DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

To: The Chair and Members of the Resources Committee

(see below)

SERVICE HEADQUARTERS
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Your ref :		Date :	27 January 2023	Telephone :	01392 872200
Our ref :	RC/MP/SS	Please ask for :	Sam Sharman	Fax :	01392 872300
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Monday, 6th February, 2023

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 23 November 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 2023-24 Revenue Budget and Council Tax Level (Pages 7 - 20)

Report of the Director of Finance, People and Estates (Treasurer) and Chief Fire Officer (RC/23/1) attached.

5 Capital Strategy (Pages 21 - 30)

Report of the Director of Finance, People & Estates (Treasurer) (RC/23/2) attached.

6 Capital Programme 2023-24 to 2025-26 (Pages 31 - 40)

Report of the Director of Finance, People & Estates (Treasurer (RC/23/3) attached.

7 Treasury Management Performance 2022-23: Quarter 3 (Pages 41 - 52)

Report of the Director of Finance, People & Estates (Treasurer) (RC/23/4) attached.

8 Financial Performance Report 2023-24: Quarter 3 (Pages 53 - 66)

Report of the Director of Finance, People & Estates (Treasurer) (RC/23/5) attached.

9 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 Limited and Councillors Radford and Shayer {Authority appointed Non-Executive Directors of Red One Limited}) 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

10 Red One Ltd. Financial Performance 2022-23: Quarter 3 (Pages 67 - 76)

Report of the Co-Chief Executives of Red One Limited and Director of Finance (RC/23/6) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Peart (Chair), Aspinall, Coles, Drean (Vice-Chair), Long, 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)

23 November 2022

Present:

Councillors Peart (Chair), Drean (Vice-Chair), Long, Sellis and Trail BEM (vice Power).

Apologies:

Councillors Coles and Power.

In attendance:

Councillor McGeough (attended virtually).

* **RC/22/8** **Minutes**

RESOLVED that the Minutes of the meeting held on 5 September 2022 be signed as a correct record.

* **RC/22/9** **Treasury Management Performance 2022-23: 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, People & Estates (Treasurer) (RC/22/16) that set out the Authority's performance relating to the second quarter of 2022-23 (to September 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 had been a further rise in inflation since quarter 1 of 2022-23 which was squeezing economic growth. Inflation was at 11.1% currently and would have been higher but for the action taken by the Government to limit the impact of the rise in energy costs;
- The UK bank base rate rose by over 100 basic points in quarter 2 to 2.25%, rising again on 2 November 2022 to 3%. Further interest rate rises were forecast in December 2022 (3.5%), January 2023 (4%) and expected to peak now at around 4.5% in June 2023 due to the monetary policy instigated. All of the world economies were tightening interest rates in a bid to control spending;
- The situation in China with Covid was impacting supply chains;
- The squeeze on income as a result of the high level of inflation was slowing the economy into recession in 2023 which was likely to last for four quarters;

- Unemployment had fallen from 3.8% in June 2022 to a 48 year low of 3.6% in quarter 2 of 2022-23 with the number of vacancies levelling off from recent record highs. There was little sign of a slowing in the upward trend in wage growth, however, which had risen to 5.5% in July 2022;
- 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 had improved due to the interest rate rises with an increase to £0.086m (2.35%) generated in quarter 2 of 2022-23, outperforming the new 3-month SONIA (Sterling Overnight Index) benchmark of 1.50% by 0.85bph. 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 would outperform the investment target at the year-end;
- None of the Prudential Indicators (affordability limits) had been breached in quarter 2 with external borrowing at 30 September 2022 being £24.711m, forecast to reduce to £24.264m by the end of the financial year with no new borrowing undertaken.

It was noted that the Treasurer had looked at opportunities to review the Authority's early repayment of external borrowing with the Public Works Loans Board (PWLB), however, the early repayment rates and new rates meant there was no financial benefit to be achieved currently. The Service was looking closely at its investments in future and would be bringing forward a strategy to the Committee which may have a more ethical outlook for consideration in due course.

*** RC/22/10** **Financial Performance Report 2022-23: Quarter 2**

The Committee received for information a report of the Director of Finance, People & Estates (Treasurer) (RC/22/17) that provided the Committee with details of the second quarter performance (to September 2022) against the agreed financial targets for 2022-23.

The Director of Finance, People & Estates (Treasurer) advised that, at this stage in the financial year, it was projected that spending would be £2.442m more than the budget of £77.289m at £79.371m, representing an overspend of 3.16% of total budget. He added that this overspend was lower than anticipated due to the measures implemented by the Executive Board already which included tightening spending against the agreed budget and seeking savings wherever possible.

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

- Wholetime pay - as a result of the anticipated pay award for Grey Book staff form 1 July 2022 with 2% budgeted and 5% expected - £0.896m;
- On Call Pay – budget assumptions regarding pension costs, national insurance and holiday pay were understated combined with the impact of a pay award at 5% - £1.876m;

- Professional & technical staff pay – there had been savings generated due to the action taken by Executive Board to freeze vacancies resulting in an underspend of £0.167m initially but this position had moved to a forecast overspend due to the impact of the Green Book pay award - £0.154m;
- Energy costs – overspend of £0.335m;
- Communications equipment - £0.257m - of which £0.118m was because of unfunded increases in Airwave (the national blue light radio scheme) and £0.095m relating to alerter transmitters slippage from 2021/22.

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

- Training - £0.273m;
- Transport, repair and maintenance costs - £0.265m;
- Equipment and furniture - £0.442m.

The Committee noted that it would be asked to consider how it was going to bridge the gap to ensure a balanced budget at the end of the 2022-23 financial year. This was likely to include a recommendation to use the budget smoothing reserve (£0.674m) and pausing the in-year contribution to capital (£1.200m), together with the repurposing of other ring fenced reserves (£0.568m) if the gap was not closed further in the meantime.

The Treasurer advised that the Authority was within its prudential limits for external borrowing with the outstanding debt at £24.711m forecast to reduce to £24.264m as at 31 March 2023. The capital programme was progressing well although there was a forecast overspend of £0.092m largely due to timing differences. The total debtor invoices outstanding at quarter 2 totalled £0.801m of which £0.464m related to Red One Ltd.

The Committee expressed concern at the impact of the £0.118m unfunded increases in Airwave (the national blue light radio scheme) costs (9.5% increase when budgeted for 1.47%) and the associated reduction in Firelink grant which was being phased out over 5 years starting in 2022-23. It was suggested that Government should be lobbied on the reduction in grant whereupon:

Councillor Sellis **MOVED** (seconded by Councillor Peart):

> "that the Chair of the Fire Services Management Committee of the Local Government Association be requested to lobby the Government on the reduction in grant for Airwave costs".

Upon a vote, this was **CARRIED** unanimously.

Attention was drawn to the point that there may be a need to increase the number of counselling sessions paid for by the Service which was currently limited to 6 in order to encourage an early return to work for staff with mental health issues. The Treasurer replied that 6 sessions had been agreed with the Occupational Health provider as the number in which it was reasonably expected that such issues could be resolved. The Service could request extensions in individual cases but urged caution on extending this as a blanket approach. The Chief Fire Officer added that this was an issue for the People Committee to consider and he indicated he would refer the matter accordingly.

Reference was also made to the position on the cap on increases in Council Tax in 2023-34 announced in the recent mini Budget. The Chief Fire Officer reported that it was understood that the cap had been increased to 3% for the 2023-24 budget but this would only amount to approximately £0.500m of extra funding for the Fire & Rescue Authority which was insufficient to bridge the expected budget deficit. He added that, with pay increases circa 5% expected in future years, action was being taken to lobby local Members of Parliament for the flexibility to increase the council tax beyond 3%. The Treasurer added that this was critical when combined with the high levels of inflation and associated price increases on energy and vehicle leasing costs currently being experienced.

The Committee welcomed the action being taken by the Service to manage the budget deficit on the 2022-23 revenue budget and expressed thanks to everyone involved.

RESOLVED

(a). that the Chair of the Fire Services Management Committee of the Local Government Association be requested to lobby the Government on the reduction in grant for Airwave costs;

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

* RC/22/11 <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 representatives of Red One Ltd.) be excluded from the meeting for the following item of business on the grounds that it 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/22/12 Red One Limited Financial Performance 2022-23: Quarter 2**

An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public (with the exception of 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. (RC/22/18) on the financial performance of the company during quarter two of the 2022-23 financial year.

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

The Meeting started at 10.00 am and finished at 12.25 pm

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REPORT REFERENCE NO.	**RC/23/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**6 FEBRUARY 2023**
SUBJECT OF REPORT	**2023-24 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 2023-24 for a Band D property be set at £91.79, as outlined in Option A in this report, representing no increase over 2022-23, and that accordingly a Net Revenue Budget Requirement for 2023-24 of £82,538,300 be approved;*** ***OR*** ***(ii). that the level of council tax in 2023-24 for a Band D property be set at £96.79, as outlined in Option B in this report, representing a £5 increase over 2023-24, and that accordingly a Net Revenue Budget Requirement for 2023-24 of £85,678,970 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 £57,657,301 (Option A) OR £60,798,018 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;*** ***(ii). the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and*** ***(iii). that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances', as set out at Appendix B to this report, be endorsed.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 11 March each year.

