tax Level (Pages 7 - 82)**

Report of the Director of Finance & Resourcing (Treasurer) and Chief Fire Officer (RC/21/1).

a Proposed Revenue Budget 2021-22 Option A (Pages 83 - 90)

2020-21 Revenue Budget & Council Tax booklet – Option A (attached)

b Proposed Revenue Budget 2021-22 Option B (Pages 91 - 98)

2020-21 Revenue Budget & Council Tax booklet – Option B (attached).

5 **Capital Strategy (Pages 99 - 108)**

Report of the Director of Finance & Resourcing (RC/21/2) attached.

6 **Capital Programme 2021-22 to 2023-24 (Pages 109 - 120)**

Report of the Director of Finance & Resourcing (RC/21/3) attached.

7 **Medium Term Financial Plan (Pages 121 - 132)**

Report of the Director of Finance & Resourcing (RC/21/4) attached.

8 **Treasury Management Strategy (including Prudential and Treasury Indicators) Report 2021-22 (Pages 133 - 168)**

Report of the Director of Finance & Resourcing (RC/21/5) attached.

9 **Treasury Management Performance 2020-21: Quarters 2 and 3 (Pages 169 - 182)**

Report of the Director of Finance & Resourcing (Treasurer) (RC/21/6) attached.

10 **Financial Performance Report 2020-21: Quarters 2 and 3 (Pages 183 - 198)**

Report of the Director of Finance & Resourcing (Treasurer) (RC/21/7) 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 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

12 **Restricted Minutes of Resources Committee held on 12 October 2020 (Pages 199 - 202)**

13 **Red One Ltd. Financial Performance 2020-21: Quarters 2 and 3 (Pages 203 - 208)**

Report of the Officers of Red One Ltd. (RC/21/8) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

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

NOTES	
1.	**Access to Information** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the "Please ask for" section at the top of this agenda.
2.	**Reporting of Meetings** Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the 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.	**Recording of Meetings** 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.	**Declarations of Interests at meetings (Authority Members only)** 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.

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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

12 October 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/30** **Minutes**

RESOLVED that the Minutes of the meeting held on 2 July 2020 be approved as a correct record.

* **RC/31** **Treasury Management Performance 2020-21: Quarter 1**

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 (Treasurer) (RC/20/12) that set out the Authority's performance relating to the first quarter of 2020-21 (to June 2020) 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 position on growth in the major world economies as a result of the Covid-19 pandemic with the overall growth rate at -2.2% in quarter 1 of 2020-21 (-1.7%y.y). The main fall in growth occurred in April 2020 at -24.5% after closedown of whole sections of the economy;
- The UK bank base rate had been reduced firstly to 0.25% and then to 0.10% in March 2020, accompanied by an increase in quantitative easing of £200billion followed by a further £100billion in June 2020 to be implemented over an extended period to the end of 2020-21;
- The annual rate of inflation dropped to 0.5% in May 2020 and could reach 0% by the year end. It was considered unlikely that inflation would rise over 2% again in the next two years;
- There had been measures implemented to assist businesses during the pandemic including the furlough scheme and business support loans;
- Unemployment had increased to 4% and this may double in the future as the existing furlough scheme ceased in October 2020;

- there was concern that the Bank Rate may move interest rates into negative territory which could impact on the Authority's investment income in 2020-21;

It was noted that the annual treasury management strategy had continued on a prudent approach, being underpinned by investment priorities based on security of capital, liquidity and yield. Despite the pandemic and economic downturn, investment income of £0.063m in quarter 1 outperformed the LIBID benchmark rate of 0.26% by 0.59bp. The position would be monitored carefully, however, in the event that there was a move to negative interest rates which would impact on investment income. None of the Prudential Indicators (affordability limits) had been breached in quarter 1 with external borrowing at 30 June 2020 being £25.444m, forecast to reduce to £24.851m by the end of the financial year with no new borrowing undertaken.

RC/32 **<u>Financial Performance Report 2020-21: Quarter 1</u>**

The Committee considered a report of the Director of Finance & Resourcing (Treasurer) (RC/20/13) that detailed performance against the financial targets set for 2020-21, together with a forecast of expenditure against the agreed revenue budget and an explanation of the major variations.

It was noted that at this stage in the financial year (to 30 June 2020) that spending was forecast to be £0.566m less than the budget at £76.710m equivalent to 0.73% of budget. The Director of Finance & Resourcing (Treasurer) advised that this was attributable largely to the receipt of grant funding of £1.6m of Covid-19 grant from the government which had not been utilised completely in the event that a second wave of the pandemic was forthcoming. Savings had also been made on service delivery staff (£0.294m), training investment (£0.187m), running costs and insurances (0.117m) and investment income (£0.071m) due to prudent planning by the Finance team. The position on investment income would be monitored carefully in light of the possibility of diminishing investment returns due to low interest rates.

The Director of Finance (Treasurer) also drew attention to proposed budget transfers totalling £1.952m as set out at Table 3 of the report.

The position in respect of Reserves was also set out in the report and it was indicated that £9.651m would be utilised in 2020-21 to support direct funding of capital projects such as the rebuild of Plymstock station.

RESOLVED

(a) That the budget transfers shown in Table 3 of report RC/20/13 (and as set out overleaf for ease of reference), be recommended to the Devon & Somerset Fire & Rescue Authority for approval;

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)**

(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.

RC/33 **Reserves Strategy 2020-21**

The Committee considered a report of the Director of Finance & Resourcing (Treasurer) (RC/20/14) upon the Reserves Strategy for 2020-21.

It was noted that the report included a risk assessment on the adequacy of the General Fund together with a section on each of the Earmarked Reserves including:

- Grants received in advance;
- Invest to improve;
- Budget smoothing;
- capital funding; and
- Specific projects - carry forward or risks identified.

RESOLVED that the Authority be recommended to approve the Reserves Strategy 2020-2021 for publication.

* RC/34 **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/35 **Restricted Minutes of Resources Committee held on 2 July 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).

NB. Councillors Saywell and Thomas were present for this item in a non-voting capacity as Non-Executive Directors of Red One Ltd.

RESOLVED that the Restricted Minutes of the meeting held on 2 July 2020 be approved as a correct record.

* RC/36 **Red One Performance 2020-21: Quarter 1**

(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 this context, each declared a non-pecuniary interest in this matter.

The Committee received for information a report of the Director of Finance & Resourcing (Treasurer) and report of the Board of Red One Ltd. (RC/20/15) on the financial performance of Red One Ltd. in quarter 1 of 2020-21.

Reference was made to the impact of the Covid-19 pandemic on the trading position for Red One Ltd. and to the financial forecasts going forward into 2020-21.

The Committee considered whether the repayment plan for Red One Ltd., to cover outstanding debt to the Authority, should restart from the second quarter of 2020-21 and be reviewed on a quarterly basis.

The Committee also considered a request from Red One Ltd. to fund staff who had not been able to be furloughed. As the company was not eligible for any of the Government’s Coronavirus job retention schemes, £0.027m was to be provided to cover the costs of two Red One employees for the period March – August 2020. In doing so, the Committee noted that this amount was well below the De Minimis amounts allowed by state aid rules.

Councillor Wheeler expressed thanks on behalf of the Committee to Red One Ltd. for all of the work undertaken by the team in such difficult times. Councillor Saywell also expressed his thanks for the support given to the company by the Authority.

RESOLVED

(a) That the repayment plan for the second quarter of 2020-21 be approved and that it be reviewed on a quarterly basis;

(b) That a contribution of £0.027m to fund Red One Ltd. staff who were unable to be furloughed during Covid-19 restrictions be approved;

(c) That the financial performance of Red One Ltd. for the quarter ended June 2020 be noted; and

(d) That the forecast year-end performance against agreed budget for 2020-21 be noted.

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

The Meeting started at 2.05 pm and finished at 3.27 pm

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REPORT REFERENCE NO.	**RC/21/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2021**
SUBJECT OF REPORT	**2021-22 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer) and Chief Fire Officer**
RECOMMENDATIONS	***(a) that the Committee considers the contents of this report in order to make a recommendation to the Fire Authority budget meeting that either:*** ***(i) that the level of council tax in 2021-22 for a Band D property be set at £88.24, as outlined in Option A in this report, representing no increase over 2020-21, and that accordingly a Net Revenue Budget Requirement for 2021-22 of £73,149,800 be approved;*** ***OR*** ***(ii) that the level of council tax in 2021-22 for a Band D property be set at £90.00, as outlined in Option B in this report, representing a 1.99% increase over 2020-21, and that accordingly a Net Revenue Budget Requirement for 2021-22 of £74,222,400 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 £53,777,027 (Option A) OR £54,849,642 (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.***

	(c) that, if Option B is agreed, the Authority considers as outlined in paragraphs 3.8 to 3.9 of this report: ***(i) that £0.415m of funding is made available to fund an additional 12 development firefighter posts;*** ***OR*** ***(ii) that the requirement to transfer in from the budget smoothing reserve be reduced by £0.415m.***
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 2021-22 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 2021-22: OPTION A – Freeze Council Tax at 2020-21 level **(£88.24 for a Band D Property).** OPTION B – Increase Council Tax by 1.99% above 2020-21 **(increase of £1.74 pa to £90.00 for Band D Property).** The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 19 February 2021.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2021-22. B. Revenue budget by directorate C. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances. D. DSFRA response to the Department of Communities and Local Government consultation document “Local Government Finance Settlement – Technical Consultation Paper”. E. DJS Report on Precept Consultation for 2021-22 Revenue Budget F. Report on Precept Consultation via Social Media
BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

1.1. The draft budget for 2021-22 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 better aligned 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 is more expensive and therefore savings released from the Service Delivery Operating Model have been re-invested in the On Call duty system.

1.2. The investment of £0.850m made in to Prevention and Protection in 2019-20 will continue, enabling more community and business safety activity.

1.3. Due to the economic impact of the Coronavirus pandemic on our communities, overall funding will reduce in 2021-22 and reserves will be needed to balance the budget. The government has announced its intention to freeze public sector pay awards next year and so this has alleviated some pressure on the Authority's finances.

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 2021-22. 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 17 December 2020, 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 2021-22. 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 2021-22

2.1. The provisional Local Government Finance Settlement for 2021-22 was announced on 17 December 2020, which provided local authorities with individual settlement funding assessment figures for one year only.

2.2. Table 1 below provides details of the Settlement Funding Assessment (SFA) for this Authority which results in an increase in 2021-22 of 0.16% over 2020-21 and an overall reduction of 24.00% 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%
2021-22	22.354	0.035	0.16%
Reduction over 2015-16		**-7.054**	**-24.00%**

2.3. In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a £85m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £445k for 2021-22.

2.4. There are other Section 31 grant funds, allocated to reduce the impact of local collection shortfalls, which are included in the revenue budget as income. The Authority is eligible annually for amounts to offset business rates reliefs at £1.5m for 2021-22.

2.5. As part of a suite of measures to support local authorities to offset impacts of the Coronavirus pandemic, an award of £0.970m has been made against increased costs of the Local Council Tax Support Scheme and an estimate of £2.856m is included as the Authority's share of National Non Domestic Rate grants made to businesses because of the pandemic.

2.6. These grants will be paid as a Section 31 grant (not in base funding which has been significantly impacted by COVID 19) and are therefore included as income within the draft budget proposed in this report.

3. COUNCIL TAX AND BUDGET REQUIREMENT 2021-22

Council Tax

3.1. It is, of course, an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2021-22, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2020-21 level (£88.24 for a Band D Property);

- **OPTION B** – Increase Council Tax by 1.99% above 2020-21 - an increase of £1.74 pa (15p a month) to £90.00 for a Band D Property.

3.2. The Authority could decide to set any alternative level below 2%. Each 1% increase in Council Tax represents an 87p a year increase for a Band D property, and is equivalent to a £0.538m 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.

3.3. Due to the economic impacts of Coronavirus on the Council Tax base, surplus and Business Rate income, both council tax options would represent a decrease to the overall budget available.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2021-22

	OPTION A **Council Tax Freeze at £88.24** **£m**	**OPTION B** **Council Tax Increase of 1.99% to £90.00** **£m**
TOTAL FUNDING 2020-21	**77.277**	**77.277**
Increase in Formula Funding	0.035	0.035
Decrease in Retained Business Rates from Business Rate Retention System.	(3.158)	(3.158)
Changes in Council Tax Precept		
- Decrease in Council Tax Base	(0.436)	(0.436)
- resulting from an increase in Council Tax	-	1.073
- decrease in Share of Billing Authorities Council Tax Collection Funds	(0.569)	(0.569)
TOTAL FUNDING AVAILABLE 2020-21	**73.149**	**74.222**
NET CHANGE IN FUNDING	**(4.127)**	**(3.055)**

*Section 31 grants are available to offset funding reductions per paragraph 2.4-2.5

Council Tax Base

3.4. The total increase in government funding of £0.035m is in line with inflation of 0.3% and comes after significant reductions amounting to 24.0% since 2015-16. The Service had forecast an increase in Council Tax receipts of 1.20% arising from house building in the area, although there has been a significant decrease of 0.80%. The Authority's share of Council Tax collection fund surplus has decreased by £0.569m (now in deficit and this figure reflects a three year spread) which reflects a significant decline in the rate of Council Tax collection by districts.

Retained Business Rates

3.5. The funding available from business rates has fallen significantly due to the pandemic, with the local share reducing by 56% or £3.158m. As outlined in paragraph 2.5, it is estimated that a grant of £2.856m will flow from billing authorities to offset against 2020-21 losses although this figure is yet to be confirmed.

Net Budget Requirement

3.6. Table 3 below provides a summary of the Core Budget Requirement for 2021-22. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

TABLE 3 – SUMMARY OF REVENUE BUDGET REQUIREMENT 2021-22

	£m	£m
Net Revenue Budget 2020-21		**77.277**
PLUS Provision for pay and price increases (Pay award assumed 0%)	0.205	
PLUS funding adjustments	0.655	
PLUS Inescapable Commitments	0.151	
PLUS New Investment	0.566	
MINUS Changes to income	(4.269)	
DECREASE in budget requirement over 2020-21		**(2.693)**
Core spending requirement 2021-22		**74.584**
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 includes cashable savings from the Safer Together programme	(0.209)	
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.153)	
Savings identified (£m)		(0.362)
Net spending requirement 2021-22		**74.222**

3.7. As outlined in the foreword to this paper, this budget is designed to support reform of the Service by maintaining investment in the Pay for Availability system at £1.442m. This is half of the annual cost if all stations take up the new system, but teams are being transitioned as and when all members want to take up the offer. Elsewhere on this agenda is a request to earmark funding from the under spend in 2020-21 arising from the delay of P4A roll out, which could then be used in 2021-22 were more than 50% of stations to transition.

3.8. As reduced funding will be available for the coming financial year and there will likely be further restrictions in coming years, officers have restricted requests for investment opportunities to:

- An optional £0.415m for 12 development firefighter posts
- £0.151m to introduce Microsoft 365, which will support smarter working

3.9. Members are asked to consider investing in an increased establishment for a three year period for 12 development firefighters year on year to support a strategic workforce planning which forecasts the following issues:

- risk of short-notice retirements (due early 2022 when pension scheme remedies are implemented)
- support for service delivery resilience in particular in fire protection
- increased opportunities to diversify the workforce

3.10. If the Authority does not approve the option to invest in development firefighter posts, £0.415m less reserve funding will be needed to balance the 2021-22 revenue budget.

Balancing the budget

3.11. As is indicated in Table 3, the Revenue Budget Requirement for 2021-22 has been assessed as £74.222m. This is more than the amount of funding available under Option A and therefore cuts or additional funding need to be identified in order that a balanced budget can be set.

TABLE 4 – PROPOSALS TO BALANCE THE BUDGET 2021-22

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A £m	OPTION B £m
Funding Available	73.149	74.222
LESS Net spending requirement 2021-22	74.222	74.222
Shortfall	**(1.073)**	**(0.000)**
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	0.000	0.000
Transfer from Reserves – in order to balance the budget, the budget smoothing reserve will be used	(1.073)	0.000
Total	**(1.073)**	**0.000**

3.12. Whilst the Service is confident that the budget can be balanced if Council Tax is increased, there will be a budget shortfall of £1.073m in the coming year if it is frozen. The recommendation is to utilise reserves to fund the gap in the short term until a budget efficiency plan is developed.

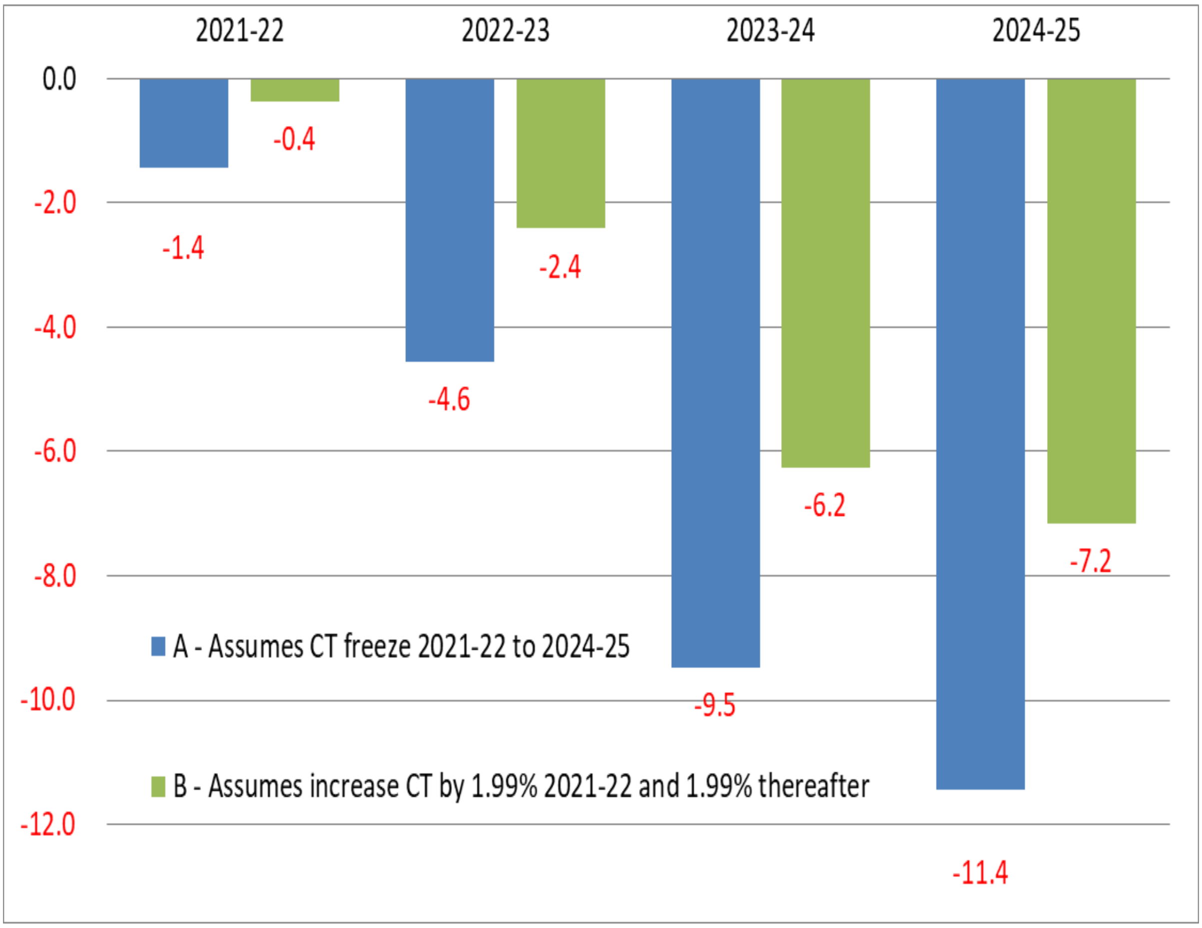
3.13. There is some risk attached to this strategy, as this proposal will draw down against the budget smoothing reserve, meaning it will not be available to meet future budget pressures.

4. MEDIUM TERM FINANCIAL PLAN

4.1 Given that the 2021-22 provisional Local Government Settlement is a one year settlement, the future funding position is less certain. The impacts of the Coronavirus pandemic have been significant both in terms of costs and economic impact and therefore a considerable funding gap is likely. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document, which is elsewhere on the agenda.

4.2 The MTFP financial modelling tool has assessed a likely ‘base case’ scenario in terms of savings required over the period 2021-22 to 2024-25. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2021 TO 2025 (BASE CASE) - £MILLIONS



4.3 Chart 1 illustrates that further savings will be required beyond 2021-22 to plan for a balanced budget over the next three years to 2024-25. Should the Authority decide to freeze Council Tax in 2021-22 (Option A) and the following three years then the MTFP forecasts that total savings of up to £11.4m need to be planned for.

Authority Plan 2021 onwards

4.4 This budget report proposes a balanced budget for the next financial year 2021-22 including proposals as to how budget savings can be achieved.

4.5 Looking beyond 2021-22 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.

4.6 The strategic approach to deliver the required savings is being developed and an efficiency review has been initiated and will focus on the following priority areas:

- How resources are being utilised; productivity of our staff and assets;
- Digitising and streamlining services to make them more efficient; and
- Evidencing value for money of our services;

5. <u>PRECEPT CONSULTATION 2021-22</u>

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

5.2. 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.

5.3. The consultation process ran throughout November and December 2020 and involved:

5.3.1 A telephone survey of 399 business and 402 residents;

5.3.2 Use of an online survey promoted via social media and other DSFRS communication channels

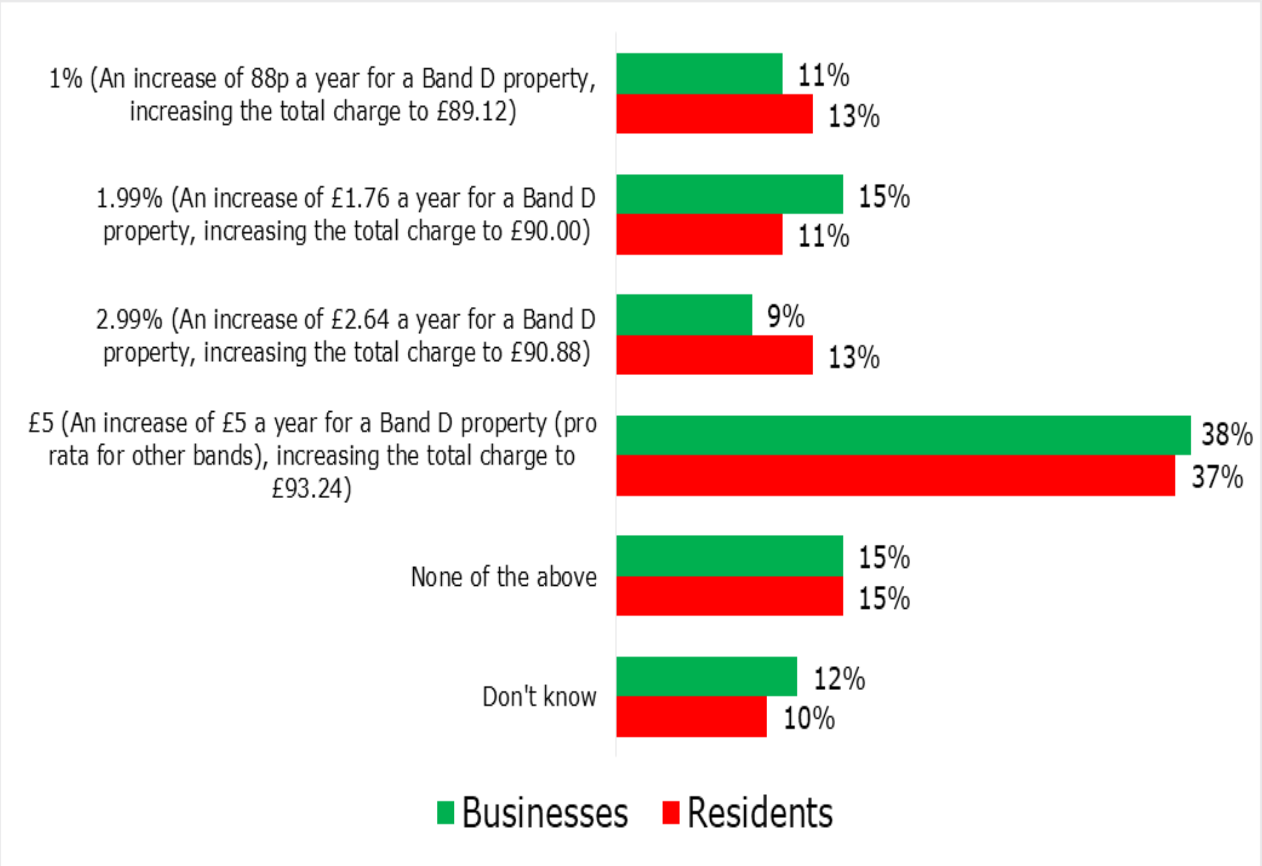
5.4. The full results of the telephone survey and online survey can be found in Appendices E and F.

Results from the Telephone Survey

5.5. 62% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2021-22, while 14% disagreed that it is reasonable for them to do so, resulting in a net agreement of +48%.

5.6. 66% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2021-22, while 11% disagreed, giving a net agreement of +55%.

Chart 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 2021-22)



5.7. Of those respondents who agreed that a Council Tax increase would be reasonable, 62% of businesses and 61% residents would support an increase of 1.99% or above.

5.8. 80% of businesses and 85% residents felt that the Service provides value for money.

5.9. Additional questions were included to determine satisfaction levels; overall 76% of businesses and 77% of residents said they were satisfied with the Service. Perceived reputation of the Service is strong, with results shown in the appendices.

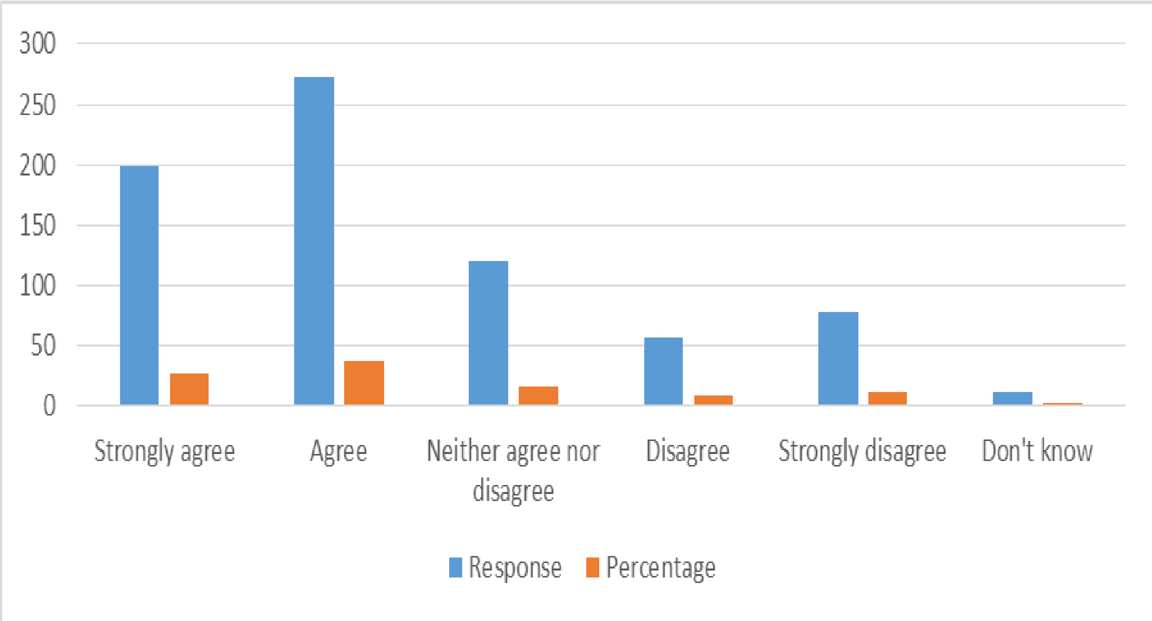
Results from the Online Survey

5.10. The online survey was available from 6 November – 18 December 2020. The consultation was promoted through our website, press releases and adverts on Facebook and Twitter.

5.11. In that period, a total of 737 responses were received (up from 121 last year). As only thirteen of these responses represented the business sector, the results have not been separated.

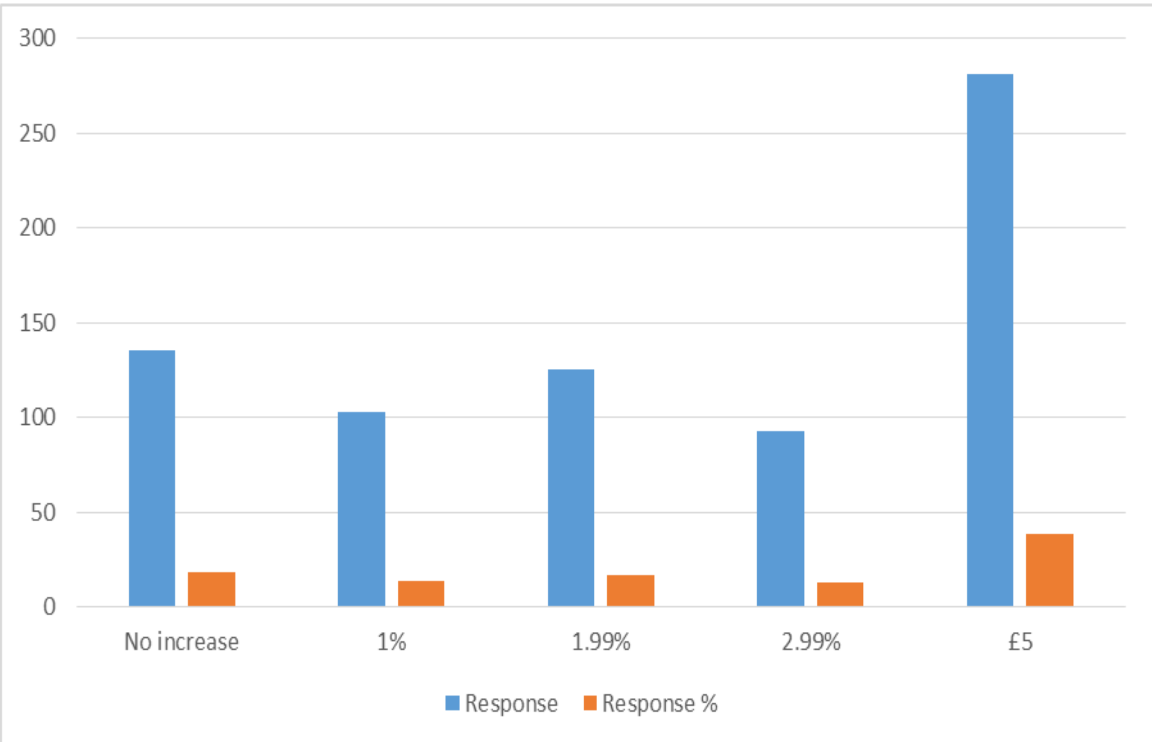
5.12. The results outlined in Chart 3 indicate that almost 64% of respondents agree that the Authority should consider increasing its charges, as opposed to 18% who disagree, giving a net agreement of +46%.

Chart 3: Question 1 Results of agreement to consider increasing the precept



5.13. The responses indicate that the most popular option overall is a £5 increase with 281 respondents choosing this (38% of everyone who completed the survey). Just over two thirds (67.6%) of respondents considered a 1.99% increase or higher reasonable. 238 people opted for either no increase or 1% increase.

