DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

To: The Chair and Members of the Devon & Somerset Fire & Rescue Authority

(see below)

SERVICE HEADQUARTERS
THE KNOWLE
CLYST ST GEORGE
EXETER
DEVON
EX3 0NW

Your ref :
Our ref : DSFRA/MP/SY
Website : www.dsfire.gov.uk

Date : 7 February 2023
Please ask for : Steve Yates
Email : syates@dsfire.gov.uk

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DEVON & SOMERSET FIRE & RESCUE AUTHORITY
(Budget Meeting)

Wednesday, 15 February, 2023

The budget meeting of the Devon & Somerset Fire & Rescue Authority will be held on the above date, **commencing at 10.00 am in The Committee Rooms, Somerset House, Devon & Somerset Fire & Rescue Service Headquarters** 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 12 December 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 Questions and Petitions from the Public

In accordance with Standing Orders, to consider any questions and petitions submitted by the public. Questions must relate to matters to be considered at this meeting of the Authority. Petitions must relate to matters for which the Authority is responsible, or which affect the Authority. Neither questions nor petitions may require the disclosure of confidential or exempt information. Questions and petitions must be submitted in writing or by e-mail to the Clerk to the Authority (e-mail address: clerk@dsfire.gov.uk) **by midday on Friday 10 February 2023.**

5 Addresses by Representative Bodies

To receive addresses from representative bodies requested and approved in accordance with Standing Orders.

6 Questions from Members of the Authority

To receive and answer any questions submitted in accordance with Standing Orders.

7 Minutes of Committees

a Audit & Governance Committee (Pages 7 - 10)

The Chair of the Committee, Councillor Brazil, to **MOVE** the Minutes of the meeting held on 18 January 2023 (attached).

RECOMMENDATION that the Minutes be adopted in accordance with Standing Orders.

b People Committee (Pages 11 - 14)

The Chair of the Committee, Councillor Hannaford, to **MOVE** the Minutes of the meeting held on 25 January 2023 (attached).

RECOMMENDATION that the Minutes be adopted in accordance with Standing Orders.

c Community Safety Committee (Pages 15 - 18)

The Chair of the Committee, Councillor Chesterton, to **MOVE** the Minutes of the meeting held on 31 January 2023 (attached).

RECOMMENDATION that the Minutes be adopted in accordance with Standing Orders.

d Resources Committee (Pages 19 - 26)

The Chair of the Committee, Councillor Peart, to **MOVE** the Minutes of the budget meeting held on 6 February 2023 attached.

RECOMMENDATIONS

(i). that any recommendations in relation to:

- the Capital Strategy;
- the 2023-24 Revenue Budget and Council Tax levels;
- the Capital Programme 2023-24 to 2025-26; and
- the Treasury Management Strategy (including Prudential and Treasury Indicators) 2023-24 to 2025-26

be considered in conjunction with items 9 and 10 (a) to (c) inclusive and respectively below; and

(ii). that, subject to (i) above, the Minutes be adopted in accordance with Standing Orders.

8 **Medium-Term Financial Plan (Pages 27 - 34)**

Report of the Director of Finance, People & Estates (DSFRA/23/1) attached.

9 **Capital Strategy (Pages 35 - 44)**

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

10 **REVENUE AND CAPITAL BUDGETS**

a **2023-24 Revenue Budget and Council Tax Levels (Pages 45 - 58)**

Report of the Director of Finance, People & Estates (Treasurer) and the Chief Fire Officer (DSFRA/23/3) attached.

b **Capital Programme 2023-24 to 2025-26 (Pages 59 - 68)**

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

c **Treasury Management Strategy (Including Prudential and Treasury Indicators) 2023-24 to 2025-26 (Pages 69 - 94)**

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

11 **Localism Act 2011 - Pay Policy Statement 2023-24 (Pages 95 - 110)**

Report of the Deputy Monitoring Officer (DSFRA/23/6) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Randall-Johnson (Chair), Aspinall, Best, Biederman, Brazil, Chesterton, Clayton, Coles, Cook-Woodman (Vice-Chair), Drean, Hannaford, Hendy, Kendall, Kerley, Long, McGeough, Peart, Power, Prowse, Radford, Roome, Sellis, Shayer, Sully, Thomas and Trail BEM.

