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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Our ref : RC/MP/SS
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Date : 15 November 2022
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday, 23rd November, 2022

A meeting of the Resources Committee will be held on the above date, **commencing at 10.00 am in Committee Room A, 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 5 September 2022 attached.

3 **Items Requiring Urgent Attention**

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

PART 1 - OPEN COMMITTEE

4 **Treasury Management Performance 2022-23: Quarter 2 (Pages 7 - 18)**

Report of the Director of Finance, People & Estates (RC/22/16) attached.

5 **Financial Performance Report 2022-23: Quarter 2 (Pages 19 - 34)**

Report of the Director of Finance, People & Estates (RC/22/17) attached.

6 **Exclusion of the Press and Public**

RECOMMENDATION that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exception of Officers of Red One Ltd. and Councillors 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:

- 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

7 **Red One Limited Financial Performance 2022-23: Quarter 2 (Pages 35 - 42)**

Joint Report of the Co-Chief Executives and Finance Director of Red One Ltd. (RC/22/18 attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Peart (Chair), Coles, Drean (Vice-Chair), Long, McGeough, Power and Sellis

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

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

5 September 2022

Present:

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

Apologies:

Councillors McGeough and Power.

* **RC/22/1** **Minutes**

RESOLVED that the Minutes of the meeting held on 18 May 2022 be signed as a correct record.

* **RC/22/2** **Treasury Management Performance 2022-23: Quarter**

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, People & Estates (Treasurer) (RC/22/12) that set out the Authority's performance relating to the first quarter of 2022-23 (to June 2022) in accordance with the Treasury Management in Public Service Code of Practice (published by the Chartered Institute of Public Finance and Accountancy {CIPFA}) and the CIPFA Prudential Code. The report set out how this Authority was demonstrating best practice in accordance with these Codes.

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

- There was economic volatility currently, the main driver of which was inflation driven largely by the position in Ukraine;
- The Bank of England was employing monetary policy in a bid to control inflation which was 10.1% currently and forecast to peak at around 14-18% later in 2023 before this dropped down again;
- UK bank base rate had been increased from 1.25% to 1.75% in August 2022 with quantitative easing being phased out gradually. Further interest rate rises were forecast and expected to peak now at around 2.75% in March 2024;
- The squeeze on income as a result of inflation was likely to slow the economy further into recession in 2023 for four quarters with an associated rise in unemployment (possibly to 6%);
- Interest rates were not forecast to rise in the next two years with no change in monetary policy;

- 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 £0.015m (0.73%) had been generated in quarter 1 of 2022-23, an underperformance against the new 3 month SONIA (Sterling Overnight Index) benchmark of 0.90% by 0.17bph. SONIA had replaced LIBID at the end of December 2022 and tended to trade at a higher average so it was anticipated that investment returns should improve and outperform the investment target at the year end;
- None of the Prudential Indicators (affordability limits) had been breached in quarter 1 with external borrowing at 30 June 2022 being £24.757m, forecast to reduce to £24.264m by the end of the financial year with no new borrowing undertaken.

It was noted that there would be opportunities forthcoming to review the Authority's early repayment of external borrowing as the rates for the Public Works Loans Board (PWLB) were improving.

Reference was made to the potential for much higher (than budgeted) public sector pay increases as a result of the peak in inflation. The Treasurer reported that the Government had been requested to provide additional funding to cover the anticipated increased pay awards but no response had been forthcoming as yet.

The Committee enquired about the potential for increased interest rates for the Authority's investments as set out within Appendix A of report AGC/22/12). The Treasurer advised that the Authority had seen an improvement in the interest rates offered already in quarter 2 of 2022-23 which would be reflected within the next report to this Committee.

The Committee welcomed the actions being taken to mitigate against downturn in economic performance being experienced currently.

*** RC/22/3** **Financial Performance Report 2022-23: Quarter 1**

The Committee received for information a report of the Director of Finance, People & Estates (Treasurer) (RC/22/13) that provided the Committee with details of the first quarter performance (to June 2022) against the agreed financial targets for 2022-23.

The Director of Finance & Resourcing (Treasurer) advised that, at this stage in the financial year, it was projected that spending would be £1.259m more than the budget of £77.289m at £78.548m representing an overspend of 1.63% of total budget. He added that it was relatively early in the financial year, however, and the Executive Board had implemented measures already to bridge this gap which included tightening spending against the agreed budget and seeking savings in the areas below including a review of how the crewing pool was resourced.

The drivers for this forecast overspend were largely due (amongst others) to:

- Wholetime pay - as a result of the additional 12 firefighter recruits who joined the Service in May 2022 where the training costs were not included - £0.185m;
- On Call Pay – budget assumptions regarding pension costs, national insurance and holiday pay were incorrect - £0.859m;
- Professional & technical support as a result of staffing costs for human resources associated with the Network Fire Services Partnership (NFSP) - £0.054m; and
- Communications equipment - £0.286m - of which £0.118m was because of unfunded increases in Airwave (the national blue light radio scheme) and £0.156m relating to alerter transmitters slippage from 2021/22.

This was offset by underspends in the following areas (amongst others):

- Training - £0.092m;
- Transport, repair and maintenance costs - £0.160m;
- Hydrants installation and maintenance - £0.054m.

The Committee noted that the Authority was within its prudential limits for external borrowing with the outstanding debt at £24.757 m forecast to reduce to £24.264m as at 31 March 2023. The capital programme was progressing well although there was a forecast overspend of £0.094m largely due to timing differences. The total debtor invoices outstanding at quarter 1 totalled £0.970m of which £0.4666m related to Red One Ltd.