	In the 2023-24 Local Government Finance Settlement the fire sector has, for the first time, been given the option to increase Council Tax, for 2023-24 only, by up to £5 to assist with the pressures seen from inflation and pay awards. If this increase is exceeded, it would trigger the need to hold a referendum. This report considers potential options A and B below for Council Tax in 2023-24: OPTION A – Freeze Council Tax at 2021-22 level **(£91.79 for a Band D Property).** OPTION B – Increase Council Tax by maximum permitted of £5 above 2022-23 **(increase of 5.45% pa to £96.79 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 15 February 2023. Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2023-24 and therefore, the figures will be subject to change. The impact of any changes will be reported at the meeting.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2023-24. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
LIST OF BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

1.1. The draft budget for 2023-24 provides an opportunity to support reform of Devon & Somerset Fire & Rescue Service (the Service) now and in the future. In January 2020 a number of significant changes to the Service Delivery Operating Model were approved by the Authority which better aligned resources to risk. In order to balance the budget, a number of professional staff posts have been removed from the establishment for 2023-24 coupled with a suspension for one year of the revenue contribution to capital.

1.2. It is a legislative requirement that the Devon & Somerset Fire & Rescue Authority (the Authority) sets a level of revenue budget and Council Tax for the forthcoming financial year, before 11 March, in order that it can inform each of the eleven Council Tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2023-24. 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.

1.3. 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.

1.4. On 19 December 2022, the Department for Levelling Up, Housing and Communities (DLUCH) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2023-24. For the first time, the fire sector has been given the option to increase Council Tax, for 2023-24 only, by up to £5 to assist with the pressures seen from inflation and pay awards. If this increase is exceeded, it 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 2023-24

2.1. The provisional Local Government Finance Settlement for 2023-24 was announced on 19 December 2022, 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 2023-24 of 5.62% over 2022-23 but an overall reduction of 19.67% 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%
2023-24	23.819	1.268	5.62%
Reduction over 2015-16		**-5.594**	**-19.67%**

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 £0.445k for 2023-24.

2.4. There are other Section 31 grant funds, allocated to reduce the impact the impact of the increase in social costs of £0.7m which is included within the revenue budget as income.

3. COUNCIL TAX AND BUDGET REQUIREMENT 2023-24

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 2023-24, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2022-23 level (£91.79 for a Band D Property);
- **OPTION B** – Increase Council Tax by £5.00 (5.45%) above 2022-23 - an increase of just under 42p a month, to £96.79 for a Band D Property.

3.2. The Authority could decide to set any alternative level below £5.00. Each 1% increase in Council Tax represents an 92p a year increase for a Band D property, and is equivalent to a £0.628m 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 £5.00 threshold.

3.3. It should be noted that, at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2023-24 and therefore, the figures in Table 2 will be subject to change. The impact of any changes will be reported at the meeting.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2023-24

	OPTION A Council Tax Freeze at £91.79 £m	OPTION B Council Tax Increase of £5 to £96.79 £m
TOTAL FUNDING 2022-23	**77.289**	**77.289**
Increase in Formula Funding	0.987	0.987
Increase in Retained Business Rates from Business Rate Retention System*	2.788	2.788
Changes in Council Tax Precept		
- Increase in Council Tax Base	0.949	0.949
- resulting from an increase in Council Tax	-	3.141
- Increase in Share of Billing Authorities Council Tax Collection Funds	0.525	0.525
TOTAL FUNDING AVAILABLE 2022-23	**82.538**	**85.679**
NET CHANGE IN FUNDING	**5.249**	**8.390**
*at time of producing the paper not all information is available from local authorities		

Council Tax Base

3.4. The total increase in government funding through the revenue support grant and of £0.987m is in-line with inflation of 10.1% and comes after significant reductions amounting to 11.37% since 2015-16. The Service has seen an increase in the Council Tax base of just over 1.6%. The Authority's share of Council Tax collection fund surplus has increased to £1.062m from £0.537m the previous year.

Retained Business Rates

3.5. The Service considers that funding available from business rates has stabilised on the previous year.

Net Budget Requirement

3.6. Table 3 overleaf provides a summary of the Core Budget Requirement for 2023-24. 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 2023-24

	£m	£m
Net Revenue Budget 2022-23		**77.289**
PLUS Provision for pay and price increases (Pay award assumed 2%)	5.371	
PLUS funding adjustments	2.792	
PLUS Inescapable Commitments	(0.587)	
LESS Reduction in Professional staff posts and licence fees	(1.082)	
PLUS New Investment	2.104	
PLUS increase in income	(0.208)	
INCREASE in budget requirement over 2022-23		**8.390**
Core spending requirement 2022-23		**85.679**

3.7. 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

3.8. As is indicated in Table 3, the Revenue Budget Requirement for 2023-24 has been assessed as £85.679 This is more than the amount of funding available under Option A and therefore cuts or additional funding needs to be identified in order that a balanced budget can be set.

TABLE 4 – PROPOSALS TO BALANCE THE BUDGET 2023-24

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A £m	OPTION B £m
Funding Available	82.538	85.679
LESS Net spending requirement 2022-23	85.679	85.679
Shortfall	(3.141)	**(0.001)**
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	0.000	0.000
Transfer from Reserves – in order to balance the budget, the budget smoothing reserve will be used	3.142	0.000
Total	**0.000**	**(0.000)**

3.9. Whilst the Service is confident that the budget can be balanced if Council Tax is increased in line with Option B, there will be a budget shortfall of £3.142m in the coming year if it is frozen. Should Council Tax be frozen, the Authority would utilise its capital reserves to fund the gap in the short term while a plan to implement spending reductions across all areas of the Service is developed.

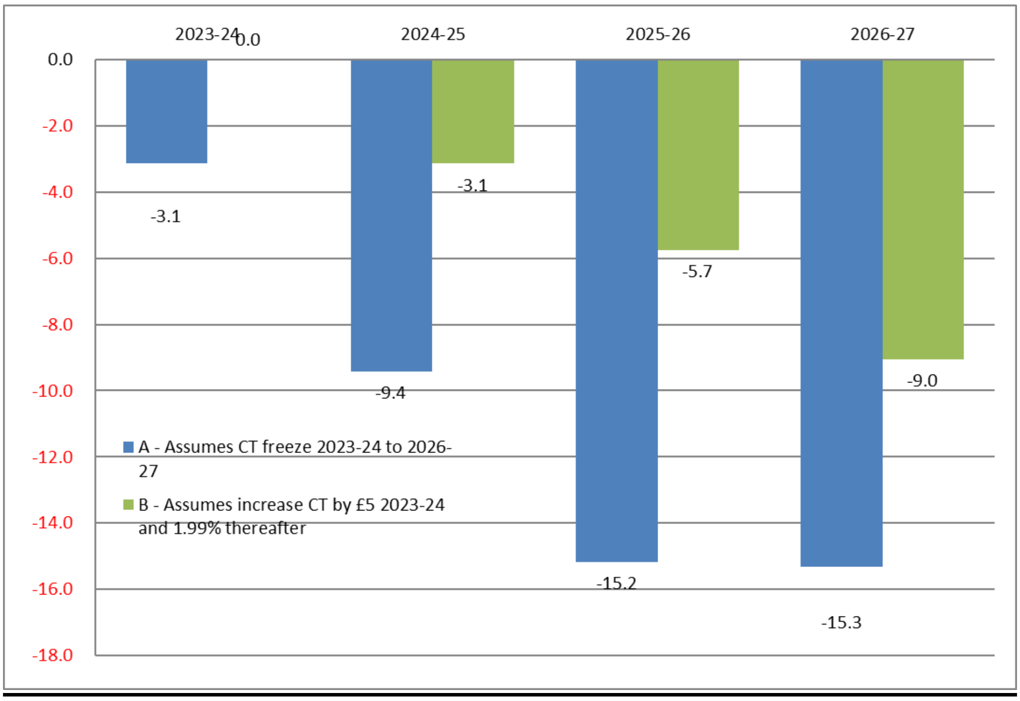
3.10. There is significant risk attached to Option A, as this proposal will draw down against the capital funding reserve, meaning it will not be available to meet the future capital programme and the scale of efficiencies required would see reductions made to front line services.

4. MEDIUM TERM FINANCIAL PLAN

4.1. Given that the 2023-24 provisional Local Government Settlement is a one year settlement, the future funding position is less certain. 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 2023-24 to 2025-26. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2023 TO 2027 (BASE CASE) - £MILLIONS



4.3. Chart 1 illustrates that further savings will be required beyond 2023-24 to plan for a balanced budget over the next three years to 2026-27. Should the Authority decide to freeze Council Tax in 2023-24 (Option A) and the following three years then the MTFP forecasts that total savings of up to £15.3m need to be planned for.

4.4. For year 2024-25, it is looking likely that most District & Unitary Councils in Devon and Somerset will enforce the option to charge a 100% council tax premium on second homes once the legislation allows. Officers are working with the Councils to get an understanding of the favourable impact this could have for the Authority.

Authority Plan 2023 onwards

4.5. This budget report proposes a balanced budget for the next financial year 2023-24 including proposals as to how budget savings can be achieved.

4.6. Looking beyond 2023-24 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.

4.7. 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

- Evidencing value for money of our services.

