DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

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

(see below)

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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Tuesday, 8th February, 2022

A meeting of the Resources Committee will be held on the above date, **commencing at 2.00 pm in The Committee Rooms, Somerset House, Devon & Somerset Fire & Rescue Service Headquarters, Exeter** to consider the following matters.

M. Pearson
Clerk to the Authority

A G E N D A

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

1 Apologies

2 Minutes (Pages 1 - 6)

of the previous meeting held on 30 November 2021 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 **2022-23 Revenue Budget and Council Tax Level (Pages 7 - 22)**

Report of the Director of Finance, People and Estates (Treasurer) and Chief Fire Officer (RC/22/1) attached.

5 **Capital Strategy (Pages 23 - 32)**

Report of the Director of Finance, People and Estates (Treasurer) (RC/22/2) attached.

6 **Capital Programme 2022-23 to 2024-25 (Pages 33 - 42)**

Report of the Director of Finance, People and Estates (Treasurer) (RC/22/3) attached.

7 **Treasury Management Strategy (including Prudential indicators and Treasury Indicators) Report 2022-23 (Pages 43 - 72)**

Report of the Director of Finance, People and Estates (Treasurer) (RC/22/4) attached.

8 **Treasury Management Performance 2021-22: Quarter 3 (Pages 73 - 84)**

Report of the Director of Finance, People and Estates (Treasurer) (RC/22/5) attached.

9 **Financial Performance Report 2021-22: Quarter 3 (Pages 85 - 96)**

Report of the Director of Finance, People and Estates (Treasurer) (RC/22/6) attached.

10 **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 the Officers of Red One Ltd., and Councillors Radford and Shayer {Authority appointed Non-Executive Directors 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(s) of Part 1 of Schedule 12A (as amended) to the Act, namely:

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

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

11 **Restricted Minutes of Resources Committee held on 30 November 2021 (Pages 97 - 100)**

The Restricted Minutes of Resources Committee held on 30 November 2021 are attached.

12 **Red One Performance 2021-22: Quarter 3**

Report of the Director of Finance, People and Estates (Treasurer) and Chief Executive of Red One Ltd. (RC/22/7) **TO FOLLOW**.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Chesterton, Coles, Drean (Vice-Chair), Long, McGeough, Peart (Chair) and Thomas

NOTES	
1.	**<u>Access to Information</u>** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the “Please ask for” section at the top of this agenda.
2.	**<u>Reporting of Meetings</u>** Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chair - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority. Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chair or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
3.	**<u>Declarations of Interests at meetings (Authority Members only)</u>** If you are present at a meeting and you are aware that you have either a disclosable pecuniary interest, personal interest or non-registerable interest in any matter being considered or to be considered at the meeting then, unless you have a current and relevant dispensation in relation to the matter, you must: (i) disclose at that meeting, by no later than commencement of consideration of the item in which you have the interest or, if later, the time at which the interest becomes apparent to you, the existence of and – for anything other than a “sensitive” interest – the nature of that interest; and then (ii) withdraw from the room or chamber during consideration of the item in which you have the relevant interest. If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have an interest of a sensitive nature. You must still follow (i) and (ii) above. Where a dispensation has been granted to you either by the Authority or its Monitoring Officer in relation to any relevant interest, then you must act in accordance with any terms and conditions associated with that dispensation. Where you declare at a meeting a disclosable pecuniary or personal interest that you have not previously included in your Register of Interests then you must, within 28 days of the date of the meeting at which the declaration was made, ensure that your Register is updated to include details of the interest so declared.

	NOTES (Continued)
4.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
5.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Orders, 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.
6.	**<u>Other Attendance at Committees)</u>** Any Authority Member wishing to attend, in accordance with Standing Orders, 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.

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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

30 November 2021

Present:

Councillors Coles, Drean (Vice-Chair), Long, Peart (Chair), Randall Johnson (vice Chesterton) and Thomas.

Apologies:

Councillors Chesterton and McGeough.

* **RC/21/10** **Minutes**

RESOLVED that the Minutes of the meeting held on 9 September 2021 be signed as a correct record.

* **RC/21/11** **Treasury Management Performance 2021-22: Quarter 2**

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

The Committee received for information a report of the Director of Finance & Resourcing (Treasurer) (RC/21/15) that set out the Authority's performance relating to the second quarter of 2021-22 (to September 2021) 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:

- The UK bank base rate remained at 0.10% with quantitative easing in place although the Bank of England (the Bank) was looking to tighten monetary policy in light of recent wage rises, energy cost increases and supplies issues which had caused inflation to rise (currently 4.2%). It was forecast that inflation was likely to reach 5% before returning to the Bank's target of 2% in 2023/24;
- The interest rate was unlikely to rise imminently as had been forecast as there was uncertainty in the market due to the onset of the new Omicron variant of Covid albeit that it was expected still to rise in the next two years;
- The annual treasury management strategy had continued on a prudent approach, underpinned by investment priorities based on security of capital, liquidity and yield;

- Investment income of £0.023m in quarter 2 outperformed the LIBID benchmark rate of -0.05% by 0.20bp. It was forecast, however, that the Authority would underperform on the target set for year-end of £0.100m by £0.015m; and
- None of the Prudential Indicators (affordability limits) had been breached in quarter 2 with external borrowing at 30 September 2021 being £24.804m, forecast to reduce to £24.757m by the end of the financial year with no new borrowing undertaken.

Reference was made to the point that the Authority needed to ensure that it was tightening its budget management and treasury management policy in light of the impact of rising costs and associated inflationary pressures. The Director of Finance & Resourcing (Treasurer) advised the Committee that the Service was already experiencing the effects of the rising costs of timber and energy coupled with the planned rise in National Insurance due in 2022 so he was acutely aware of the need for tight management of the budget. The Treasurer stated that he would be looking to repay existing loans as soon as it was prudent to do so.

Whilst the Authority was responsible for approving the strategic policy on Treasury Management, the Treasurer would also be taking a steer from this Committee on a potential move to a policy of including more socially responsible investments following an internal review of treasury management which was being undertaken currently.

*** RC/21/12 Financial Performance Report 2021-22: Quarter 2**

The Committee received for information a report of the Director of Finance & Resourcing (Treasurer) (RC/21/16) that set out details of the second quarter performance (to September 2021) against the agreed financial targets for 2021-22.

The Director of Finance & Resourcing (Treasurer) advised the Committee that, at this point in the financial year, it was projected that spending would be £0.514m under budget of £78.222m, representing an underspend of 0.69% of total budget. He indicated that he had commissioned a full review to be undertaken in preparation for the budget in 2022-23 which had been completed and taken account of in the figures presented in this report to the Committee.

It was noted that the main variances in budget were set out at page 22 of the report circulated but notably, they were due to a forecast underspend on service delivery staff costs (£0.211m), an underspend on training investments costs (£0.163m) although both timber and energy costs had increased resulting in an overspend in both of these areas.

In terms of the capital programme, this was due to underspend by £4.9m in 2021-22 as a result largely of delays in delivery of the refurbishment/rebuild of the station at Camelshead. This was linked to the requirement for an in depth, structural report that had been commissioned to identify the potential lifetime left on the building which would subsequently facilitate a decision on whether it was viable to refurbish the building or to go for a rebuild.

Reference was made to an amendment required in the figure for other income set out on line 31 of table 2 on page 21 of the report circulated (-£412k). The Director of Finance & Resourcing (Treasurer) advised that he would look into this and report back on the accuracy of the figures presented.

The Committee also sought an explanation on the costs of utilising agency staff when there were internal vacancies held to which staff could be employed directly. The Director of Finance & Resourcing (Treasurer) advised that this was due to the need to source experienced staff to undertake development work in the Information and Technology department on the Change & Improvement Programme. Current market conditions had meant that the staff with the requisite skills were only available at premium rates due to current market conditions. These costs were accounted for within an earmarked reserve in the Capital Programme and thus did not feature in the revenue budget directly. Concern was expressed that the Service was undertaking bespoke development work in house when there may be off the shelf solutions available at less cost. The Chief Fire Officer stated that there were instances where a bespoke solution would be required but that current strategy was to develop the capability for in house expertise whilst looking to purchase off the shelf wherever possible. He undertook to cover the solutions already utilised by the Service, such as the performance dashboards and how they were utilised within the Service, at a future Members' Forum.

The Committee expressed the view that such costs were not evident within the Capital Programme. The Director of Finance & Resourcing (Treasurer) replied that he would provide a more detailed breakdown of the information contained within the Capital Programme in future reports to the Committee.

*** RC/21/13 Green Performance Measures**

The Committee considered a report of the Director of Finance & Resourcing (Treasurer) that set out details of the environmental data that had been collected to date to provide measures against which the Service's performance on delivery of its Green Strategy could be measured. The report also provided an update of performance based on a Red Amber Green Blue rating (RAGB) against the Action Plan agreed by the previous Audit & Performance Review Committee.

The Director of Finance & Resourcing (Treasurer) mad reference to an Environmental Review that had been undertaken on behalf of the Service recently by an external consultant. He indicated that he would be bringing a set of revised performance measures to this Committee for consideration once the report on the Environmental Review had been worked through and digested.

The Committee expressed the view that the Service could improve the way in which it sold the environmental impact of its activities and Strategy to the public. The Chief Fire Officer replied that the assistance of the Communications Team could be sought to improve the way in which this information was imparted to the public.

RESOLVED

(a). That the environmental measures set out at Appendix A of report RC/21/17 be endorsed; and

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

* **RC/21/14** **<u>Exclusion of the Press and Public</u>**

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 Radford and Shayer [Authority appointed Non-Executive Directors on the Board of Red One Ltd.]) be excluded from the meeting for the following item of business on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A (as amended) to the Act, namely information relating to the financial and business affairs of any particular person – including the authority holding that information.

* **RC/21/15** **<u>Restricted Minutes of the meeting held on 9 September 2021</u>**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public (with the exception of Officers of Red One Ltd.) were excluded from the meeting).

RESOLVED that the Restricted Minutes of the meeting held on 9 September 2021 be signed as a correct record.

* **RC/21/16** **<u>Red One Performance 2021-22: Quarter 2</u>**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public (with the exception of Officers of Red One Ltd.) were excluded from the meeting).

The Committee considered a report of the Officers of Red One Ltd. (RC/21/18) on the financial performance of Red One Ltd. in quarter 2 of 2021-22.

Following a discussion on this matter and consideration of information presented verbally to the Committee, Councillor Thomas **MOVED** (seconded by Councillor Drean:

> “The addition of a part (b). to the recommendation to the effect that a full report on the matter discussed at the meeting be submitted to the Committee in quarter 3”.

Upon a vote, this motion was **CARRIED** unanimously, whereupon it was:

RESOLVED

(a). That the recommendation set out at report RC/21/18(a) be approved;

(b). That a full report on the matter discussed at the meeting be submitted to the Committee in quarter 3; and (c). Subject to (a). and (b). above;

(i) That the financial performance of Red One Ltd. for the quarter ended September 2021 be noted;

(i) That the year to date performance against agreed budget for 2021-22 be noted.