NOTES

1. <u>Access to Information</u>

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the “Please ask for” section at the top of this agenda.

2. <u>Reporting of Meetings</u>

Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chair - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority.

Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chair or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.

3. <u>Declarations of Interests at meetings (Authority Members only)</u>

If you are present at a meeting and you are aware that you have either a disclosable pecuniary interest, personal interest or non-registerable interest in any matter being considered or to be considered at the meeting then, unless you have a current and relevant dispensation in relation to the matter, you must:

(i) disclose at that meeting, by no later than commencement of consideration of the item in which you have the interest or, if later, the time at which the interest becomes apparent to you, the existence of and – for anything other than a “sensitive” interest – the nature of that interest; and then

(ii) withdraw from the room or chamber during consideration of the item in which you have the relevant interest.

If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have an interest of a sensitive nature. You must still follow (i) and (ii) above.

Where a dispensation has been granted to you either by the Authority or its Monitoring Officer in relation to any relevant interest, then you must act in accordance with any terms and conditions associated with that dispensation.

Where you declare at a meeting a disclosable pecuniary or personal interest that you have not previously included in your Register of Interests then you must, within 28 days of the date of the meeting at which the declaration was made, ensure that your Register is updated to include details of the interest so declared.

	NOTES (Continued)
4.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
5.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Orders, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.
6.	**<u>Other Attendance at Committees)</u>** Any Authority Member wishing to attend, in accordance with Standing Orders, a meeting of a Committee of which they are not a Member should contact the Democratic Services Officer (see “please ask for” on the front page of this agenda) in advance of the meeting.

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

12 December 2022

Present:

Councillors Randall-Johnson (Chair), Brazil, Chesterton, Coles, Cook-Woodman (Vice-Chair), Drean, Hannaford, Kendall, Kerley, Long, Peart, Prowse, Shayer, Sully, Thomas and Trail BEM.

Apologies:

Councillors Aspinall, Best, Biederman, Clayton, Hendy, Power, Radford, Roome and Sellis.

DSFRA/22/21 **Minutes**

RESOLVED that the Minutes of the meeting held on 26 September 2022 be signed as a correct record.

DSFRA/22/22 **Minutes of Committees**

a **People Committee**

The Chair of the Committee, Councillor Hannaford, **MOVED** the Minutes of the meeting held on 31 October 2022 which had considered, among other things:

- A performance monitoring report against Authority-approved Strategic Priority 3 for the second quarter of 2022-23;
- A report on the outcome of a review for measuring core competencies;
- The Gender Pay Gap report 2022;
- Use by the Service of the Apprenticeship Levy; and
- An update on progress with the Action Plan to address the Cause for Concern and Areas for Improvement identified by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) following its inspection of the Service in 2021.

RESOLVED that the Minutes be adopted in accordance with Standing Orders.

b **Community Safety Committee**

The Chair of the Committee, Councillor Chesterton, **MOVED** the Minutes of the meeting held on 11 November 2022 which had considered, among other things:

- Reports on performance against Authority-approved Strategic Priorities 1 and 2 for quarter 4 of 2021-22 and quarter 1 of 2022-23;
- A report on Home Fire Safety Visits performance;
- A report on the review process following a fatal fire death;
- A report on fire engine availability for the period December 2016 to November 2021, together with the latest seven months from December 2021 to June 2022; and

- A report on progress against the Action Plan to address those Areas for Improvement falling within the remit of the Committee and raised by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HIMCFRS) following its last inspection of the Service in 2021.

RESOLVED that the Minutes be adopted in accordance with Standing Orders.

c **Resources Committee**

The Chair of the Committee, Councillor Peart, **MOVED** the Minutes of the meeting held on 23 November 2022 which had considered, among other things:

- A report on Treasury Management Performance at Quarter 2 of 2022-23;
- A report on Service Financial Performance at Quarter 2 of 2022-23; and
- A report on Red One Ltd. Financial Performance at Quarter 2 of 2022-23.