The Committee asked about to the impact of the pension age discrimination remedy, noting that the full remedy would not be available until the requisite legislation was in place in October 2023. The Treasurer advised that there were 37 staff eligible to retire, all of whom had individual circumstances influencing their decisions. The Service was providing as much information as possible to each of these individuals to enable them to make an informed decision in terms of their retirement plans. The Chief Fire Officer added that the Service was confident that it would start to see some movement on impending retirements as a result of the clarification provided to the individuals concerned.

The Treasurer drew attention to the £1.350m of additional costs that may arise as a result of future pay awards for both operational and non-operational staff. It was noted that the National Fire Chiefs' Council (NFCC) had written to Government seeking funding to cover the additional costs associated with an increased pay award. In the event that additional funding was not forthcoming, the Authority would need to meet the budget deficit from Reserves. The Chief Fire Officer added that there were other areas that could be explored to bridge the budget deficit such as reducing the revenue contribution to capital of £1.2m, examining all of the reserves to check they were still required or could be repurposed and all Estate options.

The Committee welcomed the action being taken by the Service to manage the budget deficit on the 2022-23 revenue budget.

*** RC/22/4** **Service Environmental Strategy Update**

The Committee received for information a report of the Director of Finance, People & Estates (RC/22/14) that detailed progress on the Environmental Strategy and Action Plan.

It was noted that the Action Plan had been updated for 2022-25 to align to ISO140001 (Environmental Management) and following recommendations received from the initial Environmental review (IER) undertaken in October 2021. The IER contained the following recommendations:

- Continued development and implementation of the Environmental Strategy and Action Plan;
- Corrective action being taken over the high priority areas identified in the site visit report;
- Establishment of an environmental management system; and
- A review of each item on the environmental legislation annex to ensure the Service was fully compliant.

The Committee was advised that good progress had been made against the Action Plan which was set out at Appendix D of report RC/22/14. The Action Plan was accompanied by associated metrics (Appendix C of report RC/22/14).

Questions were raised on:

- whether there had been any investigation into the use of hydrogen in the future;
- an associated increase in insurance premiums as a result of the use of electric vehicles; and
- the affordability of diesel in the future bearing in mind the impact of the Ukraine situation.

The Head of Fleet and Procurement indicated that the Service was working closely with key partners to identify key risks going forward and undertook to take these points into consideration.

*** RC/22/5** **Exclusion of the Press and Public**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exception of representatives 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 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/22/6 Restricted Minutes of Resources Committee held on 18 May 2022**

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 18 May 2022 be signed as a correct record.

*** RC/22/7 Red One Limited Financial Performance 2022-23: Quarter 1**

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

The Committee received for information a report of the Co-Chief Executives and the Finance Director of Red One Ltd. on the financial performance of the company during quarter one of the 2022-23 financial year.

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

The Meeting started at 10.00 am and finished at 12.19 pm

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REPORT REFERENCE NO.	**RC/22/16**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**23 NOVEMBER 2022**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2022-23 – QUARTER 2**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2022-23 (to September 2022) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA’s Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 September 2022.
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 21 February 2022 – Minute DSFRA/11C 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 borrowing, investments, 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

2.1. The second quarter of 2022/23 saw:

- Gross Domestic Product (GDP) revised upwards in Quarter 1 of 2022/23 to +0.2% quarter on quarter (q/q) from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- Consumer Price Index (CPI) inflation ease to 9.9% Year on year (y/y) in August 2022, having been 9.0% in April 2022, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;

- Bank Rate rise by 100 basic points (bps) over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September 2022; and
- The UK economy grew by 0.2% q/q in Quarter 1 of 2022/23, though revisions to historic data left it below pre-pandemic levels.

2.2. There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% month on month {m/m}) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

2.3. The fall in the composite Purchasing Manager’s Index (PMI) from 49.6 in August 2022 to a 20-month low preliminary reading of 48.4 in September 2022 points to a fall in GDP of around 0.2% q/q in Quarter 3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August 2022, which was the ninth fall in 10 months. That left sales volumes in August 2022 just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August 2022, which was below the £3.9bn rise in July 2022 and much smaller than the 2019 average monthly rate of £4.6bn.

2.4. The labour market remained exceptionally tight. Data for July and August 2022 provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July 2022 (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June 2022 to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July 2022 itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July 2022, the 3my/y rate of average earnings growth rose from 5.2% in June 2022 to 5.5%.

2.5. CPI inflation eased from 10.1% in July 2022 to 9.9% in August 2022, though inflation has not peaked yet. The easing in August 2022 was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90 per barrel, we would expect to see fuel prices fall further in the coming months.

2.6. However, utility price inflation is expected to add 0.7% to CPI inflation in October 2022 when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October 2022 and have a big downward influence on CPI inflation.

2.7. Nonetheless, the rise in services CPI inflation from 5.7% y/y in July 2022 to a 30-year high of 5.9% y/y in August 2022 suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November 2022 and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

2.8. During Quarter 2 (Q2) 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January 2023 to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November 2022, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

2.9. Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November 2022 and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November 2022 but has subsequently been moved forward to an expected release date in October 2022. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

2.10. The Monetary Policy Committee (MPC) has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Federal Bank (Fed) and European Community Bank (ECB) raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

2.11. Since the fiscal event on 23rd September 2022, it is expected the MPC will increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November 2022 (to 3.25%) and 75 bps in December 2022 (to 4%) followed by further 50 bps hikes in February 2023 and March 2023 (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

2.12. Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. 2022 The rises in two-year gilt yields (to a peak of 2.37% on 21st June 2022) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October 2022. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October 2022. In other words, the Bank is restarting Quantitative Easing (QE), although for financial stability reasons rather than monetary policy reasons.