Chart 4: Question 2 Results of options to increase the precept



5.14. The results indicate that 71% agree that the Service provides value for money.

5.15. 72% of respondents were satisfied or very satisfied with the service provided, and increase of 25% over last year, when results were likely to have been influenced by the Safer Together consultation.

Survey Conclusion

5.16. 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 2021-22. 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 1.99% or above.

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

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

6.1. 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.

7. SUMMARY

7.1. The Authority is required to set its level of revenue budget and Council Tax for 2021-22 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.

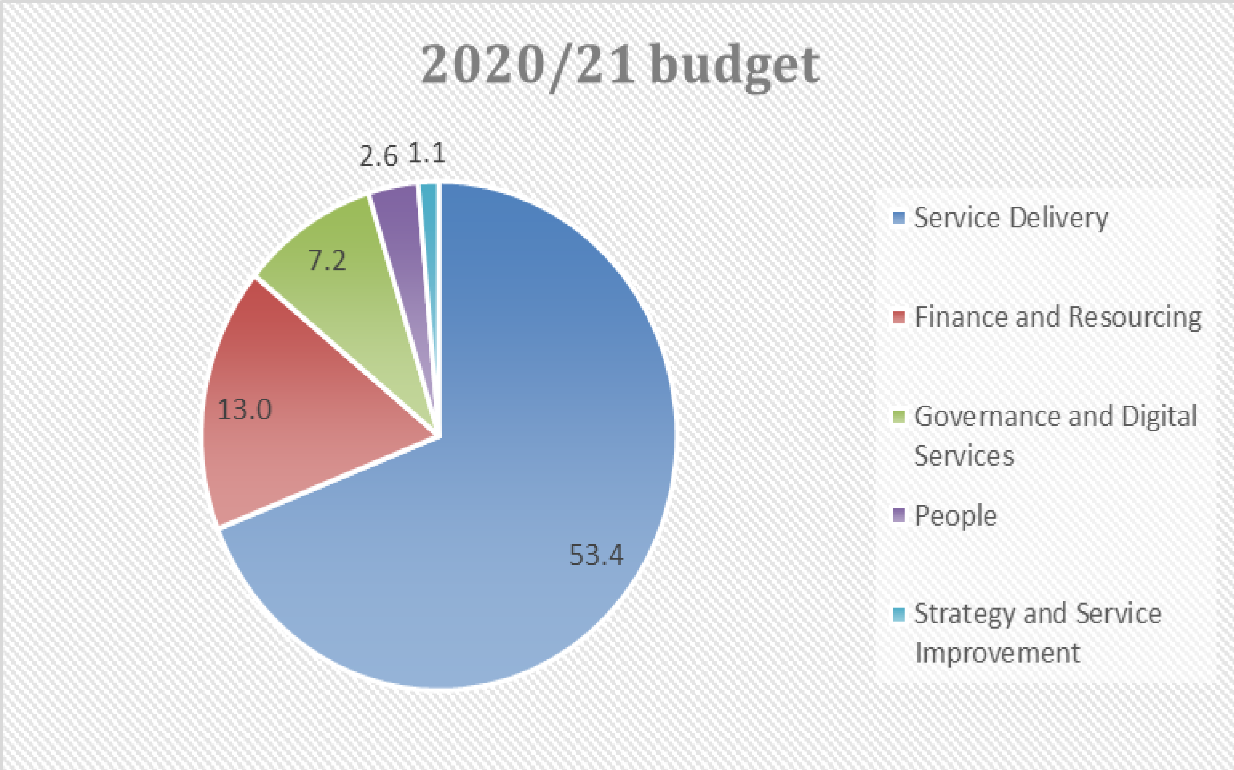
7.2. The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the Authority, to be held on the 19 February 2021.

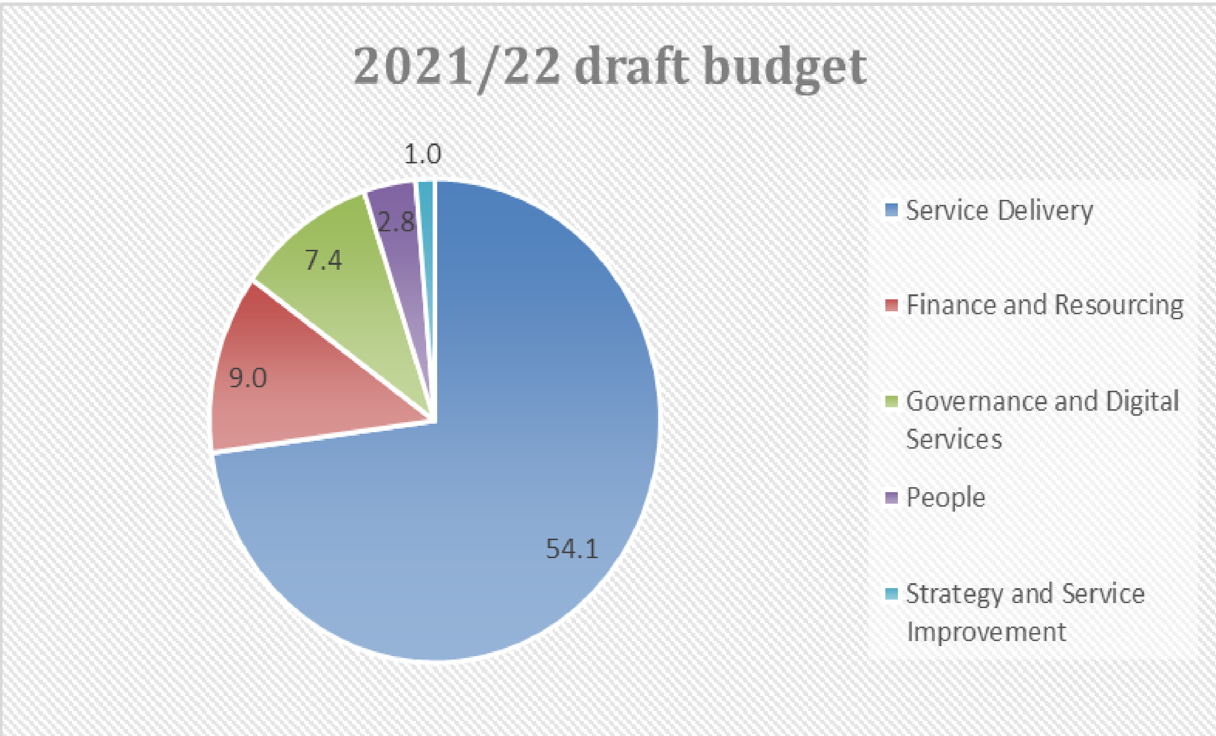
AMY WEBB	**LEE HOWELL**
Director of Finance and Resourcing (Treasurer)	**Chief Fire Officer**

	2021/22 £'000	2021/22 £000	%
Approved Budget 2020-21		**77,277**	
Provision for pay and prices increase			
Grey Book Pay Award (assume 0% from July 2021)	0		
Green Book Pay Award (0.75% not budgeted for in 2020-21)	101		
Prices increases (assumed 0.7% CPI from April 2020)	87		
Pensions inflationary increase (tracks CPI - 0.7%)	17		
		205	0.3%
Funding Adjustments			
Revenue Contribution to Capital	0		
Transfers from Reserves	655		
		655	
Inescapable Commitments			
Support Staff Increments	151		
		151	
New Investment			
On Call Pay for availability	0		
12 x Development Fire Fighters	415		
ICT Service Delivery (Office 365 licence)	151		
		566	
Income			
Decrease in investment interest	101		
Section 31 grants	-4,370		
		-4,269	
Anticipated savings			
Pensions - anticipate reduced Ill Health/ Injury leavers	-153		
Cumulative budget savings	-209		
		-362	
Transfer from Reserves			
CORE BUDGET REQUIREMENT		**74,222**	

APPENDIX B TO REPORT RC/21/1

Proposed Revenue Budget breakdown by directorate 2020-21 and 2021-22.
NOTE: assumes 1.99% increase and investment in development FF





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 2021-22 BUDGET

The net revenue budget requirement for 2021-22 has been assessed as £74.222 (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 2022, 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 Coronavirus pandemic. 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 and lockdowns 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 2021-22 to 2025-26. 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 2021-22 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2021-22 £m	*RISK AND IMPACT*	MITIGATION
Service Delivery staff costs	51.8	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. No provision for pay awards have been made in the 2021-22 budget.	In establishing a General Reserve an allowance has been made for a potential pay award. The payment for availability reserve will support those stations which transition to the new pay model in year.
Fire-fighter's Pensions	2.4	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 Pensions 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	This budget has been reduced since 2020-21 in recognition of new ways of working and the green agenda	General Reserve
Treasury Management Income	(0.1)	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income has been set at a prudent level of achieving only a 0.3% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.8)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.8m 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	(4.5)	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. £2.9m of this has been estimated grant income to offset funding losses yet to flow through from 20-21 business rates losses.	General Reserve

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2020 is £38.8m made up of Earmarked Reserves (committed) of £33.5m, 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 the pandemic 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 2021-22 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)

Consultation response pro-forma

Provisional Local Government Finance Settlement 2021-22

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. You do not have to answer every question should you not wish to.

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 (*))

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Town/City*	Exeter
Postcode*	EX3 0NW
Country	
Email address*	awebb@dsfire.gov.uk
Phone Number	01392 872202

Consultation response pro-forma

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

London Borough

Metropolitan District

Unitary Authority

Shire County

Shire District

<u>Fire and Rescue Authority</u>

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 2021-22?

Yes

No

No comment

Additional comments
The Covid-19 pandemic has led to an unprecedented level of financial uncertainty. We welcome the emergency funding which the sector has received to date, however, given the likely ongoing impacts we support the government's intention to maximise certainty within the settlement and therefore supports the proposed RSG methodology.

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

Question 2

Do you agree with the proposed package of council tax referendum principles for 2021-22?

Yes

No

No comment

Additional comments

The headline increase of 4.5% in core spending power is misleading. In truth almost all of this increase is due to less strict council tax referendum principles for social care providing authorities. The NFCC estimates that the increase for standalone FRAs is 2.7% (after accounting for the transfer of Isle of Wight fire and rescue responsibilities). Again, very little of this is an actual funding increase but an expectation of increased local taxation. Furthermore, the headline increase in CSP is reliant on overly optimistic taxbase and collection rates assumptions (see below).

Council Tax Precept
Due to the continued pressures (see above) and the Core Spending Power assumption that the maximum council tax will be taken, many FRAs will be forced to raise their precepts by the maximum referendum-free amount. This will have the effect of diverging the range of council tax precepts which taxpayers pay. At one end of the scale, this is unfair because taxpayers are paying comparatively even more for services; at the other end of the scale this is unfair because FRAs cannot raise as much revenue from council tax. This system cannot be allowed to continue ad infinitum and of course this is not unique to FRAs.

What is more unique to FRAs is the fact that council tax precepts are very small compared to total bills. This therefore represents an opportunity for central government to allow significant improvements to FRAs budgets with insignificant effect to taxpayers' bills. We reiterate the call for a simple £5 limit for fire and rescue precepts (including for LAs with fire and rescue responsibility); it is asked that the government relooks at the scope for achieving a more sustainable fire and rescue service at very limited additional cost to the taxpayer.

Tax base
Unlike the Home Office's Police Grant Settlement, the LGF Settlement uses council tax bases based on the average of the annual growth between 2016-17 and 2020-21 instead of the OBR's -0.2% forecast for tax base growth. It is disappointing that therefore a large part (maybe even all) of the £670m LCTS grant has been offset by the use of the higher taxbase.

Collection Rates and Local Taxation Income Guarantee
The 75% guarantee on council tax and business rates is very welcome however we note that falls in collection rates have been excluded from the guarantee. Given that the guarantee is 75% and not 100%, including collection rates in the guarantee would present no perverse incentive and we consider that a significant reduction in collection rates (which are relatively stable) would be a reflection of the effects of Covid-19.

If collection rates are significantly affected, then the effectiveness of the income guarantee could be significantly reduced.

Investment in Fire Protection

The following text was included in the NFCC response to the 2020-21 LGF Settlement Technical and Provisional Settlement consultations which is supported by DSFRA. We believe that it is of primary importance that we continue to highlight the situation regarding protection activity as this is clearly an issue that needs to be prioritised going forward.

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 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 £1,150 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 (i.e. a £5 increase in council tax instead of the 2% limit) could pay for the recruitment of a further 1,062 staff to deliver this vital improvement.

Service Delivery Pressures

The NFCC has continually highlighted service delivery pressures in previous settlement responses. The Home Office publishes response times annually and consistent data is available going back to 2009-10. In 2009 there were 41,953 full time equivalent firefighters and average response times to primary fires (potentially more serious fires that harm people or cause damage to property) were 8 minutes and 14 seconds in 2009-10. In 2018 the number of FTE firefighters had fallen to 32,245 (a 23% reduction); response times had risen to 8 minutes 58 seconds (an increase of 9%). Comparing FTE firefighters with response times between 2009 and 2018 shows a strong negative correlation (R^2=0.84, $p<0.001$) [see FIRE0101 and FIRE1101 Home Office data].

This serves to paint just part of the picture regarding the risk profile pressures facing the fire and rescue service. It is of course vital that the horrors of the Grenfell Tower tragedy are not forgotten and to note that reductions in firefighter numbers directly impact the availability of personnel to support national resilience capabilities. At present, 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. Regarding fire and rescue operations post-Grenfell, FRAs faced additional requirements for inspections in high rise properties, even before legislative change.

The sector needs to respond to the inspection process, with 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. Long-term investment is 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. One of the most significant demands on the public sector is an aging population; for FRAs this is highlighted by the stark differences in fire-related deaths for different ages. In 2019-20, 51% of fire-related death victims were aged over 65 and 22% were aged over 80. Whilst there were just three fire-related deaths for the 17 million people in England aged 24 or under, there were 152 for the 17 million people aged 55 or over, a death rate approximately 50 times higher; for residents over 80 the fire-related fatality rate was 95 times the fatality rate for under 25s [see ONS 2019 MYEs and FIRE0503 Home Office data].

Covid-19 Emergency Funding

2020 has seen all public services respond to the Coronavirus pandemic. DSFRA is grateful to the government for the support with additional costs during the 2020-21 financial year however refer to comments given in response to Question 2 below.

It is welcome that additional funding will be kept under review however, we are fore-casting that tranche 1 and 2 grant funding will soon be exhausted. Emergency funding must be sufficient for all FRAs to meet their pressures including ongoing support to communities for activity outside of FRA remit and the government is asked to ensure that the sector isn't overlooked.

Fire Pensions Grant

We note that responsibility for the Fire Pensions Grant has been transferred to MHCLG with the intention of it being transferred into the baseline; and suport the approach of transferring the grant into FRAs' baseline funding, removing the uncertainty which exists when such a significant portion of funding is not guaranteed beyond each year.

Multi-Year Settlements

The focus that the government has clearly placed on stability and certainty within these proposals is welcome. In general, the proposals set out seem reasonable, however the sensible approaches to shire districts' and police and crime commissioners' referendum principles should also be extended to FRAs.

Although the MHCLG has clearly looked to maximise certainty for 2021-22, it is unfortunate that there is no such certainty from 2022-23 onwards. We understand the limitations placed on government due to Covid-19 and given the unprecedented levels of uncertainty it is understandable that the government has conducted a one-year SR and a roll-over provisional settlement. However, one-year settlements should not be the norm and a return to multi-year SRs and settlements is required from 2022-23.

Question 3

Do you agree with the Government's proposals for the Social Care Grant in 2021-22?

Yes

No

No comment

Additional comments

Question 4

Do you agree with the Government's proposals for iBCF in 2021-22?

Yes

No

No comment

Additional comments

Question 5

Do you agree with the Government's proposals for New Homes Bonus in 2021-22?

Yes

No

No comment

Additional comments

Question 6

Do you agree with the Government's proposal for a new Lower Tier Services Grant, with a minimum funding floor so that no authority sees an annual reduction in Core Spending Power?

Yes

No

<u>No comment</u>

Additional comments

Question 7

Do you agree with the Government's proposals for Rural Services Delivery Grant in 2021-22?

<u>Yes</u>

No

No comment

Additional comments

DSFRA welcomes the proposed approach for RSDG in 2021-22 and request that pressures faced by rural services, which are particularly significant for FRAs due to the time-bound nature of response services, are considered in any further funding reviews.

Question 8

Do you have any comments on the Government's plan not to publish Visible Lines?

Yes

No

<u>No comment</u>

Additional comments

Question 9

Do you have any comments on the impact of the proposals for the 2021-22 settlement outlined in this consultation document on persons who share a protected characteristic, and on the draft equality statement published alongside the consultation document? 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.

Summary

We reiterate a simple £5 limit for fire and rescue precepts (including for LAs with fire and rescue responsibility); it is asked that the government relooks at the scope for achieving a more sustainable fire and rescue service at limited cost to the taxpayer. If changes to the referendum principles are a non-starter then additional grant funding should be made for prevention and protection, as well as an increase in firefighters to help lower response times.

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Prepared for:

APPENDIX E TO REPORT RC/21/1

DEVON & SOMERSET FIRE & RESCUE SERVICE

Council Tax Precept Survey 2021/22

January 2021

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djs research

Contents

Introduction

1.1 Context and methodology

Devon and Somerset Fire and Rescue Service (hereafter DSFRS) is the largest non-metropolitan fire and rescue service in England. They provide prevention, protection and response services across the counties of Devon and Somerset (including Torbay and Plymouth).

DSFRS have 83 fire stations and over 1,800 staff who work to protect the 1.7 million people who live in Devon, Somerset, Torbay and Plymouth, alongside the estimated extra 400,000 people who visit this part of the country every year.

In October 2020, DSFRS commissioned DJS Research to undertake a survey amongst 400 businesses and 400 residents. The purpose of the research was to consult with residents and businesses within Devon and Somerset on how DSFRS should approach setting its budget for 2021/22 and on whether the service is currently deemed to be providing a satisfactory and value-for-money service.

The questionnaire for the survey was provided by DSFRS. The contacts for the survey were purchased by DJS Research from a commercial database provider. To ensure that findings form the research would allow for meaningful comparisons to be made , quotas were set by local authority district (LAD), number of employees and broad industry sector for the business survey and LAD, age and gender for the resident survey. We also set aspirational quotas for residents around ethnicity, in order to achieve a large enough sample for sub-group analysis among BAME residents.

In total, 399 interviews with businesses and 402 interviews with residents were completed during the fieldwork period (17 November to 21 December 2020). Tables detailing the calls made as part of this research can be found in Appendix II.

This report summarises the main findings from both surveys.

There are two points to note:

1. The data which appears in these charts and tables has been weighted (adjusted) to account for any under- or over-representation of specific groups within the final data, according to the latest statistical and census data. Tables outlining the weighted and unweighted demographic profiles of the two samples (Businesses and Residents) can be found in Appendix I.

2. Throughout the report, where reference is made to one sub-group being ‘significantly more likely’ than another sub-group to act in a certain way or hold a specific opinion, this is a statistically significant difference at the 95% confidence level.

Key Findings

2.1 Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2021/22

Respondents were provided with the following contextual information regarding DSFRS:

> *Devon and Somerset Fire and Rescue Authority is committed to 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 83 local fire stations across Devon and Somerset and employs about 2,000 staff, helping to keep a population of 1.8 million safe. On average, they attend about 15,700 incidents every year and provide home safety advice to over 18,000 households. Incidents they attend include flooding, road traffic collisions, fires and other emergencies. Devon and Somerset Fire and Rescue Authority is considering its Council Tax charges for 2021/22. The current charge is £88.24 a year for a Band 'D' property.*

They were then informed of the following:

> *The total cost of running Devon and Somerset Fire and Rescue Service equates to approximately £43.91 a year per head of the population.*

Respondents were then asked how strongly they agree or disagree that it is reasonable for the Authority to consider increasing its Council Tax charge for 2021/22.

Businesses

Six-in-ten (62%) businesses agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2021/22. Only 14% disagreed that it is reasonable for them to consider an increase.

- A to F sector businesses were significantly more likely than G-N, R+S sector businesses to disagree (19% vs 10%, respectively).[1]

---

[1] 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.

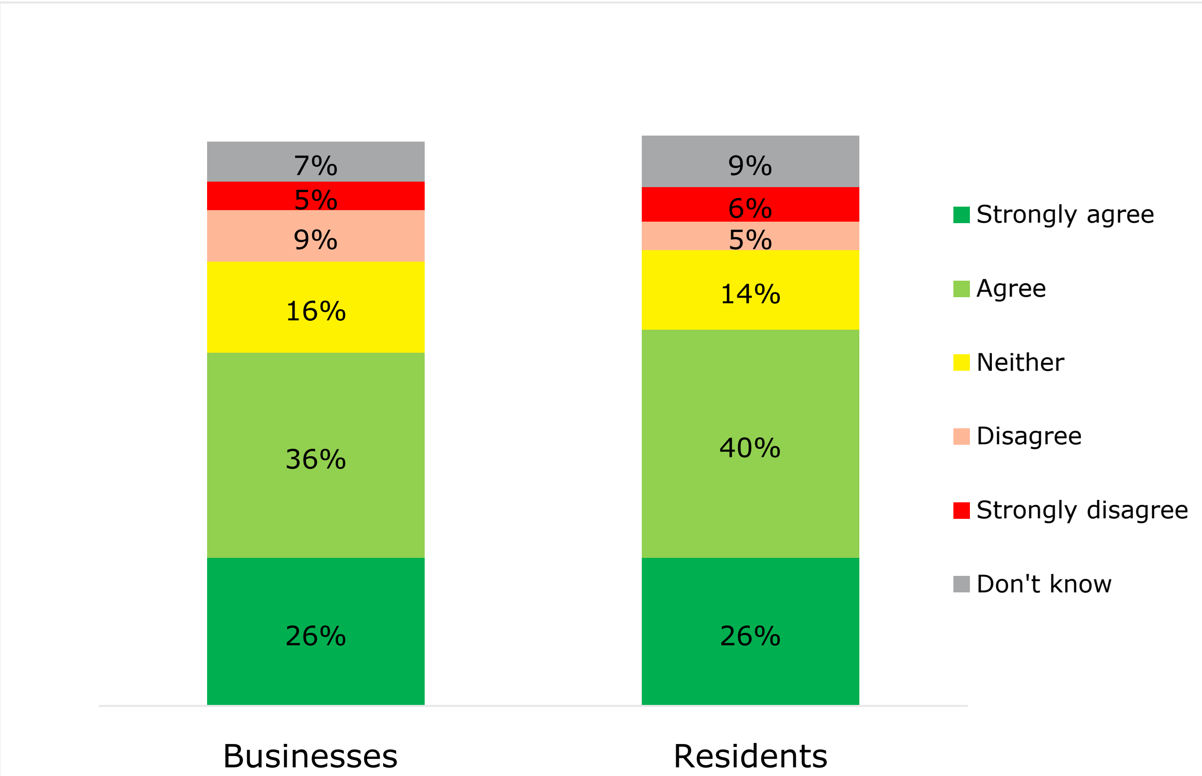
G to N, R and S includes the following sectors: G Wholesale and retail trade; repair of motor vehicles and motorcycles; H Transportation and storage; I Accommodation and food service activities; J Information and communication; K Financial and insurance activities; L Real estate activities; M Professional,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

Residents

Two-thirds of residents (66%) agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge, compared to only 12% who disagreed.

- Residents who had interreacted with DSFRS in the last 12 months were significantly more likely to agree that it is reasonable to consider increasing its charge.
- Residents aged 25-44 (17%) were significantly more likely than residents in older age bands (45-64, 12%; 65+, 9%) to disagree with an increase.
- BAME residents (29%) were significantly more likely than White residents (11%) to disagree with an increase. While this difference is substantial, it is worth noting that BAME residents (37%) were significantly more likely than White residents (7%) to answer 'Don't know' to this question. Not only could this account for (part of) the difference, it suggests there may be challenges related to awareness regarding what DSFRS does and how it is funded.

Chart 1: Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2021/22



Q05. How much do you agree or disagree that it is reasonable for the Authority to consider increasing its Council Tax charge for 2021/22? Base: All respondents (Business n=399; Residents n=402)

2.2 Level of increase that would be reasonable

All respondents, regardless of whether they agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2021/22, were asked at what level the increase should be set.

Businesses

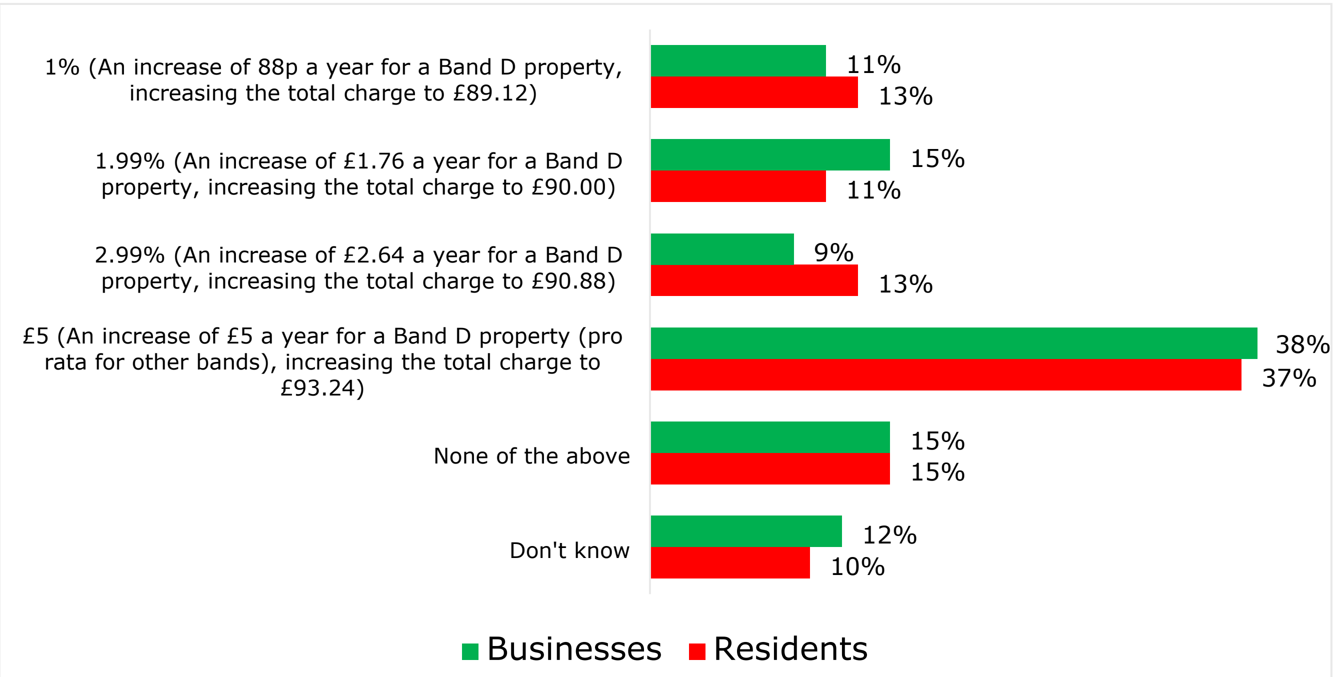
Four-in-ten (38%) businesses opted for a £5 increase, the most popular option among the ones listed. A 1.99% increase, the second most popular option, was chosen by only 15% of business respondents. 15% opted for none of the above.

Residents

Consistent with findings from the business survey, the most popular option among residents was for a £5 increase (37%). The 2.99% increase option proved more popular with residents than businesses, with 13% of residents opting for it, while 11% opted for the 1.99% increase. Also consistent with findings from business survey, 15% of residents opted for none of the above.

- Male residents (17%) were significantly more likely than female residents (9%) to opt for the 2.99% increase, while female residents (15%) were significantly more likely than their male counterparts (8%) to opt for the 1.99% increase
- Residents without a disability (42%) were significantly more likely than residents with one (27%) to opt for a £5 increase.

Chart 2: Level of increase that would be reasonable



Q06. What level of increase would you consider is reasonable for the Authority to increase its element of the Council Tax charge by? Base: All respondents (Business n=399; Residents n=402)

2.3 Reasons for disagreeing that increase is reasonable

Respondents who disagreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2021/22 (14% of businesses and 12% of residents) were asked a follow-up question to help clarify their response. The following verbatims were taken from these responses and reflect the general sentiment of the respondents.

Businesses

Businesses suffering due to Covid situation; cannot afford an increase in council tax.

It's a bad time of year to do it, a lot of businesses are struggling. There was also a building being built for the fire brigade which was not occupied for more than two years.

Not in line with inflation and current business costs.

Money should be rechannelled from the police to the fire service. Without any change to council charge.

I'm actually on the breadline so I don't want to be paying more council tax.

It's not an appropriate time to raise council tax with current economic situation.

Residents

I agree with an increase, but from other Council funds.

I'm not pleased with the Council generally and do not think it's justified that council tax goes up at all.

A lot of the time it does not go to the cause it should go to.

Personally, I'd have to say that the wages around here are very poor especially with what has happened this year. I think a lot of people would struggle with an increase in council tax charges.

Q06b. Why do you think it is not reasonable for the Authority to increase its element of the Council Tax charge? Base: All respondents who disagreed it was reasonable to seek an increase (Business n=55; Residents n=48)

2.4 Whether DSFRS provides value for money

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

Businesses

Eight-in-ten (79%) businesses agreed that DSFRS provides value for money, including 58% who strongly agreed with the sentiment. Significantly, only 3 business respondents (representing less than 1% of total) disagreed that DSFRS provides value for money.

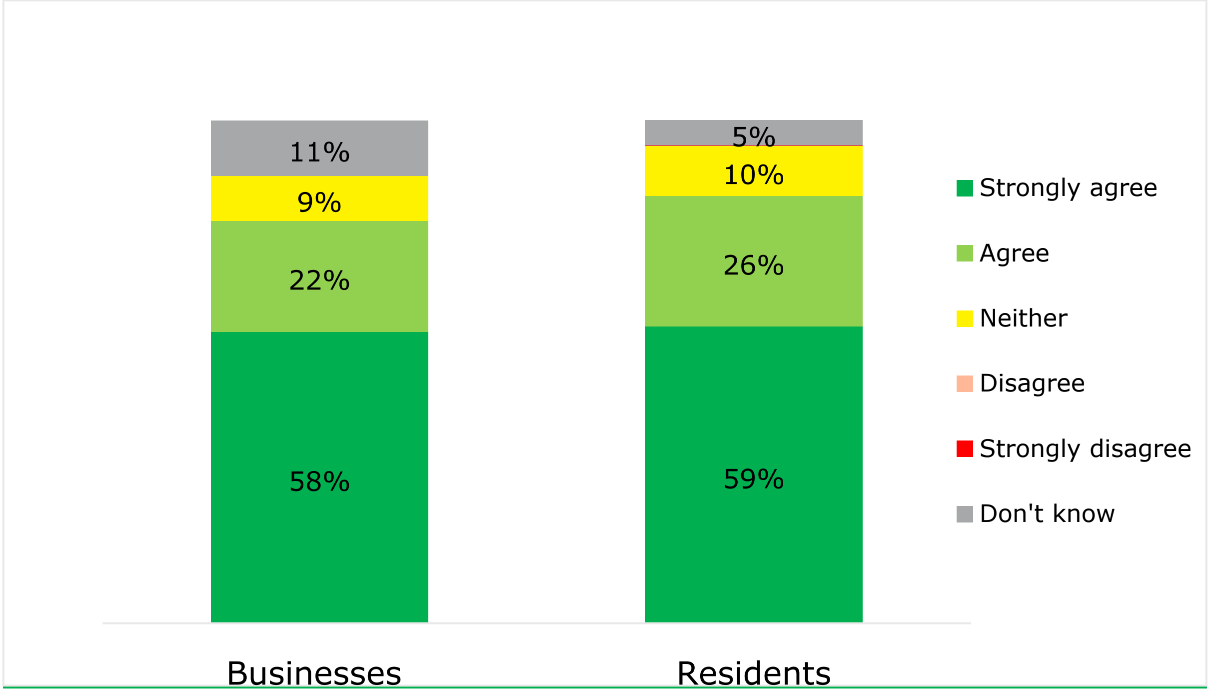
- G-N, R+S sector businesses (62%) were significantly more likely than A to F sector businesses (51%) to strongly agree that DSFRS provides value for money.
- Businesses with no (81%) or some (95%) partners/directors from minority groups were significantly more likely than businesses in which partners/ directors are all from minority groups (34%) to agree that DSFRS provides value for money.