RESOLVED that the Minutes be adopted in accordance with Standing Orders.

d **Audit & Governance Committee**

The Chair of the Committee, Councillor Brazil, **MOVED** the Minutes of the meeting held on 29 November 2022 which had considered, among other things:

- An urgent item on appointment of a Vice-Chair to the Committee following a recent vacancy to this post;
- A report on progress against the approved internal audit plan for 2022-23;
- An update report on the Service Corporate Risk Register;
- A report on progress with the Action Plan to address those Areas for Improvement falling within the remit of the Committee and raised by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services following its last inspection of the Service in 2021; and
- The 2021-22 Annual Report of the Authority's Local Pensions Board for firefighter pension schemes.

RESOLVED

(i). That, as recommended by the Committee, Councillor Thomas be appointed Vice-Chair of the Committee (and ex-officio appointee to the Devon Audit Partnership Committee) until the Authority's next Annual Meeting;

(ii). That, subject to (i) above, the Minutes be adopted in accordance with Standing Orders.

(See also Minute DSFRA/22/23 below)

DSFRA/22/23 **Appointments to Committees 2022-23 Municipal Year**

The Authority considered a report of the Director of Governance & Digital Services (DSFRA/22/21) inviting the Authority to appoint, in accordance with Standing Orders, to vacancies on the Audit & Governance and Community Safety Committees arising from a change in representation by Plymouth City Council on the Authority.

RESOLVED that:

(a). Councillor Aspinall be appointed to the Resources Committee (in place of Councillor McGeough);

(b). Councillor McGeough be appointed to fill the vacancy on the Audit & Governance Committee; and

(c). Councillor Drean be appointed to fill the vacancy on the Community Safety Committee

in each case, the appointments to be until the next Authority annual meeting.

(See also Minute DSFRA/22/22(d) above)

DSFRA/22/24 **Appointment of Independent Members to the Audit & Governance Committee - Further Considerations**

The Authority considered a report of the Director of Governance & Digital Services (DSFRA/22/22) on further considerations for the appointment of two independent, co-opted members to serve on the Audit & Governance Committee, as recommended in the 2022 CIPFA Position Statement "Audit Committees in Local Authorities and Police" and approved by the Authority at its last meeting (Minute DSFRA/22/20 refers).

The report identified, at Section 2, the proposed Term of Office for the appointees together with a mechanism for re-appointment (at the Authority annual meeting each year, with effect from 2024) and provisions for both the Authority and appointee to terminate the appointment.

RESOLVED that the Term of Office and appointment provisions for independent, co-opted members of the Audit & Governance Committee, as set out in Section 2 of report DSFRA/22/22, be approved.

DSFRA/22/25 **Members' Allowances**

a **Scheme of Members' Allowances - Increase in Rates for 2022-23 Financial Year**

The Authority considered a report of the Director of Governance & Digital Services (DSFRA/22/23) on an increase in Members' Allowances for the current (2022-23) financial year.

The Approved Scheme of Members' Allowances provided for allowances to be increased in line the increase approved by the National Joint Council for Local Government Services (the "Green Book"). For 2022-23, however, rather than a percentage increase, the approved increase was for a flat-rate of £1,925 across all NJC spinal column points.

The report identified the implications of this both for employees of the Devon & Somerset Fire & Rescue Service and in relation to the current rates of Members' allowances.

Having debated the report, Councillor Thomas suggested that Members Allowances be increased by a percentage representing the mid-point of the range of percentage increases for Service Green book staff and **MOVED** (with Councillor Peart seconding):

> "that Members allowances for the 2022-23 financial year be increased by 6.5%, with effect from 1 April 2022"

The Motion was put to the vote whereupon it was

RESOLVED

(a). that Members allowances for the 2022-23 financial year be increased by 6.5%, with effect from 1 April 2022; and

(b). that the Clerk be authorised to amend the published Scheme of Allowances to reflect the new rates.

(See also Minute DSFRA/22/25(b) below)

b **Confirmation of Members' Allowances Scheme 2023-24**

The Authority considered a report of the Director of Governance & Digital Services (DSFRA/22/24) on the Scheme of Members' Allowances to operate for the 2023-24 financial year. Regulations required the Authority to approve its Scheme of Allowances prior to the start of each financial year and to publish details of the Scheme so approved in the area of the Authority.