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

The meeting started at 2.00 pm and finished at 4.50 pm

REPORT REFERENCE NO.	**RC/22/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2022**
SUBJECT OF REPORT	**2022-23 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Director of Finance, People and Estates (Treasurer) and Chief Fire Officer**
RECOMMENDATIONS	***(a). That the Committee consider the contents of this report in order to make a recommendation to the Fire Authority budget meeting that either:*** ***(i) that the level of council tax in 2022-23 for a Band D property be set at £90.00, as outlined in Option A in this report, representing no increase over 2021-22, and that accordingly a Net Revenue Budget Requirement for 2022-23 of £75,995,900 be approved;*** ***OR*** ***(ii) that the level of council tax in 2022-23 for a Band D property be set at £91.79, as outlined in Option B in this report, representing a 1.99% increase over 2021-22, and that accordingly a Net Revenue Budget Requirement for 2022-23 of £77,151,300 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 £55,602,858 (Option A) OR £56,708,737 (Option B), as detailed on Page 2 of the respective budget booklets (to follow), be approved;*** ***(ii) the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and*** ***(iii) that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances', as set out at Appendix B to this report, be endorsed.***

EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 11 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2022-23 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 2022-23: OPTION A – Freeze Council Tax at 2021-22 level **(£90.00 for a Band D Property).** OPTION B – Increase Council Tax by 1.99% above 2021-22 **(increase of £1.79 pa to £91.79 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 18 February 2022.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2022-23. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

1.1. The draft budget for 2022-23 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 Devon & Somerset Fire & Rescue Authority (hereinafter referred to as "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. Due to the economic impact of the Coronavirus pandemic on our communities and an increase in our operating costs, overall funding will not be sufficient to present a balanced budget for 2022-23 without the requirement to use reserves.

1.3. It is a legislative requirement that 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 fourteen Council Tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2022-23. 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.

1.4. 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.

1.5. 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 2022-23. 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 2022-23

2.1. The provisional Local Government Finance Settlement for 2022-23 was announced on 17 December 2021, which provided local authorities with individual settlement funding assessment figures for one year only.

2.2. Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which results in an increase in 2022-23 of 0.88% over 2021-22 and an overall reduction of 23.33% 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%
2022-23	22.551	0.197	0.88%
Reduction over 2015-16		**-6.862**	**-23.33%**

2.3. In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £445k for 2022-23.

2.4. There are other Section 31 grant funds, allocated to reduce the impact of the increase in social costs (National Insurance increases for employers) of £1.1m which is included within the revenue budget as income.

3. COUNCIL TAX AND BUDGET REQUIREMENT 2022-23

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 2022-23, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2021-22 level (£90.00 for a Band D Property);
- **OPTION B** – Increase Council Tax by 1.99% above 2021-22 - an increase of £1.79 pa (15p a month) to £91.79 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 90p a year increase for a Band D property, and is equivalent to a £0.553m 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 2022-23

	OPTION A Council Tax Freeze at £90.00 £m	OPTION B Council Tax Increase of 1.99% to £91.79 £m
TOTAL FUNDING 2021-22	**74.222**	**74.222**
Increase in Formula Funding	0.197	0.197
Increase in Retained Business Rates from Business Rate Retention System*	0.284	0.284
Changes in Council Tax Precept		
- Increase in Council Tax Base	0.753	0.753
- resulting from an increase in Council Tax	-	1.106
- Increase in Share of Billing Authorities Council Tax Collection Funds	0.589	0.589
TOTAL FUNDING AVAILABLE 2022-23	**76.045**	**77.151**
NET CHANGE IN FUNDING	**1.823**	**2.929**

*at time of producing the paper not all information is available from local authorities, therefore this funding has been estimated

Council Tax Base

3.4. The total increase in government funding of £0.197m represents a 0.88% increase over the prior year and comes after significant reductions amounting to 23.0% since 2015-16. The Service had forecast a decrease in Council Tax receipts of 1.00% arising from the impact Covid has had on households. However, there has been an increase of just over 1.00%. The Authority's share of Council Tax collection fund surplus has increased by £0.589m (now in surplus and this figure reflects a three-year spread) which reflects a return to the pre-covid level of Council Tax collection by districts.

Retained Business Rates

3.5. The funding available from business rates has fallen significantly due to the pandemic. It is assumed that a grant will cover the shortfall, although this figure is yet to be confirmed by Central Government.

Net Budget Requirement

3.6. Table 3 provides a summary of the Core Budget Requirement for 2022-23. 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 2022-23

	£m	£m
Net Revenue Budget 2021-22		**74.222**
PLUS Provision for pay and price increases (Pay award assumed 2%)	3.020	
PLUS funding adjustments	(3.269)	
PLUS Inescapable Commitments	0.138	
PLUS New Investment	3.948	
PLUS Reduction in Section 31 grant	(0.267)	
INCREASE in budget requirement over 2021-22		**3.570**
Core spending requirement 2022-23		**77.792**
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	(0.641)	
Savings identified (£m)		(0.641)
Net spending requirement 2022-23		**77.151**

3.7. As outlined in the foreword to this paper, this budget is designed to support reform of the Service by increasing the total investment in the Pay for Availability system at £2.774m. To date, 90% of on-call Stations have transitioned over to the new payment model with on-going discussions with the remaining 10%

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 only business critical initiatives.

Balancing the budget

3.9. As is indicated in Table 3, the Revenue Budget Requirement for 2022-23 has been assessed as £77.151m. 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 2022-23

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A £m	OPTION B £m
Funding Available	76.045	77.151
LESS Net spending requirement 2022-23	77.151	77.151
Shortfall	**(1.106)**	**(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/ General reserve will be used	(1.011)	0.000
Total	**(1.011)**	**0.000**

3.10. Whilst the Service is confident that the budget can be balanced if Council Tax is increased, there will be a budget shortfall of £1.011m 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.

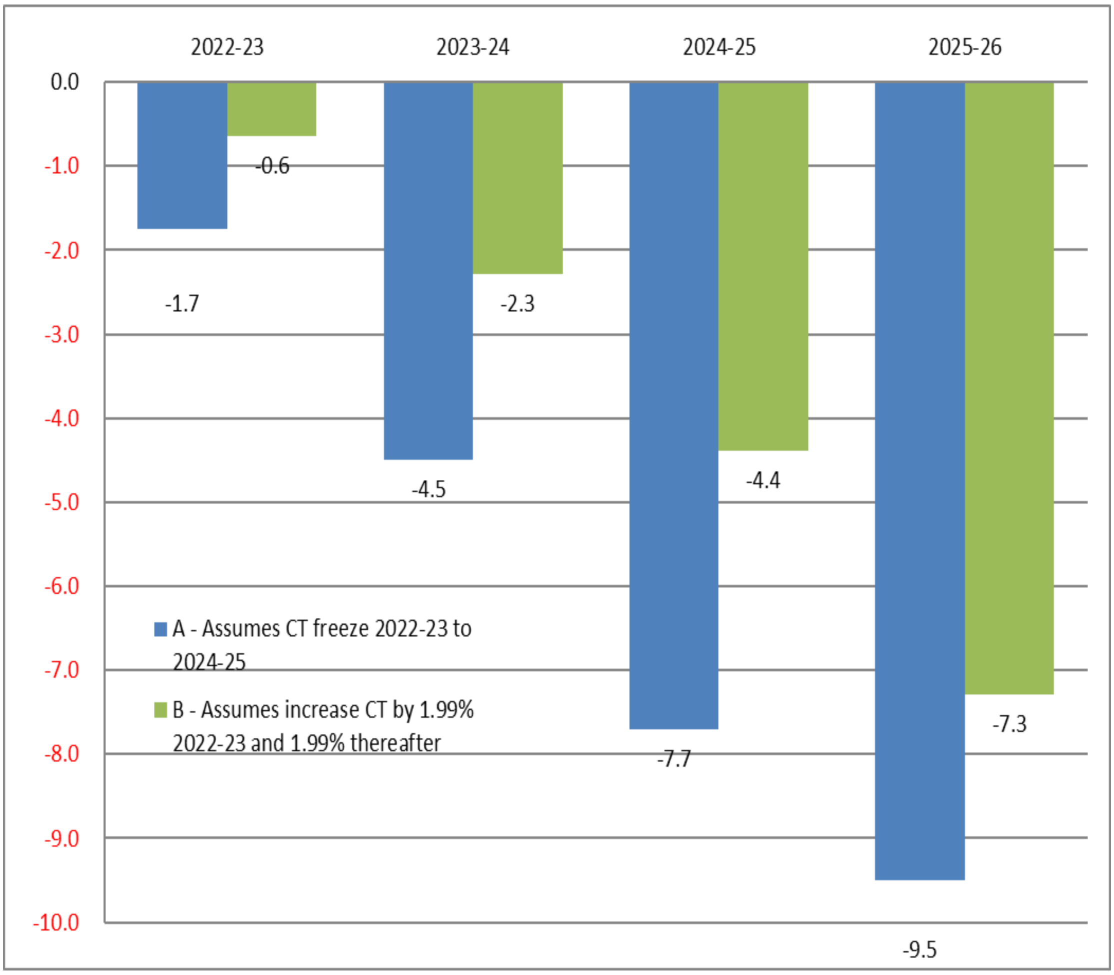
3.11. There is some risk attached to this strategy, as this proposal will full exhausted the budget smoothing reserve, meaning it will not be available to meet future budget pressures.

4. MEDIUM TERM FINANCIAL PLAN (MTFP)

4.1. Given that the 2022-23 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 2022-23 to 2025-26. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2022 TO 2026 (BASE CASE) - £MILLIONS



4.3. Chart 1 overleaf illustrates that further savings will be required beyond 2022-23 to plan for a balanced budget over the next three years to 2025-26. Should the Authority decide to freeze Council Tax in 2022-23 (Option A) and the following three years then the MTFP forecasts that total savings of up to £9.5m need to be planned for.

Authority Plan 2022 onwards

4.4. This budget report proposes a balanced budget for the next financial year 2022-23 including proposals as to how budget savings can be achieved.

4.5. Looking beyond 2022-23, 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 following 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. PRECEPT CONSULTATION 2022-23

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 2021 and involved a telephone survey of 400 business and 401 residents.

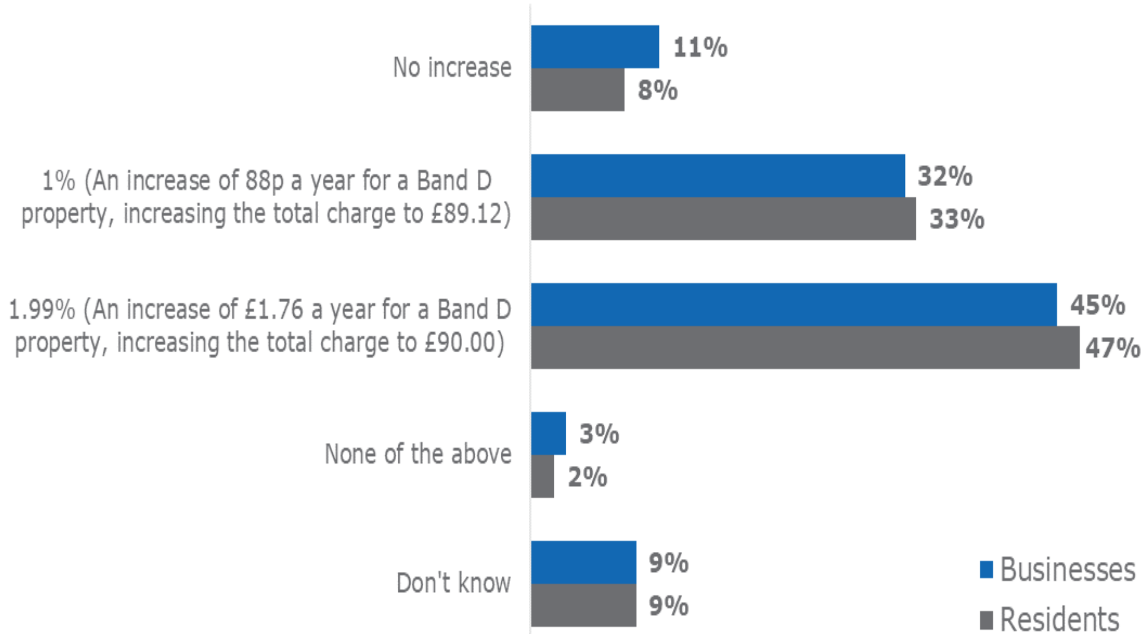
5.4. Due to the fact the Service were consulting on the Community Risk Management Plan for 2022-2027, it was not possible to also conduct an on-line survey regarding the 2022/23 Council Tax position.