Residents

85% of residents agree that DSFRS provides value for money. Significantly, only one resident disagreed with this sentiment (the balance being made up between those who neither agreed nor disagreed (10%) and those who gave a 'Don't Know' response (5%).

- Residents aged 16-24 (69%) along with those aged 45-64 (64%) were significantly more likely than residents in the 25-44 age band (46%) to strongly agree that DSFRS provides value for money.

Chart 3: Whether DSFRS provides value for money



Q07. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money? Base: All respondents (Business n=399; Residents n=402)

2.5 Reasons for disagreeing that DSFRS provides value for money

The three businesses and one resident who disagreed that DSFRS provides value for money were asked a follow up question in order to better understand why they disagreed. The following verbatims are included as illustrative of their (not commonly held) views.

> ***Businesses***
>
> *No interaction with them.*
>
> *Too many fat cats…*
>
> ***Residents***
>
> *I don't think value for money should be a factor, as it's a public service.*

Q08. Why do you feel the Service does not provide value for money? Base: All respondents who disagreed it provides value for money (Business n=3; Residents n=1)

Survey Findings

3.1 What respondents think the local fire and rescue service does

This question was asked in order to identify gaps in public understanding of the type of services that fall within the remit of DSFRS.

Businesses

100% of business respondents identified 'responding to fires' as something the local fire and rescue service does.

Substantial majorities of respondents identified each and every other service on the list, from a high of 98% in the case of 'rescuing people from road traffic collisions' to a 'low' of 83% in the case of 'obtaining info from landlords/building owners to improve response if fire/emergency occurs in building' as falling within the remit of the local fire and rescue service.

- Results on this question show very little variation between sub-groups, the lone exceptions: a significantly higher share of businesses who have recently interacted with DSFRS choosing 'ensuring those responsible for public and commercial buildings comply with fire safety regulations' compared to those who have not (94% vs 85%, respectively); and a significantly higher share of businesses who agree with a rate increase choosing 'preventing fires and promoting fire safety' compared to those who disagree with an increase (97% vs 89%, respectively).

Residents

Almost all residents (98%) interviewed identified 'responding to fires' as something the local fire and rescue service does as a matter of course. At the other end of the scale, only 71% of residents identified 'obtaining info from landlords/building owners to improve response if fire/emergency occurs in building' as a service they provide.

- Residents aged 45-64 (94%) were significantly more likely than residents in the 25-44 (82%) and 65+ (86%) age bands to identify 'preventing fires and promoting fire safety' as something that lies within the remit of the local fire and rescue service. This may suggest that residents in the youngest and oldest age brackets are more aware of DSFRS' reactive firefighting duties that what can be done to prevent incidents in the first place.
- White residents were significantly more likely than BAME residents to identify the following as services: 'rescuing people from road traffic

collisions' (93% vs 74%, respectively); 'responding to emergencies such as flooding and terrorist incidents' (90% vs 61%, respectively); and 'ensuring those responsible for public and commercial buildings comply with fire safety regulations' (80% vs 53%, respectively). This suggests that there is more DSFRS could do to engage BAME communities with respect to the kinds of services the fire and rescue service provides.

- Those who agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge were significantly more likely than those who disagreed with the proposition to identify 'ensuring those responsible for public and commercial buildings comply with fire safety regulations' (84% vs 62%, respectively) and 'obtaining info from landlords/building owners to improve response if fire/emergency occurs in building' (75% vs 55%, respectively)

Table 1: What respondents think the local fire and rescue service does

Service	Businesses	Residents
	%	%
Responding to fires	100	98
Rescuing people from road traffic collisions	98	92
Responding to emergencies such as flooding and terrorist incidents	95	89
Preventing fires and promoting fire safety	96	89
Ensuring those responsible for public and commercial buildings comply with fire safety regulations	86	79
Obtaining info from landlords/building owners to improve response if fire/emergency occurs in building	83	71
Collaborating with other organisations, for example the police and ambulance service	96	86
None of the above	-	-
Don't know	-	1

Q01. What do you think your local fire and rescue service does? Base: All respondents (Business n=399; Residents n=402)

3.2 Services used

All respondents were asked whether they have interacted with DSFRS in the last 12 months.

Businesses

82% of businesses have had no recent interaction with DSFRS. 7% had a safety check or audit in the last 12 months.

- Results on this question show very little variation between sub-groups

Residents

84% of residents have had no recent interaction with DSFRS. 4% had a safety check or audit in the last 12 months; a similar share (4%) reported a fire safety check/visit in their home during the last 12 months.

- Results on this question show very little variation between sub-groups.

Table 2: Services used*

Service	Businesses	Residents
	%	%
House fire	1	2
Road traffic collision	<1	1
Flooding	-	-
Rescue	<1	-
Home fire safety check/visit	2	4
Business safety check/audit	7	4
Community use of fire station	-	-
Youth education	<1	1
Community event	2	1
When working with ambulance service and the police	<1	<1
Through the service's social media channels	<1	1
Using Service website	<1	1
Other engagement	6	5
No interaction with DSFRS	82	84

Q02. Have you interacted with Devon and Somerset Fire and Rescue Service in the last 12 months? Base: All respondents (Business n=399; Residents n=402) *The total percentages exceed 100% due to the multiple-response format of the question

3.3 Satisfaction with service provided by DSFRS

All respondents were asked how satisfied they were with the range of services provided by DSFRS.

Businesses

76% of businesses were satisfied with the service provided, including 66% who said they were 'very satisfied'. None of the respondents were dissatisfied with the service. However, it is worth noting that 18% of respondents did not provide an answer to this question ('Don't Know').

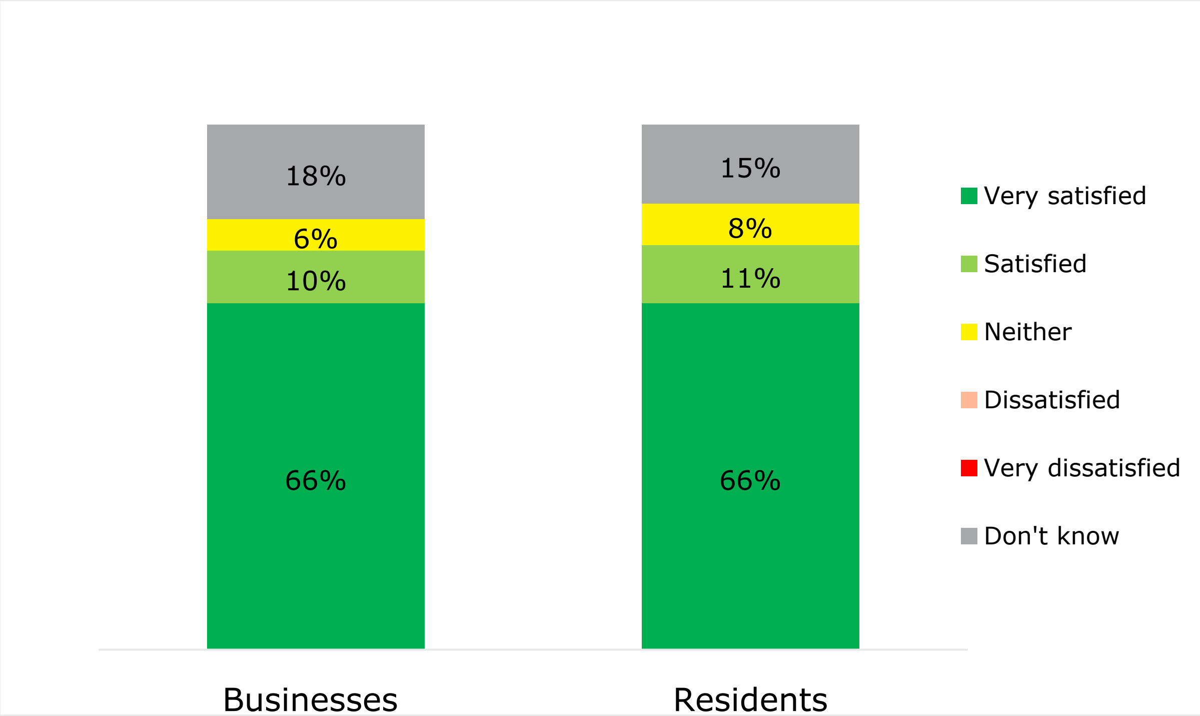
- Echoing results from an earlier question (Q7: Value for money), G-N, R+S sector businesses (80%) were significantly more likely than A to F sector businesses (70%) to be satisfied with the service provided by DSFRS.
- Businesses who reported having contact with DSFRS in the last 12 months were significantly more likely than those who had not to be satisfied with the service (96% vs 72%, respectively).

Residents

Consistent with results from the business survey, 77% of residents were satisfied with the service provided, including 66% who said they were 'very satisfied'. And just as in the business survey, none of the residents were dissatisfied with the service although a significant minority of them (15%) did not provide an answer to this question ('Don't Know').

- Residents who reported having contact with DSFRS in the last 12 months were significantly more likely to be satisfied with the service than those who had not (92% vs 74%, respectively).
- Those who agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge were significantly more likely to be satisfied with the service than those who disagreed (82% vs 63%, respectively).
- Residents aged 25-44 (64%) were significantly less likely than those in all other age bands (16-24, 85%; 45-64, 79%; 65+, 83%) to say they were satisfied with the service provided by DSFRS.

Chart 4: Satisfaction with service provided by DSFRS



Q03. How satisfied or dissatisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?
Base: All respondents (Business n=399; Residents n=402

3.4 What influenced their opinion on question of satisfaction

To add further detail around satisfaction, respondents were asked a follow-up question in which they were prompted to provide some explanatory, qualitative feedback. Note that the verbatims below are reflective of the fact that only positive ('very satisfied' and 'satisfied') or neutral ('neither satisfied nor dissatisfied) responses were recorded in the previous question.

Businesses

I thought they were very thorough and gave practical explanations, they were supportive and friendly.

I'm reassured by their presence in the community.

We had a fire many years ago and the service was faultless.

I did call them four years ago and they were there within seconds. They're very good.

They're very professional during checks/audits.

No complaints about the service.

They do a good job, although short of staff. Response times would likely improve with full team.

Not had to use the service, just generally happy with work they do.

I am satisfied that if I need them someone will come. I haven't dealt with them on a personal level recently. They do a great job and are probably under resourced.

They're always helpful; whatever you need they're there.

My nan's house burnt down when I was younger and there were immediately 7 fire engines. We also had a fire in a bin near us and they came very quickly.

They do the best they can with the funding.

They're next door to me. The commitment - a lot of them are voluntary so to do that on top of a full-time job - is commendable.

Residents

Presumption of a good job being done and being reassured with their presence.

Considering how things are with all the cuts and what they are up against for small funds, they do a really good job to keep everyone safe and look after everyone.

Aware of accidents on the A38, and of impressed with what has been written about these events in media.

We did have a fire 40 years ago, they were fantastic.

I can see that they always support the community and help out on roads and fires

Happy with how they deal with people with disabilities in the community.

I've seen them in action, and I'm impressed with what they do.

I think they do their job well, despite cuts to their budget.

A fire at a residential building adjacent to my place of work was dealt with promptly and effectively.

Because there was a rumour about them cutting back on the fire service. It would be terrible if they cut out the fire service as we need them desperately.

Q03b. And what has influenced you to say <response from Q03>? Base: All respondents (Business n=399; Residents n=402)

3.5 Perceived reputation of local fire and rescue service

All respondents were asked to reflect on the perceived reputation of their local fire and rescue service.

Businesses

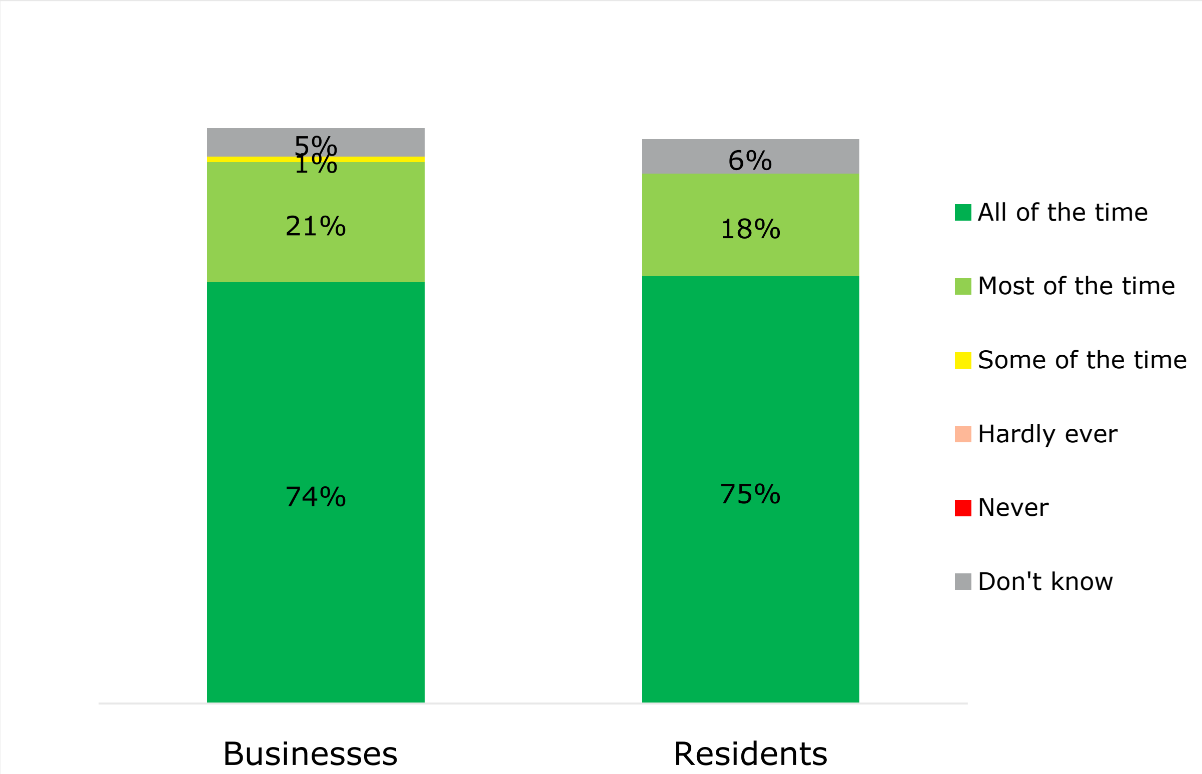
Unsurprisingly, and consistent with results reported elsewhere in this report, 94% of businesses felt the local fire and rescue service enjoyed a good reputation either most (21%) or all (74%) of the time.

Residents

Consistent with results from the business survey, 93% of residents felt the local fire and rescue service enjoyed a good reputation either most (18%) or all (75%) of the time.

- Residents 65+ (67%) were significantly less likely than those in the 25-44 (81%) and 45-64 (81%) age bands to feel the service enjoys a good reputation 'all of the time.'
- As noted elsewhere, those who agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge tended to register higher levels of satisfaction, generally, than their counterparts who disagreed. In this case, they were significantly more likely than those who did not agree with an increase to feel the local fire and rescue service enjoys a good reputation 'all of the time' (80% vs 65%, respectively).

Chart 5: Perceived reputation of local fire and rescue service



Q04. Thinking about your local fire and rescue service, do you think they have a good reputation? Base: All respondents (Business n=399; Residents n=402)

Appendix I: Sample breakdown

The following tables outline the unweighted and weighted demographic profiles of the business and resident samples. (PNS = Prefer not to say)

Businesses

Table 3: Local authority district

Local authority district	Weighted		Unweighted	
	%	Number	%	Number
Torbay	5	22	19	75
Plymouth	8	32	26	102
Devon	52	209	27	107
Somerset	34	137	29	115

Table 4: Business size

Industry sector	Weighted		Unweighted	
	%	Number	%	Number
Micro	90	359	85	340
Small	8	32	10	41
Medium	1	4	4	15
Large	1	4	1	3

Table 5: Industry sector

Industry sector	Weighted		Unweighted	
	%	Number	%	Number
A to F	38	153	33	131
G to N, R + S	62	246	67	268

NOTE:
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 6: Directors/partners from minority groups

Directors/Partners	Weighted		Unweighted	
	%	Number	%	Number
No BAME	94	358	93	346
Some BAME	4	14	5	20
All BAME	2	7	2	7

Residents

Table 7: Local authority district

Local authority district	Weighted		Unweighted	
	%	Number	%	Number
Torbay	8	31	28	112
Plymouth	15	59	24	98
Devon	46	185	22	87
Somerset	32	127	26	105

Table 8: Age

Age	Weighted		Unweighted	
	%	Number	%	Number
16-18	2	8	2	9
19-24	9	38	9	38
25-34	13	51	9	38
35-44	12	49	11	45
45-54	16	62	16	64
55-64	16	64	18	72
65-74	17	67	18	73
75-84	11	44	10	42
85+	<1	2	1	3
PNS	4	18	4	18

Table 9: Gender

Gender	Weighted		Unweighted	
	%	Number	%	Number
Female	52	207	53	211
Male	48	192	47	188
PNS	<1	3	<1	3

Table 10: Ethnic background

Ethnic background	Weighted		Unweighted	
	%	Number	%	Number
White	96	385	94	377
Mixed	<1	1	1	3
Asian	2	9	3	12
Black	1	2	1	5
PNS	1	5	1	5

Table 11: Disability

Disability	Weighted		Unweighted	
	%	Number	%	Number
Yes	13	54	18	72
No	77	311	76	306
PNS	9	37	6	23

NOTE:
The Equality Act 2010 defines someone as a disabled person if they have a physical or mental impairment which has long term and substantial adverse effect on their ability to carry out normal day to day activities. Such examples may include; HIV, cancer, mobility, sight or hearing impairments or depression. When answering this question, you should not take into account the effect of any medication, treatment or adaptions which reduce the effects of impairment. You should think about the effect your impairments have if medication or treatments were not being used or made.

Table 12: Caring responsibilities

Caring responsibilities (PC = Primary Carer)	Weighted		Unweighted	
	%	Number	%	Number
PC of child/ren <2 yrs	2	9	2	8
PC of child/ren 2-18 yrs	10	42	11	45
PC of disabled child/ren	<1	1	<1	2
PC of disabled adult	3	14	4	17
PC of adult (65+)	6	25	8	31
Secondary carer	2	9	2	10
No caring responsibilities	69	276	69	277
PNS	9	35	5	22

Appendix II: Call outcomes

The following tables provide an overview of all the calls made as part of this research.

Businesses

Table 16: Call outcomes for business sample

<table>
<tr><th colspan="2">Outcome</th><th>Contacts</th><th>Total (%)</th></tr>
<tr><td colspan="4">In scope</td></tr>
<tr><td rowspan="7"></td><td>Complete</td><td>399</td><td>27</td></tr>
<tr><td rowspan="2">Partial completes</td><td>Did not meet criteria = 5</td><td rowspan="2">2</td></tr>
<tr><td>Quota full = 21</td></tr>
<tr><td>Refusal</td><td>407</td><td>28</td></tr>
<tr><td>Respondent not available</td><td>623</td><td>43</td></tr>
<tr><td>Sub-total</td><td>1,455</td><td>100</td></tr>
<tr style="display:none"></tr>
<tr><td colspan="4">Out of scope</td></tr>
<tr><td rowspan="7"></td><td rowspan="3">No answer</td><td>Line engaged = 28</td><td rowspan="3">72</td></tr>
<tr><td>No answer = 1,438</td></tr>
<tr><td>Answer machine = 536</td></tr>
<tr><td>Unusable</td><td>521</td><td>19</td></tr>
<tr><td>Non-qualifier</td><td>169</td><td>6</td></tr>
<tr><td>Unreachable</td><td>72</td><td>3</td></tr>
<tr><td>Sub-total</td><td>2,764</td><td>100</td></tr>
<tr><td></td><td>Total</td><td>4,219</td><td></td></tr>
</table>

Residents

Table 17: Call outcomes for resident sample

Outcome		Contacts	Total (%)
In scope			
	Complete	402	24
	Partial completes	Did not meet criteria = 13	4
		Quota full = 53	
	Refusal	723	43
	Respondent not available	479	29
	Sub-total	**1,670**	**100**
Out of scope			
	No answer	Line engaged = 47	81
		No answer = 1,542	
		Answer machine = 651	
	Unusable	275	10
	Non-qualifier	187	7
	Unreachable	64	2
	Sub-total	**2,766**	**100**
	Total	**4,436**	

2021/22 Precept consultation online survey

1. Online survey overview

1.1 The online survey was available from 6 November - 18 December 2020. The consultation period was promoted through our website and social media, targeted adverts on Facebook, Devon and Somerset library services, Devon Communities Together, Somerset Resilient Forum, a press release and through internal channels. Examples of the Facebook adverts and promotion information can be found in Section 5 of this report.

1.2 In that period a total of **737** completed responses were received, compared with 121 completed surveys last year. This is due to the increased targeted advertising we conducted this year and the lower response last year due to purdah.

1.3 As only thirteen of these responses represented the business sector, the results have not been separated.

1.4 The total number of responses differ for each question as some people chose not to respond to every question.

1.5 Due to the Covid-19 restrictions, there was not an option for paper surveys this year. Any enquiries for an alternative to online would receive a telephone interview with DJS Research. There were no enquiries for this.

1.6 The survey had three main sections: general questions about the service to gauge level of understanding of what DSFRS do (section 3 of report), compulsory questions directly about precept (section 2 of report) and demographic questions (section 4 of report).

This report summarises the main findings from the survey.

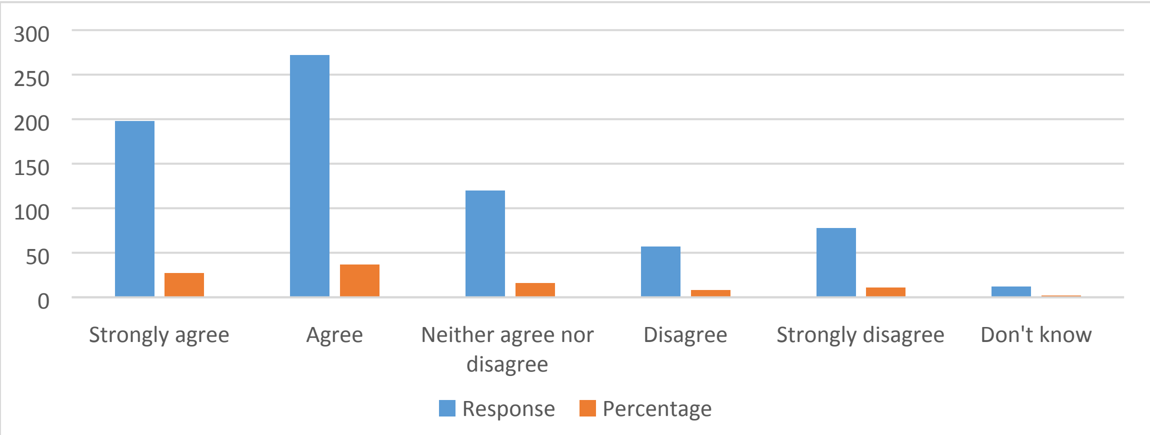
2. Results to compulsory questions (Question number 5-7):

2.1 Q5. How much do you agree that it is reasonable for the Authority to consider increasing its council tax charge for 2021/22?

Table 1: Responses to Question 5

Answer Option	Response	Response %
Strongly agree	198	26.9
Agree	272	36.9
Neither agree nor disagree	120	16.3
Disagree	57	7.7
Strongly disagree	78	10.6
Don't know	12	1.6
Total	737	100

Chart 1: Results of agreement to consider increasing the precept



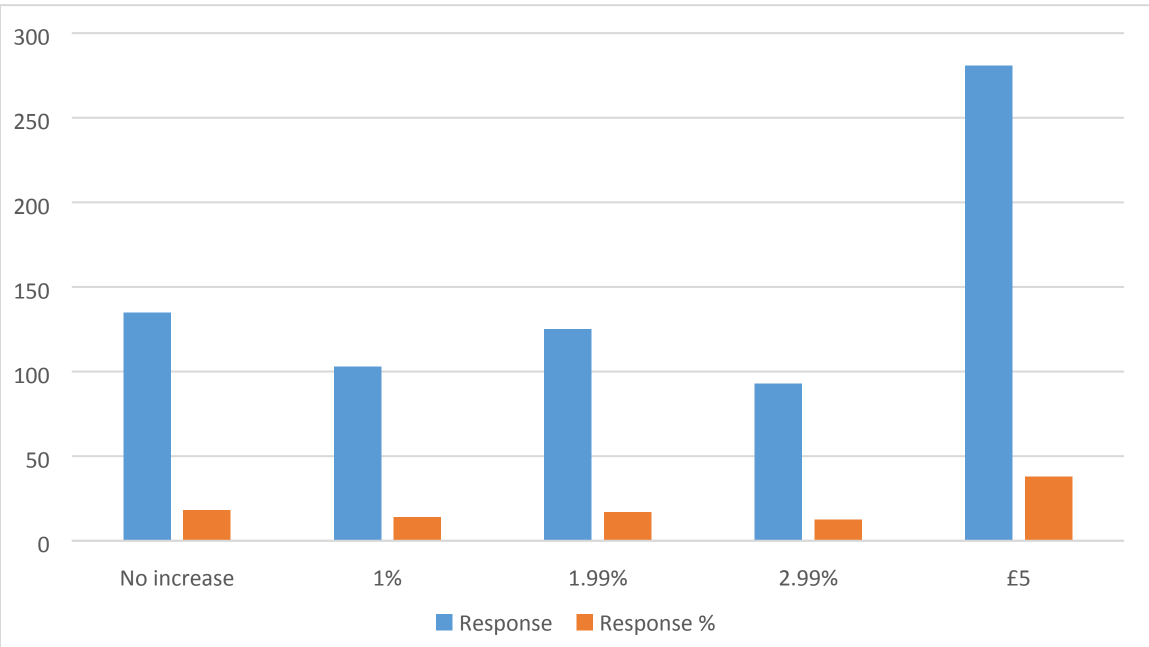
2.2 The results indicate that nearly 64% answered positively to an increase whilst just over 18% answered negatively. Of those who answered negatively, more than half (nearly 11%) strongly disagree that the Authority should consider increasing its charges. This is a significant change to last year's response where 35% strongly disagreed the Authority should consider increasing its charges although still accounts for 135 people who completed the survey.

2.3 Q6. 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 6 who answered either strongly agree, agree, neutral or don't know to question 5.

Answer Option	Response	Response %
1% (An increase of 88p a year for a Band D property, increasing the total charge to £89.12)	103	17.1
1.99% (An increase of £1.76 a year for a Band D property, increasing the total charge to £90.00)	125	20.8
2.99% (An increase of £2.64 a year for a Band D property, increasing the total charge to £90.88)	93	15.4
£5 (An increase of £5 a year for a Band D property (pro rata for other bands), increasing the total charge to £93.24)	281	46.7
Total	602	100

Chart 2: Responses to question 6 also including those who did not agree to an increase



2.4 The responses indicate that the most popular option overall is a £5 increase with 281 respondents choosing this (38% of everyone who completed the survey).

2.5 Just over two thirds (67.6%) of respondents considered a 1.99% increase or higher reasonable. 238 people opted for either no increase or 1% increase.

2.6 If you disagreed with Q5, why do you think it is not reasonable for the Authority to increase its element of the council tax charge?

2.7 Of the 135 who disagreed that it is reasonable for DSFRS to consider increasing its element of the council tax charge for 2020/21, 103 chose to answer why they disagreed.

2.8 The common emerging themes highlighted by respondents indicated:

- Concerns about affordability for people in light of Covid-19, pay freezes and general financial worries.
- The Service has too much resource, with a focus around salary of management, new fleet and buildings, time spent at stations rather than responding and the amount in Service reserves.
- The Service should look to make efficiency savings before increasing council tax contribution.
- Dissatisfaction at the cuts being made despite increases to council tax.
- Not seeing frontline or service improvements despite increases in the council tax precept and questions around value for money.
- Government support more and efficiency savings in councils.

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

- "First the Authority needs to prove it provides value for money and only if the statutory services cannot be met by the existing level of funding look at increasing it"

- "Why not introduce a Fire Call Out charge of £50 completely voluntary for the saved to pay and keep the council tax rates flat for now until Covid has levelled out. If the voluntary payment system works with extra cash entering each call out then perhaps (the idea) could be shared throughout all emergency services."

- "Because you're constantly seeking to make savings by cutting frontline services which no matter what way you word it to us, is a reduction in fire cover and therefore we receive less and less for our money's worth. Also I cannot leave the question above blank which is a little flawed so I've marked the lowest possible but in reality it should be 0%."

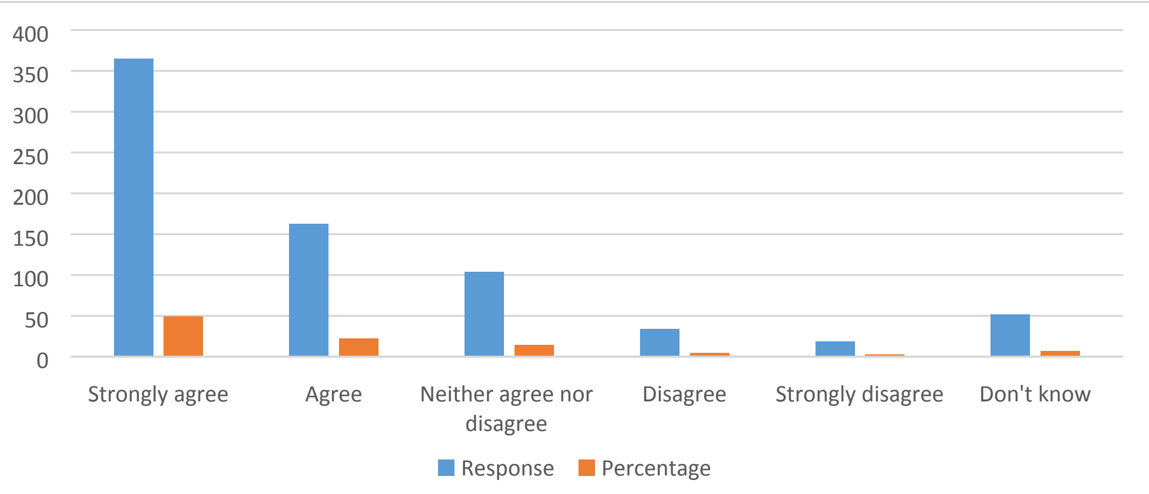
- "Should the Fire and Rescue Authority require extra funding consider: 1.Slim down management structure - do you need asst Deputy of the Deputy. 2. Councils need to reallocate more of its overbloated budget, get the Councils out of non-core services and back to what the Council was set up for. Again slim down departments and management structures."