The report also identified that, although not required by the Regulations to have its own Independent Remunerations Panel, the Authority had historically commissioned an independent review of its Allowances Scheme every four years.

Having debated the report, Councillor Chesterton **MOVED**, with Councillor Hannaford seconding:

(a). That the Scheme of Members' Allowances to operate for the 2023-24 financial year be as set out in Table 1 of report DSFRA/22/24, uprated to reflect the earlier decision of the Authority on the increase in allowances payable during 2022-23;

(b). That, in the event of a flat-rate increase arising from the Green Book pay award in any future year, the automatic uprating applied should be the percentage increase on the overall Green Book staffing budget resulting from the pay award; and

(c). That the rates for reimbursement of travel and subsistence to operate for the 2023-24 financial year be as set out in Tables 2 and 3 respectively of the report.

The Motion was put to the vote whereupon it was

RESOLVED

(a). That the Scheme of Members' Allowances to operate for the 2023-24 financial year be as set out in Table 1 of report DSFRA/22/24, uprated to reflect the earlier decision of the Authority on the increase in allowances payable during 2022-23;

(b). That, in the event of a flat-rate increase arising from the Green Book pay award in any future year, the automatic uprating applied should be the percentage increase on the overall Green Book staffing budget resulting from the pay award;

(c). That the rates for reimbursement of travel and subsistence to operate for the 2023-24 financial year be as set out in Tables 2 and 3 respectively of the report; and

(d). That the Clerk be authorised:

  (i). to amend the Scheme of Members' Allowances accordingly and to publicise details of the Scheme in one or more local newspapers circulating in the area served by the Authority; and

  (ii). to commission an independent review of the Members' Allowance Scheme to inform a decision on the Scheme to apply from the 2024-25 financial year.

(See also Minute DSFRA/22/25(a) above)

DSFRA/22/26 **Digital Services: Strategic Outline Case - Progress Update**

The Authority received, for information, a report of the Chief Fire Officer (DSFRA/22/25) on progress in developing a Target Operating Model for the Devon & Somerset Fire & Rescue Service and specifically on options for digital transformation within the Service, which would be a key enabler for the Target Operating Model, to maximise technological advances within available resources.

The Meeting started at 10.00 am and finished at 11.25 am

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AUDIT & GOVERNANCE COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

18 January 2023

Present:

Councillors Brazil (Chair), Hendy, Prowse, Roome, Sellis, Thomas and Randall-Johnson (vice McGeough).

Apologies:

Councillors Kerley.

*** AGC/22/15 Minutes**

RESOLVED that the Minutes of the meeting held on 29 November 2022 be signed as a correct record.

*** AGC/22/16 Statement of Accounts 2021-22**

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (AGC/23/1) to which was appended the Authority's Financial Statements (including a narrative statement and Statement of Accounts) for the financial year ended 31 March 2022.

RESOLVED that the final Statement of Accounts for 2021-22 be approved and published on the Authority's website alongside the external auditor's final findings, in accordance with the provisions of Regulation 10(1) (as amended by Regulation 10(2)(b)) of the Accounts & Audit Regulations 2015 (as amended).

(See also Minutes *AGC/22/17 and *AGC/22/18 below)

*** AGC/22/17 Audit Findings for Devon & Somerset Fire & Rescue Authority for the Year Ended 31 March 2022**

The Committee received for information a report from the external auditor (Grant Thornton) on its final audit findings on the Authority's Financial Statements for the year ended 31 March 2022.

Barrie Morriss, representing Grant Thornton, commented that this had been a complex process this time. He drew attention to the points highlighted at Section 2 of the report in terms of significant risks identified, related to:

- The management override of controls;
- the posting of journals to the ledger and the subsequent approvals process;
- valuation of land and buildings;
- Improper revenue recognition;
- Preparation of Group financial statements and related disclosure; and
- Pension fund liabilities.

Attention was also drawn to Appendix C of the report setting out the audit adjustments and Appendix D setting out the audit fees which had increased as a result of the complex nature of this process.