5. PRECEPT CONSULTATION 2023-24

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 October and November 2022 and involved:

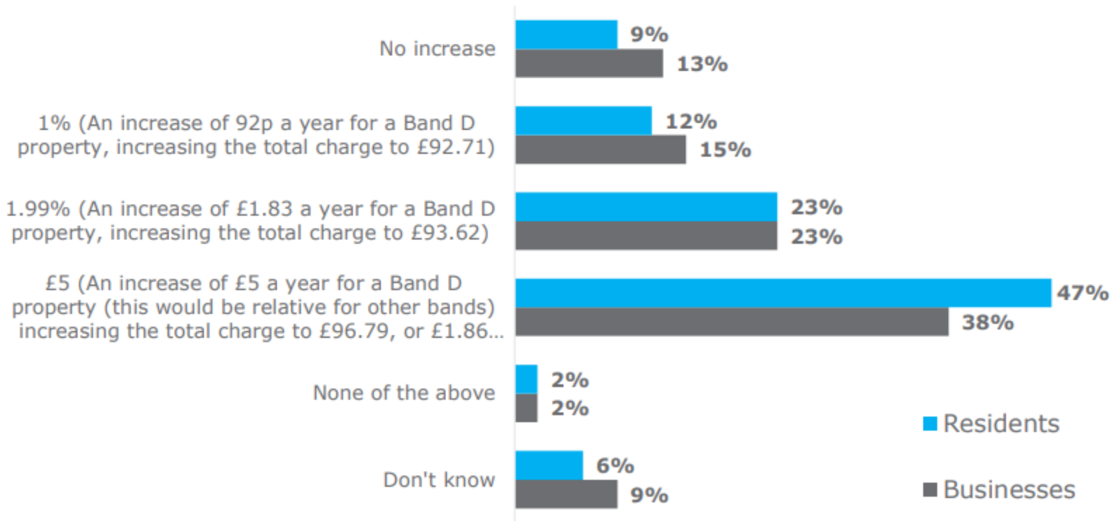
5.4. A telephone survey of 402 business and 400 residents.

Results from the Telephone Survey

5.5. 67% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2023-24, while 15% disagreed that it is reasonable for them to do so, resulting in a net agreement of +52%.

5.6. 78% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2023-24, while 11% disagreed, giving a net agreement of +67%.

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 2023-24)

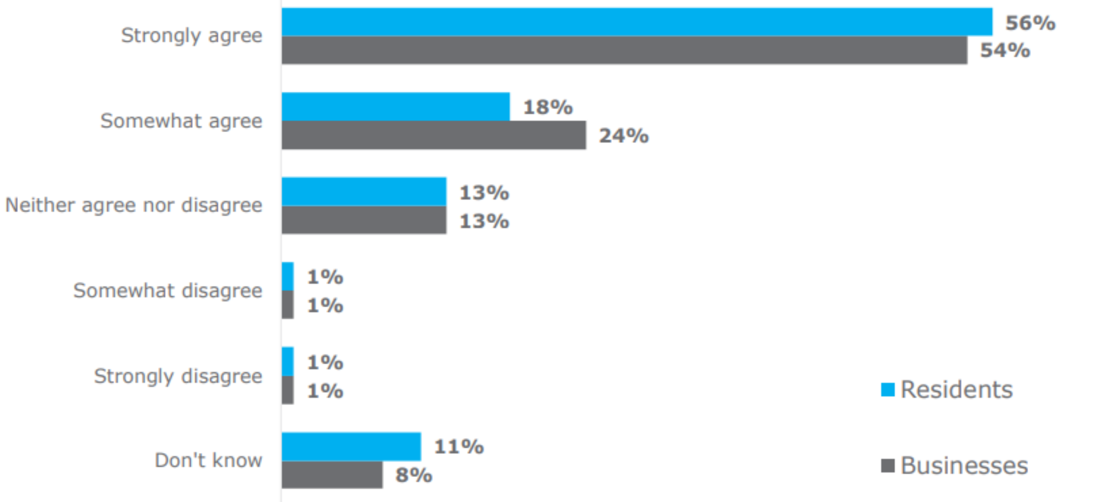


5.7. Of those respondents who agreed that a Council Tax increase would be reasonable 38% of businesses and 47% residents would support an increase of £5

Providing Value for Money

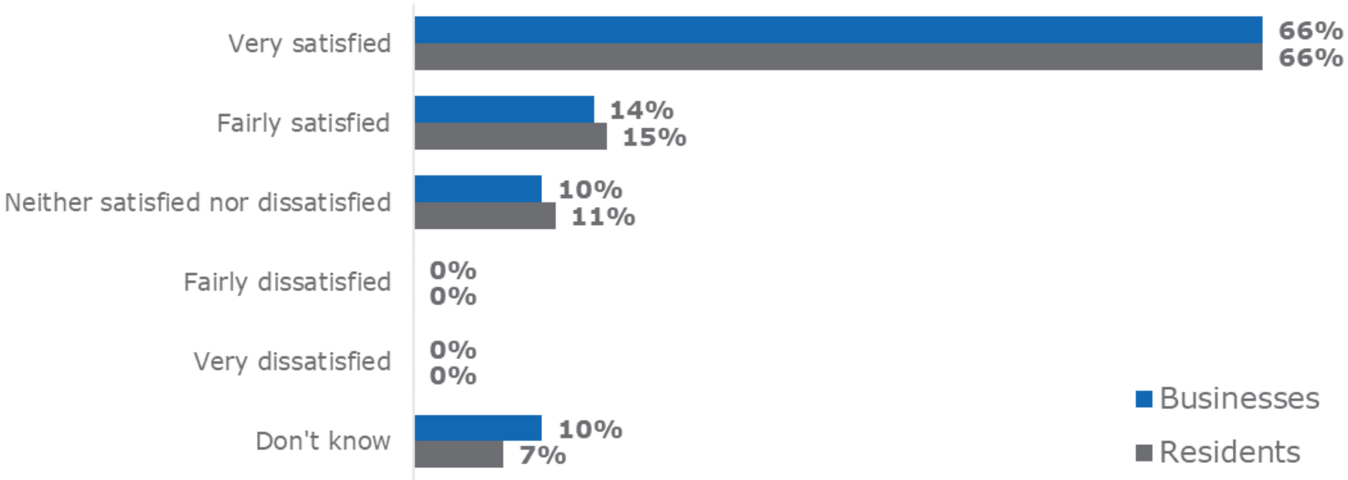
5.8. The consultation asked the responder if they felt the Fire Service provided value for money. The results in Chart 3 indicate 64% of businesses and 66% of residents strongly agreed.

<u>Chart 3: Question 1 Results of agreement to consider increasing the precept</u>



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.

<u>Chart 4: Satisfaction with the service provided by DSFRS</u>



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 2023-24. 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 2023-24 by 11 March so that it can meet its statutory obligation to advise each of the fourteen billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.

7.2. The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the Authority, to be held on the 15 February 2023.

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

APPENDIX A TO REPORT RC/23/1

	Row Numb	£'000	2023/24 £000	%
Approved Budget 2022-23			**77,289.0**	
Provision for pay and prices increase				
Grey Book Pay Award (5 % July 22, assume 2% from July 2023)	1,2,3	2,508		
Green Book Pay Award (Assume approx. 4.5% April 22 and 2% April 23)	4	582		
Prices increases (assumed 5.0% CPI from April 2023)	non-pay	2,175		
Pensions inflationary increase (tracks CPI - 3.2%)	6	106		
LGPS ER's increase of 1% (end of 3 year discount period)	1b			
			5,371	6.9%
Funding Adjustments				
Revenue Contribution to Capital	26	-1,150		
Reduction in transfers from Reserves	32	3,942		
			2,792	
Inescapable Commitments				
Support Staff Increments	4	126		
Unforeseen budget requirements (savings)		-713		
			-587	
New Investment				
On Call Pay for availability	2	1,344		
Operational staff including control	1 & 3	758		
Reduction in Professional Staff establishment	4	-943		
ICT Service Delivery (Office 365 licence)	16	-139		
			1,020	
Income				
Increase in investment interest		-425		
Reduction in Firelink grant		374		
Red One Income		283		
Section 31 grants	29	-418		
			-186	
Anticipated savings				
Implementation of staffing reductions linked to IRMP				
Pensions - anticipate reduced Ill Health/ Injury leavers	6	25		
Professional subscriptions		-17		
Decrease in minumum revenue provision	25	-30		
			-22	
CORE BUDGET REQUIREMENT			**85,679.0**	

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 2023-24 BUDGET

The net revenue budget requirement for 2023-24 has been assessed as £85.679 (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 Community 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 2023, 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 pay award for operational staff which is yet to be agreed. 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 and energy are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

Local government and the fire sector are entering a period of significant uncertainty over funding and cost pressures such as pay awards, going forward. Unfunded pension schemes and legal challenges over pension terms represent a significant risk to the Authority. 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 2023-24 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 2023-24 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2023-24 £m	*RISK AND IMPACT*	MITIGATION
Service Delivery staff costs	61.1	There is a high level of uncertainty around 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 £0.590m of additional pressure on the revenue budget.	Funding decisions for this model will need to be considered for future years.
Fire-fighter's Pensions	2.5	Whilst net pension costs funded by the government through a top-up grant arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a 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 increased to take into account the rising cost of fuel. The Service I s investing in new ways of working associated with the environmental strategy so will be introducing electric vehicles during 2023-24	General Reserve
Treasury Management Income	(0.5)	As a result of the economic downturn, the increase in bank rates over the last 12 months has seen a resultant increase in investment returns. The ability to generate much higher levels of investment returns over previous years has been achieved. This has resulted in an increase in the budget of £0.5m.There is a risk that market conditions could reduce should bank rates start to come down quicker than currently predicted.	The target income has been set at a prudent level of achieving only a 0.3% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.7)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £1.4m of external income. Due to economic uncertainty this budget line may be at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible. A modest 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	0.1	This amount from the revenue budget has been temporarily suspended to support the revenue budget. However, £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, £13.5m Capital Reserve

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2022 was £35.6m made up of Earmarked Reserves (committed) of £31.6m, and General Reserve (uncommitted) of £4.1m. 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 £4.1m is equivalent to 5.5% of the total revenue budget for 2022-23 or 19 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.