2.9 Q7. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?

Table 3: Responses to value for money question

Answer Option	Response	Response %
Strongly agree	365	49.5
Agree	163	22.1
Neither agree nor disagree	104	14.1
Disagree	34	4.6
Strongly disagree	19	2.6
Don't know	52	7.1
Total	737	100

Chart 3: Results of value for money question



2.10 The results indicate that almost three quarters of respondents (71%) agree or strongly agree that the Service provides value for money.

2.11 This is consistent with the 2019 HMICFRS perception survey in which 72% perceived their local service provided value for money.

2.12 If anyone disagreed, there was the opportunity to add why with a free text box. None of the 53 respondents who disagreed opted to complete this.

3. Results to non-compulsory questions (Questions 1-4)

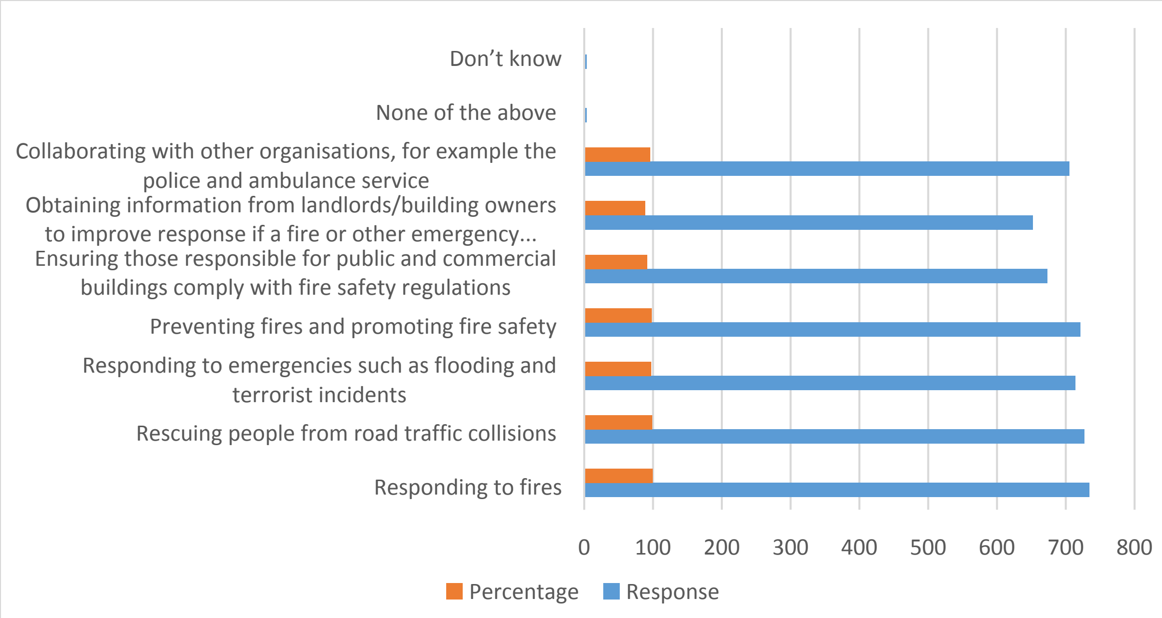
3.1 **Q1. What do you think your local fire and rescue service does?**

3.2 To contextualise the above and gauge the level of understanding of the public as to what DSFRS does, respondents were asked what they think DSFRS does.

Table 4: Response to Question 1

Answer Option	Response	Response %
Responding to fires	734	99.6
Rescuing people from road traffic collisions	727	98.6
Responding to emergencies such as flooding and terrorist incidents	714	96.9
Preventing fires and promoting fire safety	721	97.8
Ensuring those responsible for public and commercial buildings comply with fire safety regulations	673	91.3
Obtaining information from landlords/building owners to improve response if a fire or other emergency occurs in the building	652	88.5
Collaborating with other organisations, for example the police and ambulance service	705	95.7
None of the above	3	0.4
Don’t know	3	0.4

Chart 4: what do you think our fire and rescue service does?



3.3 The results indicate that there is a good level of understanding about what the Service does from those who have completed the survey, with the lowest level of knowledge about 'Ensuring those responsible for public and commercial buildings comply with fire safety regulations' at 88.5%.

3.4 This is higher than the national findings of the 2019 HMICFRS public perception survey which had its highest response as 90% preventing fires and lowest as 61% 'Ensuring those responsible for public and commercial buildings comply with fire safety regulations'.

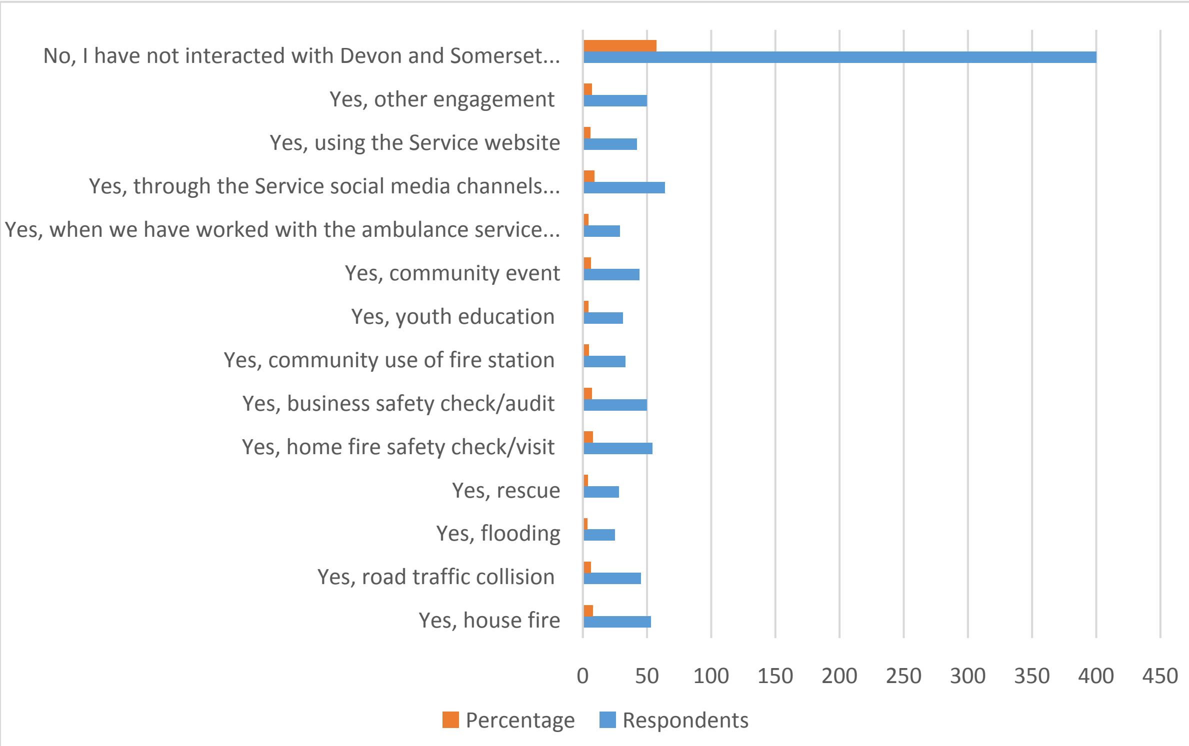
3.5 Q2. Have you interacted with Devon and Somerset Fire and Rescue Service in the last 12 months? (select all that apply)

Table 5: how people have interacted with DSFRS in the past 12 months

Answer Option	Response	Response %
Yes, house fire	53	7.6
Yes, road traffic collision	45	6.4
Yes, flooding	25	3.6
Yes, rescue	28	4
Yes, home fire safety check/visit	54	7.7
Yes, business safety check/audit	50	7.1
Yes, community use of fire station	33	4.7
Yes, youth education	31	4.4
Yes, community event	44	6.3
Yes, when we have worked with the ambulance service and the police	29	4.1

Yes, through the Service social media channels (Facebook, Twitter and Instagram)	64	9.1
Yes, using the Service website	42	6.0
Yes, other engagement	50	7.1
No, I have not interacted with Devon and Somerset Fire and Rescue Service.	400	57.1

Chart 4: how people have interacted with DSFRS in the past 12 months



3.6 The results indicate that the highest level of interaction this year has been online (9.1%). This is likely to be due to the covid-19 pandemic.

3.7 Over half of respondents (57%) have not had any interaction with DSFRS in the past 12 months. The number of respondents who have not interacted with the Service is just slightly higher than last year (55%) despite the covid-19 pandemic.

3.8 Of the 50 respondents who selected ‘other’, 42 added what this was and included:

Table 6: themed responses to ‘other’ interaction with the Service

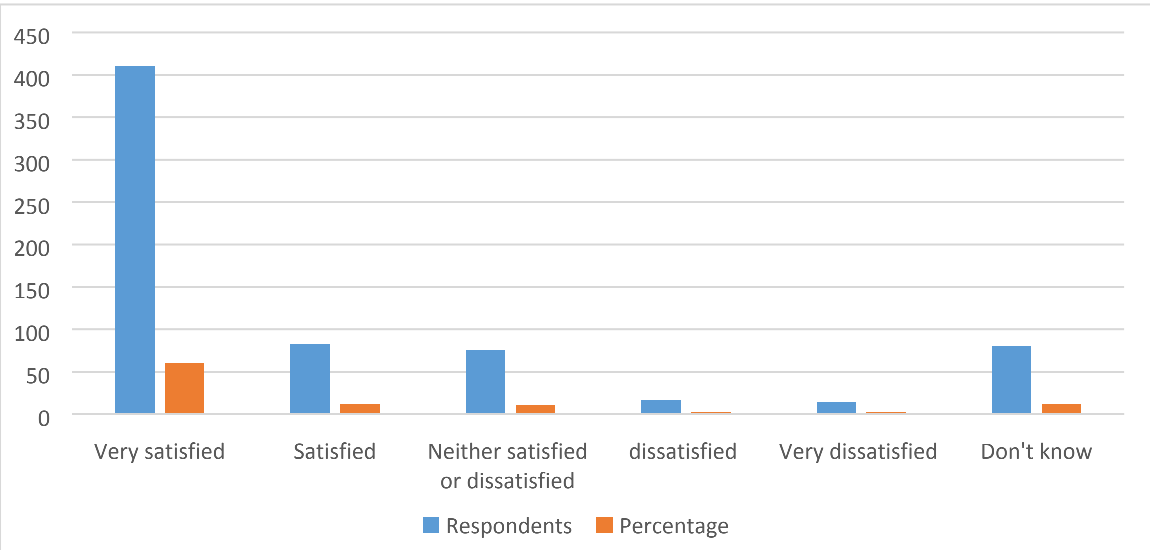
Emerging theme	Response
Seen an incident	16
Employee/ family member/ friend / cadet	10
Partner organisation	5
Town Councillor/ parish council	2
Had fire training by the Service	2
Awareness event for prostate cancer	1
Protection services	1
Fire Service representative body	1
Seen at training exercise	1
Went to station to say thank you	1
Joined campaign to support fire station staffing	1
Fire hydrant check	1

3.9 **Q3. How satisfied or dissatisfied are you with the service provided by Devon and Somerset Fire and Rescue Service (DSFRS)?**

Table 7: Response to satisfaction question

Answer Option	Response	Response %
Very satisfied	410	60.4
Satisfied	83	12.2
Neither satisfied or dissatisfied	75	11.0
Dissatisfied	17	2.5
Very dissatisfied	14	2.1
Don't know	80	11.8
Total	679	100

Chart 5: Results of levels of satisfaction with the service provided by DSFRS



3.10 The results indicate that almost 73% of respondents were satisfied or very satisfied with the level of service received by DSFRS, a rise from 47% last year most likely due to the Safer Together programme.

3.11 This is in line with the 2019 HMICFRS perception survey in which 73% perceived their local service provided value for money.

3.12 What has influenced how you answered question 3?
Of the 679 who answered question 3, 347 chose to add to the free text box about what influenced their level of satisfaction/dissatisfaction with the service provided by DSFRS.

3.13 The response to emergency services with the Covid-19 pandemic may have had a positive influence on this question.

3.14 The common emerging themes from respondents highlighted:

- General positive comments referring to the service and staff as amazing, dedicated, knowledgeable, professional, heroes, helpful, hardworking amongst others.
- No interaction with the fire service so unable to answer
- Cuts including station closures and changes to fire engines
- Always there when you need them
- Quick response times
- Know/ was/ am a firefighter
- Received advice / prevention services
- Too much resource (eg. Paid to sleep, waste money) Too much resource (eg. Paid to sleep, waste money)
- Staff (lack of recruitment, low pay, lack of staff support)
- From social media/ media/ comms

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

- “Cuts have seen a deterioration in the protection offered to the public with inadequate numbers of firefighters and sub standard vehicles.”

- “The current top management have seriously reduced numbers and the wider public are unaware of the shortage and how long it could take to attend more remote property.”

- “The personnel themselves are superb BUT obviously very understaffed and very stretched. On top of that there's plans to close Frome fire station which will cost lives.”

- “Very happy with the way fire fighters and their direct support teams get the job done but not happy at all with the way management and the FSA put the public at risk by making cuts without assessing risks and engaging in an open and honest public discussion.”

- “Always professional, organised, polite, friendly, calming, trustworthy, heroes.”

- “The crew were quick getting to us they showed sympathy and empathy and saved our home when it flooded and gave us good advice on how to dry our brand new carpets and floors”

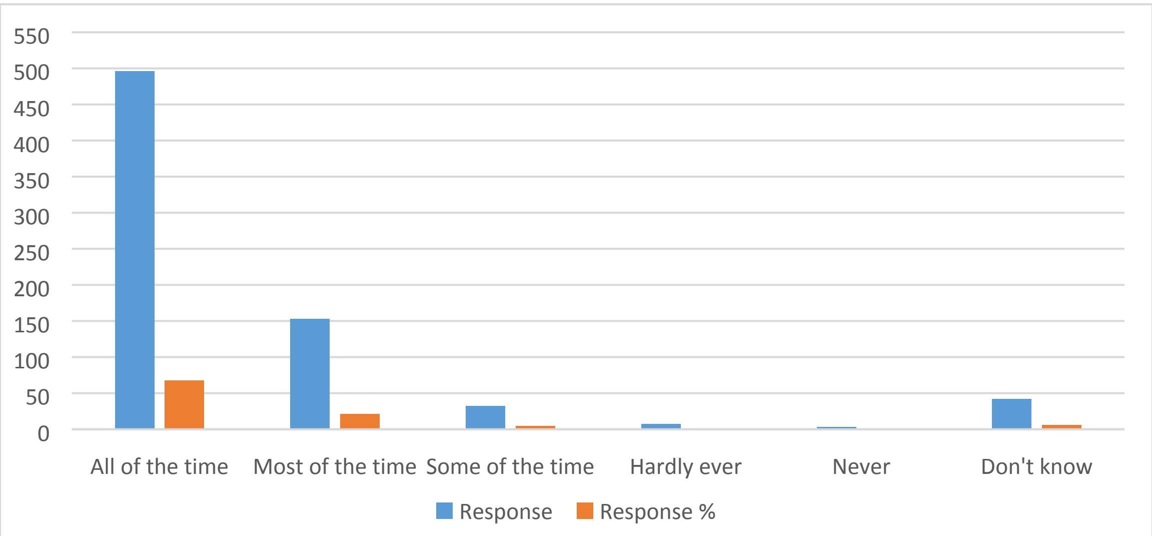
- “The fire personnel are all local, they interact with the community area that they cover, local people have seen what it means to them when they have had to deal with a fatality or a fire in a local home or business. They care, they are there for everyone and involved with local companies. Most of all no matter how busy they are they still make the effort to wave to the little children on the way to a shout!”

3.16 Q4. Thinking about your local fire and rescue service, do you think they have a good reputation?

Table 8: response to reputation of DSFRS question

Answer Option	Response	Response %
All of the time	496	67.7
Most of the time	153	20.9
Some of the time	32	4.4
Hardly ever	7	1.0
Never	3	0.4
Don't know	42	5.7
Total	733	99.74

Chart 6: response to reputation of DSFRS question



3.17 The results indicate that 88.6% of respondents feel DSFRS has a good reputation most of the time.

3.18 This question was added this year to give opportunity for those who had not used the Service to answer based on reputation rather than satisfaction.

3.19 What has influenced your answer to question 4?

Of the 733 people who answered this question, 291 completed the text box to answer what had influenced their answer. Emerging themes include:

- General positive experience/ perception of teams
- Not heard otherwise
- Have seen positive reports in press/ social media/ other communications
- Positive part of the community
- Cuts including station closures and changes to fire engines
- Too much resource (eg. Paid to sleep, waste money)
- Positive frontline, negative management or back office
- Never needed the fire service/ not enough information to answer fully
- General negative (eg. Too much discussion whilst deciding what to do at an incident, handling of hotel fire)

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

- “Firefighters have an excellent reputation, but the service's management has an appalling reputation.”

- “The way the current senior management are ripping the community heart out of retained stations by the way they treat new prospective employees.”

- “Too many hours sat in the station just in case an incident occurs most have two jobs. They moan to high heaven when they are asked to reduce costs etc.”

- “The local station is fine but your recent consultation and cuts were not right”

- “They always there when you need them in any issue you may be in from floods to car accident and to putting a fire out in a home.”

- “My local crew are totally respected by the local community”

- “I have never heard or seen adverse comments about them. Only praise.”

4. Profile of Respondents

4.1 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.

4.2 **Q.8 Are you…?** Respondents were asked whether they were completing the survey as a business or resident

Table 9: Responses to Question 8

Answer Option	Response	Response %
A member of the public	722	98.2
Representing a business	13	1.8
Total	735	100

4.3 As only thirteen 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. Some who answered as a resident cited their business within an answer.

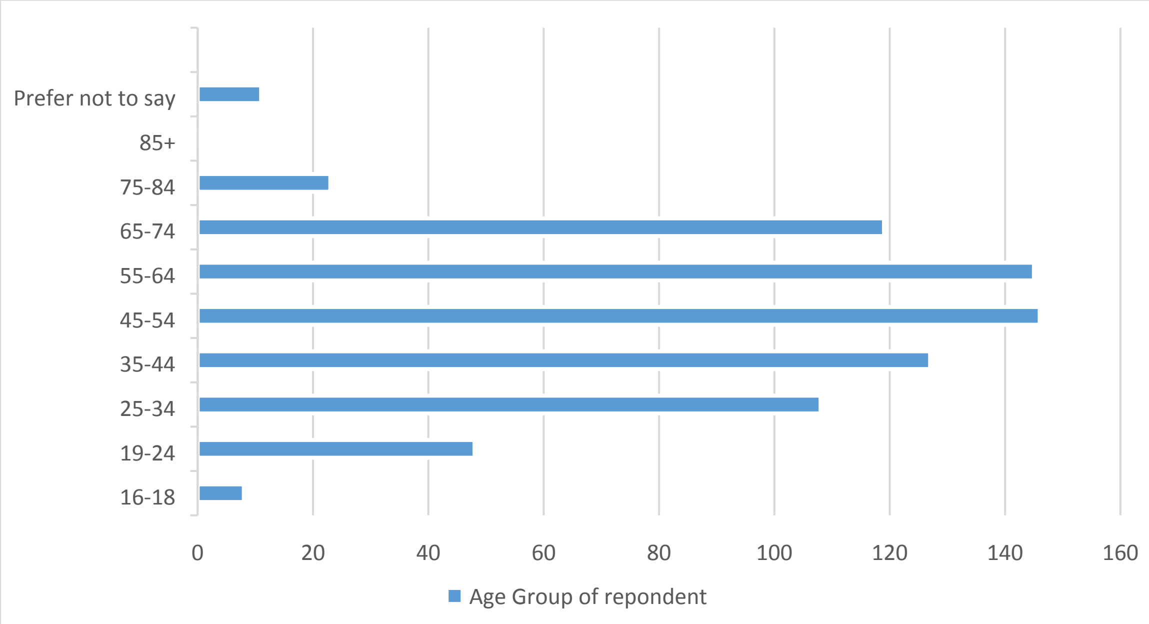
4.4 DJS Research were commissioned to interview 400 businesses so this data will be used to determine any disproportionate views to the views of the pubic.

4.5 **Q.9: Which of the following age groups do you fall into?**

Table 10: Respondents' age group

Answer Option	Response	Response %
16-18	8	1.1
19-24	48	6.5
25-34	108	14.7
35-44	127	17.3
45-54	146	19.9
55-64	145	19.7
65-74	119	16.2
75-84	23	3.1
85+	0	0
Prefer not to say	11	1.5
Total	735	100

Chart 8: showing proportion of responses by age group



4.6 The results indicate that the majority of respondents were aged between 35-44 (17.3%), 45-54 (19.9%), 55-64 (19.7%) and 65-74 (16.2%).

4.7 There was a very low response rate from those aged between 16-18 (1.1%) and those 75-84 (3.1%), although 23 responses is still a reasonable representation for 75-84. We received no responses from anybody 85+.

4.8 The low responses from the age group 85+ is consistent with previous years. This year we were unable to undertake any face to face engagement due to the Covid-19 restrictions so harder to engage this audience.

4.9 Through the consultation term (6 November – 18 December) the responses were reviewed to ensure a good cross-section of our communities. Paid advertising was used to boost responses from those under 35 and 65+ from 27 November.

Table 11: respondents' age group mid-term compared to after paid for advertising

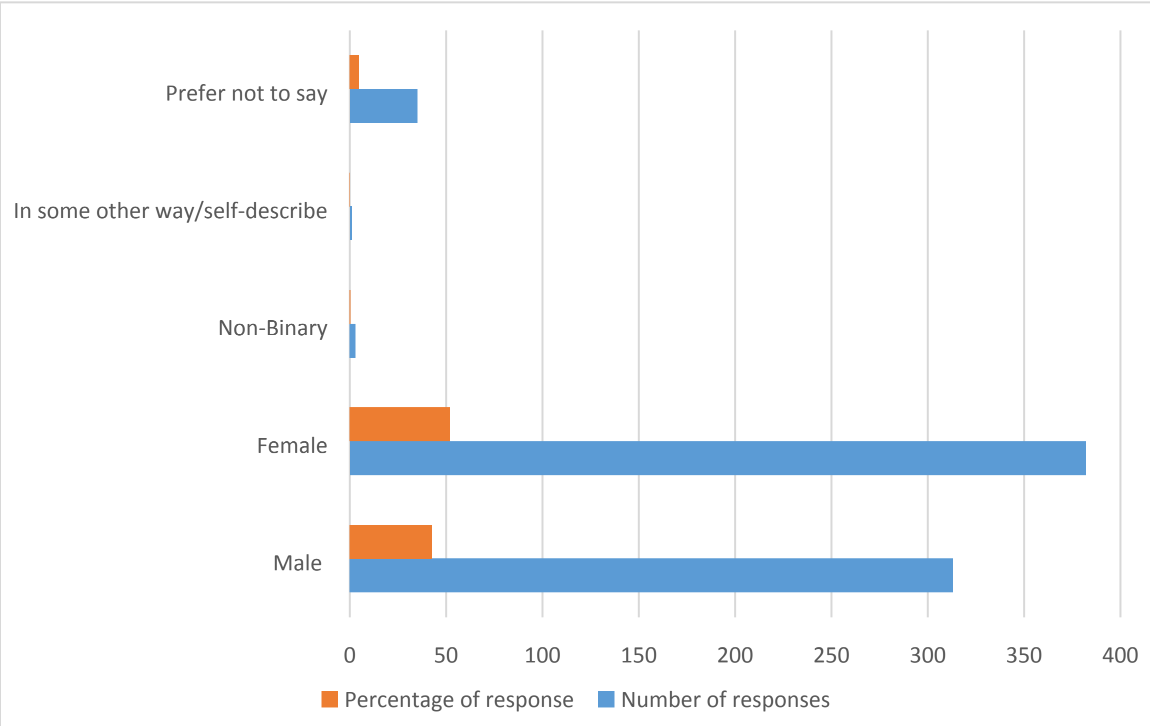
Answer Option	**Responses up to 27.11.20**	**Final Responses**
16-18	1 (1.2%)	8 (1.1%)
19-24	1 (1.2%)	48 (6.5%)
25-34	7 (8.6%)	108 (14.7%)
35-44	17 (21%)	127 (17.3%)
45-54	24 (29.6%)	146 (19.9%)
55-64	15 (18.5%)	145 (19.7%)
65-74	10 (12.3%)	119 (16.2%)
75-84	2 (2.5%)	23 (3.1%)
85+	0 (0%)	0 (0%)
Prefer not to say	4 (4.9%)	11 (1.5%)
Total	81	735

4.10 Q10: Do you identify as:

Table 12: Responses to Question 10 (gender)

Answer Option	Response	Response %
Male	313	42.6
Female	382	52.0
Non-Binary	3	0.4
In some other way/self-describe	1	0.1
Prefer not to say	35	4.8
Total	734	99.9

Chart 9: Chart showing gender of respondents



4.11 Respondents that selected “In some other way/self-describe” commented;

- I change from female to male depending on my mood.

4.11.1 The majority of responses were received from females (52%) compared to males (42.6%).

4.11.2 More women answered positively to an increase of precept with 67.8% answering positively compared to 61.3% male. Women also indicated they would be happier to pay more with 45.3% answering £5 increase compared to 35.5% men selecting a £5 increase.

4.11.3 Before this year's precept consultation, the mean three year average for responses from female respondents was 25.85%. This means we have received over double the amount of female responses this year than the previous three year average. This is likely to be a result of targeted online advertising which started on 27 November.

Table 13: answer to gender question mid-term and at the end of the survey

Answer Option	Response up to 27.11.20	Response at end of survey
Male	57 (70.4%)	313 (42.6%)
Female	16 (19.8%)	382 (52.0%)
Non-Binary	0	3 (0.4%)
In some other way/self-describe	0	1 (0.1%)
Prefer not to say	8 (9.9%)	35 (4.8%)
Total	81	734

4.12 Q.11 Does your gender identity match your sex as registered at birth?

Table 14: responses to question 11

Answer Option	Response	Response %
Yes	687	94
No	2	0.3
Prefer not to say	42	5.7
Total	731	100

4.12.1 Q.12 - Which of the following best describes how you think about yourself?

Table 15: responses to question 12

Answer Option	Response	Response %
Heterosexual or straight	623	85.8
Gay man	6	0.8
Gay Woman	4	0.6
Bi-Sexual	16	2.2
In some other way/self-describe	9	1.2
Prefer not to say	68	9.4
Total	726	100

4.13 Respondents that selected "In some other way/self-describe" commented;

- Chinese
- I am a straight woman
- Depends on how I feel on the day
- Post op transgender
- Married

- Pansexual x 2
- LGBT+

4.13.1 The majority of respondents selected Heterosexual or straight as their response (85.8%).

4.13.2 More respondents selected Bi-Sexual (2.2%) than Gay Man and Gay Woman added together (1.4%).

4.13.3 Nearly 10% of respondents selected that they would "prefer not to say" (9.4%).

4.13.4 Q.13 – In relation to the definition of disability above, do you consider yourself to be disabled?

Table 16: Responses to Question 13

Answer Option	Response	Response %
Yes	87	11.9
No	596	81.2
Prefer not to say	51	6.9
Total	734	100

4.13.5 The results indicate that the majority of respondents (81.2%) stated that they did not have a disability, long term illness or health condition.

4.13.6 11.9% of respondents consider themselves to have a disability, long term illness or health condition. This is nearly double the responses we received last year (6%) from those that considered themselves to be disabled.

4.13.7 Only 6.9% of respondents selected "prefer not to say", this is over 12% lower than last year (19.66%).

4.14 Q14: Do you have any caring responsibilities?

Table 17: Responses to Question 14 – Do you have any caring responsibilities? (Please select all that apply)

Answer Option	Response	Response %
None	434	59.5
Primary carer of a child or children (under 2 years)	26	3.6
Primary carer of a child or children (between 2 and 18 years)	128	17.6
Primary carer of a disabled child or children	6	0.8

Primary carer or assistant for a disabled adult (18 years and over)	19	2.6
Primary carer or assistant for an older person or people (65 years and over)	30	4.1
Secondary carer (another person carries out main caring role)	27	3.7
Shared primary carer responsibility, please provide details	8	1.1
Prefer not to say	51	7.0
Total	729	100

4.15 Respondents that selected “please provide details” commented;

- 50/50 custody of daughter
- Both myself and my wife are equally responsible for the care of our two children (2 and 8 years old)
- Child under 2
- Children under 18
- Parental responsibility
- Provide support for my step-dad who has stage 3 Colon & liver cancer & also for my mum has depression.

4.16 The results indicate that nearly 60% of respondents do not currently have any caring responsibilities.

4.17 Question 15: What is your religion?

Table 18: Responses to Question 15

Answer Option	Response	Response %
No Religion	343	46.8
Christian all denominations	300	40.9
Buddhist	3	0.4
Hindu	0	0
Jewish	0	0
Muslim	1	0.1
Sikh	0	0
Prefer not to say	69	9.4
Other	17	2.3
Total	733	99.9

Of the 17 respondents that selected “other”, 16 chose to comment:

- Agnostic x2
- Humanist x1
- Jedi x1
- Jehovah's witness x1
- Pagan x7
- Polytheist x1
- Satanist x1
- Spiritual x1
- Spiritualist x1

4.18 The results indicate that almost half (47%) of respondents have no religion.

4.19 Almost 41% state their religion as Christian all denominations.

4.20 Q.16 How would you describe your national identity?

Table 19: Responses to Question 16 – regarding ethnic origin.

Answer Option	Response	Response %
English	509	69.6
Welsh	9	1.2
Scottish	9	1.2
Northern Irish	1	0.1
British	150	20.5
Prefer not to say	34	4.7
Other	19	2.6
Total	731	99.9

All 19 respondents who selected "other" commented:

- White American
- These questions are stupid and have nothing to do with emergency services, only office idiots need t
- Mixed English
- White American
- Somerset
- European
- American
- Cornish
- Cornish

4.21 Q.17 What is your ethnic group?

Table 20: Responses to Question 17 – regarding ethnic origin.