The external auditor anticipated, based on its findings, that it would issue the Authority with an unmodified audit report and that its opinion was that the Authority's Financial Statements:

- gave a true and fair view of the financial position of the Authority as at 31 March 2022;
- had been properly prepared in accordance with the CIPFA/ALASAAC code of practice on local authority accounting in the United Kingdom; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Appendix G of the Audit Findings also set out the letter explaining the reason for the delay in submission of the Value for Money (VFM) work and Auditor's Annual Report in accordance with the 2020 Code of Audit of Practice.

(***See also Minutes *AGC/22/16 above and *AGC/22/18 below***).

*** AGC/22/18** **2021-22 Letter of Representation**

The Committee considered the Letter of Representation on the Authority's financial statements for the year ended 31 March 2022.

RESOLVED that the Committee Chair and the Director of Finance, People & Estates (Treasurer) be authorised to sign, on behalf of the Authority, the Letter of Representation to the external auditor (Grant Thornton) on the Authority's financial statements for the year ended 31 March 2022.

(***See also Minutes *AGC/22/16 and *AGC/22/17 above***).

*** AGC/22/19** **Annual Statement of Assurance 2021-22**

The Committee considered a report of the Director of Governance & Digital Services (AGC/23/2) to which was appended the final 2021-22 Annual Statement of Assurance for the Authority. The document had been prepared in accordance with relevant legislative and best practice requirements (including the Accounts and Audit Regulations, the Fire and Rescue National Framework and the CIPFA/SOLACE good governance framework).

The Committee noted that the Annual Statement of Assurance had been submitted for external verification with the Authority's financial statements for 2021-22. The external auditor (Grant Thornton) had identified some issues with the Annual Statement of Assurance which had been adjusted subsequent to approval of the draft Annual Statement of Assurance and as identified in report AGC/23/2.

RESOLVED that the Annual Statement of Assurance for 2021-22 be approved and published on the Authority's website.

*** AGC/22/20** **Internal Audit Charter and Strategy 2022-23 and Planning 2023-24**

The Committee received for information a report of the Head of the Devon Audit Partnership (DAP) setting out details of the way in which it would be delivering its internal audit service to the Authority following the transfer of this responsibility under the shared service agreement approved on 10 June 2022.

The report also set out details of DAPs Audit Charter and Strategy and gave an overview of the planning process for the Internal Audit Plan for 2023-24.

*** AGC/22/21** **Internal Audit Follow Up: Home Fire Safety Visits**

The Committee received for information a report which provided an update on the internal assurance requested at the previous meeting under the Community Safety – Fire Prevention audit - specifically on the number of Home Fire Safety Visits undertaken to date in 2022-23 as compared with the performance target of 18,000 visits. It was noted that the Service had completed 14,554 visits by 31 December 2022 and that it was on track to deliver the target set.

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

The Meeting started at 2.00 pm and finished at 4.21 pm

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PEOPLE COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

25 January 2023

Present:

Councillors Hannaford (Chair), Best, Kendall, Peart, Randall Johnson (vice Clayton), Thomas and Trail BEM.

Apologies:

Councillor Clayton.

*** PC/22/12 Minutes**

RESOLVED that the Mnutes of the meeting held on 31 October 2022be signed as a correct record.

*** PC/22/13 Performance Monitoring Report 2022- 23: Quarter 3**

The Committee received for information a report of the Director of Finance, People & Estates (PC/23/1) detailing performance as at Quarter 3 of 2022-23 against those Key Performance Indicators agreed by the Committee for measuring progress against the following three strategic priorities as approved by the Authority:

3(a). Ensure that the workforce is highly trained and has the capability and capacity to deliver services professionally, safely and effectively;

3(b). Increase the diversity of the workforce to better reflect the communities we serve, promoting inclusion and developing strong and effective leaders who ensure that we have a fair place to work where our organisational values are a lived experience; and

3(c). Recognise and maximise the value of all employees, particularly the commitment of on-call firefighters, improving recruitment and retention.