2.13. Since the Bank's announcement on 28th September 2022, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

2.14. There is a possibility that the Bank continues with QE at the long-end beyond 14th October 2022 or it decides to delay quantitative tightening beyond 31st October 2022, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

2.15. After a shaky start to the year, the Standard & Poors (S&P) 500 and FTSE 100 climbed in the first half of Q.2 of 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Interest rate forecasts

2.16. The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The Public Works Loans Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

2.17. The latest forecast on 27th September 2022 sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

2.18. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

2.19. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

3.1. The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 21 February 2022. It outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

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

3.3. As shown by the interest rate forecasts in section 2, rates have improved dramatically during Q1 and Q2 2022 and are expected to improve further as Bank Rate continues to increase over the next year or so.

Creditworthiness.

3.4. 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 have reopened, there have been some instances of previous lowering of Outlooks being reversed.

3.5. A full list of investments held as at 30 September 2022 are shown in Appendix A.

3.6. The average level of funds available for investment purposes during the quarter was £40.441m (£36.201m at the end of Quarter 1). 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 2
3 Month SONIA	1.56%	2.35%	£0.086m.

3.7. As illustrated above, the Authority out-performed the 3-month Sterling Overnight Index Average (SONIA) benchmark by 0.79bp. SONIA replaced LIBID at the end of December and has traded at a higher average rate than the LIBID benchmarks. Based on current market deposit rates on offer, it is currently anticipated that the actual investment return for the whole of 2022-23 will over recover the Authority's budgeted investment target of £0.100m by £0.449m. However, there is much volatility with interest rates at the moment, so this forecast is likely to be revised.

Borrowing Strategy

Prudential Indicators:

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

3.9. A full list of the approved limits (as amended) are included in the Financial Performance Report 2022-23, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to September 2022 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.10. The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 30 September 2022 was £24.711m, forecast to reduce to £24.264m 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 23.5 years.

Loan Rescheduling

3.11. No debt rescheduling was undertaken during the quarter. As per previous updates, the Authority will continue to work closely with our treasury advisors to explore any opportunities to repay existing loans, however the differential between current Public Works Loan Board early repayment rates and new loan rates, mean there is no financial benefit in undertaking premature loan repayment at this time. A number of options were run during Q2 2022 and will be kept under review, especially as bank rates are increasing.

New Borrowing

3.12. Gilt yields and PWLB rates were on a generally rising trend throughout Q2 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.

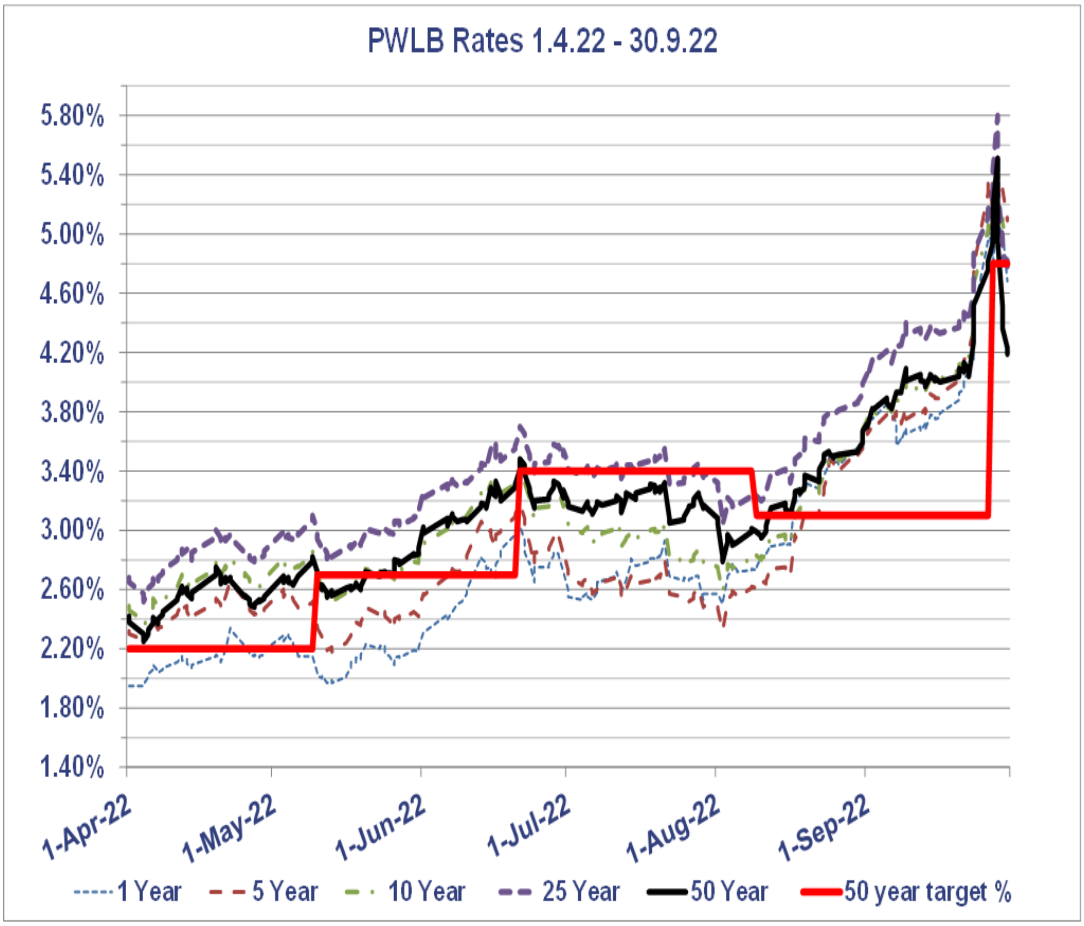
3.13. The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before finishing Q2 at 4.80%, albeit we forecast rates to fall-back to 3.10% by the end of September 2025.