The Authority used an element of the general reserve during 2021-22 however, the pleasing note is there is no requirement to call on them for 2022-23 or 2023-24 to fund emergency spending. The plan being to increase the general reserve to ensure the 5% level is maintained as a minimum. 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 2023-24 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)

REPORT REFERENCE NO.	**RC/23/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**6 FEBRUARY 2023**
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 required 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 Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.

2. CAPITAL EXPENDITURE

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

3. CAPITAL EXPENDITURE COMPARED TO TREASURY MANAGEMENT INVESTMENTS

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

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

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

4. CAPITAL REQUIREMENTS

4.1. This Authority has experienced significant revenue grant reductions since 2010 and no longer receives any capital grant. With further revenue grant reductions a possibility and increasing cost pressures, new ways of working are being implemented so that the Service can address the risks within our communities and balance the budget. The 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 have been considered through the recently published Community Risk Management Plan (CRMP) for years 2022-2027, 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 2023-24 year, the Service will have 112 front-line fire engines, of which 19 have surpassed their recommended economic life, and 21 Special Appliances. Of the 21 Special Appliances, an order has been placed to replace three aged Aerial Ladder Platforms with an anticipated delivery Q1 2024. 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 Project Board considers variations to plan and monitors milestones.

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

5.4. Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure.
- Identified need – e.g. vital repairs and maintenance to existing assets.

- Achievability – this may include alternatives to direct expenditure such as partnerships.
- Affordability and resource use – to ensure investment remains within sustainable limits.
- Practicality and deliverability.
- Resource time is assessed when considering projects to ensure both delivery of projects and day-to-day work is covered.

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

6. THE SERVICE CAPITAL PROGRAMME 2023-24 – 2027-28

6.1. The Service capital programme for 2023-24 – 2027-28 is considered annually and is set out in the table below.

Table 1

Capital Programme 2023/24 to 2027/28

2022/23 £000 Budget	2022/23 £000 Forecast Outturn	Item	PROJECT	2023/24 £000 Budget	2024/25 £000 Budget	2025/26 £000 Budget	2026/27 £000 Indicative Budget	2027/28 £000 Indicative Budget
			Estate Development					
693	607	1	Site re/new build	1,880	3,000	0	0	0
3,957	1,876	2	Improvements & structural maintenance	4,109	800	100	100	100
4,650	**2,483**		**Estates Sub Total**	**5,989**	**3,800**	**100**	**100**	**100**
			Fleet & Equipment					
4,593	3,524	3	Appliance replacement	4,413	0	1,800	2,100	2,000
820	420	4	Specialist Operational Vehicles	2,979	2,300	2,000	0	0
317	37	5	ICT Department	570	400	700	0	0
5,730	**3,981**		**Fleet & Equipment Sub Total**	**7,962**	**2,700**	**4,500**	**2,100**	**2,000**
(1,800)	**0**	6	**Optimism bias Sub Total**	**(1,200)**	**400**	**800**	**0**	**0**
8,580	**6,464**		**Overall Capital Totals**	**12,751**	**6,900**	**5,400**	**2,200**	**2,100**
			Programme funding					
5,715	4,296	7	Earmarked Reserves:	11,418	1,405	846	0	0
1,200	140	8	Revenue funds:	50	2,050	2,050	2,050	2,050
300	663	9	Capital receipts:	0	0	0	0	0
1,365	1,365	10	Borrowing - internal	1,283	1,370	1,962	150	50
		11	Borrowing - external	0	2,075	542		
8,580	**6,464**		**Total Funding**	**12,751**	**6,900**	**5,400**	**2,200**	**2,100**

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

9. PRUDENTIAL BORROWING

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

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

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 held 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 2023/24, the amount has been paused in order to support the revenue budget. This is a temporary pause, the plan to commence the support from 2024/25.

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.

18.6. Following a review of hybrid-working in the future, the Service is also looking to divest of any property assets owned that are no longer required – none of the assets identified were or are operational bases.

The Authority's strategy is to reduce borrowing

18.7. As at 31 March 2023 external debt will be £24.2m, down from £26.2m ten years ago.

18.8. Due to the introduction of a baselined revenue contribution to capital, budget and in year savings a healthy capital reserve had been built up. However, due to the current financial position, it has not been possible to either; use an element of the revenue budget to contribute towards the capital spending or, increase the reserve resulting from any year-end underspend position so the balance of the reserve is forecast to be down to £13m at the end of 2022/23 year. This does mean, in order to support the capital programme there will need to be some external borrowing during 2024/25 if the programme remains as is.

18.9. There are a large number of assets needing replacement or enhancement and the proposed programme totals £29.0m over the next five years. As only £20m of funding is available, officers will need to develop further plans to prioritise expenditure with a view of reducing borrowing in the future.

18.10. 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/23/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**6 FEBRUARY 2023**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2023-24 TO 2025-26**
LEAD OFFICER	**Director of Finance, People and Estates (Treasurer)**
RECOMMENDATIONS	***That the Authority, at its budget meeting on 15 February 2023, be recommended to approve:*** ***(a) the draft Capital Programme 2023-24 to 2025-26 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 2026-27 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 2023-24 to 2025-26 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. It should be noted that the capital programme for 2026/27 onwards has been built on knowledge to date. There are potential decisions around stations and vehicles that could impact the programme considerably. To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2025-26 based upon indicative capital programme levels, noting the comment about decisions around stations and vehicles above, for the years 2026-27 to 2027-28.
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 2023-24 to 2025-26 (and indicative Capital Programme 2026-27 to 2027-28). B. Prudential Indicators 2023-24 to 2025-26 (and indicative Prudential Indicators 2026-27 to 2027-28).
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

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

1.2. The Authority has in recent years used revenue contributions and capital reserve to finance the capital programme, ensuring the Authority stays with in the 5% ratio. The Authority faces increasing revenue budget pressures making the revenue contribution unaffordable in the short-term, which in turn speeds up the use of the capital reserve. This will impact on the 5% ratio. However in the medium term the modelled increases in net revenue budget indicate the ratio will remain well within the Prudential indicator.

1.3. On the 10th of 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 further new Medium Rescue Pumps (MRP, our largest fire appliances) and Aerial Ladder Platforms (ALP) into the fleet. The fleet replacement programme, when combined with a station rebuild and other works, will see a significant draw on the capital reserve which is now expected to be used up by 2025/26.

1.4. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2023-24 to 2025-26 and indicative Capital Programme 2026-27 to 2027-28 show that, despite the reduced number of assets, the Authority will be need to borrowed up to £2.6m. When further decisions are made around stations and vehicles this figure is likely to increase significantly. 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 £25.8m by 2025-26 from the current external borrowing of £24.3m as at 31 March 2023. 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 Revenue Contributions to Capital will be suspended for 2023-24 with a view of re-instating in 2024-25. However, significant pressures still remain.

2.5. 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 2023-24 to 2025-26

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2023-24 to 2025-26 as contained in this report. This programme represents a net decrease in overall spending of £7.6m (before application of optimism bias) over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2022-23	4.7	5.7	10.4
2023-24	7.3	10.5	17.8
2024-25 (provisional)	0.9	4.6	5.5
2025-26 (provisional)	3.7	1.8	5.5
Total 2022-23 to 2025-26	16.6	22.6	39.2
Proposed Programme			
2022-23 (forecast spending)	2.5	4.0	6.5
2023-24	6.0	8.0	14.0
2024-25 (provisional)	3.8	2.7	6.5
2025-26 (provisional)	0.1	4.5	4.6
Total 2022-23 to 2025-26	12.4	19.2	31.6
Proposed change	-4.2	-3.4	-7.6

Estates

3.2. The Service continues to progress with rationalising the Estate as part of the new ways of working along with the disposal of surplus non-operational buildings whilst also incorporating the Authority's Green Devon & Somerset Fire & Rescue Service's Environmental Strategy. The Estates Department will also continue to work in close partnership with the Service Delivery and Academy Training Teams to support a sustainable training infrastructure model which fully considers the closure of Severn Park in March 2028.

3.3. With consideration of the strategic output from the Community Risk Management Plan (CRMP) and Target Operating Model the programme for 2023-24 maintains the focus on existing projects; particularly the new build project for Camels Head, Dignity at Work covering welfare and rest accommodation for the remaining 3 Wholetime Fire Stations, alongside works to ensure compliance such as Muster Bay Separation works and associated Protective Preventative Equipment (PPE) at eight 'On Call' Stations as well as the major refurbishment and extension of Bere Alston Fire Station.

Operational Assets

3.4. The contract for Medium Rescue Pumps (MRPs) was awarded in January 2020 and has renewed a considerable number of vehicles. MRPs (1-35) will have been delivered and accepted into Service by the end of Financial Year 2022/23 with a dedicated driver training appliance and several appliance cascades to provide a revised frontline profile. MRPs (36-45) will be received into Service in 2023/24 alongside stage payments towards MRP 4x4 (1-4) and Aerial Ladder Platform (ALPs 1-3). Moving forward, the Service is preparing for the procurement and replacement of water carriers and development of the Light Rescue Pump (LRP) requirements and replacements as part of the long-term fleet replacement plan. A review of numbers and locations of specialist vehicles is being considered alongside the Community Risk Management Plan.