In particular, the report provided information on performance against each of the following key measures:

- operational core competence skills (beathing apparatus; incident command; water rescue; safety when working at heights or in confined spaces; maritime; driving; and casualty care);
- health and safety (accidents [including near misses]; personal injuries; vehicle incidents; and reporting against the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR));

- sickness and absence (including mental health) for wholetime, on-call, support, Control and casual staff, by type of sickness and details of the health and wellbeing support offered by the Service. The report also provided comparisons with national fire service data and featured benchmarking for sickness absence against comparable, neighbouring fire and rescue services;
- fitness testing (including support offered for red and amber groups) and a review of testing to explore a more inclusive, role-related functional fitness test for operational staff;
- diversity, with a particular emphasis on the work being undertaken on retention and promoting inclusion by developing strong leadership living the Service's values ;
- promoting inclusion, developing strong leaders, living Service values and being a fair place to work;
- grievance, capability and disciplinary issues;
- strategic workforce planning including details of staff turnover in all categories of the workforce; and
- employee engagement.

The Committee welcomed the new RAG rating on operational core competence which it found increased its understanding of the performance in this area. Reference was made to the position in respect of vehicle accidents and near misses both of which had reduced in quarter 3 of022-23. It was noted that there was a correlation between the number of incidents attended and the overall reductions in vehicle accidents, largely as a result of the covid pandemic. The number of incidents attended would be added in to this paper in future to show this correlation.

The Committee expressed concern in respect of the average number of days/shifts lost due to sickness absence which had increased to 6.73 days/shifts lost per person for the period April to November 2022 as compared with 5.90 days/shifts lost for the same period in 2022. The Co-Head of Human Resources advised the Committee that this was still due to Covid related illness which was no longer a separate category but was included within the general cols/flu category which had, for the first time, overtaken mental health issues as the primary cause of sickness in Quarer 3 of 2022-23. Health and wellbeing support continued ot be the focus for the Service in getting staff back to work. It was suggested that a trend line be added to the report in future as sickness absence seemed to be increasing and needed to be monitored carefully.

It was noted that the retention of women in the Service seemed to have improved which was positive news although women continued to be underrepresented within the Service as a whole. Reference was also made to the issue of promoting inclusion and ensuring that all staff felt empowered to report any incidence of noncompliance with Service Values in order to improve the organisational culture.

(See also Minute *PC/22/14 below).

*** PC/22/14 His Majesty's Inspectorate of Constabulary & Fire & Rescue Services Cause of Concern and Areas for Improvement Action Plan Update**

The Committee received for information a report of the Deputy Chief Fire Officer (PC/23/2) outlining progress to date against the Action Plans developed to address both the Cause of Concern and Areas for Improvement identified following the most recent Service inspection by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS).

The Cause for Concern Action Plan had been submitted to HMICFRS by the deadline of 31 August 2022. Four of the actions within the Cause for Concern Action Plan were recorded currently as "In Progress – Off Track" due to:

- 01a.01: As at 16/01/2023, completion of Equality, Diversity & Inclusion (EDI) eLearning across the Service is 90% (1998 of 2223 members of staff). A target of 95% compliance for the wholetime workforce had been set. A target for the on-call workforce is to be determined;
- 01a.08/ 01b.01: The Head of Communications had designed the core brief, which will now be presented to the Chief Fire Officer (CFO) for approval; and
- 01b.04: The Deputy Chief Fire Officer (DCFO) was currently in discussion with the CFO and Director of Finance, People and Estates on what the Service can and cannot publish from a legal perspective. Once this was established, the appropriate data will be made available to the workforce.

Delivery of the Areas for Improvement Action Plan was on track overall.

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

The Meeting started at 10.15 am and finished at 12.30 pm

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COMMUNITY SAFETY COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

31 January 2023

Present:

Councillors Biederman (Vice-Chair) (in the Chair), Coles (vice Chesterton), Drean, Randall-Johnson (vice McGeough) and Sully.

Apologies:

Councillors Brazil and Chesterton.

* **CSC/22/7** **Minutes**

RESOLVED that the Minutes of the meeting held on 11 November 2022 be signed as a correct record.