Results from the Telephone Survey

5.5. 68% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2022-23, while 10% disagreed that it is reasonable for them to do so, resulting in a net agreement of +58%.

5.6. 70% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2022-23, while 8% disagreed, giving a net agreement of +62%.

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 2022-23)

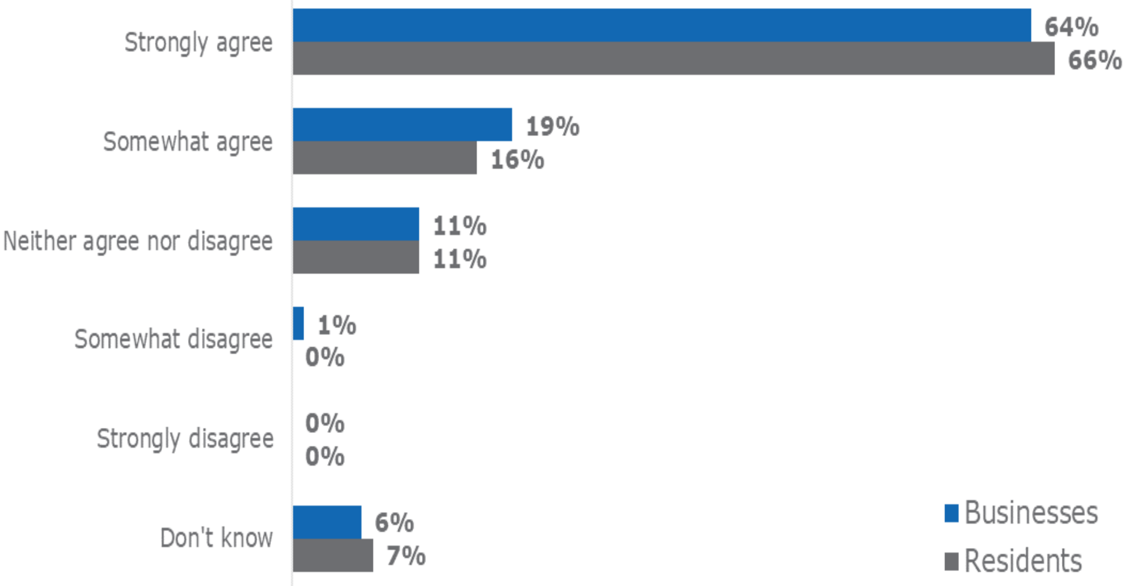


5.7. Of those respondents who agreed that a Council Tax increase would be reasonable 45% of businesses and 47% residents would support an increase of 1.99% or above.

Providing Value for Money

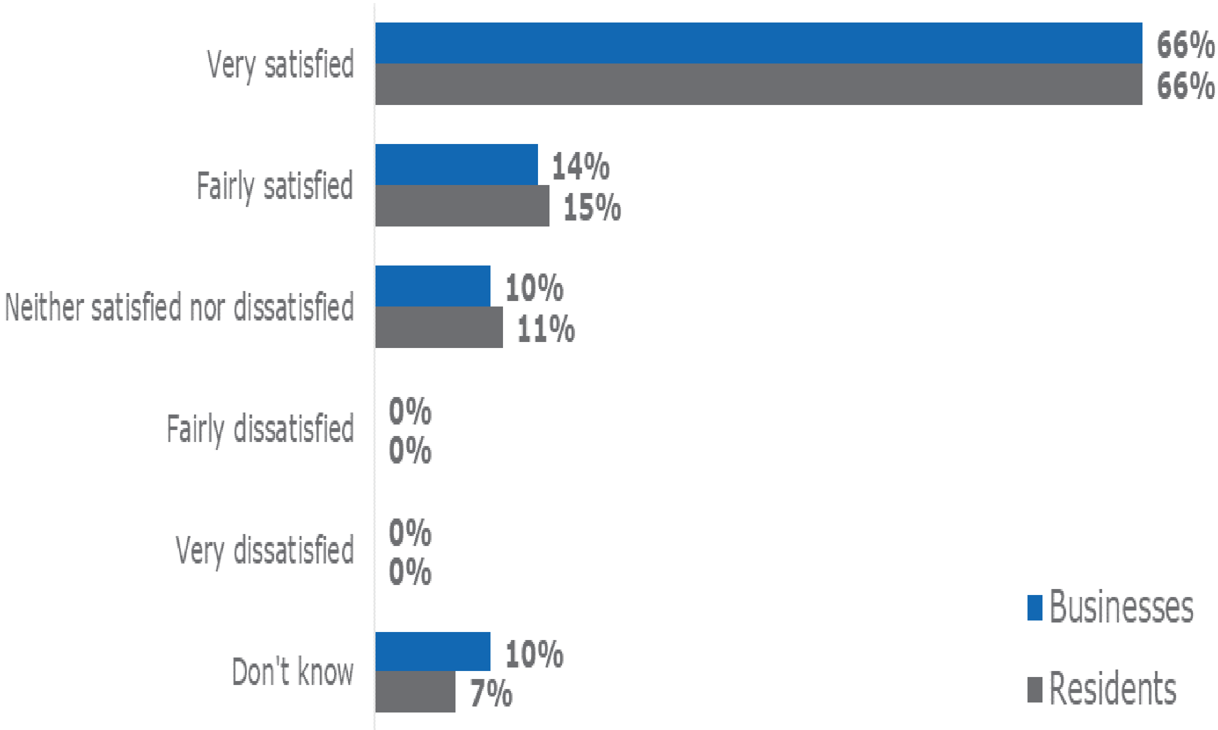
5.8. The consultation asked the responder if they felt the Fire Service provided value for money. The results in Chart 3 indicate 64% of businesses and 66% of residents strongly agreed.

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



5.9. The responses indicate that the public are either very satisfied or fairly satisfied with the satisfaction on the service that is provided. 80% of businesses and 81% of residents felt this way.

Chart 4: Satisfaction with the service provided by DSFRS



Survey Conclusion

5.10. 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 2022-23. 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.

5.11. 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 2022-23 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 the Committee 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 the Committee is asked to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the Authority, to be held on the 18 February 2022.

SHAYNE SCOTT	**LEE HOWELL**
Director of Finance, People and Estates (Treasurer)	**Chief Fire Officer**

APPENDIX A TO REPORT RC/22/1

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY
SUMMARY MEDIUM TERM FINANCIAL STRATEGY PROJECTIONS 2022-2027

		2022/23	
	£'000	**£000**	**%**
Prices increases (assumed 3.2% CPI from August 2021)	625		
Increases in ER NI Contributions of 1.25%	375		
Pensions inflationary increase (tracks CPI - 3.2%)	73		
LGPS ER's increase of 1% (end of 3 year discount period)			
		3,020.0	4.1%
Funding Adjustments			
Revenue Contribution to Capital	-837		
Transfers from Reserves	-2,432		
		-3,269.0	
Inescapable Commitments			
Support Staff Increments	138		
		138.0	
New Investment			
On Call Pay for availability	2,138		
12 x Development Fire Fighters	-415		
Operational staff including control	452		
Professional and Technical Staff (ICT agency/ contractors to deliver IT Health Check remediations)	1,475		
ICT Service Delivery (Office 365 licence)	280		
Professional subscriptions	16		
		3,946	
Income			
Section 31 grants	-267		
		-267	
Anticipated savings			
Pensions - anticipate reduced Ill Health/ Injury leavers	-67		
Cumulative budget savings	285		
£600k saving	-600		
Decrease in minimum revenue provision emanating from capital/leases programme	-259		
		-641	
CORE BUDGET REQUIREMENT		**77,151.0**	

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

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

THE ROBUSTNESS OF THE 2022-23 BUDGET

The net revenue budget requirement for 2022-23 has been assessed as £77.151 (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 2022-23 to 2026-27. 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 2022-23 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2022-23 £m	*RISK AND IMPACT*	MITIGATION
Service Delivery staff costs	56.1	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.	The payment for availability reserve will support those stations which transition to the new pay model in year, funding decisions for this model will need to be considered for future years.
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 reducing year-on-year 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. However, the recent increase in the bank base rate has seen some recovery in the investment returns on offer. 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	(1.5)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £1.5m 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	7.0	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	1.2	This amount has been reduced considerably when compared to 2020/21 due to affordability. £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, £17.5m Capital Reserve

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2021 was £45.7m made up of Earmarked Reserves (committed) of £40.4m, and General Reserve (uncommitted) of £5.3m. This will decrease by the end of the financial year as a result of planned expenditure against those reserves during the year. A General Reserve balance of £5.3m is equivalent to 7.1% 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 2022-23 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.

SHAYNE SCOTT
Director of Finance, People and Estates (Treasurer)

LEE HOWELL
Chief Fire Officer

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REPORT REFERENCE NO.	**RC/22/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2022**
SUBJECT OF REPORT	**CAPITAL STRATEGY**
LEAD OFFICER	**Director of Finance, People and Estates (Treasurer)**
RECOMMENDATION	***That the Authority endorses the Capital Strategy as set out in this report.***
EXECUTIVE SUMMARY	The 2017 Prudential Code included the requirement for all Local Authorities to produce an annual capital strategy that is agreed by the 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. The 2021/22 revised Prudential Code also requires the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily for yield.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017

1. INTRODUCTION

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

1.2. The capital strategy is a key document for the Devon & Somerset Fire & Rescue Authority (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 Authority's 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 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 soon to be published Community Risk Management Plan (CRMP) for years 2022-2027, which replaces the Integrated Risk 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 2022-23 year, the Service will have 112 front-line fire engines, of which 53 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; and
- Resource time is assessed when considering projects to ensure both delivery of projects and day-to-day work is covered.