3.14. No new borrowing was undertaken during the quarter and none is planned during 2022-23 as a result of the Authority's adopted financial strategy to utilise revenue funds (revenue budget and reserves) to finance capital investment needs for the medium term.

PWLB rates quarter ended 30 September 2022

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

3.15. Borrowing rates for this quarter are shown overleaf.



Borrowing in Advance of Need

3.16. 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 2022-23 to September 2022. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are recovering as a result of the increase in interest rates, the Authority is still anticipating that investment returns will meet the budgeted target, as rates were forecast to rise when the budget was set.

SHAYNE SCOTT
Treasurer

Investments as at 30 September 2022						
Counterparty	Maximum to be invested	Amount Invested	Maturity Date	Call or Term	Period invested	Interest rate(s)
	£m	£m				
First Abu Dhabi Bank	7.000	-4.000	23/03/2023	T	6 mths	2.01%
Standard Chartered Sustainable	7.000	-4.000	06/10/2022	T	6 mths	1.45%
Standered Chartered Sustainable	7.000	-1.000	28/10/2022	T	12 mths	1.79%
Sumitomo Mitsui Banking Corporation	7.000	-5.000	21/11/2022	T	12 mths	2.02%
Standered Chartered Sustainable	7.000	-2.000	06/01/2023	T	12 mths	2.11%
National Bank of Kuwait (International) PLC	7.000	-5.000	27/01/2023	T	6 mths	2.57%
Lloyds Bank	7.000	-2.000	27/02/2023	T	6 mths	3.00%
Heleba	7.000	-3.000	27/02/2023	T	6 mths	2.93%
Lloyds Bank	7.000	-5.000	23/12/2022	T	4 mths	2.29%
Heleba	7.000	-2.000	08/09/2023	T	12 mths	4.01%
Barclays Bank	8.000	-0.150		C	Instant Access	Variable
Aberdeen Standard	8.000	-3.000		C	Instant Access	Variable
Blackrock	8.000	-2.305		C	Instant Access	Variable
Total Amount Invested		**-38.455**				

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REPORT REFERENCE NO.	**RC/22/17**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**23 NOVEMBER 2022**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2022-23 – QUARTER 2**
LEAD OFFICER	**Director of Finance, People & Estates (Treasurer)**
RECOMMENDATION	***That the report be noted.***
EXECUTIVE SUMMARY	This report outlines second quarter performance against agreed financial targets for the current (2022-23) financial year. In particular, it provides a forecast of spending against the 2022-23 revenue budget with explanations of the major variations. At this stage in the financial year, it is forecast that spending will be £2.442m more than budget, an overspend of 3.16% of total budget. Some uncertainty remains over this years' pay awards and negotiations with unions and employer representatives continue. Budgeting assumptions have allowed for a 2% pay increase across our workforce but, in light of the wider economic challenges, it remains highly likely that an award in excess of this amount will ultimately be agreed as has been seen in other areas of the public sector. The Green Book staff (Professional & Technical) have agreed a flat increase of £1,925 per year, the negotiations for Grey Book staff (Wholetime and On-call firefighters) remains on-going at the time of writing this report. The agreed increase for Green Book staff is included within the forecast and an assumed 5% increase for Grey Book staff is also included. For ease of comparison, the reported quarter 1 position is shown alongside the figure in Table 2 to reflect the reduction in costs that the management interventions put in place early in the financial year have achieved.
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 2022-23. B. Reserves Position by Reserve C. Reserves position by Expense Code

BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the first quarterly financial monitoring report for the current financial year, based upon the position as at the end of September 2022. As well as providing projections of spending against the 2022-23 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

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

Table 1 –Performance against Key Financial Targets 2022-23

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 2	Previous Quarter	Quarter 1 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£77.289m	£79.731m	£78.548m	3.16%	1.63%
2	General Reserve Balance as % of total budget (minimum)	5.00%	5.24%	5.24%	(0.24)bp*	(0.24%)
	Capital Targets					
3	Spending within agreed capital budget	£8.580m	£8.672m	£8.674m	1.07%	1.45%
4	External Borrowing within Prudential Indicator limit	£25.765m	£24.757m	£24.757m	(3.91%)	(3.91%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	3.63%	3.63%	(1.37)bp*	(1.37)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2022-23.
- **SECTION B** – Capital Budget and Prudential Indicators 2022-23.
- **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 2022-23

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.