3.5. 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.

3.6. 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.

3.7. The Fleet Replacement plan has replaced some of our oldest appliances with new MRPs and Rapid Intervention Vehicles (RIVs) and cascade existing vehicles to the reserve and training fleet.

3.8. Currently the Service has:

- MRP – 56 front-line appliances of which 19 are overdue replacement (more than 15 years old –34%).
- 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 8 years old.
- RIV – 18 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 which are both 5 years old.
- Training Appliances – 6 MRP training appliances of which 3 are over 15 years old
- Driver Training Appliances – 2 x MRP driver training specific appliances which are 13 years old. 1 x new MRP appliance (not driver training specific) which arrives in February 2023. 1 x LRP driver training specific appliance which is 6 years old.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2025-26 to 2027-28. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2.

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

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	23.771	25.388	25.836	25.243	22.650
Base budget for capital financing costs and debt charges	2.942	3.065	3.307	2.951	2.767
Change over previous year		0.123	0.242	(0.356)	(0.184)
Debt ratio	2.91%	3.02%	3.18%	2.68%	2.61 %

4.2. The forecast figures for external debt and debt charges beyond 2025-26 are based upon the indicative programmes as included in Appendix A for the years 2026-27 to 2027-28. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

5. PRUDENTIAL INDICATORS

5.1. Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have decreased from current levels of £24.4m to £22.6m (including impact of proposed revenue contributions) by 2027-28.

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 2027-28, 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 2025-26. 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 2023/24 to 2027/28								
2022/23 £000 Budget	2022/23 £000 Forecast Outturn	Item	PROJECT	2023/24 £000 Budget	2024/25 £000 Budget	2025/26 £000 Budget	2026/27 £000 Indicative Budget	2027/28 £000 Indicative Budget
			Estate Development					
693	607	1	Site re/new build	1,880	3,000	0	0	0
3,957	1,876	2	Improvements & structural maintenance	4,109	800	100	100	100
4,650	**2,483**		**Estates Sub Total**	**5,989**	**3,800**	**100**	**100**	**100**
			Fleet & Equipment					
4,593	3,524	3	Appliance replacement	4,413	0	1,800	2,100	2,000
820	420	4	Specialist Operational Vehicles	2,979	2,300	2,000	0	0
317	37	5	ICT Department	570	400	700	0	0
5,730	**3,981**		**Fleet & Equipment Sub Total**	**7,962**	**2,700**	**4,500**	**2,100**	**2,000**
(1,800)	**0**	6	**Optimism bias Sub Total**	**(1,200)**	**400**	**800**	**0**	**0**
8,580	**6,464**		**Overall Capital Totals**	**12,751**	**6,900**	**5,400**	**2,200**	**2,100**
			Programme funding					
5,715	4,296	7	Earmarked Reserves:	11,418	1,405	846	0	0
1,200	140	8	Revenue funds:	50	2,050	2,050	2,050	2,050
300	663	9	Capital receipts:	0	0	0	0	0
1,365	1,365	10	Borrowing - internal	1,283	1,370	1,962	150	50
		11	Borrowing - external	0	2,075	542		
8,580	**6,464**		**Total Funding**	**12,751**	**6,900**	**5,400**	**2,200**	**2,100**

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

	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	INDICATIVE INDICATORS 2026/27 £m Estimate	INDICATIVE INDICATORS 2027/28 £m Estimate
Capital Expenditure					
Non - HRA	12.751	6.900	5.400	2.200	2.100
HRA (applies only to housing authorities)					
Total	12.751	6.900	5.400	2.200	2.100
Ratio of financing costs to net revenue stream					
Non - HRA	2.91%	2.97%	3.15%	2.67%	2.59%
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	23,771	25,388	25,836	24,291	22,637
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	656	509	349	182	0
Total	24,426	25,897	26,186	24,473	22,637
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(628)	1,471	289	(1,713)	(1,836)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(628)	1,471	289	(1,713)	(1,836)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	25,553	27,215	27,321	27,151	26,475
Other long term liabilities	823	681	527	359	182
Total	26,376	27,897	27,848	27,509	26,657
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,364	25,946	26,030	25,936	25,343
Other long term liabilities	791	656	509	349	182
Total	25,155	26,602	26,539	26,286	25,525
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 2023/24		
Under 12 months	30%	2%
12 months and within 24 months	30%	2%
24 months and within 5 years	50%	14%
5 years and within 10 years	75%	1%
10 years and above	100%	81%

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REPORT REFERENCE NO.	**RC/23/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**23 NOVEMBER 2022**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2022-23 – QUARTER 3**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2022-23 (to December 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 31 December 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:

1.1.1 The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities;

1.1.2 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;

1.1.3 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;

1.1.4 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 third quarter of 2022/23 saw:

- A 0.5% month on month (m/m) rise in Gross Domestic Product (GDP) in October 2022, mostly driven by the reversal of bank holiday effects;
- Signs of economic activity losing momentum as households increased their savings;
- Consumer Price Index (CPI) inflation fall to 10.7% in November 2022 after peaking at 11.1% in October;
- A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October 2022;

- Interest rates rise by 125 base points (bps) over Quarter 4 2022, taking Bank Rate to 3.50%;
- Reduced volatility in UK financial markets but a waning in global risk appetite.

2.2. GDP fell by 0.3% quarter on quarter (q/q) in Quarter 3 of 2022 (ending 30th September), which probably marked the start of the UK recession. About half of that decline was the effects of the extra bank holiday in September for the Queen's funeral. The unwinding of those bank holiday effects meant that GDP rebounded in October 2022 and explained at least 0.3 percentage points (ppts) of the 0.5% m/m rise. Accordingly, if GDP were to avoid falls of more than 0.2% m/m in November and December, 2022 then GDP over Quarter 4 as a whole could avoid a contraction, which would prevent a recession in 2022.

2.3. However, at 49.0 in December 2022, the flash composite activity Purchasing Manager's Index (PMI) stayed below the "boom-bust" level of 50 and pointed to a small 0.1% q/q contraction in GDP in Quarter 4. Consumer confidence was -42 in December and stayed close to its record low of -49 in September. Strike action could be another small drag and may mean that GDP is 0.0% to 0.5% lower than otherwise in December. GDP is projected to contract marginally in Quarter 4 by around 0.1% q/q.

2.4. Meanwhile, the 0.4% m/m fall in retail sales volumes in November 2022 only reversed some of the 0.9% m/m rise in October. That left sales volumes 4.5% below their level at the start of the year. Indeed, the rise in the household saving rate from 6.7% in Quarter 2 to 9.0% in Quarter 3 implied that higher interest rates are encouraging households to save more. And a larger-than-usual £6.2bn rise in cash in household bank accounts in October may imply households have started to increase their precautionary savings.

2.5. There were signs that the labour market was loosening gradually going into the final quarter of 2022. Although employment in the three months to October 2022 rose by 27,000, the fall in the composite PMI employment balance in December took it into contractionary territory and suggests that labour demand will cool. Meanwhile, labour supply improved as inactivity fell by 76,000 in the three months to October 2022. That helped drive a rise in the unemployment rate from 3.6% in September to 3.7% in October. The number of job vacancies in November 2022 fell for the sixth consecutive month and were 18% below their peak in May 2022.

2.6. Crucially, though, wage growth remained resilient. Average earnings growth, excluding bonuses, grew by 0.7% m/m in October 2022, above the 2022 monthly average of 0.5% m/m. That drove the 3myy rate up to 6.2%, well above the rates of 3-3.5% consistent with inflation at its 2% target. Wage growth is likely to slow gradually in the coming months as the labour market loosens further but if extensive strike action is successful in achieving large pay increases, then wage growth could be a bit stronger for longer.

2.7. CPI inflation peaked in October at a 41-year high of 11.1% and fell to 10.7% in November. Goods price inflation, which is driven largely by global factors, has peaked. The sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Meanwhile, the large fall in agricultural prices since May 2022 means that food price inflation should start to decline soon. What's more, upward pressure on goods price inflation from global supply shortages is fading quickly.

2.8. Domestic inflation pressures also eased in Quarter 4. The 0.2% m/m rise in core CPI inflation in November 2022 was the smallest monthly gain since August 2020 and drove a fall in core CPI inflation from 6.5% in October to 6.3% in November. Services CPI inflation was stable at 6.3% in November despite the resilience of wage growth. And the easing of price expectations in the Bank of England's Decision Maker Panel survey in November 2022 suggests that inflation may become less persistent.

2.9. The Chancellor's Autumn Statement on 17th November 2022 succeeded in restoring the government's fiscal credibility in the eyes of the financial markets without deepening the recession. The total fiscal consolidation package of £54.9bn (1.8% of GDP) in 2027/28 made the outlook for fiscal policy much tighter than at the beginning of Quarter 4. The package was heavily backloaded, with net handouts of £3.8bn (0.15% of GDP) in 2023/24 and £0.3bn (0.01% of GDP) in 2024/25, and most of the tightening kicking in after 2024/25. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500. At the same time, Chancellor Hunt loosened the fiscal rules by requiring debt as a percentage of GDP to be falling in five years' time, rather than three. The Office of Budget Responsibility (OBR) estimated that the Chancellor will meet this new rule with a slim £9.2bn (0.3% of GDP) to spare.