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

6. THE SERVICE CAPITAL PROGRAMME 2022-23 – 2026-27

6.1. The Service capital programme for 2022-23 – 2026-27 is considered annually and is set out in the table below.

Table 1

Capital Programme 2022/23 to 2026/27								
2021/22 £000 Budget	2021/22 £000 Forecast Outturn	Item	PROJECT	2022/23 £000 Budget	2023/24 £000 Budget	2024/25 £000 Budget	2025/26 £000 Indicative Budget	2026/27 £000 Indicative Budget
			Estate Development					
2,207	2,289	1	Site re/new build	0	0	0	0	0
5,762	1,366	2	Improvements & structural maintenance	3,923	7,300	900	3,700	3,700
7,969	**3,655**		**Estates Sub Total**	**3,923**	**7,300**	**900**	**3,700**	**3,700**
			Fleet & Equipment					
6,403	5,923	3	Appliance replacement	3,861	4,500	2,400	1,600	2,700
480	90	4	Specialist Operational Vehicles	820	6,000	2,200	200	0
409	159	5	ICT Department	250	0	0	0	0
32	0	6	Water Rescue Boats	0	0	0	0	0
7,324	**6,172**		**Fleet & Equipment Sub Total**	**4,931**	**10,500**	**4,600**	**1,800**	**2,700**
(2,600)	**0**	7	**Optimism bias Sub Total**	**(1,800)**	**(1,800)**	**2,500**	**1,100**	**0**
12,693	**9,827**		**Overall Capital Totals**	**7,054**	**16,000**	**8,000**	**6,600**	**6,400**
			Programme funding					
8,632	5,766	8	Earmarked Reserves:	4,189	12,417	998	0	0
2,037	2,037	9	Revenue funds:	1,200	2,300	2,300	2,300	2,300
0	0	10	Capital receipts:	300	0	0	0	0
2,024	2,024	11	Borrowing - internal	1,365	1,283	1,370	2,031	1,330
		12	Borrowing - external	0	0	3,332	2,269	2,770
12,693	**9,827**		**Total Funding**	**7,054**	**16,000**	**8,000**	**6,600**	**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 24 February 2014 that an element within the Revenue budget for each year will go towards funding the capital programme and this has continued into each subsequent financial year. The amount awarded to assist with the capital programme is based on affordability and is specific to that year. Table 1 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.

9.3. In line with the revised 2021/22 prudential Code, I can certify that the Authority's capital spending plans do not include the acquisition of assets primarily for yield

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 into 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;
- Community 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 Department for Levelling Up, Housing and Communities 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. This objective is based on affordability each year. For 2022/23, the amount available is £1.2m consisting of £0.900m revenue contribution and £0.300m income from Red One.

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 2022 external debt will be £24.8m, 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 £36m over the next two years replacing and improving its assets without needing to borrow any more.

18.8. There are a large number of assets needing replacement or enhancement and the proposed programme totals £44.0m over the next five years. As only £36m 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.

SHAYNE SCOTT
Director of Finance, People and Estates (Treasurer)

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REPORT REFERENCE NO.	**RC/22/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2022**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2022-23 TO 2024-25**
LEAD OFFICER	**Director of Finance, People and Estates (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 18 February 2022 be recommended to approve:*** ***(a). the draft Capital Programme 2022-23 to 2024-25 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 2025-26 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 2022-23 to 2024-25 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 2024-25 based upon indicative capital programme levels for the years 2025-26 to 2026-27.
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 2022-23 to 2024-25 (and indicative Capital Programme 2025-26 to 2026-27).

	B. Prudential Indicators 2022-23 to 2024-25 (and indicative Prudential Indicators 2025-26 to 2026-27).
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 10 January 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 2022-23 to 2024-25 and indicative Capital Programme 2025-26 to 2026-27 show that, despite the reduced number of assets, the Authority will need to borrow up to £8.4m. Alternatively, there may be a need to restrict the amount of funding available to the Capital Programme and task the Service with further rationalising its assets.

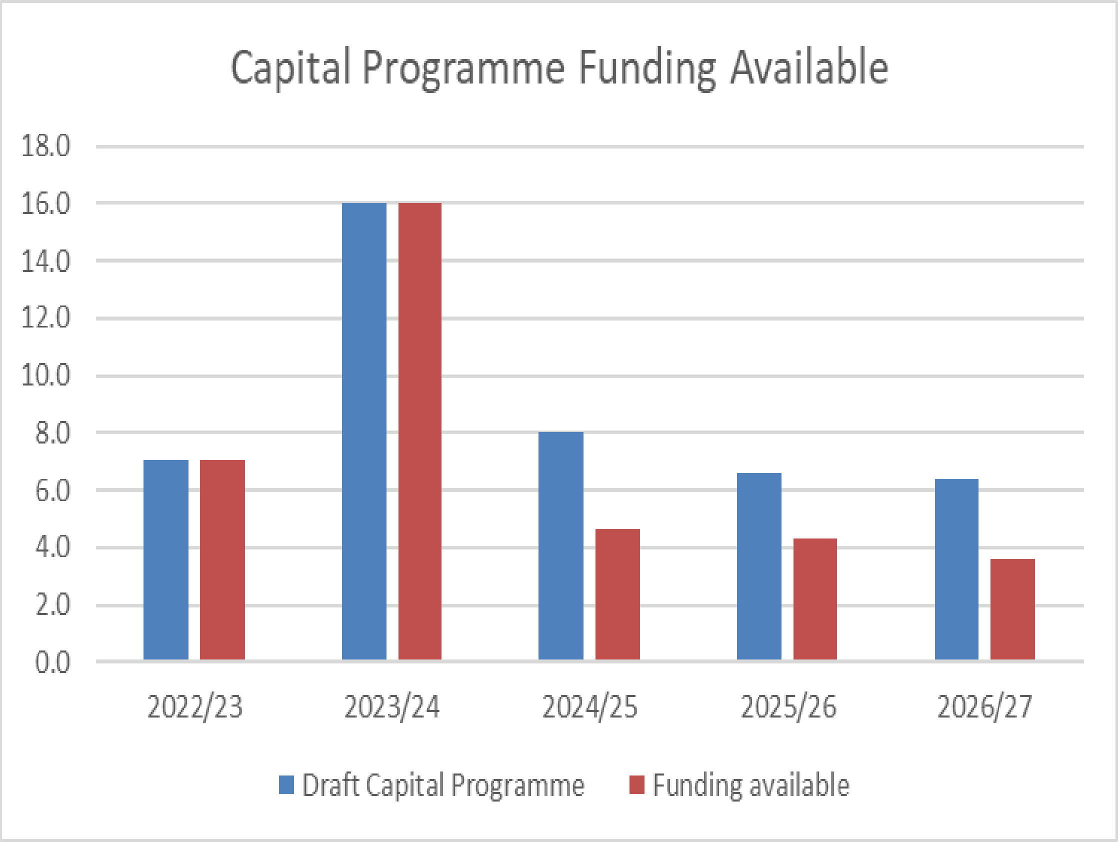
2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

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

2.2. The proposed programme and funding, as contained in this report, increases the external borrowing requirement to £26.6m by 2024-25 from the current external borrowing of £24.8m as at 31 March 2022. 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 2022-23 to 2024-25

3.1. Appendix A of this report provides an analysis of the proposed programme for the three years 2022-23 to 2024-25 as contained in this report. This programme represents a net increase in overall spending of £2.7m (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			
2021-22	8.0	7.3	15.3
2022-23	3.6	7.4	11.0
2023-24 (provisional)	1.3	4.7	6.0
2024-25 (provisional)	3.5	3.5	7.0
Total 2021-22 to 2024-25	16.4	22.9	39.3
Proposed Programme			
2021-22 (forecast spending)	3.7	6.2	9.9
2022-23	3.9	4.9	8.8
2023-24 (provisional)	7.3	10.5	17.8
2024-25 (provisional)	0.9	4.6	5.5
Total 2021-22 to 2024-25	15.8	26.2	42.0
Proposed change	-0.6	3.3	2.7

Estates

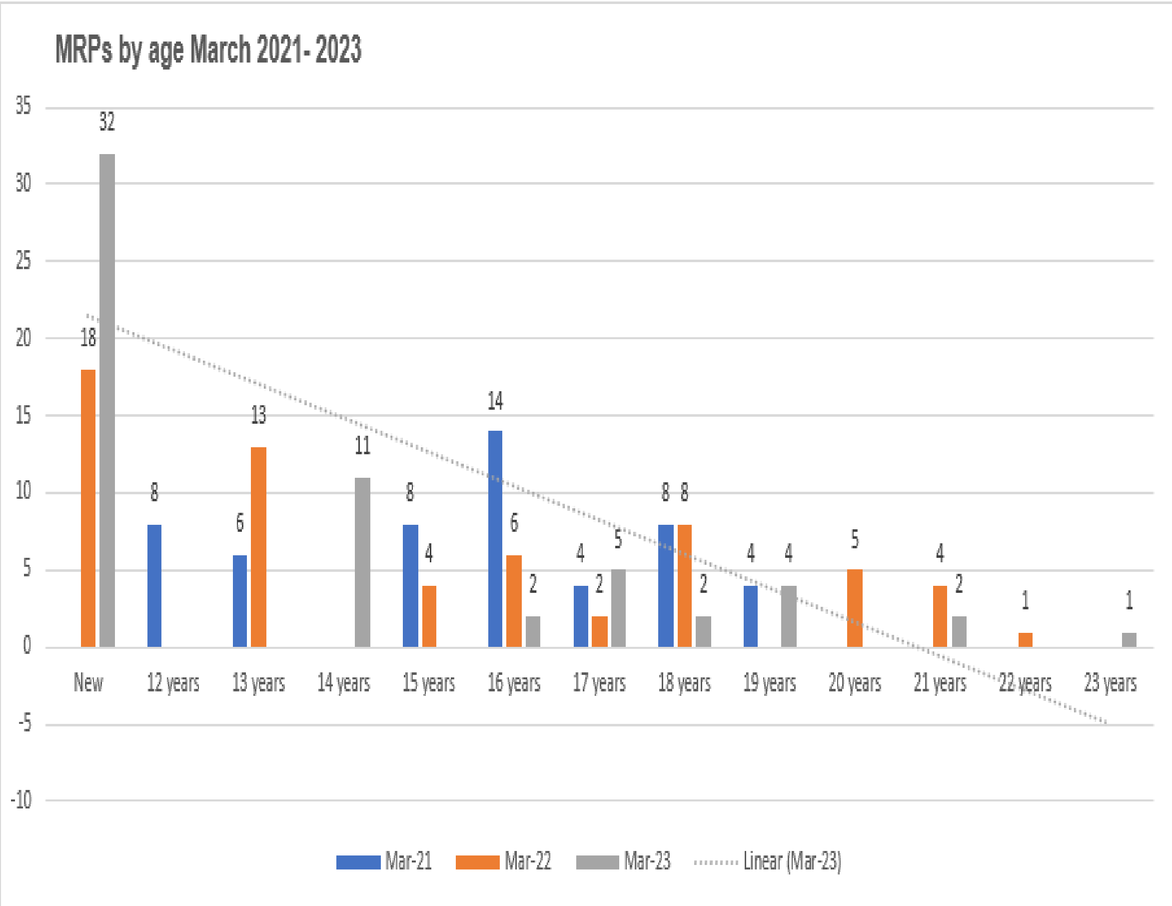
3.2. The Service is in the process of finalising the Estates Strategy and is planning to undertake a full condition survey of the Estate to inform a risk based approach to future investments. The strategy will also look to maximise opportunities to reduce the footprint of buildings as a result of new ways of working and to incorporate the Authority’s Green Environmental Strategy.

3.3. Mindful of the need to review strategy, the programme for 2022-23 has been limited to existing projects, particularly the refurbishment project for Camels Head fire station, alongside works to ensure compliance such as improved sleeping accommodation and vehicle wash down facilities.