Table 2 – Revenue Monitoring Statement 2022-23

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2022/23

		2022/23 Budget £'000	Year To Date Budget £'000	Spending to Q2 £'000	Projected Outturn £'000	Projected Variance over/ (under) £'000	Movement Since Q1 £'000
	Employee Costs						
1	Wholetime	32,946	16,436	16,269	33,841	896	710
2	On-Call	18,381	8,327	8,835	20,257	1,876	1,017
3	Fire Control	1,513	752	737	1,568	55	59
4	Professional & Technical	15,808	7,898	7,494	15,962	154	100
5	Training	1,040	520	650	767	(273)	(181)
6	Fire Service Pension costs	2,358	1,311	1,381	2,487	129	114
		72,045	**35,243**	**35,366**	**74,883**	**2,838**	
	Premises						
7	Repair and maintenance	1,051	525	781	1,055	4	3
8	Energy costs	711	299	238	1,046	335	328
9	Cleaning costs	572	286	440	551	(21)	(35)
10	Rent and rates	1,933	1,136	1,840	1,961	29	(11)
		4,265	**2,246**	**3,298**	**4,613**	**347**	
	Transport						
11	Repair and maintenance	889	444	292	624	(265)	(105)
12	Running costs and insurances	1,253	810	734	1,393	140	90
13	Travel and subsistence	1,392	610	666	1,321	(71)	(32)
		3,534	**1,864**	**1,692**	**3,338**	**(197)**	
	Supplies & Services						
14	Equipment and furniture	4,216	2,108	2,055	3,774	(442)	(473)
15	Hydrants-installation and mainte	96	48	83	181	85	31
16	Communications Equipment	2,437	1,218	1,893	2,694	257	(29)
17	Protective Clothing	568	284	261	598	30	27
18	External Fees and Services	153	77	81	128	(25)	(4)
19	Partnerships & regional collabora	380	190	140	368	(12)	(13)
20	Catering	88	44	48	80	(8)	(3)
		7,937	**3,968**	**4,561**	**7,822**	**(115)**	
	Establishment Costs						
21	Printing, stationery and office ex	268	158	95	238	(30)	(26)
22	Advertising including Community	31	15	24	28	(3)	(3)
23	Insurances	447	445	263	462	15	18
		745	**618**	**382**	**728**	**(17)**	
	Payments to Other Authorities						
24	Support service contracts	818	371	337	963	145	2
		818	**371**	**337**	**963**	**145**	
	Capital Financing						
25	Loan Charges & Lease rentals	3,223	525	348	3,135	(88)	0
26	Revenue Contribution to Capital	1,200	-	-	1,200	-	-
		4,423	**525**	**348**	**4,335**	**(88)**	
	Income						
28	Investment Income	(103)	(52)	(86)	(552)	(449)	(333)
29	Grants and reimbursements	(10,690)	(5,345)	(5,548)	(10,794)	(104)	(45)
30	Other income	(1,474)	(737)	(443)	(1,357)	117	(42)
		(12,267)	**(6,133)**	**(6,077)**	**(12,703)**	**(436)**	
	Reserves						
32	Transfer to/(from) Earmarked Re	(4,212)	(2,106)	-	(4,212)	(0)	-
		(4,212)	**(2,106)**	**-**	**(4,212)**	**(0)**	
	Staff savings from leavers	-	-	-	(35)	(35)	17
	NET SPENDING	**77,289**	**36,597**	**39,905**	**79,731**	**2,442**	**1,183**

2.2. This table indicates that spending by the year end will be £79.731m, representing a predicted overspend of £2.442m equivalent to 3.1% of the total budget. It should be noted that ‘Spending to Q2’ represents actual year to date expenditure and those which have already been committed but not spent as yet. Additionally, the budget profile and actual costs for Service Delivery staff (i.e. Wholetime and On-call) appear low due to the time lag in claiming the hours worked – for instance, time worked in June is paid in July. This naturally catches up at year-end when there are 2 ‘payroll’ entries for March relating to claims worked in February and March.

2.3. These forecasts are based on the spending position at the end of September 2022, 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. It is inevitable, therefore, that final spending figures for the financial year will differ than those projected in this report.

3. NARRATIVE ON VARIANCES AGAINST BUDGET (>£0.050M)

Wholetime Pay – overspend of £0.896m

3.1. This overspend is mainly driven by the assumed pay award for grey book conditioned staff (firefighters and control room staff) of 5%. The annual pay award is due from 1st July so the additional cost covers the 9 months that are impacted during 2022/23 financial year. It is anticipated this will cost the Authority an additional £0.530m over the budgeted pay award which was 2%.

3.2. Due to a busy period over the summer months where the Service experienced a greater number of wildfires, the rate of casual overtime is greater than anticipated. This is expected to increase the costs by over £0.150m when compared to 2021/22.

3.3. A review has been undertaken of how the ‘crewing pool’ was resourced did see changes made which saw those providing this voluntary cover offered separate employment contracts to that of their primary fire fighter role. This change affords greater flexibility to the Service in how this resource is utilised, whilst negating the need to pay pre-arranged overtime. This has had a positive reduction in costs with the forecast being over £0.250m less than the cost for 2021/22.

On-Call Pay – overspend of £1.876m

3.4. As reported in previous months, it became apparent that the budgeting assumptions regarding pension costs, national insurance and holiday pay relating to Payment for Available (P4A) were understated which has, in part, contributed to this overspend position

3.5. As mentioned in paragraph 3.1 above, the additional costs resulting from the assumed pay award of 5% will increase costs by £0.580m.

3.6. However, an element of these overspends are off-set by savings on savings forecast against other pay lines of £0.907m – the most notable one being a forecast underspend on the Pay for Availability pay lines of £0.585m.

Fire Control – overspend of £0.055m

3.7. Pre-arranged overtime is forecasted to overspend by £0.062m as a result of above budgeted demand during the summer period. In addition, a £0.020m increase from the previous month reflects the inclusion of an assumed 5% pay award. However, this is offset by underspends in salaries (£0.027m).

Professional & Technical Staff – overspend of £0.154m

3.8. As a result of intervention of recruitment controls instigated by the Service in July of this year, as at Month 5 (August) the costs for this line were forecast to underspend by £0.164m.