* **CSC/22/8** **Strategic Priority 1 and 2 Performance Measures: Quarter 3 2022-23**

The Committee received for information a report of the Director of Service Delivery (CSC/23/1) on performance by the Service during Quarter 3 of the current (2022-23) financial year against those Key Performance Indicators (KPIs) associated with the following two Strategic Priorities as approved by the Authority for 2022-23 (Minute DSFRA/21/36 refers):

> ***Strategic Priority 1***: "Our targeted prevention and protection activities will reduce the risks in our communities, improving health, safety and wellbeing and supporting the local economy"; and
>
> ***Strategic Priority 2***: "Our operational resources will provide an effective emergency response to meet the local and national risks identified in our Community Risk Management Plan".

The performance status of the Service KPIs was based on the following criteria:

Succeeding	The KPI was achieving its target
Near Target	The KPI is less than 10% away from achieving its target
Needs Improvement	The KPI is at least 10% away from achieving its target

The report identified the following in relation to Quarter 3 performance against the 21 KPIs associated with Strategic Priority 1 and the 14 KPIs associated with Strategic Priority 2:

	Succeeding	**Near Target**	**Needs Improvement**
Priority 1	13	6	2
Priority 2	7	6	1

In relation to the two Priority 1 (number of dwelling fire fatalities; rate of hospitalisations in other primary fires per 100,000 population) and one Priority 2 (percentage of operational risk information in date – level 4 tactical plans) KPIs requiring improvement, exception reports were provided giving an analysis of the performance and actions either proposed or in-train to address the issues. It was also noted that:

- The exception for dwelling fire fatalities stemmed from two fatal fires where, although the emergency response standard had not been met, this would not have had resulted in a different outcome;
- The exception report for the rate of hospitalisations in other primary fires per 100,000 population was dealing with very low numbers, making the rate subject to significant fluctuations. More meaningful monitoring could be ensured by assessing the rate of injuries within expected ranges, based on historical performance, with exception reports generated only where performance fell outside the upper limit;
- The exception report on the percentage of operational risk information in date – level 4 tactical plans related to refreshing existing plans rather than the requirement for new plans. Measures were in place to address fully the backlog by early in 2023.

The Committee welcomed the considerable improvements recorded for the number of home fire safety visits completed, the number of fire safety checks completed and the number of fire safety audits completed and asked to have placed on record its thanks and appreciation for the work of staff involved in securing these improvements.

(See also Minute *CSC/22/9 below).

*** CSC/22/9** **Change to Key Performance Indicator for Risk Priority Pumps**

The Committee received for information a report of the Director of Service Improvement (CSC/23/2) on a change, to be effective from 1 April 2023, to the Key Performance Indicator for risk-priority pumps.

At present, there were some 56 appliances based at 55 stations designated as risk-priority pumps, based on risk profiling from the former Fire Service Emergency Cover (FSEC) toolkit.

Following implementation of the Service Delivery Operating Model (SDOM), adoption of the new Community Risk Management Plan and utilisation of new risk modelling tools, the number of risk-priority pumps had been reviewed and an optimum number of 34 risk-priority pumps determined which would achieve:

- Compliance with Home Office minimum business continuity requirements;
- The highest level of risk mitigation; and
- The best geographical spread to remain within 15% of the emergency response standards and achieve a mean first attendance of less than 10 minutes for a dwelling fire and 15 minutes for a road traffic collision.

(See also Minute *CSC/22/8 above).

*** CSC/22/10** **His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) Areas for Improvement Action Plan Update**

The Committee received for information a report of the Deputy Chief Fire Officer (CSC/23/3) on progress against action plans to address Areas of Improvement within the remit of this Committee and stemming from His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) 2022 inspection report of the Devon & Somerset Fire & Rescue Service (the Service).

Action plans had been developed to address the following two Areas for Improvement:

1. The Service should evaluate its prevention activity so it understands what works; and
2. Safeguarding training should be provided to all staff.

The report indicated that progress against each of the action plans was on track to secure completion by the relevant target dates.

*** CSC/22/11** **National Resilience Exercising Requirements**

The Committee received, for information, a report of the Director of Service Delivery (CSC/23/4) on involvement by the Devon & Somerset Fire & Rescue Service (the Service) in the delivery of national resilience capability (Urban Search and Rescue (USAR); mass decontamination; high-volume pumping; enhanced logistic support; and marauding terrorist attack specialist response teams).