Operational Assets

3.4. The project to replace Medium Rescue Pumps (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 19 MRPs have been delivered to Devon &Somerset Fire & Rescue Service (the Service) with 13 of these being delivered to their new stations. There are also 5 additional Rapid Intervention Vehicles (RIVs) that have been delivered, although these are not yet on the run. Moving forward, the Service has gone out to tender to replace Aerial Ladder platforms and some of the other specialist vehicles.

3.5. At the commencement of the year, 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. The MRP replacement programme has changed the age profile - the chart below shows the age profile of MRPs.



3.6. 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.

3.7. The benefits of the Fleet Replacement Programme are:

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

3.8. The Fleet Replacement plan has replaced some of our oldest appliances with new MRPs and RIVs and cascade existing vehicles to the reserve and training fleet. Currently the Service has:

- MRP – 61 front-line appliances of which 37 are overdue replacement (more than 15 years old – 60%);
- MRP Reserves – 10 MRP reserve appliances of which 9 are overdue replacement (more than 15 years old – 90%);
- LRP – 38 front-line LRP appliances of which 7 become due replacement in 2025/26 based on 12 years expected life-cycle;
- LRP Reserves – 4 LRP Reserve appliances which are 7 years old;
- RIV – 13 front-line RIV appliances of which none will be due replacement until 2028/29 based on a ten-year life-cycle. (Note: these vehicles have not been in service long enough to accurately predict life-cycle so will rely on condition reporting);
- RIV Reserves – 2 RIV reserve appliances;
- RIV (New) – 5 new RIV appliances delivered and awaiting roll-out in the spring of 2022;
- Training Appliances – 6 MRP training appliances of which all are over 15 years old; and
- Driver Training Appliances – 2 x MRP driver training specific appliances which are 9 years old. 1 x MRP appliance (not driver training specific) which is 19 years old. 1 x LRP driver training specific appliance which is 5 years old.

4. FORECAST DEBT CHARGES

4.1. Appendix A of this report also provides indicative capital requirements beyond 2024-25 to 2026-27. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2 overleaf.

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

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	24.264	23.771	26.645	28.820	30.997
Base budget for capital financing costs and debt charges	3.300	3.185	3.215	3.589	3.382
Change over previous year		(0.115)	0.030	0.375	(0.207)
Debt ratio	4.19%	3.49%	3.54%	3.83%	3.58 %

4.2. The forecast figures for external debt and debt charges beyond 2024-25 are based upon the indicative programmes as included in Appendix A for the years 2025-26 to 2026-27. 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 of this report 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 £26.0m to £30.9m (including the impact of proposed revenue contributions) by 2026-27.

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 2026-27, 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 2024-25. 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.

SHAYNE SCOTT
Director of Finance, People and Estates (Treasurer)

Capital Programme 2022/23 to 2026/27								
2021/22 £000 Budget	**2021/22 £000 Forecast Outturn**	**Item**	**PROJECT**	**2022/23 £000 Budget**	**2023/24 £000 Budget**	**2024/25 £000 Budget**	**2025/26 £000 Indicative Budget**	**2026/27 £000 Indicative Budget**
			Estate Development					
2,207	2,289	1	Site re/new build	0	0	0	0	0
5,762	1,366	2	Improvements & structural maintenance	3,923	7,300	900	3,700	3,700
7,969	**3,655**		**Estates Sub Total**	**3,923**	**7,300**	**900**	**3,700**	**3,700**
			Fleet & Equipment					
6,403	5,923	3	Appliance replacement	3,861	4,500	2,400	1,600	2,700
480	90	4	Specialist Operational Vehicles	820	6,000	2,200	200	0
409	159	5	ICT Department	250	0	0	0	0
32	0	6	Water Rescue Boats	0	0	0	0	0
7,324	**6,172**		**Fleet & Equipment Sub Total**	**4,931**	**10,500**	**4,600**	**1,800**	**2,700**
(2,600)	**0**	7	**Optimism bias Sub Total**	**(1,800)**	**(1,800)**	**2,500**	**1,100**	**0**
12,693	**9,827**		**Overall Capital Totals**	**7,054**	**16,000**	**8,000**	**6,600**	**6,400**
			Programme funding					
8,632	5,766	8	Earmarked Reserves:	4,189	12,417	998	0	0
2,037	2,037	9	Revenue funds:	1,200	2,300	2,300	2,300	2,300
0	0	10	Capital receipts:	300	0	0	0	0
2,024	2,024	11	Borrowing - internal	1,365	1,283	1,370	2,031	1,330
		12	Borrowing - external	0	0	3,332	2,269	2,770
12,693	**9,827**		**Total Funding**	**7,054**	**16,000**	**8,000**	**6,600**	**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

	2022/23	2023/24	2024/25	INDICATIVE INDICATORS 2025/26	2026/27
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure					
Non - HRA	7.054	16.000	8.000	6.600	6.400
HRA (applies only to housing authorities)					
Total	7.054	16.000	8.000	6.600	6.400
Ratio of financing costs to net revenue stream					
Non - HRA	4.19%	3.49%	3.54%	3.83%	3.58%
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	24,264	23,771	26,645	28,820	30,997
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	1,686	1,308	1,007	661	381
Total	25,950	25,078	27,652	29,481	31,377
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	285	(872)	2,573	1,829	1,896
HRA (applies only to housing authorities)	0	0	0	0	0
Total	285	(872)	2,573	1,829	1,896
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,071	25,553	28,535	30,455	33,240
Other long term liabilities	1,774	2,251	1,858	1,540	1,180
Total	27,844	27,804	30,393	31,995	34,420
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,857	24,364	27,203	29,014	31,690
Other long term liabilities	1,689	2,186	1,808	1,507	1,161
Total	26,547	26,550	29,011	30,521	32,851
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 2022/23		
Under 12 months	30%	2%
12 months and within 24 months	30%	4%
24 months and within 5 years	50%	14%
5 years and within 10 years	75%	1%
10 years and above	100%	80%

REPORT REFERENCE NO.	**RC/22/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2022**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2022-23 TO 2024-25)**
LEAD OFFICER	**Director of Finance, People and Estates Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve:*** ***(a). the expansion of its approved counter parties to include subsidiary entities but that 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 2022-23, 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 2022/23, including the Prudential Indicators associated with the capital programme for 2022/23 to 2024-25 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2022/23 is also included for approval. The 2021/22 revised Prudential Code also requires the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily for yield.
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 2022/23 to 2023-25. B. Minimum Revenue Provision Statement 2022/23. 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 (now Department for Levelling Up, Housing and Communities - DLUHC) 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 2021/22 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; and
- declare that the capital spends do not include the acquisition of assets primarily for yield.

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 2022/23

1.14. The suggested strategy for 2022/23 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 2022/23 covers two main areas:

Capital Issues

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

Treasury Management Issues

- treasury limits in force which will limit the treasury risk and activities of the Authority

- treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

Training

1.16. 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.

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 2022/23 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	2021-22 (forecast spending)	2022-23	2023-24 (provisional)	2024-25 (provisional)
	£m	£m	£m	£m
Estates	3.655	3.123	6.600	2.200
Fleet & Equipment	6.172	3.931	9.400	5.800
Total	9.827	7.054	16.000	8.000

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	2021-22 (forecast spending)	2022-23	2023-24 (provisional)	2024-25 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.000	0.300	0.000	0.000
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	5.766	4.189	12.417	0.998
Revenue	2.037	1.200	2.300	2.300
Existing borrowing	2.024	1.365	1.283	1.370
New borrowing	0.000	0.000	0.000	3.332
Total	9.827	7.054	16.000	8.000

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)	2022-23 (forecast spending)	2023-24	2024-25 (provisional)	2025-26 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	24.264	23.771	26.645	28.820
Other Long Term Liabilities	1.686	1.308	1.007	0.661
Total CFR	25.950	25.078	27.652	29.481
Movement in CFR	2.534	(3.026)	0.445	(0.641)
Less MRP	2.249	(2.155)	(2.129)	(2.471)
Net movement in CFR	0.285	(0.872)	2.573	1.829

Core funds and expected investment balances

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

Estimated Year end Resources	2022-23	2023-24	2024-25	2025-26
	£m	£m	£m	£m
Reserve Balances	16.996	27.090	13.901	9.529
Capital receipts/ contributions	0.300	0.000	1.250	0.250
Provisions	0.000	0.000	0.000	0.000
Other	8.899	10.903	12.432	14.455
Total core funds	26.195	37.993	27.583	24.234
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	27.195	38.993	28.583	25.234

*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. DLUCH (formally 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 2022/23 is attached as Appendix B for Authority approval.

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

Financing costs as a % of net revenue	2022-23 (forecast spending)	2023-24	2024-25 (provisional)	2025-26 (provisional)
Annual cost	4.19%	3.49%	3.54%	3.83%

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 2021 and the current position are summarised below.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.21	**31.3.21**	**31.12.21**	**31.12.21**
Treasury investments	£000	%	£000	%
banks	13,001	34%	30,151	79%
building societies - unrated		0%		0%
building societies - rated		0%		0%
local authorities	21,500	57%	6,500	17%
DMADF (H.M.Treasury)		0%		0%
money market funds	3,515	9%	1,510	4%
certificates of deposit		0%		0%
Total managed in house	**38,016**	**100%**	**38,161**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**38,016**	**100%**	**38,161**	**100%**
Treasury external borrowing				
local authorities		0%		0%
PWLB	24,851	100%	24,804	100%
LOBOs		0%		0%
Total external borrowing	**24,851**	**100%**	**24,804**	**100%**

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	2022-23 (forecast spending)	2023-24	2024-25	2025-26
	£m	£m	£m	£m
Debt at 1 April	24.264	23.771	26.645	28.820
Expected change in Debt	(0.493)	(0.493)	2.874	2.176
Other long-term liabilities (OLTL)	1.686	1.308	1.007	0.661
Expected change in OLTL	(0.378)	(0.301)	(0.346)	0.246
Actual gross debt at 31 March	25.079	24.285	30.179	31.903
CFR	25.950	25.078	27.652	29.481
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 2022/23 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	2022-23	2023-24	2024-25	2025-26
	£m	£m	£m	£m
Non-HRA expenditure	24,857	24,364	27,203	29,014
Other Long Term Liabilities	1,689	2,186	1,808	1,507
Total	26,547	26,550	29,011	30,521

- **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	2022-23	2023-24	2024-25	2025-26
	£m	£m	£m	£m
Non-HRA expenditure	26,071	25,553	28,535	30,455
Other Long Term Liabilities	1,774	2,251	1,858	1,540
Total	27,844	27,804	30,393	31,995

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 table overleaf and narrative within Appendix C of this report - paragraphs C28 and C33 - gives their view.

Link Group Interest Rate View 20.12.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Borrowing strategy

3.9. As reported in the separate report on this agenda “Capital Programme 2022/23 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 (£0.9m in 2022/23).

3.10. This being the case there is no intention to take out any new borrowing during 2022/23 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 defaults 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.