2.10. With fiscal policy now doing much less to fan domestic inflation pressures, ot is thought Bank Rate will peak at 4.50%, or at least close to that figure. Despite stepping up the pace of policy tightening to a 75-basis point (bps) rate hike in November 2022, taking Bank Rate from 2.25% to 3.00%, the Monetary Policy Committee (MPC) communication was dovish. The (MPC pushed back heavily against market rate expectations, which at the time were for Bank Rate to peak at 5.25%. The Bank's new forecasts predicted a deeper and longer recession than the analyst consensus, of eight quarters and with a peak-to-trough fall in real GDP of 2.9%.

2.11. The Bank sounded dovish again in December 2022 when it slowed the pace of tightening with a 50bps rate rise, from 3.00% to 3.50%. Two members, Dhingra and Tenreyro, voted to leave rates unchanged, judging that the current level of Bank Rate was sufficient to bring inflation back to target. That said, the rest of the MPC appeared to suggest that further rate hikes would be necessary. It is expected that the majority of the MPC will need to see stronger signs that activity is slowing, the labour market is loosening, and wage growth is slowing before stopping rate rises.

2.12. As such, it is expected that the MPC will deliver three further rate hikes in February, March and May 2023, taking Bank Rate to a peak of 4.50% but with the pace of increase reducing to 25bps in March and May.

2.13. Gilt yields have fallen sharply since their highs following the “mini-budget” on 23rd September 2022 as government fiscal credibility has been largely restored with the resignation of Truss-Kwarteng and the fiscal consolidation package announced at the Autumn Statement on 17th November. 2022. Indeed, the 10-year yield fell from a peak of 4.55% to about 3.60% now, while the 30-year yield fell from 5.10% to 3.90%. Admittedly, yields rose by around 50bps in December 2022, partially on the back of a global rise in yields. But if Link is right in thinking Bank Rate will fall back in 2024 and 2025, then gilt yields will probably fall over the next two years, with the 10-year yield slipping from around 3.60% now to 3.30% by the end of 2023 and to 2.80% by the end of 2024.

2.14. Lower volatility in gilt markets in Quarter 4 meant that the Bank of England was able to stop its purchases of long-term gilts for financial stability reasons as planned on 14th October 2022. It was also able to begin active gilt sales in November 2022, albeit with a focus on shorter dated gilts. So far quantitative tightening has had little influence on short-term money markets. But as it is still an experiment, the risk of a widespread tightening in financial conditions remains.

2.15. The restoration of fiscal credibility boosted the pound and the FTSE 100 early in Quarter 4. While much of the benefit passed in the first half of Quarter 4, sterling continued to rally against a softer dollar. Colleagues at Capital Economics do not think that the global recession is fully priced into markets, and so expect a further fall in risk appetite to boost safe haven demand for the dollar and weigh on the pound. They are expecting the pound to fall from $1.19 now to $1.10 in mid-2023, before climbing to $1.15 by the end of 2023 as the prospect of lower interest rates and a recovery in global economic growth buoys equity prices.

2.16. Through December 2022, the rally in the Financial Times Stock Exchange (FTSE) 100 petered out as investors have become increasingly concerned by the prospect of a global recession. However, the relatively dovish tone of the Bank of England, compared to the Federal Reserve and the European Central Bank (ECB) meant that UK equities held up better than other developed market indices. Indeed, at 7,452 at the December month end, the FTSE 100 is only marginally below its peak of 7,568 on 5th December 2022, while the Standard & Poor’s (S&P) 500 is around 4% lower over the same period. Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.

MPC meetings 3rd November and 15th December 2022

2.17. On 3rd November 2022, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 bps to 3.00%, and on 15th December 2022 moved rates up a further 50 bps to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.

2.18. Nonetheless, the UK government appears more settled now, with Rishi Sunak as Prime Minister, and Jeremy Hunt as Chancellor. Having said that, a multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.

2.19. Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has led with increases of 425 basis points in 2022 and is expected to increase rates further in 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan (although the Bank of Japan has "tightened" its policy by widening the accepted yield levels for 10yr Japanese Government Bond (JGB), from 0.25% to 0.5% on 20th December 2022). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.

2.20. What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

Interest rate forecasts

2.21. 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 Loan 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.

2.22. The latest forecast, made on 19th December 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 also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude.

2.23. In addition, 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.

Link Group Interest Rate View 19.12.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

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

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 Quarter 1 and Quarter of 2 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 31 December 2022 are shown in Appendix A.

3.6 The average level of funds available for investment purposes during the quarter was £38.157m (£40.441m at the end of 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 SONIA	2.74%	4.05%	£0.232m.

3.7 As illustrated above, the Authority out-performed the 3-month Sterling Overnight Index Average (SONIA) benchmark by 1.31bp. 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 £0.715m.

Borrowing Strategy

<u>Prudential Indicators</u>

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 31 December 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 23.3 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 on an upward trajectory.

New Borrowing

3.12 Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September 2022 but have fallen back from their September peaks in Quarter 3.

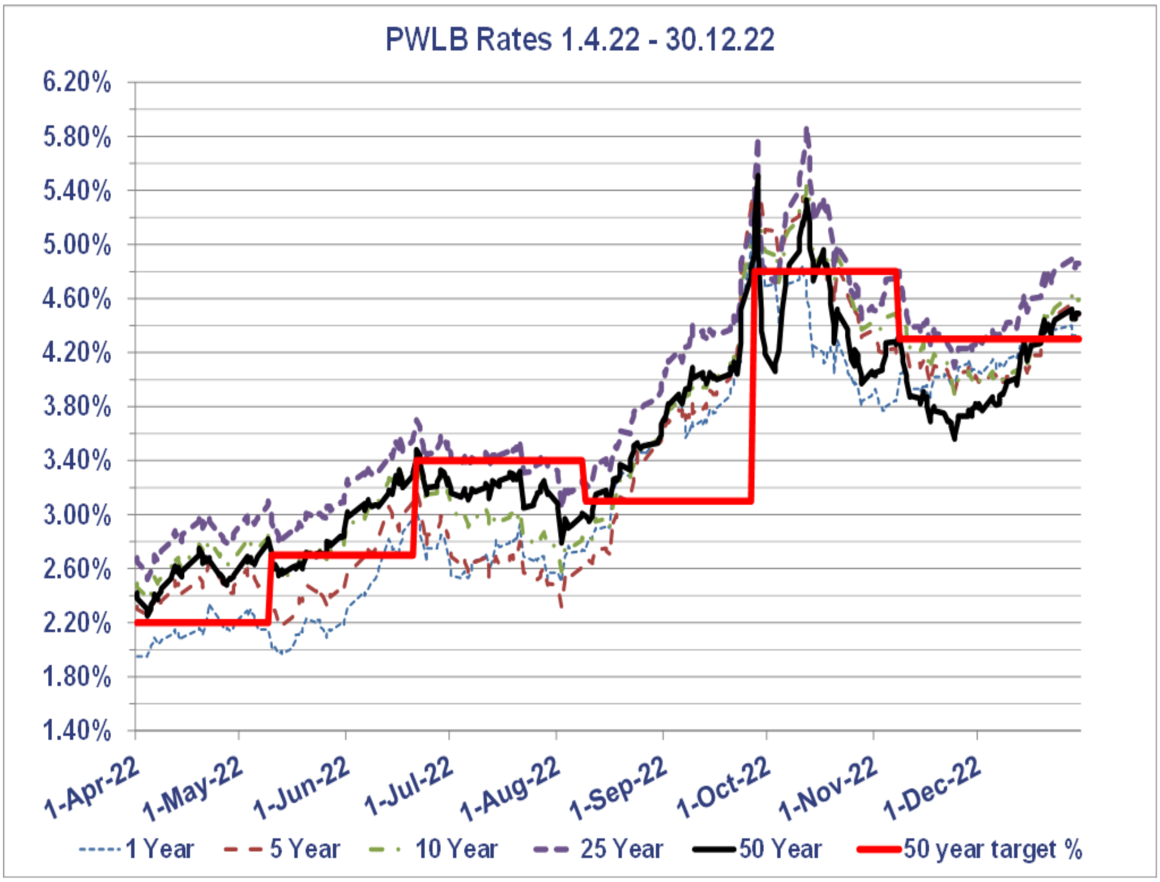
3.13 The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to a peak of 4.80% in September and then latterly reducing to 4.30% in November

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.