3.9. However, this budget has now moved to a forecasted overspend position due to the inclusion of the pay-award of a flat rate of £1,925 for all 'green-book' employees totalling £0.452m which will be paid in November.

Training – underspend of £0.273m

3.10. This underspend on procured external training is as a result of spending controls which were implemented in July 2022, which require budget holders to pause on all non-essential discretionary spend, defined as any spend which is not underpinned by a statutory/ contractual obligation or activity and which does not directly support the Service Delivery strategy. This initiative has resulted in a saving of over £0.180m when compared against quarter 1.

Fire Service Pension Costs – overspend of £0.129m

3.11. Unexpected ill-health retirements has moved this budget line into a forecasted overspend position.

Energy Costs – overspend of £0.335m

3.12. Service energy (gas/ electricity) costs are forward purchased on a 12-month rolling period from 1 October to 30 September. Following a review by our supplier, the annual forecast costs have been increased by 0.327m over the prior month which reflects price increases in the wider market. Efforts are underway to encourage a reduction in energy consumption across the Service.

Transport repair and Maintenance – underspend of £0.265m

3.13. There is a large underspend associated with the fact the Service cannot replace as many lease vehicles as planned this year due to the manufacturer closing the order book. This has resulted in less blue-light fit-out costs of £0.266m coupled with a saving on livery of £0.025m. Spending controls will also likely see further reductions in this area. A necessary repair to one of the Area Ladder Platforms has materialised at a cost of £0.052m which has acted to off-set some of this underspend.

Running Costs and Insurances – overspend of £0.140m

3.14. An increase in vehicle fuel costs is expected to result in an overspend of £0.114m. Alongside this, a further overspend of £0.020m on insurance is expected.

Travel and Subsistence – underspend of £0.071m

3.15. Spending controls continue to drive down expenditure in this budget line which is leading to an expected underspend.

Equipment and Furniture – underspend of £0.442m

3.16. A large saving of £0.408m will be found due to a delay in the procurement of the 4x4 MRP's which won't be delivered during this year, therefore there is no requirement to purchase the associated equipment for them.

Hydrants-installation and maintenance – overspend of £0.085m

3.17. The budget allocation was reduced based on historical spend over the previous financial year. The forecast reflects the year-end position as the water companies are starting to catch-up on invoicing.

Communications Equipment - overspend of £0.257m

3.18. Airwave costs have increased by an average of almost 9.5% (the budget was for 1.47%) which has increased the costs by £0.118m. Previously, the expenditure for Airwave has been matched with a corresponding grant to cover the costs. However, the Service was notified in June that the Firelink grant was being phased out over 5 years starting from 2022/23. As such, not only have the costs increased but, the grant has reduced (paragraph 3.22 below refers). An overspend of £0.095m is also forecasted relating to alerter transmitters that were delayed in 2021/22 and will now hit the current year budget.

Support Service Contracts – an overspend of £0.145m

3.19. Almost all the overspend is as a result of an increase in costs associated with occupational health which is forecast to overspend by £0.130m based on the current consumption. An increase of £0.029m over the prior month has been reported due the Service joining the Devon Audit Partnership. However, this is partially offset by a reduction in the requirement for external personnel support (recruitment, access to work etc.)

Loan Charges & Lease Rentals – an underspend of £0.088m

3.20. Due to a relaxation in the implementation of a new Accounting Standard, there isn't a requirement to charge an element of leasing against loan charges. This has resulted in the forecasted underspend.

Investment Income – an over-recovery of £0.449m

3.21. The increase in interest rates has resulted in the Service achieving greater than budgeted returns in relation to the cash investments. More detail can be found within the Quarter 2 Treasury Management performance Report however, this line is outperforming the budget by £0.442m.

Grants and reimbursements – over-recovery of £0.104m

3.22. An additional grant of £0.294m for Protection Uplift has been received during this year of which wasn't expected. However, as indicated in paragraph 3.18 above, the Firelink grant allocation has been unexpectedly reduced by 20% - £0.189m, which has off-set some of the gains from the Protection Uplift grant.

Other income – under-recovery of £0.117m

3.23. This under-recovery has mainly been driven by loss of income in the amount of £0.369m due to be received from delivering training for Taunton and Bridgwater College. This reduction was the result of a change in our workforce requirements which meant that a reduced number of external apprentices were admitted on the May 2022 course and the cancellation of the September course. Additionally, there was a further loss of incentive payment from Government of £0.131m due to the Service recruiting significantly less firefighter apprentices than originally expected. This loss of income has been partially offset by the receipt of additional income from SWAST of £0.205m related to our continued support for Operation Bradewood. Finally, we have benefited from an unexpected return from Fire and Rescue Insurance Company (FRIC) totalling £0.050m and additional training income of £0.042 generated by USAR (Stn 60).

4. RESERVES, PROVISIONS AND PROPOSAL TO FUND FORECASTED OVERSPEND

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.

Proposal to fund forecasted £2.442m overspend

4.4. Formal approval to access reserves will be made to the Authority at the end of the financial year, but the Service anticipates funding this overspend through the following:

i. budget smoothing reserve (established for this very purpose several years ago): £0.674m

ii. pause in-year contribution to capital: £1.200m

iii. repurpose other ring-fenced reserves: £0.568m

4.5. A summary of predicted Reserves balances, reflecting the approved budget position and the proposal above on funding the overspend (para 4.4.) is shown in Table 3 below.