Specified Investments	**Non Specified Investments**
	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:

2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	
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	**2022-23**	**2023-24**	**2024-25**
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 2022/23 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

SHAYNE SCOTT
Director of Finance, People and Estates (Treasurer)

APPENDIX A TO REPORT RC/22/4

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate
Capital Expenditure					
Non - HRA	7.054	16.000	8.000	6.600	6.400
HRA (applies only to housing authorities)					
Total	7.054	16.000	8.000	6.600	6.400
Ratio of financing costs to net revenue stream					
Non - HRA	4.19%	3.49%	3.54%	3.92%	3.66%
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	24,264	23,771	27,545	29,645	31,747
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	1,686	1,308	1,007	661	381
Total	25,950	25,078	28,552	30,306	32,127
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	285	(872)	3,473	1,754	1,821
HRA (applies only to housing authorities)	0	0	0	0	0
Total	285	(872)	3,473	1,754	1,821
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,071	25,553	28,580	30,496	33,278
Other long term liabilities	1,774	2,251	1,858	1,540	1,180
Total	27,844	27,804	30,438	32,036	34,458
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,857	24,364	27,203	29,014	31,690
Other long term liabilities	1,689	2,186	1,808	1,507	1,161
Total	26,547	26,550	29,011	30,521	32,851
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 2022/23		
Under 12 months	30%	2%
12 months and within 24 months	30%	4%
24 months and within 5 years	50%	14%
5 years and within 10 years	75%	1%
10 years and above	100%	80%

MINIMUM REVENUE STATEMENT 2022/23

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

COVID-19 vaccines.

These were the game changers during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November 2021 rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What is now known is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations.

Rather than go for full lockdowns which heavily damages the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly hospitals will fill up and potentially be unable to cope.

In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. 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 services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home.

Growth will also be lower due to people being ill and not working, similar to the “pingdemic” in July 2021. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May 2022, dependent on how severe an impact there is from Omicron.

- If there are lockdowns in January 2022, this could pose a barrier for the Monetary Policy Committee (MPC) to putting Bank Rate up again as early as 3 February 2022.
- With inflation expected to peak at around 6% in April 2022, the MPC may want to be seen to be active in taking action to counter inflation on 5 May 2022, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May 2022 are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- Year end 0.25% increases have been added into Quarter 1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under Quantitative Easing (QE) ended in December 2021. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16 DECEMBER 2021

- The MPC voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of QE purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November 2021 meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December 2021 meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10 December 2021, it was learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November 2021 might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December 2021.

- **On 14 December 2021, the labour market statistics** for the three months to October 2021 and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15 December 2021, the CPI inflation** figure for November 2021 was received which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February 2022 and that May 2022 is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3 February 2022. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November 2021, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Federal Bank (Fed) is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15 December 2021** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its 3 November 2021 meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

  The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts.

What was also significant was that this month the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Quarter 1, Quarter 2 came in with strong growth of 2%. With Quarter 3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November 2021 inflation figures -** the breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November 2021, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November 2021, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the European Central Bank (ECB) concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16 December 2021 that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB’s target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December 2021 meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June 2022. In addition, Italy needs to elect a new president in January 2022 with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.
- **CHINA.** After a concerted effort to get on top of the virus outbreak in Quarter 1 of 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.
- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July 2021. New Prime Minister Kishida, having won the November 2021 general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

SUPPLY SHORTAGES. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase

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REPORT REFERENCE NO.	**RC/22/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2022**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2021-22 – QUARTER 3**
LEAD OFFICER	**Director of Finance, People & Estates (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2021-22 (to December 2021) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 31 December 2021.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 10 February 2021 – Minute DSFRA/69 refers.

1. **INTRODUCTION**

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

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

1.2. Treasury management in this context is defined as:

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

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

2. **ECONOMICS UPDATE**

MPC meeting 16th December 2021

2.1. The Monetary Policy Committee (MPC) voted 8-1 to **raise Bank Rate by 0.15% from 0.10% to 0.25%** and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

2.2. The MPC disappointed financial markets by not raising Bank Rate at its November 2021 meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates.

2.3. At the November 2021 meeting, however, the MPC decided it wanted to have assurance that the labour market would get over **the end of the furlough scheme on 30th September 2021** without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

2.4. **On 10th December 2021, it was learnt tat there had been a disappointing 0.1% m/m rise in GDP** in October 2021 which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November 2021. Early evidence suggests growth in November 2021 might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December 2021.

2.5. **On 14th December 2021, the labour market statistics** for the three months to October 2021 and the single month of October 2021 were released. The fallout after the furlough scheme ended on 30th September 2021, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared: unemployment did not increase hugely in October 2021. Indeed, vacancies rose to a record 1.219m in the three months to November 2021 showing there were acute shortages of labour.

2.6. These figures by themselves would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December 2021 meeting. However, the advent of Omicron in late November 2021 potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

2.7. **On 15th December 2021, the CPI inflation** figure for November 2021 was released which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

2.8. **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues have reduced during the second half of 2021 and are likely to clear during 2022 when prices would be expected to subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

2.9. The Government has stepped in with some **fiscal support for the economy**, targeted mainly at the hospitality sector. Due to the huge cost of such support to date, it is likely to remain being limited and targeted on narrow sectors. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

2.10. This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

2.11. On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

2.12. On top of that, there were no references in December to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

2.13. These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about **<u>raising interest rates two or three times in 2022 to 0.75% or 1.00%.</u>**

2.14. In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

2.15. As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

2.16. **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

a. Placing the focus on raising Bank Rate as "the active instrument in most circumstances";

b. Raising Bank Rate to 0.50% before starting on reducing its holdings;

c. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts; and

d. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

2.17. **COVID-19 vaccines.** These have been the game changer which had enormously boosted confidence that **life in the UK could largely return to normal during the second half of 2021** after a third wave of the virus threatened to overwhelm hospitals in the spring. The bursting onto the scene of **the Omicron mutation** at the end of November had threatened to cancel the Christmas holidays, but the Government decided not to impose more severe restrictions in the hope that this mild, but highly contagious variant, would not overwhelm hospitals. The big question is whether further mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

2.18. **US.** During 2020, US President Biden and the Democratic party pushed through a huge programme of fiscal stimulus and are still trying to get another major package approved – the American Families Plan; this is still caught up in political haggling. Financial markets were alarmed that all this stimulus was happening at a time when:-

- A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
- The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
- And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

2.19. It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

2.20. **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period, all other things being equal. It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

2.21. **EU.** The ECB joined with the Fed by also announcing on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. Although headline inflation reached 4.9% in November, over half of that was due to energy but oil and gas prices are expected to fall sharply after the winter. As overall inflation will fall back sharply during 2022, it is likely that the ECB will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below its target rate of 2% despite all the ECB's major programmes of monetary easing by cutting rates into negative territory and providing QE support.

2.22. **China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future; this strategy poses a potential renewed threat to world supply chains. The People's Bank of China made a start in December 2021 on cutting its key interest rate to encourage flagging economic growth.

2.23. **Japan.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. However, Omicron could reverse the success of 2021 in combating Covid. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon.

2.24. **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Interest Rate Forecasts

2.24. The Authority's treasury advisor, Link Group Ltd, has provided the following forecast:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

2.25. 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 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged until it raised it from 0.10% to 0.25% at the MPC meeting of 16th December 2021.

A summary overview of the future path of Bank Rate

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January 2022, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February 2022.
- With inflation expected to peak between 5 and 6% in April 2022, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- However, rising gas and electricity prices last October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflationary pressures.
- On the other hand, consumers are sitting on around £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid mutations remain a major potential downside threat in all three years as we ARE likely to get further mutations. How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December 2021. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

2.26. In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with whatever the new news is.

3. <u>**TREASURY MANAGEMENT STRATEGY STATEMENT**</u>

<u>**ANNUAL INVESTMENT STRATEGY**</u>

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 10 February 2021. It outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

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

Creditworthiness

3.3. Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

3.4. A full list of investments held as at 31 December 2021 are shown in Appendix A.

3.5. The average level of funds available for investment purposes during the quarter was £45.890m (£51.022m at Quarter 2). These funds were available on a temporary basis and the level of funds was dependent on the level of reserves, timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 3
3 Month LIBID	0.02%	0.10%	£0.034m.

3.6. As illustrated above, the Authority outperformed the 3-month LIBID benchmark by 0.098bp. It is currently anticipated that the actual investment return for the whole of 2021-22 will under recover the Authority's budgeted investment target of £0.100m by £0.015m.

BORROWING STRATEGY

Prudential Indicators

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

3.8. A full list of the approved limits (as amended) are included in the Financial Performance Report 2021-22, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2021 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.9. The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 31 December 2021 was £24.804m, forecast to reduce to £24.757m 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 4.25% and average life of 24.5 years.

Loan Rescheduling

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

New Borrowing

3.11. Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September before falling again during quarter 3 until rising once more in the last ten days of the year.

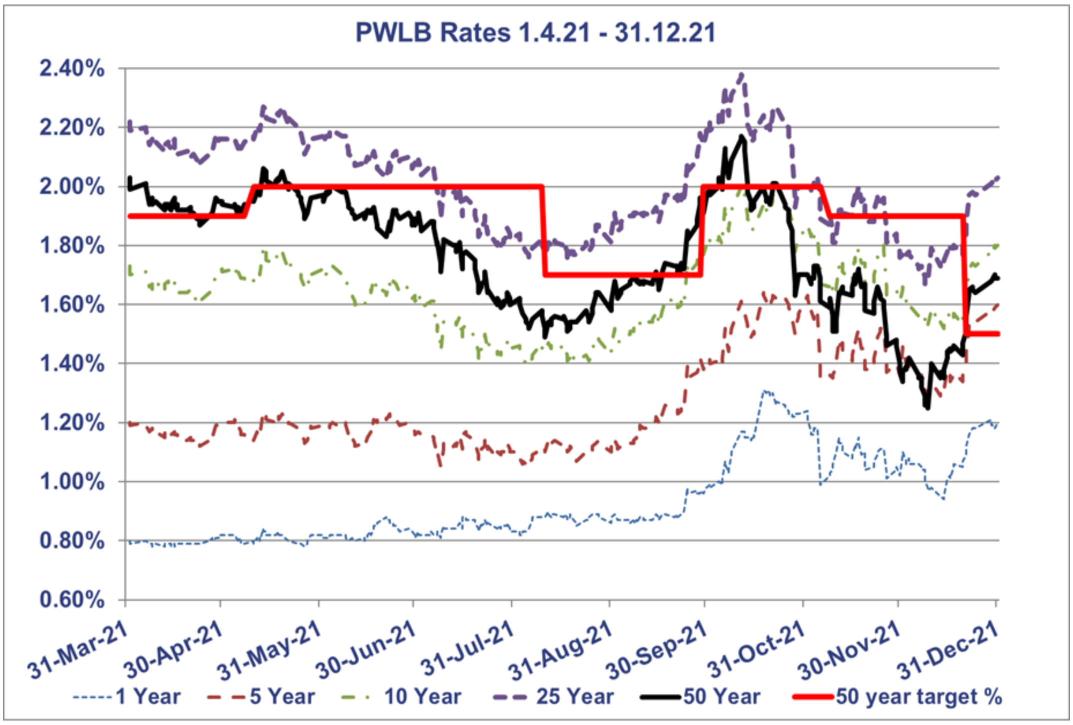
3.12. The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August, returned to 2.00% at the end of September until falling to 1.90% in early November and then falling again to 1.50% in December

3.13. No new borrowing was undertaken during the quarter and none is planned during 2021-22 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 2021

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.81%	1.05%	1.39%	1.67%	1.25%
Date	08/07/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	1.31%	1.64%	2.01%	2.38%	2.17%
Date	18/10/2021	18/10/2021	11/10/2021	11/10/2021	11/10/2021
Average	0.99%	1.31%	1.63%	1.94%	1.68%
Spread	0.50%	0.59%	0.62%	0.71%	0.92%

Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

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

4. SUMMARY AND RECOMMENDATION

4.1. In compliance with the requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the first quarter report on treasury management activities for 2021-22 to December 2021.