3.15 PWLB rates quarter ended 31 Dec ember 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%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

3.16 Borrowing rates for this quarter are shown below.



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

3.17 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 December 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 31 December 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%
Standered Chartered Sustainable	7.000	-2.000	06/01/2023	T	6 mths	2.11%
National Bank of Kuwait (International) PLC	7.000	-5.000	27/01/2023	T	12 mths	2.57%
Lloyds Bank	7.000	-2.000	27/02/2023	T	12 mths	3.00%
Heleba	7.000	-3.000	27/02/2023	T	12 mths	2.93%
Heleba	7.000	-2.000	08/09/2023	T	6 mths	4.01%
First Abu Dhabi Bank	7.000	-3.000	04/10/2023	T	6 mths	4.99%
Bayerische Landesbank	7.000	-1.000	04/04/2023	T	6 mths	4.08%
Goldman Sachs	7.000	-5.000	22/05/2023	T	4 mths	4.01%
Standered Chartered Sustainable	7.000	-2.000	28/04/2023	T	12 mths	3.91%
National Bank of Canada	7.000	-1.000	22/05/2023	T	12 mths	4.07%
Barclays Bank	8.000	-0.150		C	Instant Access	Variable
Aberdeen Standard	8.000	-0.635		C	Instant Access	Variable
Total Amount Invested		**-30.785**				

REPORT REFERENCE NO.	**RC/23/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**6 FEBRUARY 2023**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2022-23 – QUARTER 3**
LEAD OFFICER	**Director of Finance, People & Estates (Treasurer)**
RECOMMENDATION	***That the report be noted.***
EXECUTIVE SUMMARY	This report outlines the third 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 £1.568m more than budget, an overspend of 2.03% 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 current offer being 5%. The agreed increase for Green Book staff is included within the forecast and an assumed 5% increase for Grey Book staff is also included.
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 third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 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 3	**Previous Quarter**	**Quarter 3 %**	**Previous Quarter %**
	Revenue Targets					
1	Spending within agreed revenue budget	£77.289m	£78.857m	£79.731m	2.03%	3.16%
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	£6.464m	£8.672m	(24.6%)	1.07%
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 Month 9 £'000	Projected Outturn £'000	Projected Variance over/ (under) £'000	Projected Variance over/ (under) %
	Employee Costs						
1	Wholetime	32,942	24,690	24,229	33,649	707	2%
2	On-Call	18,381	13,471	13,660	20,493	2,113	11%
3	Fire Control	1,513	1,131	1,109	1,567	54	4%
4	Professional & Technical	15,808	11,850	11,749	15,671	(137)	-1%
5	Training	1,043	783	819	792	(252)	-24%
6	Fire Service Pension costs	2,358	1,944	1,846	2,575	217	9%
		72,045	**53,868**	**53,412**	**74,748**	**2,702**	
	Premises						
7	Repair and maintenance	1,051	788	904	1,087	36	3%
8	Energy costs	711	476	469	1,017	306	43%
9	Cleaning costs	572	429	493	561	(11)	-2%
10	Rent and rates	1,933	1,704	1,896	1,980	47	2%
		4,265	**3,397**	**3,762**	**4,644**	**379**	
	Transport						
11	Repair and maintenance	889	667	415	587	(302)	-34%
12	Running costs and insurances	1,253	1,003	1,421	1,508	255	20%
13	Travel and subsistence	1,392	958	965	1,284	(108)	-8%
		3,534	**2,628**	**2,801**	**3,379**	**(155)**	
	Supplies & Services						
14	Equipment and furniture	4,216	3,162	2,465	3,692	(524)	-12%
15	Hydrants-installation and mainte	96	72	113	167	72	75%
16	Communications Equipment	2,437	1,827	2,053	2,381	(55)	-2%
17	Protective Clothing	568	426	376	563	(4)	-1%
18	External Fees and Services	153	115	138	159	6	4%
19	Partnerships & regional collabora	380	285	143	381	2	0%
20	Catering	88	66	67	85	(3)	-3%
		7,937	**5,952**	**5,356**	**7,430**	**(506)**	
	Establishment Costs						
21	Printing, stationery and office ex	268	217	163	231	(37)	-14%
22	Advertising including Community	31	23	25	37	6	20%
23	Insurances	447	446	760	498	52	12%
		745	**686**	**948**	**766**	**21**	
	Payments to Other Authorities						
24	Support service contracts	818	576	553	873	56	7%
		818	**576**	**553**	**873**	**56**	
	Capital Financing						
25	Loan Charges & Lease rentals	3,223	525	547	3,135	(88)	-3%
26	Revenue Contribution to Capital	1,200	-	-	1,040	(160)	-13%
		4,423	**525**	**547**	**4,175**	**(248)**	
	Income						
28	Investment Income	(103)	(77)	(232)	(818)	(715)	693%
29	Grants and reimbursements	(10,690)	(8,017)	(9,975)	(10,817)	(128)	1%
30	Other income	(1,474)	(1,106)	(1,418)	(1,295)	179	-12%
		(12,267)	**(9,200)**	**(11,625)**	**(12,930)**	**(663)**	
	Reserves						
32	Transfer to/(from) Earmarked Re	(4,212)	(3,159)	-	(4,211)	0	0%
		(4,212)	**(3,159)**	**-**	**(4,211)**	**0**	
	Staff savings from leavers	-	-	-	(17)	(17)	
	NET SPENDING	**77,289**	**55,273**	**55,754**	**78,857**	**1,568**	**2%**

2.2. This table indicates that spending by the year end will be £78.857m, representing a predicted overspend of £1.568m, equivalent to 2.03% of the total budget. It should be noted that 'Spending to Q3' 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 December 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. on-call 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.

2.4. Reporting of variances has switched from a flat rate (previously £0.050m) to a percentage of the budget of either 2% for pay lines or 5% for non-pay lines. This is to ensure the narrative is more meaningful and to also hone-in on the major variances.

3. <u>NARRATIVE ON VARIANCES AGAINST BUDGET (> 2% OR 5%)</u>

Wholetime Pay – overspend of £0.707m

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 £0.100m 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 £0.300m less than the cost for 2021/22.

On-Call Pay – overspend of £2.113m

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% which we anticipate 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 £0.868m – the most notable one being a forecast underspend on the Pay for Availability pay lines of £0.606m.

Fire Control – overspend of £0.054m

3.7. Pre-arranged overtime is forecasted to overspend by £0.067m 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 (£0.035m).

Training – underspend of £0.252m

3.8. 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 £0.160m when compared against the forecast for quarter 1.

Fire Service Pension Costs – overspend of £0.217m

3.9. Unexpected ill-health retirements has moved this budget line into a forecasted overspend position. Month 6 saw ill health pensioners receiving backpay following a challenge which totalled almost £0.040m.

Energy Costs – overspend of £0.306m

3.10. 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 remainder of the year which reflects price increases in the wider market. Efforts have been undertaken to encourage a reduction in energy consumption across the Service – we have seen some reduction in spend against the forecast during November however, that was a mild month.

Transport repair and Maintenance – underspend of £0.302m

3.11. 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 £0.269m 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. The balance being made up of small variances across multiple budget lines.

Running Costs and Insurances – overspend of £0.255m

3.12. An increase in vehicle fuel costs is forecast to result in an overspend of £0.270m. There are some signs that fuel costs are starting to come down which will be monitored monthly as part of the forecasting process. This might see a slight reduction in the year-end spend.

Travel and subsistence – underspend of £0.108m

3.13. Spending controls continue to drive down expenditure in this budget line which is leading to an expected underspend. The largest underspend is on lease car rental of £0.081m which includes maintenance.

Equipment and furniture – underspend of £0.524m

3.14. A large saving of £0.407m 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. ICT are also forecasting an underspend of £0.103m, the largest beig a saving of £0.051m from software licences one of which was budgeted for in 2 Department budgets saving £0.017m.

Hydrants – Installation and maintenance – overspend of £0.072m

3.15. The budget allocation was reduced based on the anticipated expenditure for 2021/22. The forecast reflects the year-end position as the water companies are starting to catch-up on invoicing.

Printing, Stationery and office expenses – underspend of £0.037m

3.16. Spending controls and flexible working continue to drive down expenditure in this budget line which is leading to an expected underspend.

Advertising including community safety - overspend of £0.006m

3.17. A modest overspend forecast in relation to recruitment to the co-head of HR post has pushed this budget to an overspend position.

Insurances – overspend of £0.052m

3.18. A higher than budgeted cost for Property and Liability insurances has resulted in this slight overspend.

Support Service Contracts – an overspend of £0.056m

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 £0.058m based on the current consumption. However, this is a reduction in forecast spend of £0.072m since Quarter 2.

Revenue Contribution to Capital – underspent by £0.160m

3.20. Due to a forecasted reduction in income generated from Red One, the contribution to capital expenditure will also reduce as the income is used to contribute towards the funding of the capital programme.

Investment Income – an over-recovery of £0.715m

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 3 Treasury Management performance Report however, this line is forecast to outperform the budget by £0.715m.

Other income – under-recovery of £0.179m

3.22. This under-recovery has mainly been driven by loss of income in the amount of £0.501m 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. This loss of income has been partially offset by the receipt of additional income from SWAST of £0.190m related to our continued support for Operation Bradewood. The Service has benefited from an unexpected return from Fire and Rescue Insurance Company (FRIC) totalling £0.050m, additional training income of £0.053m generated by USAR (Stn 60) and £0.040m generated by Procurement resulting from the use of their call-off contract for fire appliances, and cost recovery relating to the Glastonbury Festival has seen income of £0.036m. Sales to Red One is forecast to under-recover by £0.160m. The balance being made up smaller items over multiple budgets.

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 £1.568m 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: £1.040m

iii. repurpose other ring-fenced reserves: £0.525m

iv. For any residual from the above transactions, the priority will be to increase the level of General Reserve to ensure the 5% minimum of the revenue budget is maintained.