Answer Option	Response	Response %
English / Welsh / Scottish / Northern Irish / British	696	97.1
Irish	4	0.6
Gypsy or Irish Traveller	1	0.1
Any other white background	16	2.2
White and black Caribbean	2	0.3
White and black African	0	0
White and Asian	1	0.1
Any other mixed multiple ethnic background	1	0.1
Asian / Asian British - Indian	0	0
Asian / Asian British - Pakistani	0	0
Asian / Asian British - Bangladeshi	0	0
Asian / Asian British - Chinese	0	0
Any other Asian background	0	0
Black / black British - African	0	0
Black / black British - Caribbean	0	0
Any other black background	0	0
Other ethnic groups - Arab	0	0
Total	721	99.9

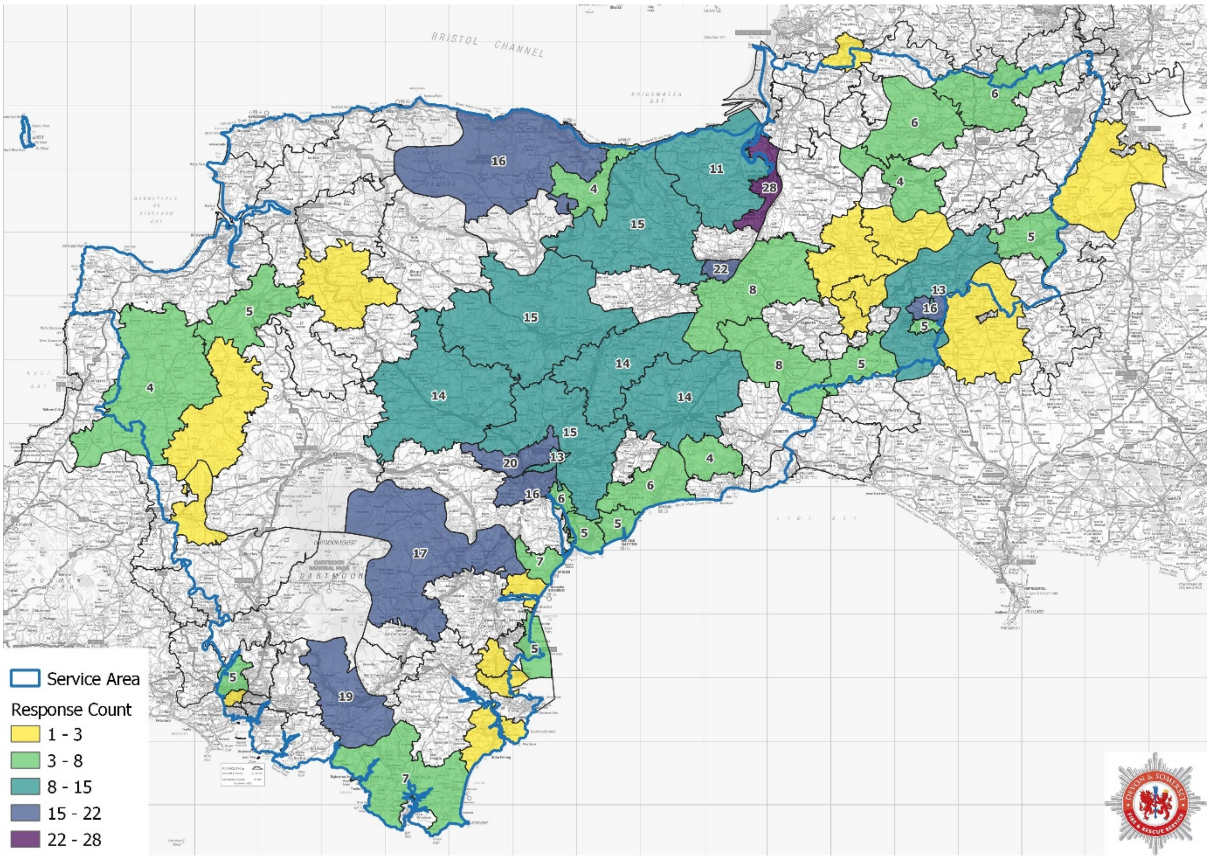
4.22 The results indicate that the majority of respondents (97.1%) stated they were White – English / Welsh / Scottish / Northern Irish / British.

4.23 **Q.18 What is the first part of your postcode?**

4.24 Respondents were asked to provide the first part of their postcode, this helps us to understand whether we received a cross section of responses from across Devon and Somerset. Of the 737 total respondents, 692 provided a postcode and thee have been displayed on the map below. Note: although some responses look out of our Service area, part of their postcode area is included.

4.25

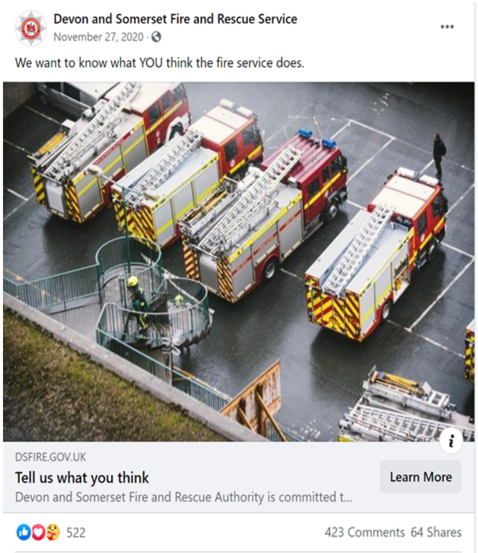
Map 1: displaying respondents' postcode areas

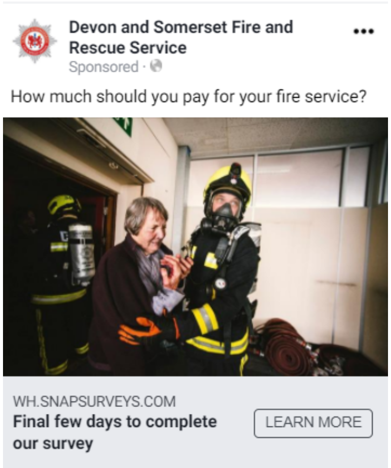


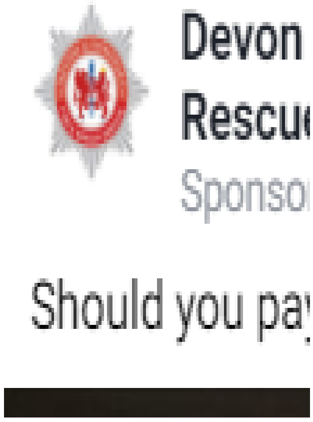
5. Promoting the consultation

5.1 The consultation was promoted using social media, press release and the website homepage.

5.2 Paid for Facebook advertising was used throughout the consultation with these example adverts being used:







5.3 The Facebook post reached 101,439 people and 3,855 people clicked through from Facebook to the survey page. Comments were generally positive and all replied to encouraging to follow the link to complete the survey so we could capture feedback formally.

5.4 Twitter was not paid for advertising and had less of a reach, with 1 retweet from and 4 likes.

5.5 The precept survey featured on the home page of the DSFRS website for the duration of the survey.

5.6 Devon and Somerset library services, Devon Communities Together and Somerset Resilience Forum promoted the survey through their channels. Posters had been due to be displayed in their locations but were cancelled due to restrictions from covid-19.

5.7 The press release was picked up by local media including Greatest Hits radio, BBC Radio Somerset, Heart FM and local media websites including:

[Fire service asks Devon and Somerset council tax payers 'are ...]

[eastdevonnews.co.uk › News]

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DEVON & SOMERSET FIRE & RESCUE AUTHORITY

PROPOSED
REVENUE BUDGET 2021/2022
OPTION A - 0%

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REVENUE BUDGET 2021/2022

CONTENTS

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

COUNCIL TAX INFORMATION & PRECEPTS

TOTAL SPENDING TO BE MET FROM COUNCIL TAX

	£
Devon & Somerset Fire & Rescue Authority budget funded by District Councils' collection funds	53,717,778
Net deficit/(surplus) on Council Tax collection in previous year	59,249
Total spending to be met from Council Tax precepts in 2021/2022	**53,777,027**

EQUIVALENT NUMBERS OF BAND "D" PROPERTIES

Billing Authority	Tax Base Used for Collection
East Devon	60,084.00
Exeter	37,377.00
Mendip	41,332.49
Mid Devon	28,594.38
North Devon	34,397.87
Plymouth City	73,115.00
Sedgemoor	40,991.35
Somerset West and Taunton	55,947.87
South Hams	38,298.32
South Somerset	61,152.95
Teignbridge	48,410.00
Torbay	45,464.53
Torridge	24,035.20
West Devon	20,239.51
	609,440.47

DEVON & SOMERSET FIRE AUTHORITY COUNCIL TAX DUE FOR EACH PROPERTY VALUATION BAND

Valuation Band	Government Multiplier Ratio	Government Multiplier %	Council Tax £ p
A	6/9	0.667	58.83
B	7/9	0.778	68.63
C	8/9	0.889	78.44
D	**1**	**1.000**	88.24
E	11/9	1.222	107.85
F	13/9	1.444	127.46
G	15/9	1.667	147.07
H	18/9	2.000	176.48

Billing Authority	Surplus/(Deficit) for 2020/2021 £	Precepts Due 2021/2022 £	Total due in 2021/2022 £
East Devon	148,808	5,301,812	5,450,620
Exeter	45,621	3,298,147	3,343,768
Mendip	(18,671)	3,647,179	3,628,508
Mid Devon	(37,327)	2,523,168	2,485,841
North Devon	40,021	3,035,268	3,075,289
Plymouth City	32,633	6,451,668	6,484,301
Sedgemoor	(88,485)	3,617,077	3,528,592
Somerset West and Taunton	3,295	4,936,840	4,940,135
South Hams	(11,108)	3,379,444	3,368,336
South Somerset	(36,701)	5,396,136	5,359,435
Teignbridge	(31,063)	4,271,698	4,240,635
Torbay	(97,154)	4,011,790	3,914,636
Torridge	(6,403)	2,120,866	2,114,463
West Devon	(2,715)	1,785,934	1,783,219
	(59,249)	**53,777,027**	**53,717,778**

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

2021/2022 Revenue Budget

Line No	2020/2021 Budget £000 (1)		2021/2022 Budget £000 (2)
		SPENDING	
		EMPLOYEE COSTS	
1	51,224	Service Delivery staff	51,769
2	11,046	Professional and technical support staff	11,195
3	670	Training investment	854
4	2,489	Fire Service Pension costs	2,352
	65,429		**66,170**
		PREMISES RELATED COSTS	
5	1,023	Repair and maintenance	1,010
6	575	Energy costs	578
7	494	Cleaning costs	499
8	1,890	Rent and rates	1,917
	3,982		**4,005**
		TRANSPORT RELATED COSTS	
9	704	Repair and maintenance	708
10	1,318	Running costs and vehicle insurance	1,257
11	905	Travel and subsistence	1,404
	2,926		**3,370**
		SUPPLIES AND SERVICES	
12	3,545	Equipment and furniture	3,567
13	151	Hydrants-installation and maintenance	131
14	2,347	Communications technology	2,408
15	619	Protective Clothing	521
16	103	External Fees and Services	143
17	275	Partnership & Regional collaborative projects	309
18	56	Catering	66
	7,095		**7,146**
		ESTABLISHMENT COSTS	
19	236	Printing, stationery and office expenses	283
20	37	Advertising including Community Safety	34
21	411	Insurances	434
	683		**750**
		PAYMENTS TO OTHER AUTHORITIES	
22	709	Support service contracts	715
	709		**715**
		CAPITAL FINANCING COSTS	
23	4,111	Loan Charges & Lease rentals	3,474
24	2,037	Revenue Contribution to Capital Spending	964
	6,148		**4,438**
25	(1,167)	Transfer to/(from) Earmarked Reserves	(512)
26	**85,807**	**TOTAL SPENDING**	**86,082**

Line No	**2020/2021 Budget £000 (1)**		**2021/2022 Budget £000 (2)**
		INCOME	
27	(201)	Treasury management income	(100)
28	(7,520)	Grants and reimbursements	(11,998)
29	(809)	Other income	(835)
30	-	Internal Recharges	-
31	**(8,530)**	**TOTAL INCOME**	**(12,933)**
32	**77,277**	**NET REVENUE BUDGET REQUIREMENT**	**73,150**
		FINANCED BY:	
33	6,389	Formula Funding Grant	6,424
34	16,166	Share of Non Domestic Business Rates	13,008
35	54,722	District Councils Collection Funds	53,718
36	**77,277**	**TOTAL FINANCING**	**73,150**

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

Analysis of Budget Changes — ***2021/2022 Revenue Budget***

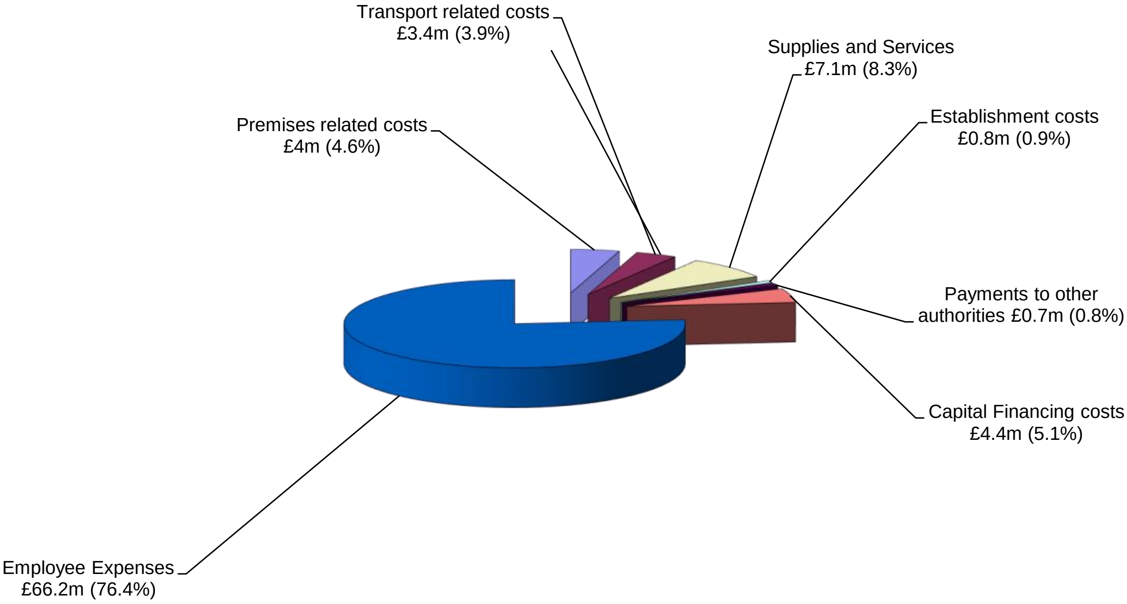
	£000	£000
2020/2021 Revenue Budget		**77,277**
Provision for Pay Awards and Prices Increases		
Provision for Cost of Pay Settlement for Uniformed Staff	0	
Provision for other Pay Awards and prices	205	205
Inescapable Commitments	151	
Revenue contribution to capital reduction	(1,073)	
New investment (including Development Firefighters)	667	
Less reserve contribution	655	
Section 31 grant	(4,370)	
Budget Reductions	(362)	
		(4,332)
2021/2022 Net Revenue Budget Requirement		**73,150**

ESTIMATED FINANCIAL COMMITMENTS INTO 2022/23 and 2023/24

The figures below have been extracted from the Medium Term Financial Strategy, and provide an indication of the estimated commitments into the next two financial years, flowing from the approval of the OPTION A - 0% draft revenue commitment budget. Any revision to these figures, e.g. Budget reductions arising from the implementation of the Safer Together programme or further investment in the Service will be included in the revised Medium Term Financial Plan and reported to the Authority during the course of the financial year.

		(Cumulative effect above 2021/2022)	
		2022/23	**2023/24**
		£000	**£000**
	Net Revenue Budget Requirement 2021/2022	**73,150**	**73,150**
(i)	Estimated Costs of pay awards and prices increases	1,451	2,865
(ii)	Capital Financing charges and revenue contribution to the capital programme	824	1,003
(iii)	Other Changes		
	Provision for Pay & pension changes	2,195	2,295
	Reserve funding	(1,448)	1,163
	Other spending commitments	250	500
	Section 31 grant removed	970	1,393
	Other minor changes	(101)	(151)
	Increase over 2021/2022	**4,140**	**9,068**
	INDICATIVE CORE BUDGET REQUIREMENT	**77,290**	**82,218**

Devon and Somerset FRA - Analysis of Spending 2021/22



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DEVON & SOMERSET FIRE & RESCUE AUTHORITY

PROPOSED

REVENUE BUDGET 2021/2022

OPTION B - 1.99%

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REVENUE BUDGET 2021/2022

CONTENTS

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

COUNCIL TAX INFORMATION & PRECEPTS

TOTAL SPENDING TO BE MET FROM COUNCIL TAX

	£
Devon & Somerset Fire & Rescue Authority budget funded by District Councils' collection funds	54,790,393
Net deficit/(surplus) on Council Tax collection in previous year	59,249
Total spending to be met from Council Tax precepts in 2021/2022	**54,849,642**

EQUIVALENT NUMBERS OF BAND "D" PROPERTIES

Billing Authority	Tax Base Used for Collection
East Devon	60,084.00
Exeter	37,377.00
Mendip	41,332.49
Mid Devon	28,594.38
North Devon	34,397.87
Plymouth City	73,115.00
Sedgemoor	40,991.35
Somerset West and Taunton	55,947.87
South Hams	38,298.32
South Somerset	61,152.95
Teignbridge	48,410.00
Torbay	45,464.53
Torridge	24,035.20
West Devon	20,239.51
	609,440.47

DEVON & SOMERSET FIRE AUTHORITY COUNCIL TAX DUE FOR EACH PROPERTY VALUATION BAND

Valuation Band	Government Multiplier Ratio	Government Multiplier %	Council Tax £ p
A	6/9	0.667	60.00
B	7/9	0.778	70.00
C	8/9	0.889	80.00
D	**1**	**1.000**	90.00
E	11/9	1.222	110.00
F	13/9	1.444	130.00
G	15/9	1.667	150.00
H	18/9	2.000	180.00

Billing Authority	Surplus/(Deficit) for 2020/2021 £	Precepts Due 2021/2022 £	Total due in 2021/2022 £
East Devon	148,808	5,407,560	5,556,368
Exeter	45,621	3,363,930	3,409,551
Mendip	(18,671)	3,719,924	3,701,253
Mid Devon	(37,327)	2,573,494	2,536,167
North Devon	40,021	3,095,808	3,135,829
Plymouth City	32,633	6,580,350	6,612,983
Sedgemoor	(88,485)	3,689,222	3,600,737
Somerset West and Taunton	3,295	5,035,308	5,038,603
South Hams	(11,108)	3,446,849	3,435,741
South Somerset	(36,701)	5,503,765	5,467,064
Teignbridge	(31,063)	4,356,900	4,325,837
Torbay	(97,154)	4,091,808	3,994,654
Torridge	(6,403)	2,163,168	2,156,765
West Devon	(2,715)	1,821,556	1,818,841
	(59,249)	**54,849,642**	**54,790,393**

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

2021/2022 Revenue Budget

Line No	**2020/2021 Budget £000 (1)**		**2021/2022 Budget £000 (2)**
		SPENDING	
		EMPLOYEE COSTS	
1	51,224	Service Delivery staff	51,769
2	11,046	Professional and technical support staff	11,195
3	670	Training investment	854
4	2,489	Fire Service Pension costs	2,352
	65,429		**66,170**
		PREMISES RELATED COSTS	
5	1,023	Repair and maintenance	1,010
6	575	Energy costs	578
7	494	Cleaning costs	499
8	1,890	Rent and rates	1,917
	3,982		**4,005**
		TRANSPORT RELATED COSTS	
9	704	Repair and maintenance	708
10	1,318	Running costs and vehicle insurance	1,257
11	905	Travel and subsistence	1,404
	2,926		**3,370**
		SUPPLIES AND SERVICES	
12	3,545	Equipment and furniture	3,567
13	151	Hydrants-installation and maintenance	131
14	2,347	Communications technology	2,408
15	619	Protective Clothing	521
16	103	External Fees and Services	143
17	275	Partnership & Regional collaborative projects	309
18	56	Catering	66
	7,095		**7,146**
		ESTABLISHMENT COSTS	
19	236	Printing, stationery and office expenses	283
20	37	Advertising including Community Safety	34
21	411	Insurances	434
	683		**750**
		PAYMENTS TO OTHER AUTHORITIES	
22	709	Support service contracts	715
	709		**715**
		CAPITAL FINANCING COSTS	
23	4,111	Loan Charges & Lease rentals	3,474
24	2,037	Revenue Contribution to Capital Spending	2,037
	6,148		**5,511**
25	(1,167)	Transfer to/(from) Earmarked Reserves	(512)
26	**85,807**	**TOTAL SPENDING**	**87,155**

Note: If the Development Firefighter proposal is not approved line number 1 will reduce by £415k to £51,354k matched by a reduction in earmarked reserve funding required so that line number 25 will become (£62k)

Line No	**2020/2021 Budget £000 (1)**		**2021/2022 Budget £000 (2)**
		INCOME	
27	(201)	Treasury management income	(100)
28	(7,520)	Grants and reimbursements	(11,998)
29	(809)	Other income	(835)
30	-	Internal Recharges	-
31	**(8,530)**	**TOTAL INCOME**	**(12,933)**
32	**77,277**	**NET REVENUE BUDGET REQUIREMENT**	**74,222**
		FINANCED BY:	
33	6,389	Formula Funding Grant	6,424
34	16,166	Share of Non Domestic Business Rates	13,008
35	54,722	District Councils Collection Funds	54,790
36	**77,277**	**TOTAL FINANCING**	**74,222**

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

Analysis of Budget Changes ***2021/2022 Revenue Budget***

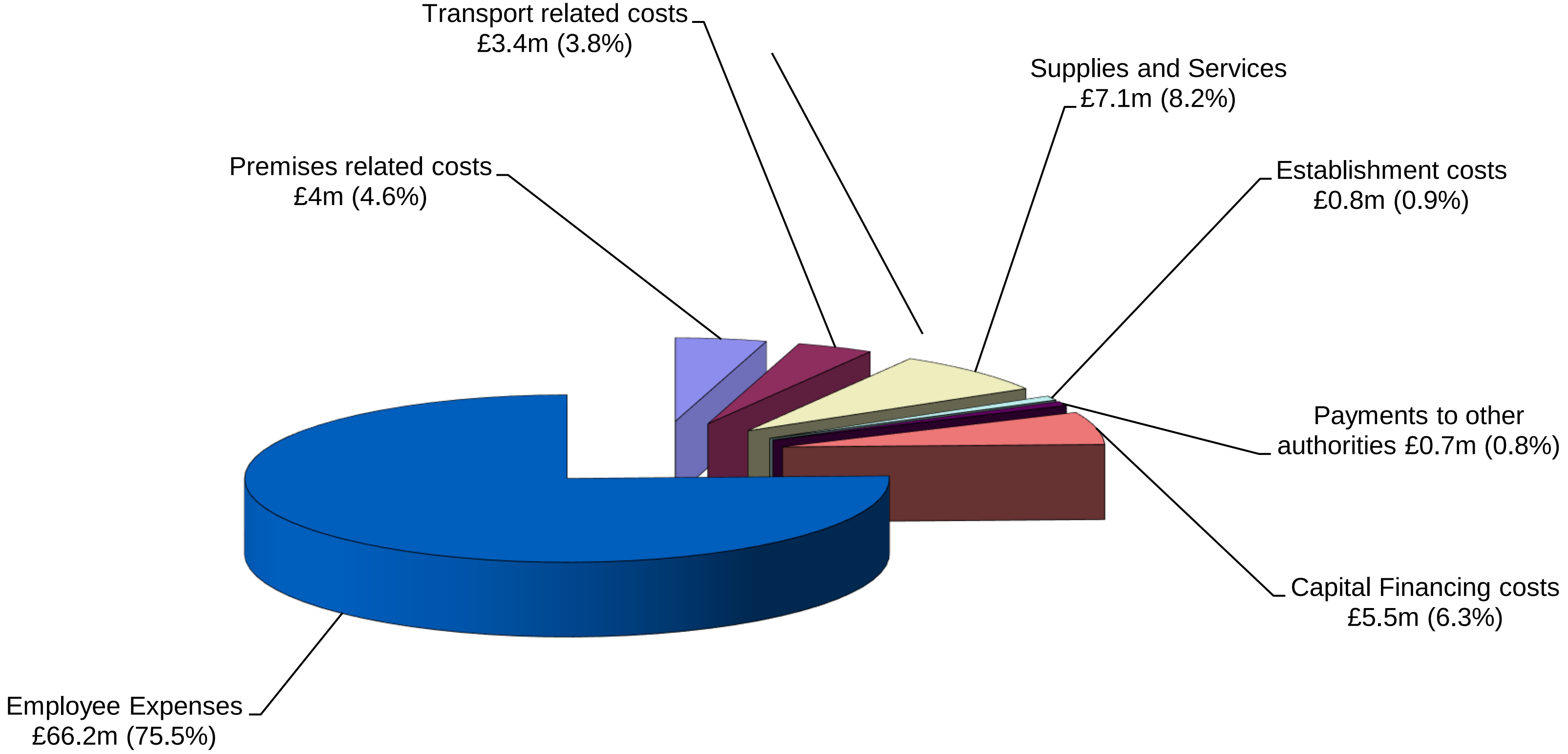
	£000	£000
2020/2021 Revenue Budget		**77,277**
Provision for Pay Awards and Prices Increases		
Provision for Cost of Pay Settlement for Uniformed Staff	0	
Provision for other Pay Awards and prices	205	205
Inescapable Commitments	151	
Revenue contribution to capital decrease	0	
New investment (including Development Firefighters)	667	
Less reserve contribution	655	
Section 31 grant	(4,370)	
Budget Reductions	(362)	
		(3,259)
2021/2022 Net Revenue Budget Requirement	**check**	**74,223**

ESTIMATED FINANCIAL COMMITMENTS INTO 2022/23 and 2023/24

The figures below have been extracted from the Medium Term Financial Strategy, and provide an indication of the estimated commitments into the next two financial years, flowing from the approval of the OPTION B - 1.99% draft revenue commitment budget. Any revision to these figures, e.g. Budget reductions arising from the implementation of the Change and Improvement programme or further investment in the Service will be included in the revised Medium Term Financial Plan and reported to the Authority during the course of the financial year.

		(Cumulative effect above 2021/2022)	
		2022/23	**2023/24**
		£000	**£000**
	Net Revenue Budget Requirement 2021/2022	**74,223**	**74,223**
(i)	Estimated Costs of pay awards and prices increases	1,451	2,865
(ii)	Capital Financing charges and revenue contribution to the capital programme	(249)	(69)
(iii)	Other Changes		
	Provision for Pay & pension changes	2,195	2,295
	Reserve funding	(1,448)	1,163
	Other spending commitments	250	500
	Section 31 grant removed	970	1,393
	Other minor changes	(101)	(151)
	Increase over 2021/2022	**3,067**	**7,995**
	INDICATIVE CORE BUDGET REQUIREMENT	**77,290**	**82,218**

Devon & Somerst Fire & Rescue Authority - Analysis of Spending 2021/22



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REPORT REFERENCE NO.	**RC/21/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2021**
SUBJECT OF REPORT	**CAPITAL STRATEGY**
LEAD OFFICER	**Director of Finance & Resourcing (Treasurer)**
RECOMMENDATION	***That the Authority be recommended to endorse 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 Members. 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.
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 set-a-side 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 of the 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 Integrated Risk management Plan 2018-2022 identified those risks and the Service determined the resources needed in terms of premises and vehicles that are needed in each location through the Safer Together programme. The National Risk Register, identifies emerging challenges such as the continued threat of terrorism, the impacts of climate change and impacts of an ageing population. These will be considered through the Community Risk Management Plan (CRMP), which replaces the Integrated Riskk Management Plan, along with the requirements of the Fire and Rescue National Framework and local risks to Devon and Somerset.

4.2. The Authority currently has 83 fire stations across the counties of Devon and Somerset. During 2020/21 one was closed and one relocated to Service Headquarters as part of the Safer Together Programme.

4.3. At the commencement of the 2021-22 year, the Service will have 112 front-line fire engines (down from 121 at the start of 2020-21), of which 49 have surpassed their recommended economic life, and 19 Special Appliances. 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 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.
- 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 2021-22 – 2025-26

6.1. The Service capital programme for 2021-22 – 2025-26 is considered annually and is set out in the table below.

TABLE 1

Capital Programme 2021/22 to 2025/26								
2020/21 £000 Budget	2020/21 £000 Forecast Outturn	Item	PROJECT	2021/22 £000 Budget	2022/23 £000 Budget	2023/24 £000 Budget	2024/25 £000 Indicative Budget	2025/26 £000 Indicative Budget
			Estate Development					
3,557	1,907	1	Site re/new build	2,150	0	0	0	0
5,591	1,437	2	Improvements & structural maintenance	5,089	3,600	1,300	3,500	3,700
9,148	**3,344**		**Estates Sub Total**	**7,239**	**3,600**	**1,300**	**3,500**	**3,700**
			Fleet & Equipment					
5,034	2,839	3	Appliance replacement	5,157	2,300	2,800	2,800	2,000
710	370	4	Specialist Operational Vehicles	440	5,100	1,900	700	700
0	0	5	Equipment	0	0	0	0	0
159	9	6	ICT Department	400	0	0	0	0
46	46	7	Water Rescue Boats	0	0	0	0	0
5,949	**3,264**		**Fleet & Equipment Sub Total**	**5,997**	**7,400**	**4,700**	**3,500**	**2,700**
(3,800)	**0**	**9**	**Optimism bias Sub Total**	**(2,600)**	**400**	**1,000**	**1,200**	**0**
11,297	**6,608**		**Overall Capital Totals**	**10,636**	**11,400**	**7,000**	**8,200**	**6,400**
			Programme funding					
7,672	2,663	15	Earmarked Reserves:	6,575	7,998	3,417	1,667	0
2,037	2,037	16	Revenue funds:	2,037	2,037	2,300	2,300	2,300
60	380	17	Capital receipts:	0	0	0	0	0
1,528	1,528	18	Borrowing - internal	2,024	1,365	1,283	1,352	1,918
		19	Borrowing - external	0	0	0	2,881	2,182
11,297	**6,608**		**Total Funding**	**10,636**	**11,400**	**7,000**	**8,200**	**6,400**

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.

8. REVENUE FUNDING

8.1. The Authority agreed on the 24th 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 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 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 2024-25 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 (this plan will soon be redesigned as the Community 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 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 placed 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 possible 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. 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. The strategic objective within the medium term financial plan is to ensure that revenue funds of at least £2m are included in the annual budget, which will increase as other capital costs fall as a result of reduced borrowing.

18.4. Historically, the Authority received a Central Government Capital Grant of up to £2m per year and also supported its capital programme using borrowing where required. However, it became apparent that the 5% indicator of affordability for borrowing would be breached and this with the cessation of Government Grant meant that alternative ways of addressing the Capital programme needed to be explored.

18.5. Several years ago the Service engaged staff and developed a range of smaller fire engines that whilst able to make better progress through congested cities as well as narrow country lanes, were also cheaper to procure. By ensuring that we have the right balance between large traditional fire engines and smaller, lighter fire engines we have been able to reduce the capital costs for the Service without compromising public safety. Not only is this a more efficient use of the financial resources we have available to us, it is also better for the environment.

The Authority's strategy is to reduce borrowing

18.6. As at 31 March 2021 external debt will be £24.9m, down from £26.3m ten years ago.

18.7. 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 £39m over the next five years replacing and improving its assets without needing to borrow any more.

18.8. Recognising that we needed to take a fundamental review of our Service Delivery Operating Model (completed in 2020), major decisions relating to fire station locations and number/type and location of some fire engines had been deferred. There are now a considerable number of assets needing replacement or enhancement and the proposed programme totals £43.6m over the next five years. As only £39m of funding is available, officers will need to develop further plans to prioritise expenditure and avoid borrowing in the future.

18.9. The Safer Together programme has delivered a new Service Delivery Operating Model and provided a focus on the way Vehicles and Equipment are managed. Both of these work streams have presented reductions to the asset base which have fed into this iteration of the Capital Programme and Medium Term Financial Plan.