4.2. 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 not meet the budgeted target, as rates were forecast to rise when the budget was set.

SHAYNE SCOTT
Director of Finance, People & Estates (Treasurer)

Investments as at 31 December 2021					
Counterparty	Maximum to be invested	Amount Invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Staffordshire & Moorlands District Council	7.000	-1.500	T	18 mths	0.50%
National Bank of Kuwait (International) PLC	7.000	-5.000	T	12 mths	0.21%
National Bank of Kuwait (International) PLC	7.000	-2.000	T	12 mths	0.20%
Lancashire County Council	7.000	-5.000	T	12 mths	0.10%
Standard Chartered	7.000	-4.000	T	6 mths	0.10%
Close Brothers	7.000	-5.000	T	6 mths	0.25%
Goldman Sachs	7.000	-2.000	T	6 mths	0.16%
Goldman Sachs	7.000	-2.000	T	6 mths	0.16%
Bayerische Landesbank	7.000	-7.000	T	6 mths	0.11%
Goldman Sachs	7.000	-3.000	T	6 mths	0.20%
Barclays Bank	8.000	-0.151	C	Instant Access	Variable
Aberdeen Standard	8.000	-0.860	C	Instant Access	Variable
Federated Cash Plus	8.000	-0.650	C	Instant Access	Variable
Total Amount Invested		**-38.161**			

REPORT REFERENCE NO.	**RC/22/6**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**8 FEBRUARY 2022**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2021-22 – QUARTER 3**
LEAD OFFICER	**Director of Finance, People and Estates (Treasurer)**
RECOMMENDATIONS	***(a) That the budget transfers shown in Table 3 of report RC/22/2 be recommended for approval by the Authority;*** ***(b) That the monitoring position in relation to projected spending against the 2021-22 revenue and capital budgets be noted; and*** ***(c) That the performance against the 2021-22 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 2021-22 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £0.107m more than budget, an overspend of 0.15% of total budget.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Prudential Indicators 2021-22. B. Reserves position by Reserve C. Reserve position by Expense Code
BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the second quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 2021. As well as providing projections of spending against the 2021-22 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators. At this stage of the financial year, no recommendations are made as to the use of any surplus.

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

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2021-22

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 3	Previous Quarter	Quarter 3 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£74.222m	£74.330m	£73.709m	0.15%	0.04%
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.10%	6.88%	(2.10)bp*	(1.88)bp
	Capital Targets					
3	Spending within agreed capital budget	£12.693m	£7.227m	£7.835m	(43.06%)	(38.27%)
4	External Borrowing within Prudential Indicator limit	£25.961m	£24.758m	£24.758m	(7.23%)	(7.23%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	4.30%	4.30%	(0.70)bp*	(0.70)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2021-22.
- **SECTION B** – Capital Budget and Prudential Indicators 2021-22.
- **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 2021-22

2.1. Table 2 below provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending by the year end will be £74.330m, representing a slight overspend of £0.107m equivalent to 0.15% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2021-22

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2021/22

Line No		2021/22 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	52,159	39,219	39,715	52,516	357
3	Professional and technical support staff	11,193	8,395	8,690	11,424	231
4	Training investment	854	640	483	737	(116)
5	Fire Service Pension costs	2,352	1,764	1,809	2,384	32
		66,558	**50,018**	**50,696**	**67,061**	**503**
	PREMISES RELATED COSTS					
6	Repair and maintenance	1,010	758	912	1,009	(1)
7	Energy costs	578	434	266	630	52
8	Cleaning costs	499	374	489	518	19
9	Rent and rates	1,921	1,441	1,867	1,928	7
		4,009	**3,007**	**3,534**	**4,086**	**77**
	TRANSPORT RELATED COSTS					
10	Repair and maintenance	708	531	402	603	(105)
11	Running costs and insurances	1,257	943	1,266	1,265	8
12	Travel and subsistence	1,402	1,052	1,217	1,372	(31)
		3,368	**2,526**	**2,884**	**3,240**	**(128)**
	SUPPLIES AND SERVICES					
13	Equipment and furniture	3,642	2,732	2,748	3,918	275
14	Hydrants-installation and maintenance	131	98	53	119	(12)
15	Communications Equipment	2,403	1,802	1,899	2,141	(263)
16	Protective Clothing	521	391	373	564	43
17	External Fees and Services	139	104	74	112	(27)
18	Partnerships & regional collaborative projects	320	240	162	297	(23)
19	Catering	66	50	54	85	19
		7,223	**5,417**	**5,362**	**7,236**	**13**
	ESTABLISHMENT COSTS					
20	Printing, stationery and office expenses	265	199	185	262	(3)
21	Advertising including Community Safety	34	25	43	47	13
22	Insurances	434	325	665	455	22
		732	**549**	**894**	**765**	**32**
	PAYMENTS TO OTHER AUTHORITIES					
23	Support service contracts	733	550	646	885	152
		733	**550**	-	**885**	**152**
	CAPITAL FINANCING COSTS			-		
24	Loan Charges & Lease rentals	3,474	2,606	639	3,472	(2)
25	Revenue Contribution to Capital Spending	2,037	1,528	-	2,037	-
		5,511	**4,133**	**639**	**5,509**	**(2)**
26	**TOTAL SPENDING**	**88,134**	**66,201**	**64,332**	**88,781**	**647**
	INCOME					
29	Treasury management income	(100)	(75)	(34)	(80)	20
30	Grants and reimbursements	(9,151)	(6,863)	(4,644)	(9,252)	(101)
31	Other income	(912)	(684)	(838)	(1,371)	(459)
33	**TOTAL INCOME**	**(10,163)**	**(7,622)**	**(5,515)**	**(10,703)**	**(540)**
34	**NET SPENDING**	**77,971**	**58,578**	**58,817**	**78,078**	**107**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to/(from) Earmarked Reserves	(3,749)	(2,812)	-	(3,748)	-
		(3,749)	**(2,812)**	-	**(3,748)**	**-**
				-		
	NET SPENDING	**74,222**	**55,767**	-	**74,330**	**107**

2.2. These forecasts are based upon the spending position at the end of December 2021, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report.

2.3. Explanations of the more significant variations from budget (over £0.050m variance) are explained below.

3. NARRATIVE ON VARIANCES AGAINST BUDGET

Service Delivery Staff

3.1. Is forecasted to overspend by £0.357m. The good news is the wholetime recruitment is progressing well with the second recruits' course of the year underway. However, the pay award of 1.5% was unbudgeted in 2021/22 which has resulted in additional costs of £0.592m. Covid support to the Ambulance Service has also incurred expenditure of £0.280m. This is reclaimed from them (see row 31).

Professional and Technical Support Staff.

3.2. Is forecast to overspend by £0.231m. A slight overspend within the Academy (Driving Instructor) of £0.046m, increased costs within Academy Management of £0.079m and the fact the vacancy margin set at £0.328m won't full be achieved has impacted on this line.

Training Investment

3.3. Is forecast to underspend by £0.116m. Covid has restricted the number of courses available for the first part of the year.Therefore, the Academy are reviewing the priority of the courses (in terms of availability) which has resulted in a predicted under spend. Examples being; Wildfire at £0.045m, Fire Investigation at £0.037m and a further £0.020M saving from delays in courses for the talent pool.

Energy Costs

3.4. Is forecast to overspend by £0.052m. The increase in wholesale costs for electricity have pushed this line to a predicted overspend position.

Repair and Maintenance

3.5. Is forecast to underspend by £0.105m. £0.076m of this relates for blue light fit-out that for vehicles that can no longer be delivered in this financial year.

Equipment and Furniture

3.6. Is forecast to overspend by £0.275m. An increase in timber costs associated with the wood used at the Academy is anticipating to overspend by £0.091m. Added to this, the equipment required to kit-out the new Medium Rescue Pumps which were delayed in 2020/21 has resulted in an anticipated overspend of £0.153m. The balance made up of numerous small variances.

Communications Equipment

3.7. Is forecast to underspend by £0.263m. There was budget in this year to purchase a Dynamic Coverage Tool, this is no longer required for 2021/22 resulting in a saving of £0.050m. Mobile telephones costs are forecast to save £0.040m against budget and the radio network costs are looking to underspend by £0.043m. Delays in the replacement of the LAN Edge has resulted in a further amount of £0.110m that cannot be spent in 2021/22.

Support Service Contracts

3.8. Is forecast to overspend by £0.152m. Greater demand of the Occupational Health Service is forecast to result in an overspend of £0.150m in year.

Grants and Reimbursements

3.9. Is forecast to over-recover by £0.101m. An additional grant has been received of £0.171m relating to the Protection Uplift grant which was not budgeted for hence the over-recovery. This has been off-set by multiple minor variations against other cost codes.

Other income

3.10. This is s forecast to overcover by £0.459m. The continued support to South West Ambulance Service Trust (SWAST) has created additional income that was unbudgeted - the current forecast is for £0.283m for the year. Coupled with this, USAR are expected to deliver an additional £0.034m of income related to training they provide. Procurement are also forecasting to generate an additional £0.060m of income from the use of their call-off contracts. A further £0.064m is from recharging the Network Partnership for a shared resource supplied by the Service.

3.11. The following request is recommended to be approved by this committee. This is to fund the additional costs associated with Pay for Availability which has been more widely accepted than the Service anticipated this time in 2020-21. For ease, this virement is already reflected within Table 2 above.

TABLE 3 – BUDGET TRANSFERS

Line Ref	Description	Debit £m	Credit £m
	To fund Pay for Availability due to a quicker take-up than was originally considered.		
1	Increase Service Delivery staff	0.390	
36	Reduce Earmarked Reserve set up to help fund future year costs		(0.390)
		0.390	**(0.390)**

4. RESERVES AND PROVISIONS

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

Reserves

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

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

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

Provisions

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

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

4.4. A summary of predicted balances on Reserves and Provisions is shown in Table 4 below. Further analysis of the Reserves can be found in Appendices B and C.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES

RESERVES AND PROVISIONS							
RESERVES	Balance as at 1 April 2021 £'000	Approved Transfers £'000	Proposed Transfers £'000	Spending so far £'000	Forecast Outturn 2021-22 £'000	Proposed Balance as at 31 March 2022 £'000	
Earmarked reserves							
Grants unapplied from previous years	(4,526)	14	-	415	3,749	(777)	
Invest to Improve	(3,897)	100		1,066	1,960	(1,937)	
Budget Smoothing Reserve	(1,818)	-	-	-	-	(1,818)	
Direct Funding to Capital	(23,270)	(100)	-	(10)	5,766	(17,504)	
Projects, risks, & budget carry forwards	-	-	-	-	-	-	
PFI Equalisation	(150)	-	-	-	-	(150)	
Emergency Services Mobile Communications Programme	(1,347)	-	-	28	45	(1,301)	
Mobile Data Terminals Replacement	(266)	-	-	90	115	(151)	
Pension Liability reserve	(1,231)	-	-	-	200	(1,031)	
Budget Carry Forwards	(3,459)	(14)	-	369	1,766	(1,693)	
Environmental Strategy	(308)	-	-	40	40	(268)	
MTA Action Plan	(200)	-	-	46	92	(108)	
Total earmarked reserves	**(40,471)**	**(14)**	**-**	**2,043**	**13,732**	**(26,739)**	
General reserve							
General Fund (non Earmarked) Balance	**(5,282)**	**-**	**-**	**-**	**-**	**(5,282)**	
Percentage of general reserve compared to net budget							7.1%
TOTAL RESERVE BALANCES	**(45,753)**	**(14)**	**-**	**2,043**	**13,732**	**(32,021)**	
PROVISIONS							
Doubtful Debt	(655)		-	-	-	(655)	
Fire fighters pension schemes	(659)		-	-		(659)	

5. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2021-22

Monitoring of Capital Spending in 2021-22

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

5.2 At the end of Quarter 3, the Service is forecasting to underspend by £5.416m. In the Estates department, £3.786m identified to refurbish Camels Head Fire Station has been delayed to ensure more intrusive structural work is completed to understand the potential risks regarding the concrete frame. Approvals permitting, we are currently hopeful to be on-site late summer 2022. Delays have also been encountered at Bridgwater, roofs at both one of the Academy sites and Torquay and works at Bere Alston and Paignton make up the difference.