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 £'000	
Earmarked reserves								
Grants unapplied from previous years	(3,093)	-	-	292	2,057	(1,036)	(1,036)	
Invest to Improve	(2,619)	-		812	2,143	(476)	(146)	
Budget Smoothing Reserve	(1,831)	-	-	-	1,831	-	-	
Direct Funding to Capital	(19,032)	-	-	(10)	5,540	(13,492)	(13,492)	
Projects, risks, & budget carry forwards	-	-	-	-	-	-	-	
PFI Equalisation	(50)	-	-	-	-	(50)	(50)	
Emergency Services Mobile Communications Programme	(1,301)	-	-	23	23	(1,278)	(1,278)	
Breathing Apparatus Replacement	-	-		-	-	-	-	
Mobile Data Terminals Replacement	(168)	-	-	24	44	(124)	(124)	
Pension Liability reserve	(1,223)	-	-	140	140	(1,083)	(888)	
Budget Carry Forwards	(1,878)	-	-	570	1,312	(566)	(566)	
Environmental Strategy	(268)	-	-	25	140	(129)	(129)	
Uncategorised	-	-	-	-	-	-	-	
MTA Action Plan	(151)	-	-	57	86	(65)	(65)	
Total earmarked reserves	**(31,615)**	**-**	**-**	**1,933**	**13,316**	**(18,299)**	**(17,774)**	
General reserve								
General Fund (non Earmarked) Balance	**(4,050)**	**-**	**-**	**-**	**-**		**(4,050)**	
Percentage of general reserve compared to net budget								5.5%
TOTAL RESERVE BALANCES	**(35,665)**	**-**	**-**	**1,933**	**13,316**		**(21,824)**	
PROVISIONS								
Doubtful Debt	(55)		-	-	-	(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 overleaf 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 a net underspend of £.0107m - underspends on multiple lines within the capital programme added to an overspend of £0.094 (subject to legal issues) in relation to the rebuild at Plymstock, has resulted in this position. Timing differences (a slippage into the next financial year) are forecast to be £2.009m.

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	607	509	(180)	94
Improvements & structural maintenance	3,957	1,876	715	(1,910)	(171)
Estates Optimism bias	(800)		0	800	0
Estates Sub Total	**3,850**	**2,483**	**1,224**	**(1,290)**	**(77)**
Fleet & Equipment					
Appliance replacement	4,593	3,524	2,691	(1,069)	0
Specialist Operational Vehicles	820	420	0	(400)	0
ICT Department	317	37	34	(250)	(30)
Fleet Optimism bias	(1,000)		0	1,000	0
Fleet & Equipment Sub Total	**4,730**	**3,981**	**2,725**	**(719)**	**(30)**
Overall Capital Totals	**8,580**	**6,464**	**3,949**	**(2,009)**	**(107)**
Programme funding					
Earmarked Reserves:	5,715	5,277	0	(2,009)	(438)
Revenue funds:	1,500	1,831	11	0	331
Borrowing - internal	1,365	1,365	0	0	0
Total Funding	**8,580**	**8,473**	**11**	**(2,009)**	**(107)**

Prudential Indicators (including Treasury Management)

5.3 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2022 stood 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 4.05% which out-performs the SONIA 3 Month return (industry benchmark) by 1.31%. It is forecast that investment returns from short-term deposits will over-achieve the budgeted figure by £0.715m 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 £0.807m. Table 5 below provides a summary of all debt outstanding as at 31 December 2022.

6.2. Of this figure, an amount of £0.345m was due from debtors relating to invoices that are more than 85 days old, equating to 49% of the total debt outstanding.

Table 5 – Outstanding Debt at End of Quarter

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	214,843	31%
29-56 days	128,257	18%
57-84 days	10,938	2%
Over 85 days	345,314	49%
Total Debt Outstanding as at 31 December 2022	**699,352**	**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	22	£341,725	A repayment plan for 2022-23 has been agreed with the subsidiary company – for reference, the amount as at Quarter 2 was £464,225.
Various	6	£3,589	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	**8.473**	**8.580**	**(0.107)**
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 31-3-2023	1.050	1.050	
-Interest on proposed new debt in 2022-23	0.000	0.000	
Investment Income – full year	**0.818**	**0.103**	**(0.715)**
	Actual (31 December 2022) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**4.05%**	**2.74%**	**(1.31bp)**

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%			

APPENDIX B TO REPORT RC/23/5

RESERVES DETAIL 2022/23 BY RESERVE

DSFRS Reserves in detail	Budget £'000	Committed spend £'000	Forecast spend £'000	Balance remaining £'000
4 x 4 Replacement	-	-	-	-
Asset Management & Tracking	159	159	159	(0)
Attribute Based Response	33	-	9	24
Audit Assurance EMR	60	24	28	31
Availability Systems	162	-	162	0
Budget Smoothing Reserve	1,831	-	1,831	-
Building Risk Rev Grant c/f	-	-	-	-
Capital Support from 2011/12	19,032	-	5,540	13,492
CLG USAR Grant	66	11	11	55
Communication	-	-	-	-
Covid 19 Grant Carry Forward	-	-	-	-
CRMP 2021	2	-	-	2
CT Irrecoverable Deficits	733	-	244	489
Digital Trans Strategy	843	449	688	155
Dignity At Work - HMICFRS	195	15	17	178
Environmental Strategy	268	25	140	129
ESMCP (reserve funding)	768	-	-	768
ESMCP Home Office Grant	533	23	23	510
Estate Conditional Survey	120	-	-	120
Fleet Replacement	56	(1)	24	31
Future of Work	88	-	80	8
Grenfell Infrastructure grant	51	13	51	0
Haz Mat Det and ID Equip	17	-	17	-
Health and Safety Resource	99	74	87	11
HR Additional Resources	60	42	60	(0)
ICT Managed Switch Replacement	54	-	-	54
Information Governance FTC	36	25	37	(0)
Invest to Improve Reserve	764	-	288	476
Learn 2 Live	58	18	16	42
Livery and Blue Light fit out	15	-	-	15
Management of Risk Information	11	(15)	11	-
MDT Replacement	168	24	44	124
MRP Replacements	-	-	-	-
MTA Action Plan	151	57	86	65
NNDR Additional Reliefs	1,756	-	1,421	334
Office 365 Project	170	113	170	0
P4A Future Years Funding	204	-	204	0
Pay for avaliability	84	7	8	76
Pensions Admin Grant c/f	117	3	3	114
Pensions Reserve	1,223	140	140	1,083
People Services System	212	94	751	(539)
Performance Info System	230	-	-	230
Personal Misting Systems	50	1	50	0
PFI equalisation reserve	50	-	-	50
Prev Accred grant c/f	10	4	8	2
Prevention - Joint working Int	50	7	50	(0)
Preview Community Risk Team	-	-	-	-
Protection uplift grant c/f	301	242	301	(0)
Bequest Axminster Gym Equip	-	(10)	0	(0)
Risk Dependant Avaliability	-	-	-	-
Roving Vehicles	-	-	-	-
Selective Alerting	-	-	-	-
Service Delivery Op Model	-	-	-	-
SRT and WAH Equipment	20	6	20	0
Station Mobilising Equipment	380	279	379	1
Surestart/Action for Children	-	-	-	-
Temp accom for capital project	130	25	36	94
Topsham Relocation	58	5	35	23
Vehicle Telematics	115	57	66	49
Website Comp and Comms Strat	20	14	18	3
WT Duty System	-	-	-	-
	31,615	**1,933**	**13,316**	**18,299**

APPENDIX C TO REPORT RC/23/5

RESERVES DETAIL 2022/23 BY EXPENSE CODE

DSFRS Reserves in detail	Committed spend *£'000*	Forecast spend *£'000*
Fire Protection Training Exter	4	8
Academy Other Training	-	-
External Trainer Hire	25	69
Acquisition Courses	-	-
Principal Officers Salary	179	224
Principal Officer Salary NI	15	20
Principal Officer Salary Super	37	48
Retained Retainers Old	-	-
Retained Overtime Old	-	-
Retained Pre-Arranged O/T Old	-	-
Retained NI Old	-	-
Admin/Manage Salary	232	616
Admin/Manage Overtime	-	-
Agency Staff Surveyors	-	-
Agency Staff Admin	456	673
Admin/Manage Removal Expenses	-	-
Admin/Manage Stand-by Pmnts	-	-
Admin/Manage Salary NI	23	32
Admin/Manage Salary Superan	179	195
Unforseen Other Contractor	-	115
Cleaning Materials	-	-
Refuse Collection loc. sourced	-	-
Cleaning Contrct Main Contract	-	-
Rents - Non Building	15	17
Room Hire	-	-
Rents - Building/Station	16	23
Blue Light Fit-out and removal	-	-
Fuel (Petrol Etc)	-	-
Hired Transport	-	-
Casual Miles	1	1
Subsistence	-	-
Catering/Refreshments	(2)	(2)
Hotel Booking	-	-
Standard Equipment	242	2,047
Standard Equipment Other	-	-
Fitness Equipment	-	-
ICT Desktop Service	-	-
ICT Application Services (Oth)	(15)	332
ICT Infrastructure Service	86	642
ICT Mobile Data Terminal Servi	24	44
BA Equipment Purchase	-	-
BA Set Maintenance	-	-
Operational Equipment	16	45
Specialist Rescue Equipment	6	20
Water Equipment	-	-
Water Safety	-	-
Radiation/gas monitoring	-	-
First Aid	-	-
ICT Mobs Service Equipment	279	279
ICT Sat Nav Serv/Vehicle track	57	66
ICT Mobile Telephony Service	-	-
Uniforms Other	2	2
External Prof Support/Advice	63	251
Partnerships	7	50
Corporate Membership/Subscript	-	-
Printing/Stationery/Photocopy	-	-
Consultation Fees	-	-
Recruitment Advertising	-	-
Personnel Services	(1)	(1)
Capital Exp from Rev Account	-	4,296
Other Miscellaneous Income	(10)	-
Transfer to/from Reserves	-	3,239
ICT Network Service	23	23
Legal Services	1	1
Agencies/OLA Income	(37)	(68)
Non-Uniformed Training	10	10
	1,933	**13,317**

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