Table 3 – Forecast Reserves and Provision Balances

RESERVES AND PROVISIONS								
RESERVES	Balance as at 1 April 2022 £'000	Approved Transfers £'000	Proposed Transfers £'000	Spending so far £'000	Forecast Outturn 2022/23 £'000	Approved Balance as at 31 March 2023 £'000	Proposed Balance as at 31 March 2023	
Earmarked reserves								
Grants unapplied from previous years	(3,093)	-	-	219	2,051	(1,042)	(1,042)	
Invest to Improve	(2,619)	-		701	1,648	(971)	(403)	
Budget Smoothing Reserve	(1,831)	-	-	-	1,156	(674)	-	
Direct Funding to Capital	(19,032)	-	-	(10)	6,044	(12,988)	(11,788)	
Projects, risks, & budget carry forwards	-	-	-	-	-	-	-	
PFI Equalisation	(50)	-	-	-	-	(50)	(50)	
Emergency Services Mobile Communications Programme	(1,301)	-	-	23	58	(1,243)	(1,243)	
Breathing Apparatus Replacement	-	-		-	-	-	-	
Mobile Data Terminals Replacement	(168)	-	-	24	64	(104)	(104)	
Pension Liability reserve	(1,223)	-	-	140	140	(1,083)	(1,083)	
Budget Carry Forwards	(1,878)	-	-	214	1,393	(485)	(485)	
Environmental Strategy	(268)	-	-	24	72	(196)	(196)	
Uncategorised	-	-	-	-	-	-	-	
MTA Action Plan	(151)	-	-	8	71	(80)	(80)	
Total earmarked reserves	**(31,615)**	**-**	**-**	**1,344**	**12,698**	**(18,917)**	**(16,474)**	
General reserve								
General Fund (non Earmarked) Balance	**(4,050)**	**-**	**-**	**-**	**-**	**(4,050)**	**(4,050)**	
Percentage of general reserve compared to net budget								5.5%
TOTAL RESERVE BALANCES	**(35,665)**	**-**	**-**	**1,344**	**12,698**	**(22,967)**	**(20,524)**	
PROVISIONS								
Doubtful Debt	(55)		-	-	-	(55)		
Fire fighters pension schemes			-	-		-		

5. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2022-23

Monitoring of Capital Spending in 2022-23

5.1. Table 4 provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

5.2. At the end of Quarter 2, the Service is forecasting an overspend of £0.092m – which includes an optimism bias built in to allow for some timing differences. This overspend is within the authorisation limits delegated to the Treasurer. In the Estates department, £0.094m of additional funding has been identified to complete the rebuild of Plymstock Fire Station, the project commenced in October 2020. Timing differences (a slippage into the next financial year) are forecast to be £0.659m.

Table 4 – Forecast Capital Expenditure 2022-23

Capital Programme 2022/23					
PROJECT	2022/23 £000 Revised Budget	2022/23 £000 Forecast Outturn	2022/23 £000 Actuals	2022/23 £000 Timing Differences	2022/23 £000 (Savings)/ Over-spend
Estate Development					
Site re/new build	693	667	411	(120)	94
Improvements & structural maintenance	3,957	3,085	591	(870)	(2)
Estates Optimism bias	(800)		0	800	0
Estates Sub Total	**3,850**	**3,752**	**1,002**	**(190)**	**92**
Fleet & Equipment					
Appliance replacement	4,593	3,524	1,327	(1,069)	0
Specialist Operational Vehicles	820	420	0	(400)	0
ICT Department	317	317	0	0	0
Fleet Optimism bias	(1,000)		0	1,000	0
Fleet & Equipment Sub Total	**4,730**	**4,261**	**1,327**	**(469)**	**0**
Overall Capital Totals	**8,580**	**8,013**	**2,329**	**(659)**	**92**
Programme funding					
Earmarked Reserves:	5,715	4,800	0	(659)	(239)
Revenue funds:	1,500	1,848	22	0	331
Borrowing - internal	1,365	1,365	0	0	0
Total Funding	**8,580**	**8,013**	**22**	**(659)**	**92**

Prudential Indicators (including Treasury Management)

5.3. Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2022 stands at £24.711m and is forecast to reduce to £24.264m as at 31 March 2023. This level of borrowing is well within the Authorised Limit for external debt of £27.018m (the absolute maximum the Authority has agreed as affordable). No new external borrowing is planned in this financial year.

5.4. Investment returns in the quarter yielded an average return of 2.35% which out-performs the SONIA 3 Month return (industry benchmark) by 0.79%. It is forecast that investment returns from short-term deposits will over-achieve the budgeted figure by £0.449m by 31 March 2023.

5.5. Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2022-23, 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 1 were £0.970m. Table 5 below provides a summary of all debt outstanding as at 30 September 2022.

6.2. Of this figure, an amount of £0.486m was due from debtors relating to invoices that are more than 85 days old, equating to 60.7% of the total debt outstanding.

Table 5 – Outstanding Debt at End of Quarter

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	233,790	29.2%
29-56 days	48,356	6.0%
57-84 days	32,505	4.1%
Over 85 days	486.089	60.7%
Total Debt Outstanding as at 30 September 2022	**800,740**	**100.00%**

6.3. Table 6 overleaf provides further analysis of those debts in excess of 85 days old.

Table 6 – Debts Outstanding for more than 85 Days

	No	Total Value	Action Taken
Red One Ltd	32	£464,225	A repayment plan for 2022-23 has been agreed with the subsidiary company.
Various	3	£21,863	Invoices with debtors are being chased using standard procedures and pursued with our debt recovery office where appropriate.