AMY WEBB
Director of Finance & Resourcing (Treasurer)

REPORT REFERENCE NO.	**RC/21/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**13 FEBRUARY 2021**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2021-22 TO 2023-24**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 19 February 2021 be recommended to approve:*** ***(a) the draft Capital Programme 2021-22 to 2023-24 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively, be approved; and*** ***(b) subject to (a) above, the forecast impact of the proposed Capital Programme (from 2024-25 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report be noted.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2021-22 to 2023-24 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 2023-24 based upon indicative capital programme levels for the years 2024-25 to 2025-26.
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 2021-22 to 2023-24 (and indicative Capital Programme 2024-25 to 2025-26). B. Prudential Indicators 2021-22 to 2023-24 (and indicative

	Prudential Indicators 2024-25 to 2025-26).
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 10January 2020, the Authority approved changes to the Service Delivery Operating Model, which has reduced some pressure on the proposed capital programme. However, due to the age of current fleet there are still ambitious plans to introduce new Medium Rescue Pumps (MRP, our largest fire appliances) into the fleet. The 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 2024/25.

1.5. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2021-22 to 2023-24 and indicative Capital Programme 2024-25 to 2025-26 show that, despite the reduced number of assets, the Authority will need to borrow up to £5m. 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.

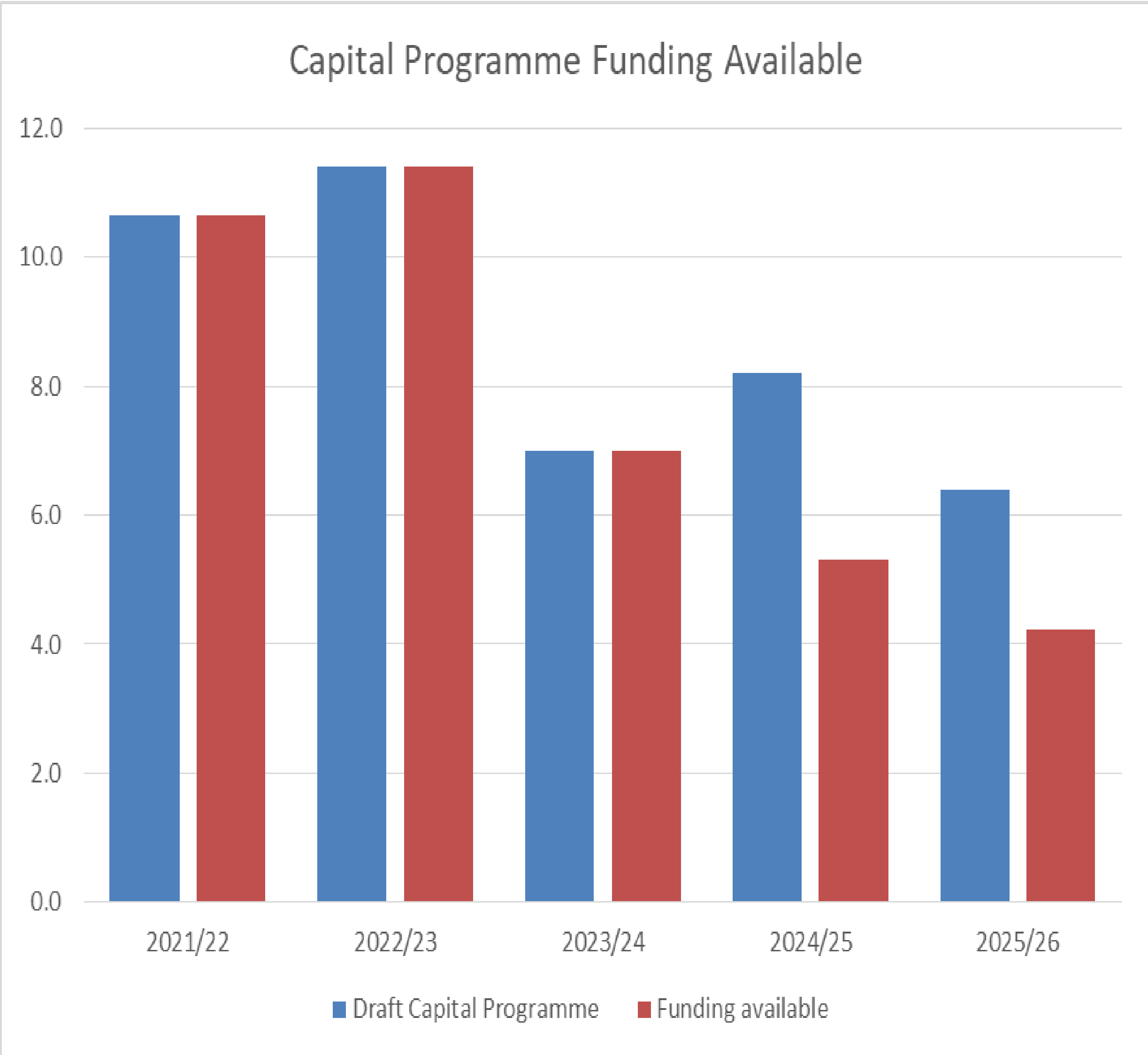
FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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 £23.8m by 2023-24 (£25.5m if Council Tax is not increased each year) from the current external borrowing of £24.9m as at 31 March 2021. The debt ratio remains below the 5% maximum limit throughout the planning period.

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 increased Revenue Contributions to Capital will be limited to the amount saved from reduced borrowing, therefore maintaining the overall cost envelope for the Capital Programme. However, significant pressures still remain and the chart below shows that a gap will emerge 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 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.

3. REVISED CAPITAL PROGRAMME FOR 2021-22 to 2023-24

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2021-22 to 2023-24 as contained in this report. This programme represents a net decrease in overall spending of £9.6m (before application of optimism bias) over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2020-21	9.1	5.9	15.0
2021-22	5.9	6.8	12.7
2022-23 (provisional)	5.7	3.6	9.3
2023-24 (provisional)	5.6	3.8	9.4
Total 2020-21 to 2023-24	26.3	20.1	46.4
Proposed Programme			
2020-21 (forecast spending)	3.3	3.3	6.6
2021-22	7.2	6.0	13.2
2022-23 (provisional)	3.6	7.4	11.0
2023-24 (provisional)	1.3	4.7	6.0
Total 2020-21 to 2023-24	15.4	21.4	36.8
Proposed change	-10.9	1.3	-9.6

Estates

3.2. The Service is currently refreshing its Estates Strategy and undertaking a full condition survey of the Estate, to inform a risk based approach to future investments. The strategy will also look to maximise opportunities to reduce the footprint of buildings as a result of new ways of working and to incorporate the Authority's Green DSFRS environmental strategy.

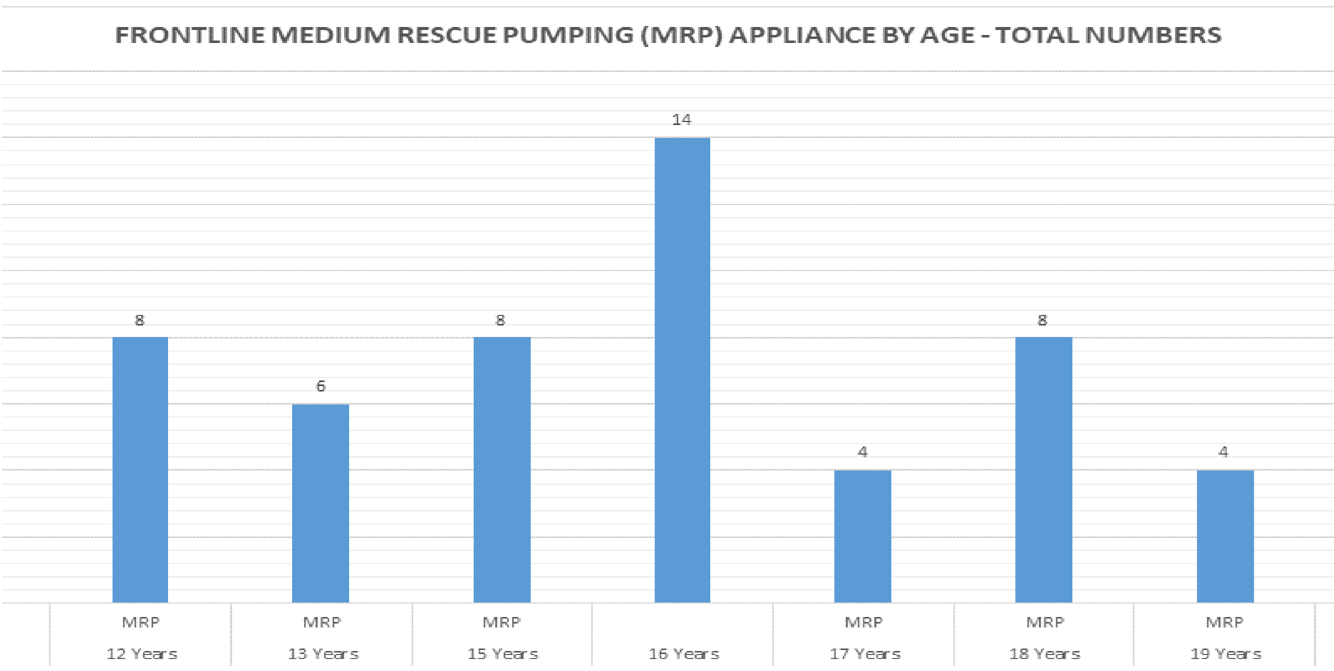
3.3. Mindful of the need to review strategy, the programme for 2021-22 has been limited to existing projects; particularly the new Plymstock fire station and a refurbishment of Camels Head fire station, alongside some minor works to ensure compliance such as improved sleeping accommodation and vehicle wash down facilities.

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 next Integrated Risk Management Plan. Any such mergers would be subject to public consultation and decision by the Authority. No plans for merging stations are included in the Capital Programme at this stage, however the production of a new Community Risk Management Plan may identify locations that would benefit from such mergers to better match resources to risk.

Operational Assets

3.5. Through the Safer Together Programme a risk based review of the fleet profile of Rapid Intervention Vehicles (RIV), Light Rescue Pumps (LRP) and Medium Rescue Pumps (MRP) has been undertaken to confirm the operational requirements of the new Service Delivery Operating Model. It is anticipated that further RIVs will be introduced to the fleet.

3.6. The Service has a considerable number of assets due for replacement as they are beyond their recommended economic life, being expensive to service and repair, liable to more frequent reliability issues and increasingly difficult to source parts for. As an indicator of the scale of this project, the chart below shows the age profile of MRPs.



3.7. 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 better 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.

3.8. The benefits of the Fleet Replacement Programme are:

- Economic benefits of new fleet
- Standardisation of vehicles leading to reduced maintenance and training costs
- Environmental benefits from reduced emissions and savings on fuel consumption

3.9. The project to replace MRPs which are beyond economic life 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 20 vehicles are expected to be delivered in the 2021-22 financial year (COVID delays are being managed closely), 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.

3.10. The Fleet Replacement plan will look to replace some of our oldest appliances with new MRPs and RIVs and cascade existing vehicles to the reserve and training fleet. Currently we have:

- MRP – 65 front-line appliances of which 32 are overdue replacement and a further 8 due replacement this year. A total of 40 vehicles (60% are overdue replacement);
- MRP Reserves – There are currently 14 reserve appliances and all are overdue replacement. They are being subject to a review of numbers once the new MRP is introduced;
- LRP – We have 37 front-line LRP's due to be 38 of which none are due replacement until 2027/28;
- LRP Reserves – There are 4 reserve LRP's;
- RIV – We have 12 front-line RIV's of which none will be due replacement until at least 2028/29;
- RIV Reserves – There are currently 2 reserve RIV's;
- Training Appliances – 6 MRP's all are overdue replacement plus one LRP and vehicles for Driver Training which are overdue replacement; and
- A station engagement process on the fleet profile is currently in progress and the final profile will be confirmed in April/May to support the fleet replacement plans.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2023-24 to 2025-26. 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

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	24.757	24.264	23.771	26.194	28.282
Base budget for capital financing costs and debt charges	3.274	3.026	2.942	3.042	3.295
Change over previous year		(0.248)	(0.084)	0.100	0.253
Debt ratio	4.28%	3.91%	3.74%	3.87%	4.26%

4.2. The forecast figures for external debt and debt charges beyond 2023-24 are based upon the indicative programmes as included in Appendix A for the years 2024-25 to 2025-26. 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 £25.7m to £28.6m (including impact of proposed revenue contributions) by 2025-26.

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 2025-26, 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 2024-25. The programme proposed in this report does not commit any spending beyond 2023-24. 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)

Capital Programme 2021/22 to 2025/26								
2020/21 £000 Budget	2020/21 £000 Forecast Outturn	Item	PROJECT	2021/22 £000 Budget	2022/23 £000 Budget	2023/24 £000 Budget	2024/25 £000 Indicative Budget	2025/26 £000 Indicative Budget
			Estate Development					
3,557	1,907	1	Site re/new build (subject to formal authority approval)	2,150	0	0	0	0
5,591	1,437	2	Improvements & structural maintenance	5,089	3,600	1,300	3,500	3,700
9,148	**3,344**		**Estates Sub Total**	**7,239**	**3,600**	**1,300**	**3,500**	**3,700**
			Fleet & Equipment					
5,034	2,839	3	Appliance replacement	5,157	2,300	2,800	2,800	2,000
710	370	4	Specialist Operational Vehicles	440	5,100	1,900	700	700
0	0	5	Equipment	0	0	0	0	0
159	9	6	ICT Department	400	0	0	0	0
46	46	7	Water Rescue Boats	0				
5,949	**3,264**		**Fleet & Equipment Sub Total**	**5,997**	**7,400**	**4,700**	**3,500**	**2,700**
(3,800)	**0**	**9**	**Optimism bias Sub Total**	**(2,600)**	**400**	**1,000**	**1,200**	**0**
11,297	**6,608**		**Overall Capital Totals**	**10,636**	**11,400**	**7,000**	**8,200**	**6,400**
			Programme funding					
7,672	2,663	15	Earmarked Reserves:	6,575	7,998	3,417	1,667	0
2,037	2,037	16	Revenue funds:	2,037	2,037	2,300	2,300	2,300
60	380	17	Capital receipts:	0	0	0	0	0
1,528	1,528	18	Borrowing - internal	2,024	1,365	1,283	1,352	1,918
		19	Borrowing - external				2,881	2,182
11,297	**6,608**		**Total Funding**	**10,636**	**11,400**	**7,000**	**8,200**	**6,400**

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

	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	INDICATIVE INDICATORS 2023/24 to 2024/25 2024/25 £m Estimate	2025/26 £m Estimate
Capital Expenditure					
Non - HRA	10.636	11.400	7.000	8.200	6.400
HRA (applies only to housing authorities)					
Total	10.636	11.400	7.000	8.200	6.400
Ratio of financing costs to net revenue stream					
Non - HRA	4.28%	3.91%	3.74%	3.87%	4.26%
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	24,758	24,264	23,771	26,120	27,984
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	907	791	656	509	349
Total	25,665	25,055	24,426	26,629	28,333
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(196)	(610)	(628)	2,203	1,704
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(196)	(610)	(628)	2,203	1,704

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT

	2021/22	2022/23	2023/24	2024/25	2025/26
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,189	26,071	25,553	28,058	29,875
Other long term liabilities	1,056	947	823	681	527
Total	27,244	27,018	26,376	28,739	30,401
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,951	24,857	24,364	26,752	28,476
Other long term liabilities	1,010	907	791	656	509
Total	25,961	25,765	25,155	27,408	28,985
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 2021/22		
Under 12 months	30%	0%
12 months and within 24 months	30%	2%
24 months and within 5 years	50%	15%
5 years and within 10 years	75%	3%
10 years and above	100%	80%

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REPORT REFERENCE NO.	**RC/21/4**
MEETING	**RESOURCES COMMITTEE (Budget Meeting)**
DATE OF MEETING	**10 FEBRUARY 2021**
SUBJECT OF REPORT	**MEDIUM TERM FINANCIAL PLAN**
LEAD OFFICER	**Director of Finance & Resourcin5 (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 2025-26). 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	The contents of this report are considered compatible with existing Equalities and Human Rights legislation.
APPENDICES	A. Medium Term Financial Plan
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

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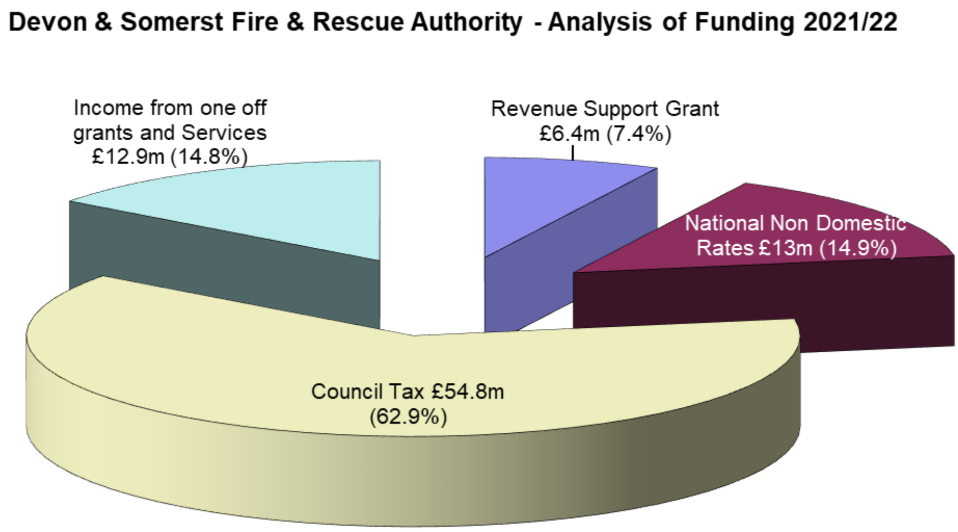
Introduction

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 £74.2m is used to resource 83 fire stations, 112 fire engines in addition to numerous special appliances. Around 1,800 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 realign resources and make a significant investment in our On Call service. The COVID-19 pandemic is already increasing pressure on public service finances and its impacts are likely to be felt for some years to come.

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

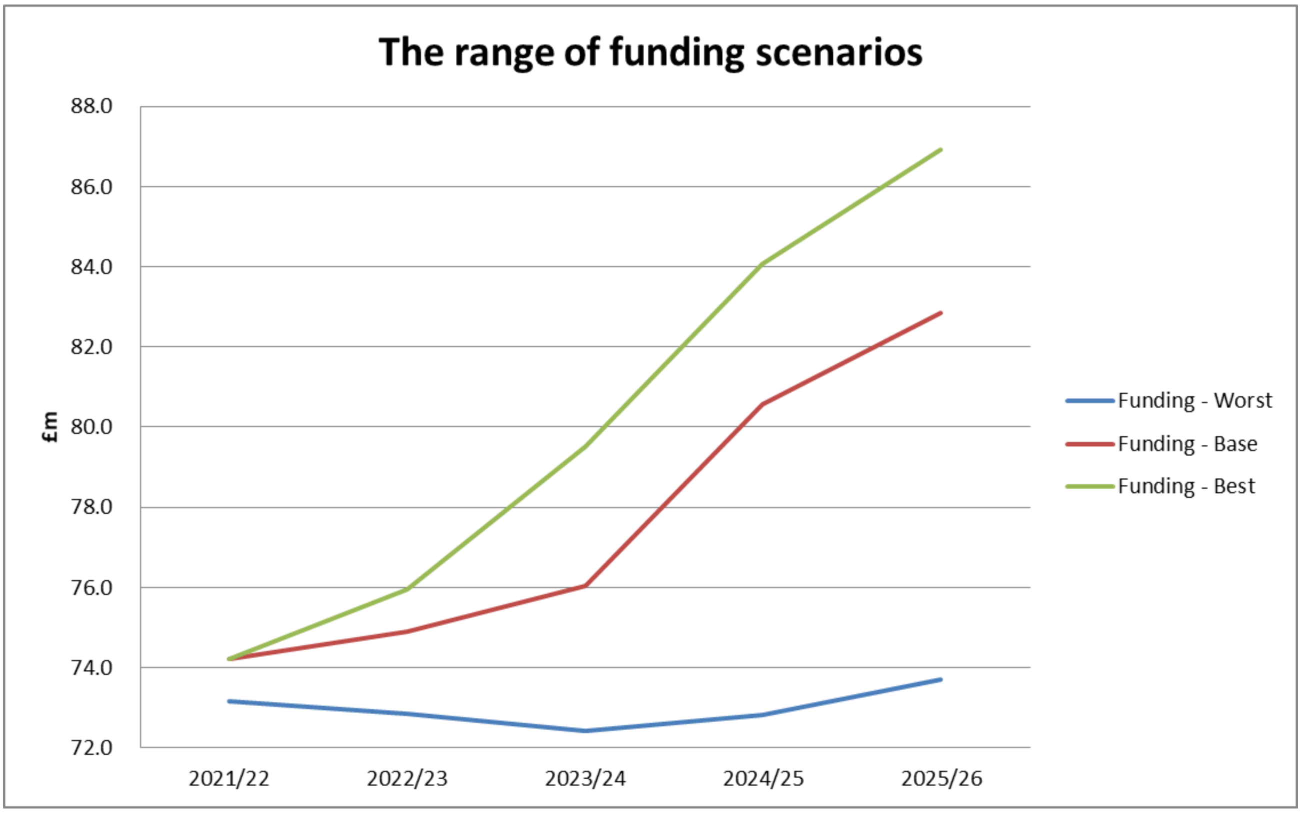
The Authority has three main sources of revenue funding; Council Tax Precept, National Non-Domestic Rates Scheme and Revenue Support Grant. Additionally, income from one-off grants, recharges and services is offset against our expenditure in order to reach the "net revenue budget" in each year.

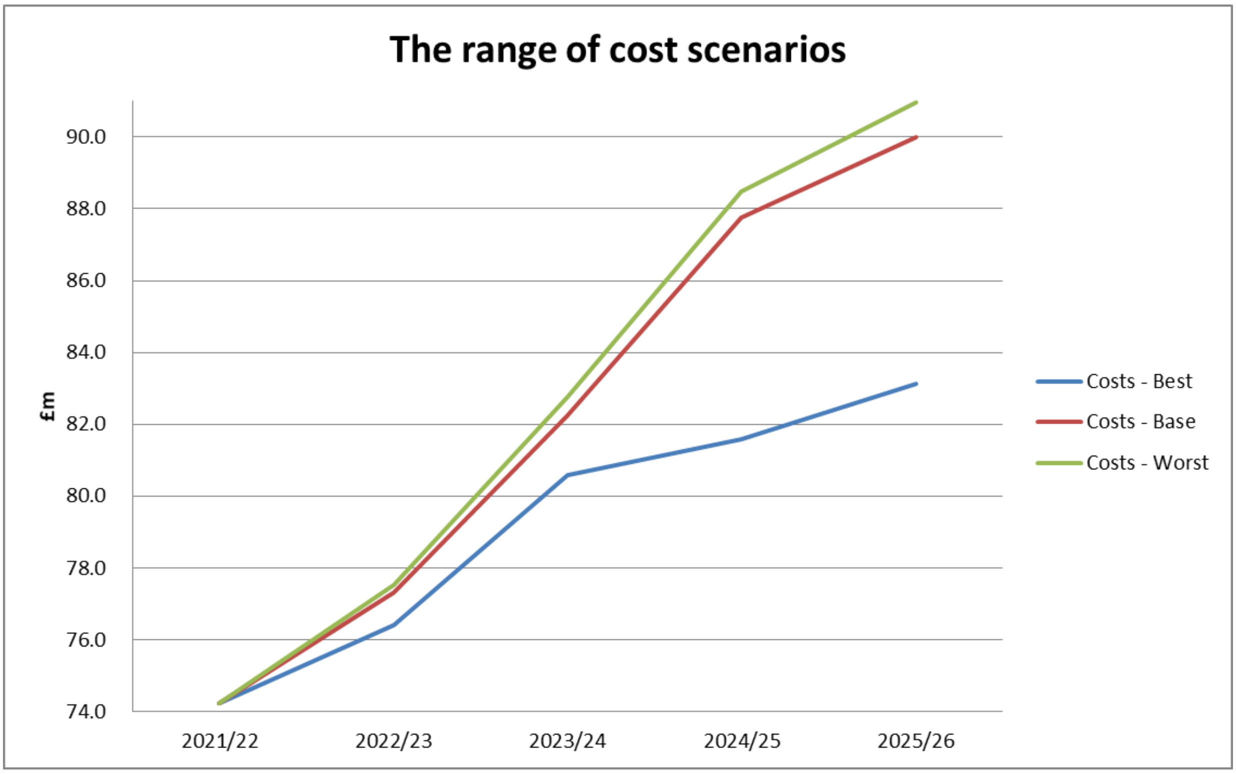


Building the Medium Term Financial Forecast

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:

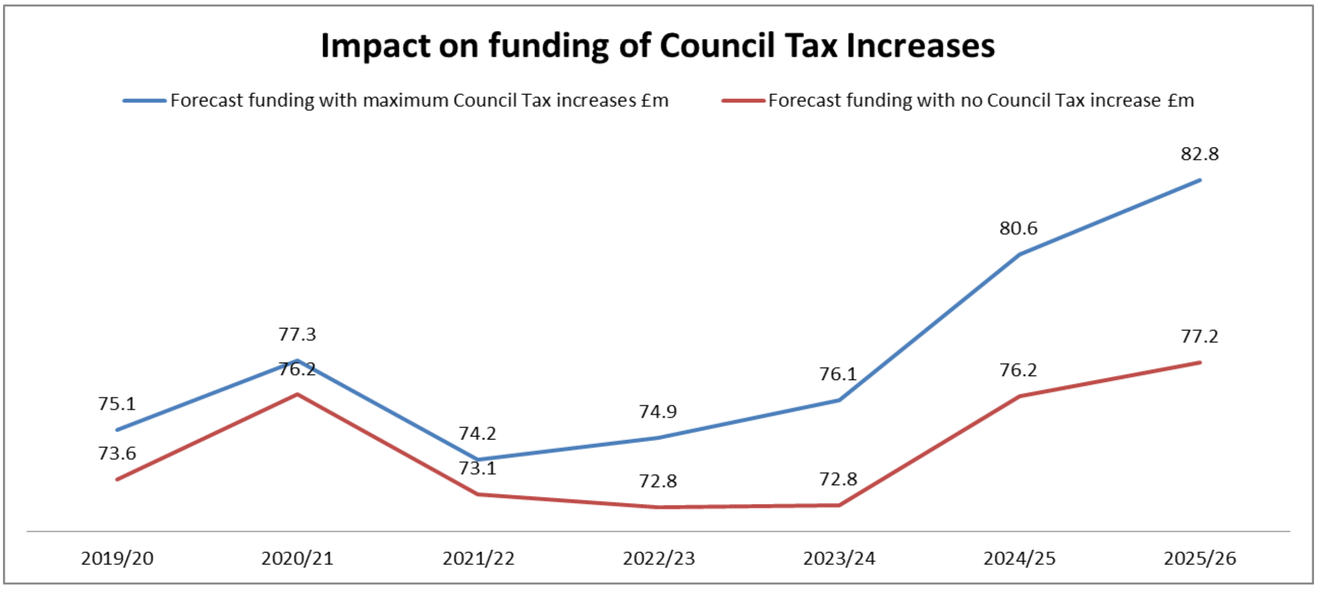
- In the Worst case; government grants are cut, pay and inflation see a steep increase, additional pensions costs arise, Council Tax is frozen and the base continues to shrink as a result of COVID-19.
- In the Best case; government grants, pay and inflation remain steady, pension costs are funded and Council Tax is increased every year, with the council tax base achieving growth post pandemic.
- In the Base case, which is presented here; government grants rise with inflation, pay and inflation remain steady, pension costs are minimal and Council Tax losses are minimised. 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.



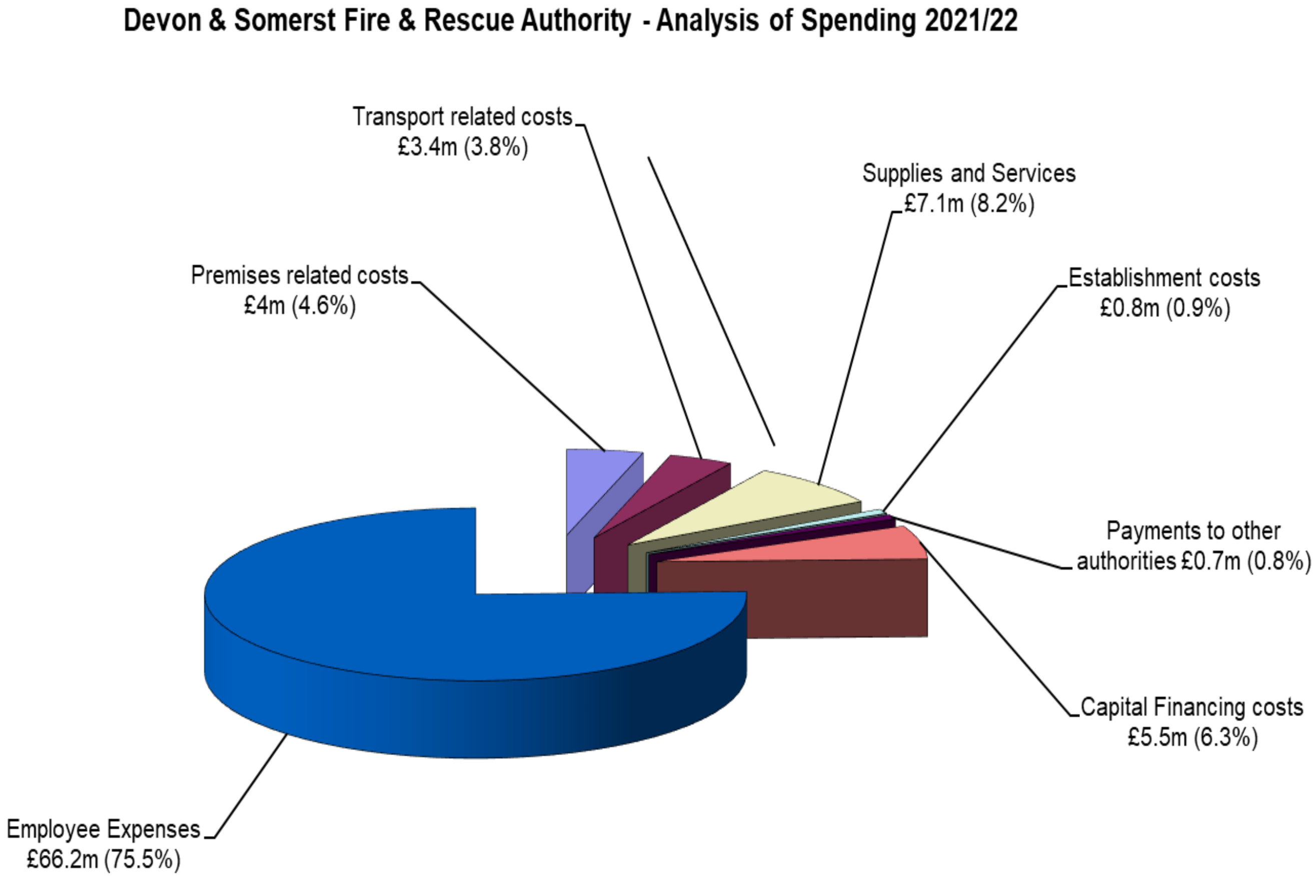


The range of scenarios presented in the chart above demonstrates that the savings gap (the difference between funding and costs) could vary from a deficit of £17.3m to a benefit of £3.8m over the next five years. The base case £7.2m gap) represents the most likely scenario and informs the Medium Term 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 £5.6m over the next five years.