5.3 Delays in evaluating the type of vehicle required to replace both the aerial ladder platforms and 4X4 medium rescue pumps and extended chassis build times has delayed the order of the chassis' that were planned to be delivered in this year. These will be ordered as soon as the procurement process is complete with a planned delivery commencing in Quarter 3 of 2022/23.

TABLE 5 – FORECAST CAPITAL EXPENDITURE 2021-22

Capital Programme 2021/22					
PROJECT	**2021/22 £000 Revised Budget**	**2021/22 £000 Forecast Outturn**	**2021/22 £000 Actuals**	**2021/22 £000 Timing Differences**	**2021/22 £000 Re-scheduling/ Savings**
Estate Development					
Site re/new build	2,207	2,289	1,254	0	82
Improvements & structural maintenance	5,762	1,366	707	(4,286)	(110)
Estates Sub Total	**7,969**	**3,655**	**1,961**	**(4,286)**	**(28)**
Fleet & Equipment					
Appliance replacement	6,403	5,923	4,321	(480)	0
Specialist Operational Vehicles	480	90	90	(400)	10
ICT Department	409	159	0	(250)	0
Water Rescue Boats	32	0	0	0	(32)
Fleet & Equipment Sub Total	**7,324**	**6,172**	**4,411**	**(1,130)**	**(22)**
Estates Optimism bias	(1,400)	0	0		0
Fleet Optimism bias	(1,200)	0	0		0
Optimism bias Sub Total	**(2,600)**	**0**	**0**	**0**	**0**
Overall Capital Totals	**12,693**	**9,827**	**6,372**	**(5,416)**	**(50)**
Programme funding					
Earmarked Reserves:	8,632	3,166	0	(5,416)	(50)
Revenue funds:	2,037	2,037	0	0	0
Borrowing - internal	2,024	2,024	0	0	0
Total Funding	**12,693**	**7,227**	**0**	**(5,416)**	**(50)**

Prudential Indicators (including Treasury Management)

5.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2021 stands at £24.804m and is forecast to reduce to £24.758m as at 31 March 2022. This level of borrowing is well within the Authorised Limit for external debt of £27.244m (the absolute maximum the Authority has agreed as affordable). No new external borrowing is planned in this financial year.

5.5 Investment returns in the quarter yielded an average return of 0.15% which outperforms the LIBID 3 Month return (industry benchmark) by 0.20%. It is forecast that investment returns from short-term deposits will under achieve the budgeted figure by £0.015m at 31 March 2022.

5.6 Appendix A of this report provides a summary of performance against all of the agreed Prudential Indicators for 2021-22, which illustrates that there is no anticipated breach of any of these indicators.

6. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

6.1. Total debtor invoices outstanding as at Quarter 3 were £0.680m table 6 below provides a summary of all debt outstanding as at 31 December 2021.

6.2. Of this figure an amount of £0.735m was due from debtors relating to invoices that are more than 85 days old, equating to 58.9% of the total debt outstanding.

TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	428,861	39.0%
29-56 days	40,700	4.0%
57-84 days	1,121	0.0%
Over 85 days	638,612	57.0%
Total Debt Outstanding as at 31 December 2021	**1,109,308**	**100.00%**

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

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	Total Value	Action Taken
Red One Ltd	51	£624,603	A repayment plan for 2021-22 has been agreed with the subsidiary company and is reviewed each quarter.

Various	13	£14,023	Invoices with small debtors are being chased using standard procedures and pursued with our debt recovery office where appropriate.

SHAYNE SCOTT
Director of Finance, People and Estates (Treasurer)

APPENDIX A TO REPORT RC/22/6

PRUDENTIAL INDICATORS 2021-22

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	**9.827**	**12.693**	**(5.416)**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**25.961**	**25.961**	**£0.000**
- Borrowing	24.758	24.758	
- Other long term liabilities	0.907	0.907	
External borrowing vs Authorised limit for external debt - Total	**25.665**	**25.665**	**(0.01)**
- Borrowing	24.758	26.189	
- Other long term liabilities	0.907	1.056	
Debt Ratio (debt charges as a %age of total revenue budget	**4.30%**	**5.00%**	**(0.70)bp**
Cost of Borrowing – Total	**1.054**	**1.054**	**(0.000)**
-Interest on existing debt as at 31-3-21	1.054	1.054	
-Interest on proposed new debt in 2021-22	0.000	0.000	
Investment Income – full year	**0.085**	**0.100**	**0.015**
	Actual (31 December 2021) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.15%**	**(0.05%)**	**(0.20)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (31 March 2022) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	0.38%	30.00%	2.00%	(29.63%)
12 months to 2 years	1.98%	30.00%	2.00%	(28.06%)
2 years to 5 years	12.65%	50.00%	13.00%	(45.89%)
5 years to 10 years	3.45%	75.00%	3.00%	(61.57%)
10 years and above	**79.55%**	**100.00%**	**80.00%**	**(22.17%)**
- 10 years to 20 years	14.93%			
- 20 years to 30 years	20.12%			
- 30 years to 40 years	44.50%			
- 40 years to 50 years	0.00%			

RESERVES DETAIL 2021/22 BY RESERVE

DSFRS Reserves in detail	Budget	Committed spend	Forecast spend	Balance remaining
	£'000	£'000	£'000	£'000
4 x 4 Replacement	68	10	21	47
Asset Management & Tracking	191	4	182	9
Attribute Based Response	33	-	32	0
Audit Assurance EMR	100	4	33	67
Budget Smoothing Reserve	1,831	-	-	1,831
Building Risk Rev Grant c/f	11	11	11	-
Capital Support from 2011/12	23,370	-	5,766	17,604
CLG USAR Grant	90	23	23	67
Communication	20	19	19	1
Covid 19 Grant Carry Forward	275	275	275	-
CRMP 2021	48	41	41	8
CT Irrecoverable Deficits	733	-	244	489
Digital Trans Strategy	1,394	839	969	425
Dignity At Work - HMICFRS	196	-	-	196
Environmental Strategy	308	40	40	268
ESMCP (reserve funding)	736	28	45	690
ESMCP Home Office Grant	611	-	-	611
Estate Conditional Survey	120	-	-	120
Grenfell Infrastructure grant	103	0	76	27
Haz Mat Det and ID Equip	117	100	100	17
Health and Safety Resource	100	11	13	87
HR Additional Resources	87	30	30	57
ICT Managed Switch Replacement	85	-	-	85
Information Governance FTC	46	2	13	33
Invest to Improve Reserve	1,269	11	285	984
Learn 2 Live	58	3	8	50
Livery and Blue Light fit out	60	45	45	15
Management of Risk Information	76	50	76	-
MDT Replacement	266	90	115	151
MTA Action Plan	200	46	92	108
NNDR Additional Reliefs	2,846	-	2,846	-
Office 365 Project	212	101	212	-
P4A Future Years Funding	1,442	-	902	540
Pay for avaliability	84	0	84	-
Pensions Admin Grant c/f	118	5	5	113
Pensions Reserve	1,231	-	200	1,031
People and Development	23	23	23	-
Performance Info System	230	-	-	230
Personal Misting Systems	101	-	6	95
PFI equalisation reserve	150	-	-	150
Prev Accred grant c/f	21	10	12	9
Prevention - Joint working Int	50	-	10	40
Preview Community Risk Team	49	32	43	6
Protection uplift grant c/f	257	91	257	-
Bequest Axminster Gym Equip	-	(10)	-	-
Risk Dependant Avaliability	4	-	4	1
Roving Vehicles	81	2	2	80
Selective Alerting	22	6	22	-
Service Delivery Op Model	15	-	-	15
SRT and WAH Equipment	85	64	78	7
Station Mobilising Equipment	380	-	380	-
Surestart/Action for Children	14	-	-	14
Temp accom for capital project	157	21	30	128
Topsham Relocation	60	1	11	50
Vehicle Telematics	190	-	4	187
Website Comp and Comms Strat	45	17	31	14
WT Duty System	2	-	-	2
	40,471	**2,043**	**13,732**	**26,739**

RESERVES DETAIL 2021/22 BY EXPENSE CODE

DSFRS Reserves in detail	Committed spend	Forecast spend
	£'000	£'000
Fire Protection Training Exter	10	12
Academy Other Training	-	17
External Trainer Hire	11	18
Acquisition Courses	2	2
Principal Officers Salary	182	210
Principal Officer Salary NI	22	25
Principal Officer Salary Super	49	57
Retained Retainers Old	-	11
Retained Overtime Old	-	4
Retained Pre-Arranged O/T Old	11	11
Retained NI Old	-	1
Admin/Manage Salary	145	209
Admin/Manage Overtime	-	9
Agency Staff Surveyors	29	29
Agency Staff Admin	751	853
Admin/Manage Removal Expenses	1	1
Admin/Manage Stand-by Pmnts	2	2
Admin/Manage Salary NI	14	19
Admin/Manage Salary Superan	22	32
Unforseen Other Contractor	2	2
Refuse Collection loc. sourced	-	1
Cleaning Contrct Main Contract	40	40
Rents - Non Building	5	5
Room Hire	-	-
Rents - Building/Station	21	25
Blue Light Fit-out and removal	45	45
Fuel (Petrol Etc)	-	-
Hired Transport	9	9
Casual Miles	-	-
Subsistence	-	-
Catering/Refreshments	-	2
Hotel Booking	6	6
Standard Equipment	93	5,249
Standard Equipment Other	5	5
ICT Desktop Service	33	229
ICT Application Services (Oth)	117	217
ICT Infrastructure Service	26	120
ICT Mobile Data Terminal Servi	90	115
BA Set Maintenance	1	1
Operational Equipment	19	22
Specialist Rescue Equipment	1	1
Water Safety	64	64
Radiation/gas monitoring	99	99
First Aid	7	7
ICT Mobs Service Equipment	6	21
ICT Mobile Telephony Service	-	4
External Prof Support/Advice	81	113
Partnerships	1	1
Corporate Membership/Subscript	-	10
Consultation Fees	22	22
Recruitment Advertising	4	4
Personnel Services	5	5
Capital Exp from Rev Account	-	5,766
Other Miscellaneous Income	(10)	-

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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