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

PRUDENTIAL INDICATORS 2022-23

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	**8.672**	**8.580**	**0.092**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**25.961**	**25.055**	**£0.000**
- Borrowing	24.264	24.264	
- Other long term liabilities	0.791	0.791	
External borrowing vs Authorised limit for external debt - Total	**25.055**	**27.018**	**(1.962)**
- Borrowing	24.264	26.071	
- Other long term liabilities	0.791	0.947	
Debt Ratio (debt charges as a %age of total revenue budget	**3.63%**	**5.00%**	**(1.37)bp**
Cost of Borrowing – Total	**1.050**	**1.050**	**(0.000)**
-Interest on existing debt as at 31-3-2022	1.050	1.050	
-Interest on proposed new debt in 2022-23	0.000	0.000	
Investment Income – full year	**0.552**	**0.103**	**(0.449)**
	Actual (30 Sept 2022) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**2.35%**	**1.56%**	**(0.79bp)**

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	1.99%	30.00%	2.00%	(28.01%)
12 months to 2 years	1.85%	30.00%	2.00%	(28.15%)
2 years to 5 years	13.25%	50.00%	13.00%	(36.75%)
5 years to 10 years	1.11%	75.00%	3.00%	(73.89%)
10 years and above	**79.81%**	**100.00%**	**80.00%**	**(20.19%)**
- 10 years to 20 years	14.94%			
- 20 years to 30 years	27.06%			
- 30 years to 40 years	37.80%			
- 40 years to 50 years	0.00%			

RESERVES DETAIL 2022/23 BY RESERVE

DSFRS Reserves in detail	Budget £'000	Committed spend £'000	Forecast spend £'000	Balance remaining £'000
Asset Management & Tracking	159	159	159	(1)
Attribute Based Response	33	-	9	24
Audit Assurance EMR	60	18	25	34
Availability Systems	162	-	162	0
Budget Smoothing Reserve	1,831	-	1,156	674
Capital Support from 2011/12	19,032	-	6,044	12,988
CLG USAR Grant	66	11	11	55
CRMP 2021	2	-	-	2
CT Irrecoverable Deficits	733	-	244	489
Digital Trans Strategy	843	454	754	89
Dignity At Work - HMICFRS	195	13	19	175
Environmental Strategy	268	24	72	196
ESMCP (reserve funding)	768	-	35	733
ESMCP Home Office Grant	533	23	23	510
Estate Conditional Survey	120	-	120	-
Fleet Replacement	56	1	50	6
Future of Work	88	-	80	8
Grenfell Infrastructure grant	51	9	37	14
Haz Mat Det and ID Equip	17	-	18	(0)
Health and Safety Resource	99	59	89	10
HR Additional Resources	60	26	52	8
ICT Managed Switch Replacement	54	-	-	54
Information Governance FTC	36	15	31	6
Invest to Improve Reserve	994	-	470	524
Learn 2 Live	58	31	29	30
Livery and Blue Light fit out	15	-	-	15
Management of Risk Information	11	-	11	-
MDT Replacement	168	24	64	104
MTA Action Plan	151	8	71	80
NNDR Additional Reliefs	1,756	-	1,421	334
Office 365 Project	152	81	170	(18)
P4A Future Years Funding	204	-	204	-
Pay for avaliability	84	0	20	64
Pensions Admin Grant c/f	117	3	3	114
Pensions Reserve	1,223	140	140	1,083
Performance Info System	230	-	-	230
Personal Misting Systems	50	0	50	(0)
PFI equalisation reserve	50	-	-	50
Prev Accred grant c/f	10	4	5	6
Prevention - Joint working Int	50	7	50	-
Protection uplift grant c/f	301	161	301	0
Bequest Axminster Gym Equip	-	(10)	0	(0)
SRT and WAH Equipment	20	6	20	(0)
Station Mobilising Equipment	380	-	380	-
Temp accom for capital project	130	12	21	109
Topsham Relocation	58	5	5	53
Vehicle Telematics	115	48	63	52
Website Comp and Comms Strat	20	10	10	10
	31,615	**1,344**	**12,698**	**18,917**

RESERVES DETAIL 2022/23 BY EXPENSE CODE

DSFRS Reserves in detail	Committed spend £'000	Forecast spend £'000
Fire Protection Training Exter	3	4
External Trainer Hire	13	32
Principal Officers Salary	96	212
Principal Officer Salary NI	11	25
Principal Officer Salary Super	24	52
Retained Overtime Old	-	8
Retained NI Old	-	2
Admin/Manage Salary	150	290
Agency Staff Admin	397	657
Admin/Manage Salary NI	15	29
Admin/Manage Salary Superan	165	191
Unforseen Other Contractor	-	40
Rents - Non Building	13	19
Rents - Building/Station	12	16
Catering/Refreshments	-	(2)
Hotel Booking	-	1
Standard Equipment	194	2,051
ICT Application Services (Oth)	-	162
ICT Infrastructure Service	66	483
ICT Mobile Data Terminal Servi	24	64
Operational Equipment	15	77
Specialist Rescue Equipment	6	20
ICT Sat Nav Serv/Vehicle track	48	63
Uniforms Other	2	2
External Prof Support/Advice	56	104
Partnerships	7	51
Personnel Services	3	3
Capital Exp from Rev Account	-	4,800
Other Miscellaneous Income	(10)	-
Transfer to/from Reserves	-	3,239
ICT Network Service	23	23
Legal Services	1	1
Agencies/OLA Income	-	(31)
Non-Uniformed Training	10	10
	1,344	**12,698**

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

Agenda Item 7

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