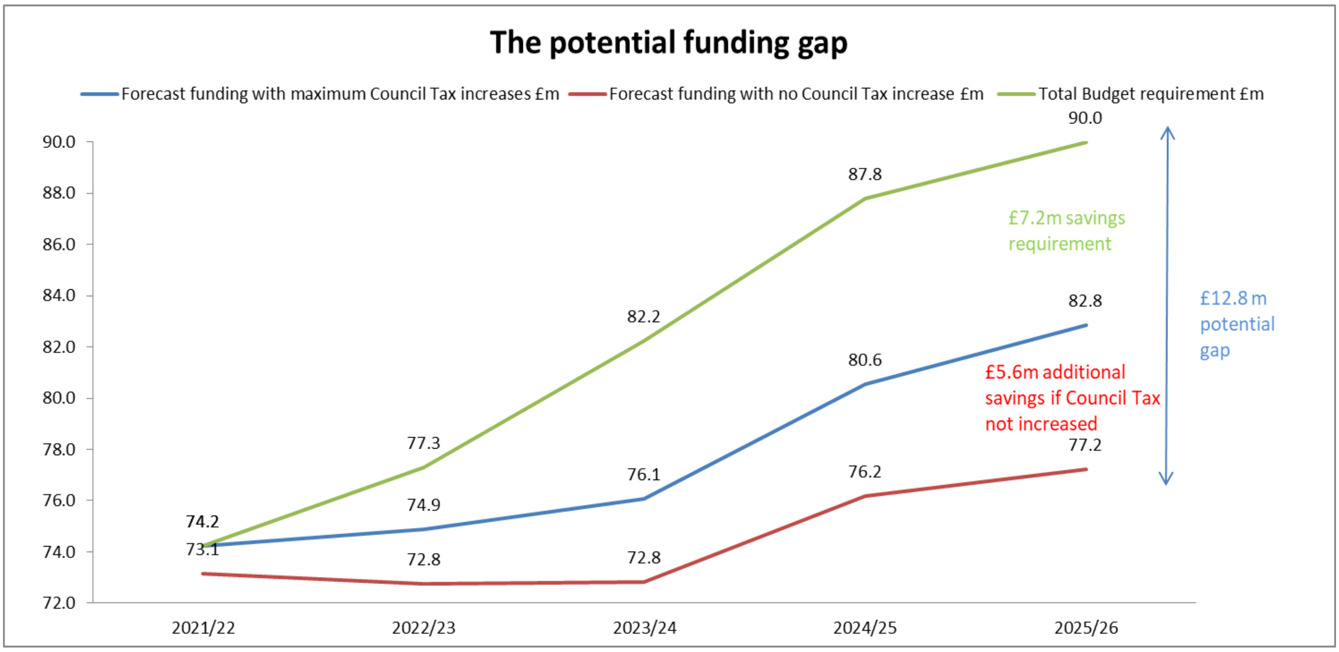


Expenditure: Assumptions are also made about forecast expenditure. The Authority can control some of its costs by managing its budget effectively; other elements are dependent on national drivers such as inflation, superannuation (pension) costs and pay awards. Expenditure is shown in the chart below and highlights that 75.5% 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



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 £12.8m if Council Tax is frozen, falling to £7.2m if increased in line with assumed referendum limits set by HM Treasury.

The Authority has an excellent history of achieving savings targets, with £13.9m saved over the five years to 2020/21 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 changes to the Service Delivery Operating Model agreed in January 2020 represent an investment rather than any overall savings as a result of implementing On Call Pay for Availability. The programme is being 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 was on the following four work streams.

- Service Delivery Operating Model
- The Digital Strategy
- Management of Fleet and Equipment
- Learning and Development

Meeting the funding gap

Following on from efforts to realign resources to risk, focus will now be placed on efficiency of the Service through:

- Development of a revised Estates Strategy and rationalisation of buildings
- Smarter working and continued Digital Transformation
- Reviewing whether supporting functions are achieving value for money and exploring alternative delivery models
- Delivery of the Green DSFRS Environmental Strategy
- Exploring opportunities to improve the productivity of our staff and assets

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 identify further 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 2021/22 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). NOTE: These figures have been impacted significantly due to COVID-19

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. A one year settlement was made for 2021/22. Beyond that period assumptions have to be made as to the level of grant income to be received.

Medium Term Financial Plan Assumptions	2021/22	2022/23	2023/24	2024/25	2025/26
Council Tax Precept	1.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base	-0.80%	-1.00%	-0.50%	1.00%	1.30%
Council Tax Surplus	-140.74%	100.00%	-50.00%	-101.00%	5000.00%
National Non-Domestic Rates	-2.89%	-2.89%	-2.10%	0.00%	0.00%
Revenue Support Grant	0.21%	1.20%	1.60%	1.70%	1.90%
Total Impact on net funding £m	**-0.2**	**0.4**	**1.2**	**2.2**	**2.4**
Forecast funding with maximum Council Tax increases £m	**77.1**	**77.4**	**78.6**	**80.8**	**83.2**
Forecast funding with no Council Tax increase £m	**76.0**	**75.3**	**75.4**	**76.4**	**77.6**

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 (0.7% for 2021/22) 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	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Firefighter pay awards	0.00%	2.00%	2.00%	2.00%	2.00%
Support staff pay awards	0.00%	2.00%	2.00%	2.00%	2.00%
Inflation and Pensions	0.70%	2.00%	2.00%	2.00%	2.00%
Cost Pressures £m	**-0.2**	**3.1**	**5.1**	**2.5**	**2.1**
Total Budget requirement £m	**77.1**	**80.2**	**85.3**	**87.8**	**89.9**

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REPORT REFERENCE NO.	**RC/21/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2021**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2021-22 TO 2023-24)**
LEAD OFFICER	**Director of Finance & Resourcing (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve:*** ***(a). the expansion of its approved counter parties to include subsidiary entities but the terms and conditions of any such arrangement be reserved to the Authority;*** ***(b). the Treasury Management Strategy and the Annual Investment Strategy;*** ***(c). the Minimum Revenue Provision statement for 2021-22, as contained as 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 2021-22, including the Prudential Indicators associated with the capital programme for 2021-22 to 2023-24 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2021-22 is also included for approval.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2021-22 to 2023-24. B. Minimum Revenue Provision Statement 2021-22. C. Link Treasury Solutions economic report
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, when it is prudent and economic, 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. CIPFA defines treasury management 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. MHCLG issued revised investment guidance which came into force from 1 April 2018. This guidance was captured within the revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code 2017.

CIPFA requirements

1.9. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

1.10. The aim of this capital strategy is to ensure that all elected members on the full Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management reporting

1.11. The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and Treasury Indicators and Treasury Strategy** (this report): The first, and most important report is forward looking and covers:

   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A Mid-year Treasury Management Report:** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An Annual Treasury Report**: This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.12. The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Resources Committee.

1.13. 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 2021-22

1.14. The suggested strategy for 2021-22 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 Group (Link).

1.15. The strategy for 2021-22 covers two main areas:

Capital Issues

- capital plans and prudential indicators; and
- 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; and
- policy on use of external service providers

Training

1.16. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The following training has been undertaken by members of the Resources Committee and further training will be arranged as required.

Treasury Management Advisors

1.17. The Authority uses Link Group, Treasury solutions as its external treasury management advisors.

1.18. 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.

1.19. 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 2021-22 TO 2023-24

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

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

Proposed Capital Expenditure	2020-21 (forecast spending)	2021-22	2022-23 (provisional)	2023-24 (provisional)
	£m	£m	£m	£m
Estates	3.344	5.889	4.400	1.700
Fleet & Equipment	3.264	4.797	7.100	5.300
Total	6.608	10.686	11.500	7.000

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.

Capital Financing	2020-21 (forecast spending)	2021-22	2022-23 (provisional)	2023-24 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.380	0.000	0.000	0.000
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	2.663	6.625	8.098	3.417
Revenue	2.037	2.037	2.037	2.300
Existing and New borrowing	1.528	2.024	1.365	1.283
Total	6.608	10.686	11.500	7.000

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 £1.010m 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)	2020-21 (forecast spending)	2021-22	2022-23 (provisional)	2023-24 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	24.851	24.758	24.264	23.771
Other Long Term Liabilities	1.010	0.907	0.791	0.656
Total CFR	25.861	25.665	25.055	24.426
Movement in CFR	(2.918)	(2.410)	(2.671)	(2.107)
Less MRP	(2.223)	(2.220)	(1.975)	(1.911)
Net movement in CFR	(0.695)	(0.191)	(0.695)	(0.196)

Core funds and expected investment balances

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

Estimated Year end Resources	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m
Reserve Balances	29.824	27.090	13.901	9.529
Capital receipts/ contributions	0.380	0.000	0.000	0.000
Provisions	1.214	0.214	0.000	0.000
Other	12.432	14.455	15.821	17.104
Total core funds	43.850	41.759	29.721	26.633
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	44.850	42.759	30.721	27.633

*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 2021-22 is attached as Appendix B for Authority approval.

2.17. The financing of the approved 2021-22 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 2021-22 to 2022-23 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2020-21 (forecast spending)	2021-22	2022-23 (provisional)	2023-24 (provisional)
Annual cost	3.92%	4.28%	3.91%	3.74%

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 2020 and current are summarised below.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.20	**31.3.20**	**31.12.20**	**31.12.20**
Treasury investments	£000	%	£000	%
banks	23,201	62%	12,021	29%
building societies - unrated		0%		0%
building societies - rated		0%		0%
local authorities	11,500	31%	20,000	48%
DMADF (H.M.Treasury)		0%		0%
money market funds	2,720	7%	9,644	23%
certificates of deposit		0%		0%
Total managed in house	**37,421**	**100%**	**41,665**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**37,421**	**100%**	**41,665**	**100%**
Treasury external borrowing				
local authorities		0%		0%
PWLB	25,444	100%	25,397	100%
LOBOs		0%		0%
Total external borrowing	**25,444**	**100%**	**25,397**	**100%**
Net treasury investments / (borrowing)	**11,977**	**0**	**16,268**	**0**

3.3. The Authority's forward projections for borrowing are summarised below. The table 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	2020-21 (forecast spending)	2021-22	2022-23	2023-24
	£m	£m	£m	£m
Debt at 1 April	24.851	24.757	24.264	23.771
Expected change in Debt	(0.593)	(0.093)	(0.493)	(0.493)
Other long-term liabilities (OLTL)	1.010	0.907	0.791	0.656
Expected change in OLTL	(0.103)	(0.117)	(0.135)	0.252
Actual gross debt at 31 March	25.165	25.455	24.427	24.185
CFR	25.861	25.665	25.055	24.426
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 2021-22 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 Authority complied with this prudential indicator in the current year and is not envisaging 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	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m
Non-HRA expenditure	25,544	24,951	24,857	24,364
Other Long Term Liabilities	1,112	1,010	907	791
Total	26,656	25,961	25,765	25,155

- **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 o 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.

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

Estimated Authorised Limit	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m
Non-HRA expenditure	26,787	26,189	26,071	25,553
Other Long Term Liabilities	1,162	1,056	947	823
Total	27,949	27,244	27,018	26,376

Prospects for interest rates

3.8. The Authority has appointed Link Group 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 within Appendix C - paragraphs C28 and C33 gives their view.

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Borrowing strategy

3.9. As reported in the separate report on this agenda “Capital Programme 2021-22 to 2023-24”, 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 (£1.7m in 2021-22).

3.10. This being the case there is no intention to take out any new borrowing during 2021-22 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

3.11. 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

3.12. Officers regularly engage with Link to review the PWLB loan portfolio and consider opportunities for early repayment, this is not currently economically viable due to the penalties applied.

3.13. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

3.14. If rescheduling was done, it will be reported to this 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 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 Group. 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 Group 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 Authority. 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 Group 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 Table 13 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
	Subsidiary entities
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.

4.21. The above criteria has been amended since last year to reflect the potential for a loan to be made to the Authority's subsidiary company, although this would be subject to terms and conditions as approved by the Authority.

Investment Strategy

4.22. 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.

4.23. Investment returns: Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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

2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Later years	2.00%

4.25. **Investment treasury indicator and limit** - total principal funds invested for greater than 365 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 > 365 days			
£m	**2021-22**	**2021-22**	**2022-23**
Principal sums invested > 365 days	£5m	£5m	£5m

End of year investment report

4.26. 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 2021-22 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

AMY WEBB
Director of Finance & Resourcing (Treasurer)

APPENDIX A TO REPORT RC/21/5

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2023/24 to 2024/25	
	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate
Capital Expenditure					
Non - HRA	10.636	11.400	7.000	8.200	6.400
HRA (applies only to housing authorities)					
Total	10.636	11.400	7.000	8.200	6.400
Ratio of financing costs to net revenue stream					
Non - HRA	4.28%	3.91%	3.74%	3.87%	4.26%
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	24,758	24,264	23,771	26,120	27,984
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	907	791	656	509	349
Total	25,665	25,055	24,426	26,629	28,333
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(196)	(610)	(628)	2,203	1,704
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(196)	(610)	(628)	2,203	1,704
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,189	26,071	25,553	28,058	29,875
Other long term liabilities	1,056	947	823	681	527
Total	27,244	27,018	26,376	28,739	30,401
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,951	24,857	24,364	26,752	28,476
Other long term liabilities	1,010	907	791	656	509
Total	25,961	25,765	25,155	27,408	28,985
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 2021/22		
Under 12 months	30%	0%
12 months and within 24 months	30%	2%
24 months and within 5 years	50%	15%
5 years and within 10 years	75%	3%
10 years and above	100%	80%

MINIMUM REVENUE STATEMENT 2021-22

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 2020 the total Voluntary Revenue Provision overpayments were £nil.

LINK TREASURY SOLUTIONS ECONOMIC REPORT

ECONOMIC BACKGROUND

Global Outlook

UK

C.1 The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

C.2 Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expected there to be excess demand in the economy by Q4 2022.
- CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

C.3 Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

C.4 One key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

C.5 However, the minutes did contain several references to downside risks. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. Upside risks included the early roll out of effective vaccines.

C.6 COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

C.7 These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

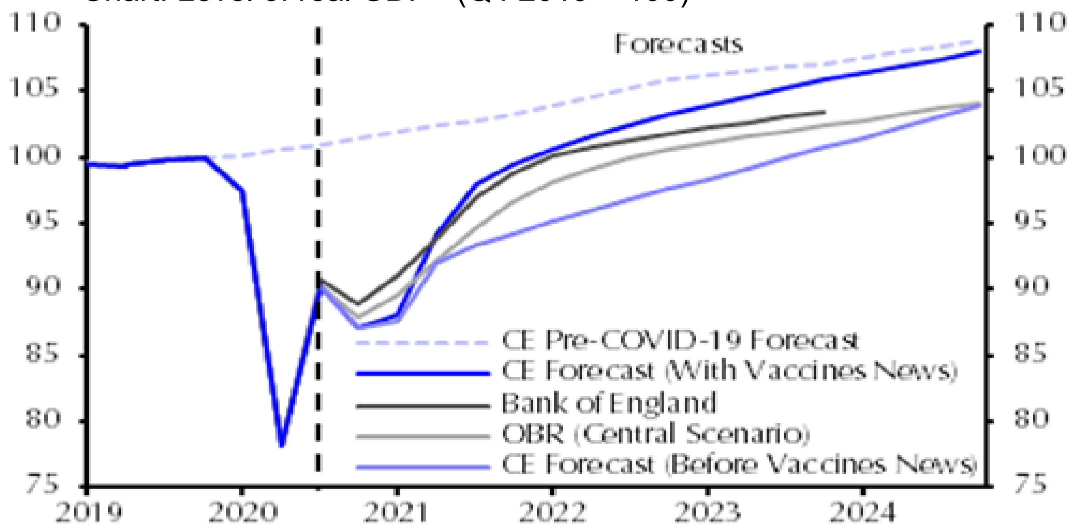
C.8 Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity.

In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

C.9 Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

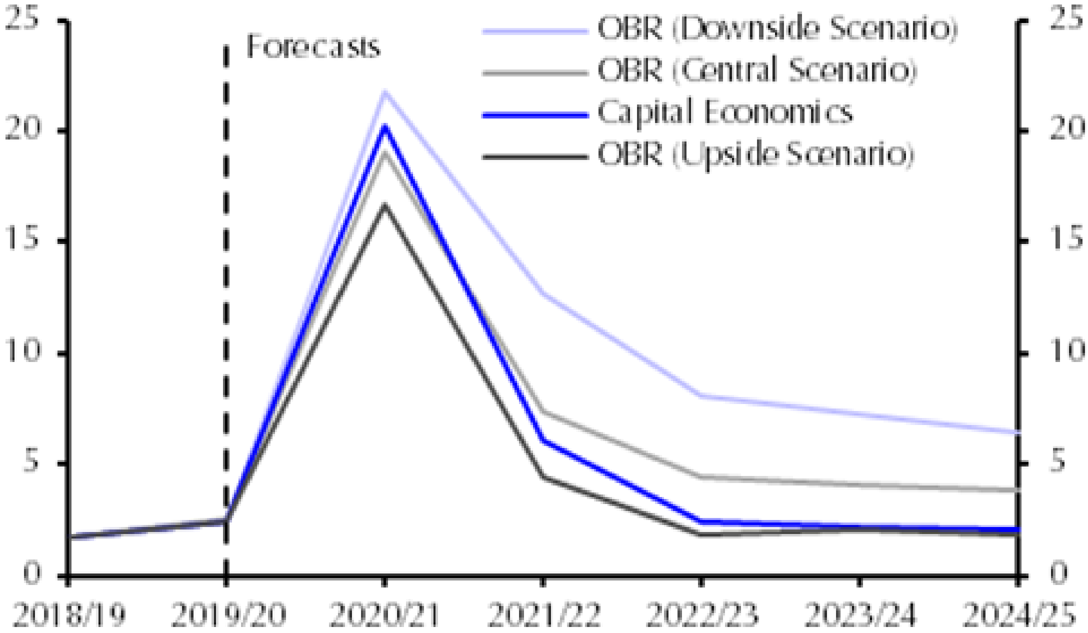
C.10 December 2020 / January 2021. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



C.11 This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



C.12 There will still be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

C.13 Brexit: While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

C.14 Monetary Policy Committee meeting of 17 December. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

C.15 Fiscal policy. In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
- The furlough scheme was lengthened from the end of March to the end of April.
- The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

C.16 The Financial Policy Committee (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

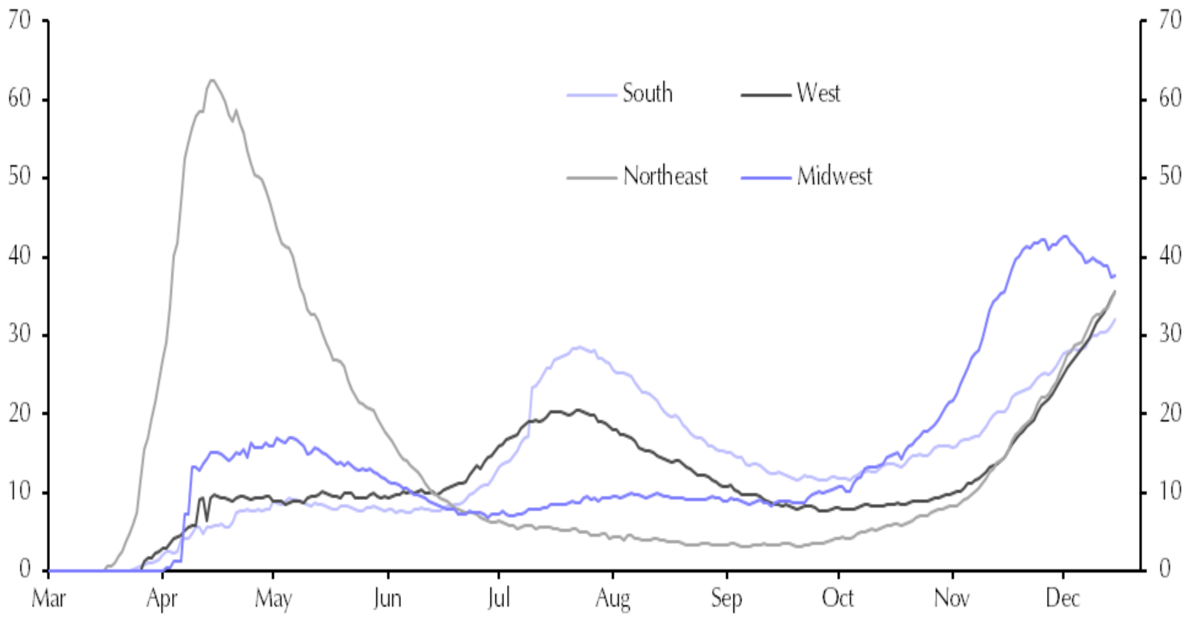
USA

C.17 The result of the November elections meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

C.18 The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country.

The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



C.19 The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

C.20 After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan.

It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

C.21 The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections. At its 16 December meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

EU

C.22 In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

C.23 With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022.

The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

CHINA

C.24 After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

JAPAN

C.25 A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

WORLD GROWTH

C.26 World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

C.27 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 also 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 an unfair 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.

INTEREST RATE FORECASTS

C.28 Brexit. The interest rate forecasts provided by Link were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

C.29 The balance of risks to the UK:

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

C.30 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

C.31 GILT yields / Public Works Loan Board (PWLB) rates. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very 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.

The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

C.32 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

C.33 As the interest forecast table for PWLB certainty rates in paragraph 3.7 shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

C.34 **Investment and borrowing rates**

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

➢ **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)

➢ **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

➢ **PWLB HRA Standard Rate** is gilt plus 100 basis points(G+100bps)

➢ **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)

➢ **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- 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.

Investment Strategy

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.
- **Negative investment rates**: While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

- As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

  Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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REPORT REFERENCE NO.	**RC/21/6**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2021**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2020-21 – QUARTERS 2 & 3**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2020-21 (to December 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. Due to the timing of the Resources Committee meetings, this is a combined report for quarters 2 & 3 of 2020/21 financial year.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 September 2020 and 31 December 2020.
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; and
- 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.** The key quarterly meeting of the Bank of England's Monetary Policy Committee (MPC) kept **Bank Rate** unchanged on 5 November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5 November 2020 to 2 December 2020 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January 2021 when the current programme of £300bn of QE, announced in March to June 2020, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022;

- The Bank also expected there to be excess demand in the economy by Q4 2022; and
- Consumer Price Index (CPI) inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

2.2 Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

2.3 One key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 of 2024. There could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

2.4 **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9 November 2020 was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60 million doses on order and is aiming to vaccinate at a rate of 2 million people per week starting in January 2021, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June 2021)

2.5 These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence. Life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for these services.

2.6 A comprehensive roll-out of vaccines might take into late 2021 to fully complete. If these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Quarter 2 of 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered. It may allow Gross Domestic Product (GDP) to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

2.7 Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Quarter 4 of 2019. It is likely that the one month national lockdown that started on 5 November 2020 will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

2.8 **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5 January 2021 to national lockdowns of various initial lengths in each of the four nations, as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months. This means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

2.9 **Brexit.** The final agreement on 24 December 2020 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

2.10 **Monetary Policy Committee meeting of 17 December 2020.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks but they were still sufficiently concerned that they voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for another six months from 30 April 2021 until 31 October 2021. (The MPC had assumed that a Brexit deal would be agreed.)

2.11 **US.** The Democrats won the presidential election in November 2020, and now that they have won two Senate seats in Georgia in early January 2021, they have effective control of both Congress and the Senate, although power is more limited in the latter. This is likely to enable the Democrats to provide more fiscal stimulus to the economy and so help the speed of economic recovery.

2.12 **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave - impacting widely across the US this time. This latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

2.13 The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November 2020 and retail sales dropping back. The economy is set for further weakness in December 2020 and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December 2020 will limit the downside. GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

2.14 After Chair Jerome Powell unveiled the Federal Bank's (the Fed's) adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

2.15 The Fed's meeting on 16 December 2020 tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping

Treasury yields low – **which will also have an influence on gilt yields in this country.**

2.16 **EU.** In early December 2020, the figures for Quarter 3 for GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Quarter 2, GDP was 15% below its pre-pandemic level. But in Quarter 3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Quarter 4 and in Quarter 1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism.

2.17 With inflation expected to be unlikely to get much above 1% over the next two years, the ECB (European Central Bank) has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

2.18 China. After a concerted effort to get on top of the virus outbreak in Quarter 1, economic recovery was strong in Quarter 2 and then into Quarter 3 and Q4; this has enabled China to recover all of the contraction in Quarter 1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

2.19 Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Quarter 3 2021 – around the same time as the US and much sooner than the Eurozone.

2.20 World growth. World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Interest Rate Forecasts

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

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

2.22 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31 March 2024 as economic recovery is expected to be only gradual.

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; 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 30 September 2020 and 31 December 2020 are shown on Tables 1 and 1a within Appendix A.

3.4 The average level of funds available for investment purposes during quarter 2 was £46.856m, quarter 3 was £46.876m (£42.117m at the end of quarter 1 2020/21). 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. A summary of the performance for both quarters can be found in Tables 2 and 2a of Appendix A.

3.5 As illustrated within Table 2 and Table 2a of Appendix A, the Authority outperformed the 3 month LIBID benchmark by 0.38bp in quarter 2 and by 0.28bp in quarter 3. It is anticipated that the actual investment return for the whole of 2020-21 will match the Authority's budgeted investment target of £0.201m. Moving forward, a more suitable benchmark such as the Sterling Overnight Index Average (SONIA) might be used as interest rates start to move into negative territory.

3.6 Within Appendix A, Table 3 illustrates the performance of the Authority for the past four quarters against quoted benchmark rates of 3 month LIBID, 7 days LIBID and also against the level of calculated risk associated with the investments known as the Weighted Average Credit Risk. We currently don't use all of these comparators against our performance but, they do demonstrate how well we have performed against a suite of comparators.

3.7 Finance officers have been prioritising liquidity of funds in the lead up to a potential No Deal Brexit which may have a short term detrimental impact on returns.

Negative investment rates

3.8 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, (at least in the next 6 -12 months), some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on. Meanwhile, uncertainty among corporate investors has also heightened their preference for the very short end of the yield curve. This, combined with a glut of monies which was particularly acute in the run up to the calendar year end, lead to some financial entities offering yet deeper negative yields or simply closing their books to new monies until 2021 began.

3.9 As for money market funds (MMFs), yields drifted lower through to the close of the calendar year. In response, managers continued to trim fee levels to ensure that net yields for investors remained in positive territory through the final quarter of the year.

3.10 Inter-local authority lending and borrowing rates have also declined due to elevated cash levels seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur, or when further large receipts will be received from the Government. In addition, the impact of the change in the Public Works Loan Board (PWLB) margin has had a marked impact on rates being offered.

BORROWING STRATEGY

Prudential Indicators:

3.11 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.

3.12 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 September 2020 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.13 The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 30 September 2020 was £25.397m and 31st December it was the same at £25.397m. This is 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 4.24% and average life of 24.9 years for quarter 2. For quarter 3, the average rate was also 4.24% with an average life of 24.7 years.

Loan Rescheduling

3.14 No debt rescheduling was undertaken during either 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

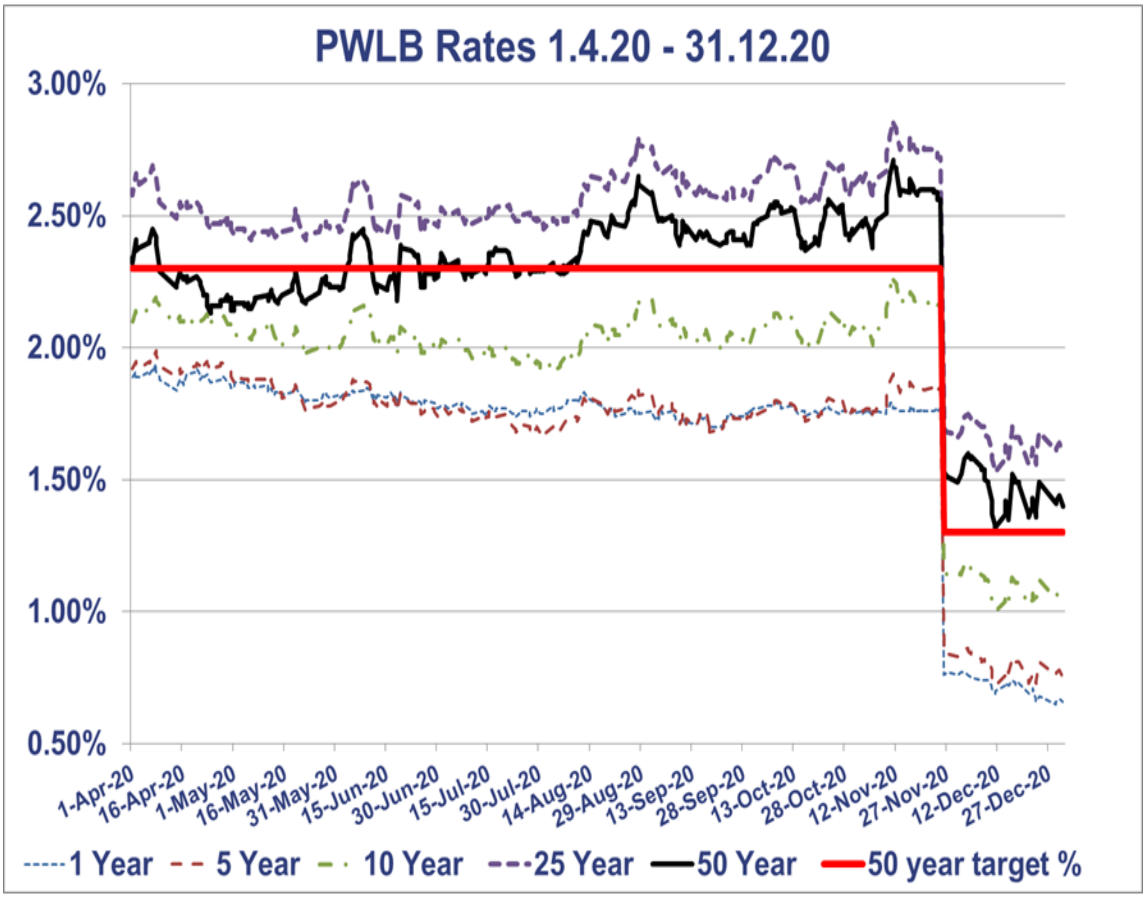
3.15 PWLB rates have not been on any consistent trend in this quarter. During the 2nd quarter, the 50 year PWLB target (certainty) rate for new long term borrowing was marginally increased to 2.30%. For quarter 3, they reduced by 100bps to 1.30% following an announcement on 25th November 2020, by the Chancellor where he announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

3.16 No new borrowing was undertaken during either quarter 2 or quarter 3 and none is planned during the remainder of 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 31 December 2020

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	29/12/2020	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.66%	1.68%	1.94%	2.46%	2.26%

3.17 Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

3.18 The Authority has not borrowed in advance of need during either the 2nd or 3rd 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 second and third quarter report on treasury management activities for 2020-21 to December 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 and Resourcing (Treasurer)

APPENDIX A TO REPORT RC/21/6

TABLE 1

Investments as at 30 September 2020					
Counterparty	**Maximum to be invested**	**Amount Invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	£m			
Standard Chartered	7.000	-4.000	T	6 mths	1.06%
Standard Chartered	7.000	-3.000	T	6 mths	0.27%
Belfast City Council	5.000	-5.000	T	10 mths	0.90%
Blackpool Borough Council	5.000	-5.000	T	6 mths	0.80%
Liverpool City Council	5.000	-5.000	T	12 mths	0.50%
Lancashire City Council	5.000	-5.000	T	12 mths	0.40%
Mid & East Antrim Borough Council	5.000	-2.000	T	12 mths	0.40%
Cheshire East Council	5.000	-5.000	T	8 mths	0.50%
Black Rock	7.000	-2.010	C	Instant Access	Variable
Aberdeen Standard	7.000	-7.000	C	Instant Access	Variable
Barclays Bank	7.000	-0.001	C	Instant Access	Variable
Total Amount Invested		**-43.011**			

TABLE 1a

Investments as at 31 December 2020					
Counterparty	**Maximum to be invested**	**Amount Invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	£m			
Bank of Scotland	7.000	-5.000	T	12 mths	0.20%
Cheshire East Council	5.000	-5.000	T	8 mths	0.50%
Liverpool City Council	5.000	-5.000	T	12 mths	0.46%
Lancashire County Council	5.000	-5.000	T	12 mths	0.40%
Mid & East Antrim Borough Council	5.000	-2.000	T	12 mths	0.40%
Standard Chartered Bank	5.000	-3.000	T	6 mths	0.27%
Standard Chartered Bank	5.000	-4.000	T	6 mths	0.08%
Redcar & Cleveland	5.000	-3.000	T	12 mths	0.30%
Aberdeen Standard	7.000	-2.644	C	Instant Access	Variable
Federated	7.000	-7.000	C	Instant Access	Variable
Barclays Bank	8.000	-£0.02	C	Instant Access	Variable
Total Amount Invested		**-41.665**			

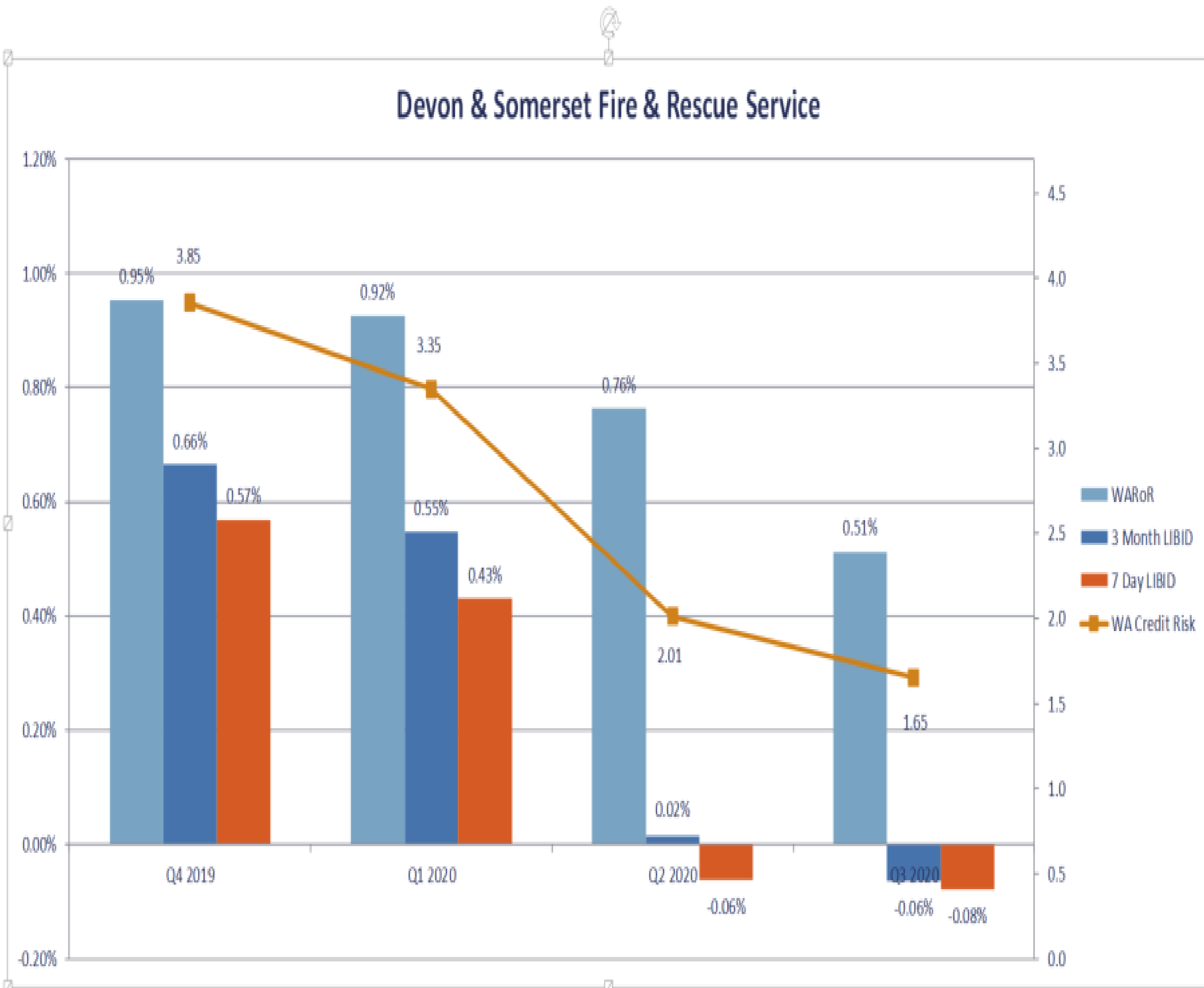
TABLE 2 – Performance for Quarter 2 2020/21

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 2
3 Month LIBID	-0.05%	0.33%	£0.051m.

TABLE 2a – Performance for Quarter 3 2020/21

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 3
3 Month LIBID	-0.08%	0.20%	£0.102m.

TABLE 3 – Performance for previous four Quarters



Please see paragraph 3.6 for some context regarding this table.

Key: WaRor – Weighted Average Rate of Return – the performance of the Authority
3 Month LIBID – the current benchmark used
7 Day LIBID – an alternative benchmark option
WA Credit Risk – Weighted Average

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REPORT REFERENCE NO.	**RC/21/7**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2021**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2020-21 – QUARTER 2 & QUARTER 3**
LEAD OFFICER	**Director of Finance and Resourcing (Treasurer)**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 3 of this report be recommended for approval by the Authority;*** ***(b) That the monitoring position in relation to projected spending against the 2020-21 revenue and capital budgets be noted; and*** ***(c) That the performance against the 2020-21 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 2020-21 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £1.200m less than budget, a saving of 1.55% of total budget. Due to the timing of the Resources Committee meetings, this is a combined report for quarters 2 and 3 of 2020-21 financial year.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Prudential Indicators 2020-21 for quarter 2 and quarter 3. B. Revenue Monitoring Statement for quarter 2. C. Forecast Capital Expenditure quarter 2, D. Reserves and Provision table for quarter 2.
BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the second and third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 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.

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		Forecast Variance	
			Quarter 3	Quarter 2	Quarter 3 %	Quarter 2 %
	Revenue Targets					
1	Spending within agreed revenue budget	£77.277m	£76.077m	£75.237m	(1.55%)	(2.64%)
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.88%	6.88%	(1.88)bp*	(1.88)bp*
	Capital Targets					
4 3	Spending within agreed capital budget	£11.217m	£6.608m	£10.167m	(41.09%)	(9.36%)
4	External Borrowing within Prudential Indicator limit	£24.851m	£24.851m	£24.851m	(0.00%)	(0.00%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	3.95%	3.95%	(1.05)bp*	(1.05)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 overleaf provides a summary of the forecast spending against all agreed subjective budget heads for quarter 3 of 2020-21, e.g. employee costs, transport costs etc. This table indicates that spending by the year end will be £76.077m, representing a saving against the budget of £1.200m equivalent to 1.55% of the total budget and a reduction from 2.64% at the end of quarter 2. The forecast incorporates the budget virement requested in Table 3 within this report.

2.2. There was an error in the published budget amounts within the quarter 1 report for row 1 - Service Delivery Staff and row 2 - Professional and Technical Support staff within Table 2 presented to the Resources Committee on the 2 July 2020 as, they didn't align to the budgeted presented to the Fire Authority on the 18th February 2020. This issue has been amended and the correct budgets are now presented.

TABLE 2 – REVENUE MONITORING STATEMENT 2020-21 QUARTER 3

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

Line No		2020/21 Budget £000	Year To Date Budget £000	Spending to Month 9 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	SPENDING					
	EMPLOYEE COSTS					
1	Service Delivery Staff	49,662	37,999	35,826	49,258	(404)
2	Professional and technical support staff	11,046	8,278	8,539	11,089	43
3	Training investment	670	503	587	493	(177)
4	Fire Service Pension costs	2,489	2,058	1,824	2,374	(115)
		63,867	**48,838**	**46,776**	**63,214**	**(654)**
	PREMISES RELATED COSTS					
5	Repair and maintenance	1,125	844	1,086	1,126	1
6	Energy costs	575	385	291	561	(14)
7	Cleaning costs	494	370	442	492	(2)
8	Rent and rates	1,990	1,743	1,698	2,006	16
		4,184	**3,342**	**3,516**	**4,185**	**1**
	TRANSPORT RELATED COSTS					
9	Repair and maintenance	704	528	391	646	(58)
10	Running costs and insurances	1,318	1,057	1,091	1,026	(292)
11	Travel and subsistence	1,423	1,033	1,214	1,330	(93)
		3,444	**2,618**	**2,696**	**3,001**	**(443)**
	SUPPLIES AND SERVICES					
12	Equipment and furniture	3,545	2,659	1,993	3,366	(179)
13	Hydrants-installation and maintenance	151	113	57	133	(18)
14	Communications Equipment	2,347	1,760	1,778	2,390	43
15	Protective Clothing	619	464	267	488	(131)
16	External Fees and Services	103	77	206	300	197
17	Partnerships & regional collaborative projects	275	206	145	275	-
18	Catering	56	42	12	48	(8)
		7,095	**5,321**	**4,458**	**6,999**	**(96)**
	ESTABLISHMENT COSTS					
19	Printing, stationery and office expenses	236	190	130	206	(30)
20	Advertising including Community Safety	37	27	24	36	(1)
21	Insurances	411	401	602	410	(1)
		683	**618**	**755**	**651**	**(32)**
	PAYMENTS TO OTHER AUTHORITIES					
22	Support service contracts	709	494	407	620	(89)
		709	**494**	**407**	**620**	**(89)**
	CAPITAL FINANCING COSTS					
23	Loan Charges & Lease rentals	3,493	105	561	3,488	(5)
24	Revenue Contribution to Capital Spending	2,037	-	-	2,037	-
		5,530	**105**	**561**	**5,525**	**(5)**
25	**TOTAL SPENDING**	**85,514**	**61,336**	**59,170**	**84,196**	**(1,318)**
	INCOME					
26	Treasury management income	(201)	(151)	(153)	(202)	(1)
27	Grants and reimbursements	(7,878)	(5,717)	(9,308)	(9,196)	(1,318)
28	Other income	(809)	(607)	(573)	(988)	(179)
29	**TOTAL INCOME**	**(8,888)**	**(6,474)**	**(10,034)**	**(10,387)**	**(1,499)**
30	**NET SPENDING**	**76,626**	**54,862**	**49,135**	**73,809**	**(2,817)**
	TRANSFERS TO EARMARKED RESERVES					
31	Transfer to/(from) Earmarked Reserves	651	-	-	2,268	1,617
		651	-	-	**2,268**	1,617
	NET SPENDING	**77,277**	**54,862**	**49,135**	**76,077**	**(1,200)**

2.3. These forecasts are based upon the spending position at the end of December 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. on-call 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.

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

3. NARRATIVE ON VARIANCES AGAINST BUDGET

Service Delivery Staff

3.1. It is anticipated that this line will underspend by £0.404m by the end of the year as a result of a lower than anticipated requirement for the operational deployment of On Call firefighters and vacancies held whilst recruiting the Wholetime posts has resulted in this underspend. The significant saving of £1.442m due to delayed roll out of payment for availability following the failure of the Fire Brigades Union to agree this new way of working is recommended to be moved to an earmarked reserve, this transfer has already been included within Table 1. This will enable the pay for availability system to be rolled out in 21/22 to those stations wishing to take up the offer voluntarily.

Training Investment

3.2. This is forecast to underspend by £0.177m. Due to restrictions associated with Covid, the ability to deliver all anticipated training courses has been hindered. However, risk critical training has been continued to ensure that firefighter competence is maintained at an acceptable level of performance and recruit training courses have also continued to ensure that establishment numbers are supported.

Fire Service Pension Costs

3.3. This is forecasted to underspend by £0.115m. This is as a result of delays ill health/injury on duty assessment process due to COVID. The process was restarted in September 2020 and affected staff will not suffer detrimental impact to their pension position.

Repair and Maintenance

3.4. It is anticipated that this area will underspend by £0.058m. Of this amount, £0.019m is as a result of delays in receiving replacement vehicles which won’t require livery in this financial year and a £0.039m saving on replacement parts for the existing fleet.

Running Costs and Insurances

3.5. An underspend of £0.292m is forecast against this line. Restrictions on travel and cheaper/free fuel have resulted in a predicted underspend of £0.283m on this line. The vehicle insurance renewal has also come in cheaper than budget – a saving of £0.023m in this year. The balance is made up smaller amounts across various lines within this group.

Travel and Subsistence

3.6. Against a budget of £1.423m, savings of £0.093m are expected due to considerably reduced business travel and overnight accommodation requirements brought about by Covid restrictions.

Equipment and Furniture

3.7. This is anticipating to be £0.179m underspent by year-end. Due to restrictions surrounding physical home visits, a reduction in home fire safety visits (HFSV) has reduced expenditure by £0.090m. High risk HFSV's have continued to be carried out on a face to face basis and the Service has adapted its triage system to deliver remote checks for people who are at less risk. A further £0.117m is from Operational Equipment. As detailed in paragraph 3.2 above, the number of courses that are being delivered this year has been restricted, therefore less training equipment has been used, resulting in an underspend of £0.025m.

Protective Equipment

3.8. A £0.131m underspent is forecast. Closer management of pooled stock is continuing to generate greater savings than initially anticipated from better management and re-use of PPE.

External Fees and Services

3.9. This line is forecasting to overspend by £0.197m. Multiple trivial (<£10k) increases account for this position although more major investments include a more accessible website at £0.056m and a review of the HR/OD function has been undertaken at a cost of £0.020m

Support Service Contracts

3.10. Against a budget of £0.709m, the forecast is an underspend of £0.089m. Anticipated savings against the Occupational Health line of £0.096m account for the majority of this position. A reduction in the call of their services, coupled with the proactive signposting of services available internally have helped.

Grants and Reimbursements

3.11. This is forecast to over-recover by £1.318m the majority of which (£1.319m) is the receipt of the original Covid-19 grant from Central Government. Since last reported, a further £0.064m has been received to compensate for loss of income received due to Covid balanced by some small under-recoveries.

Other Income

3.12. This is forecast to be £0.179m better than budget. Recommencing assistance to the South West Ambulance Services Trust (SWAST) to provide drivers since November 2020 has increased the forecast on this budget line, which is recharged on a cost neutral basis.

3.13. 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.

3.14. It is forecast that there will be a net surplus on COVID-19 grant of £0.220m, which will 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.

TABLE 3 – BUDGET TRANSFERS

3.15. The following request is recommended to be approved by the Fire Authority through the Resources Committee.

Line Ref	Description	Debit £m	Credit £m
	To fund Pay for Availability in future years which has been delayed in 2020-21 - see paragrpah 3.1		
1	Decrease Service Delivery staff		(1.442)
36	Create Earmarked Reserve to help fund future year costs	1.442	
		1.442	**(1.442)**

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/ReservesStrategy2020-21.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 overleaf. At the end of Quarter 2, reserves expenditure was £1.692m, at the end of quarter 3 it was £2.086m, the majority has been invested in the Digital Transformation Strategy.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 31 DECEMBER 2020

RESERVES AND PROVISIONS						
RESERVES	Balance as at 1 April 2020 £000	Approved Transfers £000	Proposed Transfers £000	Spending to Month 09 £000	Forecast Spend 2020-21 £000	Proposed Balance as at 31 March 2021 £000
Earmarked reserves						
Grants unapplied from previous years	(383)	-	-	254	284	(100)
Invest to Improve	(4,844)	77	-	1,195	1,708	(3,059)
Budget Smoothing Reserve	(1,818)	1,167	(1,167)	-	-	(1,818)
Direct Funding to Capital	(22,308)	-		-	2,651	(19,657)
Projects, risks, & budget carry forwards		-				-
PFI Equalisation	(150)	-	-	-	-	(150)
Emergency Services Mobile Communications Programme	(877)	-	-	89	117	(760)
Mobile Data Terminals Replacement	(279)	-	-	13	63	(216)
PPE & Uniform Refresh	(147)	18	-	29	29	(100)
Pension Liability reserve	(1,423)	(211)	-	403	403	(1,231)
Environmental Strategy	(308)	-	-	-	-	(308)
Budget Carry Forwards	(960)	116	-	103	586	(258)
Business Continuity (COVID-19 grant)	-	-	(220)	-	-	(220)
Funding for Pay for Availability			(1,442)			(1,442)
Dignity at Work (DAW) station upgrades		(196)				(196)
Prevention Delivery Equipment		(60)				(60)
Estate Conditional Surveys		(120)				(120)
Total earmarked reserves	**(33,496)**	**791**	**(2,829)**	**2,086**	**5,840**	**(29,694)**
General reserve						
General Fund balance	**(5,316)**	-	-	-	-	**(5,316)**
Percentage of general reserve compared to net budget						0
TOTAL RESERVE BALANCES	**(38,812)**				**5,840**	**(35,010)**
PROVISIONS						
Doubtful Debt	(655)		-	-	-	(655)
Fire fighters pension schemes	(659)		-	-	100	(559)

5. SUMMARY OF REVENUE SPENDING

5.1. At this stage in the year, it is forecast that spending will be £1.200m below the budget figure for 2020-21. 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.

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 received in 2019-20 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.

5.4. In November 2020, a further grant of £0.064m was received to compensate for loss of income generated.

TABLE 5 – GRANT FUNDING

Coronavirus 2019	Spend to Month 9 £000's	Forecast Spend £000's
Grant funding received (2020/21)	(1,383)	(1,383)
Expenditure		
Staffing	809	900
Protective & Standard Equipment	175	200
Premises Costs	23	33
Other Costs	18	30
Total Additional Costs	1,025	1,163
Balance	(358)	(220)

6. 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 as at Quarter 3 and demonstrates the funding requirements.

6.2. At the end of Quarter 3, there is a forecast timing difference of £4.369m against the capital programme of £11.297m along with £0.320m of savings. There was an optimism bias built into the Capital Programme in 2020-21 of £3.800m to reduce the scale of timing differences. The Revenue funds variance (£0.320m) results from 2 items; a greater than anticipated sale of Budleigh Salterton Fire Station and the sale of a redundant fire appliance. Please see relevant tables below.

6.3. **Estates** £5.484m of timing differences are made up of: £1.65m to rebuild Plymstock which will now be delivered in 2021-22, £0.050m for Station upgrades, £0.100m for Dignity at Work initiatives, £0.527m for works at Service Headquarters, £0.450m for batch 3 of the water and foam washing works, £0.307m for Bridgwater upgrades, £0.300m for roof works at Torquay, £2.10m for an upgrade at Camels Head.

6.4. **Fleet** – there are timing differences of £2.535m resulting from delays in delivery of Medium Rescue Pumps, and Incident Command Vehicles due to factory shutdowns as a result of the Covid pandemic. These are on track to be delivered in the spring of 2021.

6.5. **ICT** – Covid priorities, including implementing Microsoft operating system (MS365) has resulted in delaying the upgrade of SQL servers of £0.150m. This will be completed within the first half of 2021-22.

TABLE 6 – FORECAST CAPITAL EXPENDITURE 2020-21 QUARTER 3

Capital Programme 2020/21					
Item	**PROJECT**	**2020/21 £000 Revised Budget**	**2020/21 £000 Forecast Outturn**	**2020/21 £000 Timing Differences**	**2020/21 £000 Re-scheduling / Savings**
	Estate Development				
1	Site re/new build	3,557	1,907	(1,650)	0
2	Improvements & structural maintenance	5,591	1,437	(3,834)	(320)
3	Optimism bias	(2,700)	0	2,700	0
	Estates Sub Total	**6,448**	**3,344**	**(2,784)**	**(320)**
	Fleet & Equipment				
4	Appliance replacement	5,034	2,839	(2,195)	0
5	Specialist Operational Vehicles	710	370	(340)	0
6	ICT Department	159	9	(150)	0
7	Water Rescue Boats	46	46	0	0
8	Optimism bias	(1,100)	0	1,100	0
	Fleet & Equipment Sub Total	**4,849**	**3,264**	**(1,585)**	**0**
	Overall Capital Totals	**11,297**	**6,608**	**(4,369)**	**(320)**
	Programme funding				
	Earmarked Reserves:	7,672	2,663	(4,369)	(640)
	Revenue funds:	2,097	2,417	0	320
	Application of existing borrowing	1,528	1,528	0	0
	Total Funding	**11,297**	**6,608**	**(4,369)**	**(320)**

Prudential Indicators (including Treasury Management)

6.6. Total external borrowing with the Public Works Loan Board (PWLB) at the end of Quarter 2 and Quarter 3 was £25.397m and is forecast to reduce to £24.851m 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 further external borrowing is planned in this financial year.

6.7. Investment returns in the quarter yielded an average return of 0.20% which outperforms the LIBID 3 Month return (industry benchmark) of -0.08%.

6.8. 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 2 were £983,221, for Quarter 3 it was £1,044,403 - Table 7 provides a summary of all debt outstanding as at 31 December 2020.

7.2. Of this figure an amount of £948,354 (£980,948 at Quarter 2) was due from debtors relating to invoices that are more than 85 days old, equating to 90.8% (99.8% at Quarter 2) of the total debt outstanding.

TABLE 7 – OUTSTANDING DEBT AT END OF QUARTER 3

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	80,542	7.16%
1 to 28 days overdue	96,049	8.53%
29-56 days overdue	0	0.00%
57-84 days overdue	0	0.00%
Over 85 days overdue	948,354	84.31%
Total Debt Outstanding as at 31 December 2020	**1,124,944**	**100.00%**

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

TABLE 8 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS – QUARTER 3

	No	**Total Value**	**Action Taken**
Red One Ltd	45	£934,8187	A repayment plan has been agreed with the subsidiary company following its revised business plan, however this is on hold due to the cancellation of courses due to COVID.
Various	14	£13,534	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/21/7

PRUDENTIAL INDICATORS 2020-21 – QUARTER 2

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	10.167	**11.217**	**(0.900)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**26.656** 24.851 1.010	**26.656** 24.851 1.010	**(0.000)**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**25.861** 24.850 1.010	**27.872** 26.710 1.162	**(0.011)**
Debt Ratio (debt charges as a %age of total revenue budget	**3.95%**	**5.00%**	**(1.05)bp**
Cost of Borrowing – Total -Interest on existing debt as at 31-3-20 -Interest on proposed new debt in 2020-21	**1.077** 1.077 0.000	**1.077** 1.077 0.000	**(0.000)**
Investment Income – full year	**0.201**	**0.201**	**(0.000)**
	Actual (30 Sept 2020) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.33%**	**-0.05%**	**(0.38)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	2.33%	30.00%	0.00%	(29.63%)
12 months to 2 years	2.31%	30.00%	0.00%	(27.68%)
2 years to 5 years	4.11%	50.00%	0.00%	(44.34%)
5 years to 10 years	13.43%	75.00%	0.00%	(61.48%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**77.83%** 14.71% 13.76% 49.36% 0.00%	**100.00%**	**50.00%**	**(22.24%)**

PRUDENTIAL INDICATORS 2020-21 – QUARTER 3

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	6.608	**11.217**	**(4.609)**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**26.656**	**26.656**	**(0.000)**
- Borrowing	24.851	24.851	
- Other long term liabilities	1.010	1.010	
External borrowing vs Authorised limit for external debt - Total	**25.861**	**27.872**	**(0.011)**
- Borrowing	24.850	26.710	
- Other long term liabilities	1.010	1.162	
Debt Ratio (debt charges as a %age of total revenue budget	**3.95%**	**5.00%**	**(1.05)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	**0.201**	**0.201**	**(0.000)**
	Actual (30 Sept 2020) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.20%**	**-0.08%**	**(0.28)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	2.33%	30.00%	0.00%	(29.63%)
12 months to 2 years	2.31%	30.00%	0.00%	(27.68%)
2 years to 5 years	4.11%	50.00%	0.00%	(44.34%)
5 years to 10 years	13.43%	75.00%	0.00%	(61.48%)
10 years and above	**77.83%**	**100.00%**	**50.00%**	**(22.24%)**
- 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%			

APPENDIX B TO REPORT RC/21/7

REVENUE MONITORING STATEMENT 2020-21 QUARTER 2

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

Line No		2020/21 Budget £000	Year To Date Budget £000	Spending to Month 6 £000	Projected Outturn £000	Projected Variance over/ (under) £000
	SPENDING					
	EMPLOYEE COSTS					
1	Service Delivery Staff	48,937	24,112	22,495	47,334	(1,603)
2	Professional and technical support staff	13,333	6,660	6,695	13,341	7
3	Training investment	670	335	535	539	(131)
4	Fire Service Pension costs	2,489	1,437	1,263	2,384	(105)
		65,429	**32,545**	**30,987**	**63,597**	**(1,832)**
	PREMISES RELATED COSTS					
5	Repair and maintenance	1,125	563	953	1,125	-
6	Energy costs	575	241	198	573	(2)
7	Cleaning costs	494	247	402	491	(3)
8	Rent and rates	1,990	1,162	1,150	2,022	32
		4,184	**2,212**	**2,703**	**4,211**	**27**
	TRANSPORT RELATED COSTS					
9	Repair and maintenance	704	352	251	701	(3)
10	Running costs and insurances	1,318	857	483	1,151	(167)
11	Travel and subsistence	1,423	677	959	1,308	(115)
		3,444	**1,886**	**1,694**	**3,159**	**(285)**
	SUPPLIES AND SERVICES					
12	Equipment and furniture	3,545	1,772	1,105	3,536	(9)
13	Hydrants-installation and maintenance	151	76	41	151	-
14	Communications Equipment	2,347	1,173	561	2,350	3
15	Protective Clothing	619	310	189	541	(78)
16	External Fees and Services	103	51	87	171	68
17	Partnerships & regional collaborative projects	275	137	136	275	-
18	Catering	56	28	5	53	(3)
		7,095	**3,548**	**2,123**	**7,076**	**(19)**
	ESTABLISHMENT COSTS					
19	Printing, stationery and office expenses	236	137	82	218	(18)
20	Advertising including Community Safety	37	18	20	44	7
21	Insurances	411	391	203	411	-
		683	**546**	**305**	**672**	**(11)**
	PAYMENTS TO OTHER AUTHORITIES					
22	Support service contracts	709	317	195	749	40
		709	**317**	**195**	**749**	**40**
	CAPITAL FINANCING COSTS					
23	Loan Charges & Lease rentals	3,493	252	452	3,484	(9)
24	Revenue Contribution to Capital Spending	2,037	-	-	2,037	-
		5,530	**252**	**452**	**5,521**	**(9)**
25	**TOTAL SPENDING**	**87,076**	**41,306**	**38,461**	**84,987**	**(2,089)**
	INCOME					
26	Treasury management income	(201)	(101)	(51)	(205)	(4)
27	Grants and reimbursements	(7,622)	(3,811)	(8,809)	(9,386)	(1,764)
28	Other income	(809)	(404)	(352)	(757)	52
29	**TOTAL INCOME**	**(8,632)**	**(4,316)**	**(9,212)**	**(10,349)**	**(1,717)**
30	**NET SPENDING**	**78,443**	**36,990**	**29,249**	**74,637**	**(3,806)**
	TRANSFERS TO EARMARKED RESERVES					
31	Transfer to/(from) Earmarked Reserves	(1,167)	-	-	600	1,767
		(1,167)	-	-	**600**	1,767
	NET SPENDING	**77,277**	**36,990**	**29,249**	**75,237**	**(2,039)**

APPENDIX C TO REPORT RC/21/7

TABLE 6 – FORECAST CAPITAL EXPENDITURE 2020-21 QUARTER 2

Capital Programme 2020/21					
Item	PROJECT	2020/21 £000 Revised Budget	2020/21 £000 Forecast Outturn	2020/21 £000 Timing Differences	2020/21 £000 Re-scheduling/ Savings
	Estate Development				
1	Site re/new build	3,557	2,807	(750)	0
2	Improvements & structural maintenance	5,591	4,219	(1,222)	(150)
3	Optimism bias	(2,700)	0	2,700	0
	Estates Sub Total	**6,448**	**7,026**	**728**	**(150)**
	Fleet & Equipment				
4	Appliance replacement	5,034	2,606	(2,428)	0
5	Specialist Operational Vehicles	630	330	(300)	0
6	ICT Department	159	159	0	0
7	Water Rescue Boats	46	46	0	0
8	Optimism bias	(1,100)	0	1,100	0
	Fleet & Equipment Sub Total	**4,769**	**3,141**	**(1,628)**	**0**
	Overall Capital Totals	**11,217**	**10,167**	**(900)**	**(150)**
	Programme funding				
	Earmarked Reserves:	7,592	6,222	(900)	(470)
	Revenue funds:	2,097	2,417	0	320
	Application of existing borrowing	1,528	1,528	0	0
	Total Funding	**11,217**	**10,167**	**(900)**	**(150)**

FORECAST RESERVES AND PROVISIONS BALANCES 30 SEPTEMBER 2020

RESERVES AND PROVISIONS							
	Balance as at 1 April 2020	Approved Transfers	Proposed Transfers	Spending to Month 06	Forecast Spend 2020-21	Proposed Balance as at 31 March 2021	
RESERVES	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	
Earmarked reserves							
Grants unapplied from previous years	(383)	-	-	1	294	(89)	
Invest to Improve	(4,844)	77	-	1,125	1,793	(2,974)	
Budget Smoothing Reserve	(1,818)	1,167	(1,167)	-	-	(1,818)	
Direct Funding to Capital	(22,308)	-		-	6,372	(15,936)	
Projects, risks, & budget carry forwards		-					
PFI Equalisation	(150)	-	-	-	-	(150)	
Emergency Services Mobile Communications Programme	(877)	-	-	40	140	(737)	
Mobile Data Terminals Replacement	(279)	-	-	-	279	-	
PPE & Uniform Refresh	(147)	18	-	29	29	(100)	
Pension Liability reserve	(1,423)	(211)	-	403	403	(1,231)	
Environmental Strategy	(308)	-	-	-	-	(308)	
Budget Carry Forwards	(960)	116	-	94	471	(372)	
Business Continuity (COVID-19 grant)	-	-	(600)	-	-	(600)	
Total earmarked reserves	**(33,496)**	**1,167**	**(1,767)**	**1,692**	**9,781**	**(24,315)**	
General reserve							
General Fund balance	**(5,316)**	-	-	-	-	**(5,316)**	
Percentage of general reserve compared to net budget							6.88%
TOTAL RESERVE BALANCES	**(38,812)**				**9,781**	**(29,631)**	
PROVISIONS							
Doubtful Debt	(655)		-	-	-	(655)	
Fire fighters pension schemes	(659)		-	-	100	(559)	

Agenda Item 12

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