The report identified that training was provided by the hosting fire and rescue service, with an overall Lead Authority (currently, Merseyside Fire and Rescue Service) providing assurance to the government that the capability was fit for purpose to address the risks identified on the national risk register and liaising with the government to ensure that national resilience capabilities were appropriately funded.

The assurance process involved a three-year cycle of:

- Year 1 – self-assessment;
- Year 2 – Zonal practice assurance exercise; and
- Year 3 – national exercise.

supported by a number of local exercises.

To date, this assurance mechanism was proving successful in demonstrating that the Service national resilience capabilities were fit for purpose.

*** CSC/22/12** **Protection Enforcement**

The Committee received for information a report of the Director of Service Delivery (CSC/23/5) on activities by the Devon & Somerset Fire & Rescue Service in discharging responsibilities under the Regulatory Reform (Fire Safety) Order 2005.

The Service operated a risk-based inspection programme covering some 170,000 premises in Devon and Somerset, with resources targeted to have the biggest impact on public safety.

Where possible, the Service would assist responsible persons (as defined in the Order) in complying with the legislation to keep people safe. The Service could, however, enforce the provisions of the Order as necessary through legal notices, prohibitions and prosecutions.

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

The Meeting started at 2.00 pm and finished at 3.35 pm

RESOURCES COMMITTEE (Budget Meeting)
(Devon & Somerset Fire & Rescue Authority)

6 February 2023

Present:

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

Also in attendance:

Councillors Sellis (Committee Member – attending virtually but not voting)

Councillors Cook-Woodman, Kendall, Radford and Randall Johnson (attending in accordance with Standing Order 39).

* **RC/22/13** **Minutes**

RESOLVED that the Minutes of the meeting held on 23 November 2022 be signed as a correct record.

RC/22/14 **2023-24 Revenue Budget and Council Tax Level**

The Committee considered a joint report of the Director of Finance, People & Estates (Treasurer) and the Chief Fire Officer (RC/23/1) on the draft 2023-24 revenue budget and associated Council Tax levels.

Two options were presented in the report circulated, namely:

- Option A: that the level of council tax in 2023-24 for a Band D property be set at £91.79, as outlined in Option A, representing no increase over 2022-23 and representing a Net Revenue Budget Requirement for 2023-24 of £82,538,300 (£82.538m); or
- Option B: that the level of council tax in 2023-24 for a Band D property be set at £96.79, as outlined in Option B, representing a £5 increase over 2022-23 and representing a Net Revenue Budget Requirement for 2023-24 of £85,678,970 (£85.679m).

A one-year Local Government Finance Settlement had been announced on 19 December 2022. This indicated a Settlement Funding Assessment for the Authority of £23.819m for 2023-24, a 1.268% increase on the settlement for 2022-23 but representing a 19.67% decrease on the settlement for 2015-16.

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. The Authority had also received a £0.445m share of the Rural Services Delivery Grant for 2023-24 together with £0.7m Section 31 grant funding to reduce the impact of the increase in social costs. These sums were included as income in the proposed revenue budget.

The Treasurer gave an update at the meeting on the Net Budget Requirement given that the Authority had now received the final returns on the National Non-Domestic Rates (NNDR) and details of the share of the Council Tax Collection Funds from billing authorities. This had resulted in a change to the Net Budget Requirement set out above of £82.272m for Option A; and £85.413m for Option B.

The Committee was advised that, should budget option A be selected, then the net spending requirement exceeded available funding by £3.141m. This shortfall could be met by a transfer from reserves in the short-term while a plan to implement spending reductions across all Service areas was developed. Option B, however, would not require any contribution from reserves.

The Medium-Term Financial Plan identified a requirement for further savings beyond 2023-24 to ensure that balanced budgets could be set in each year of the Spending Review period.

The strategic approach to deliver the required savings in future years was being developed following an efficiency review which had been initiated and would focus on the following priority areas:

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

As required by Section 65 of the Local Government Finance Act 1992, non-domestic ratepayers had been consulted on proposals for expenditure. Members of the public had also been consulted. The consultation results indicated that:

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

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

Additionally, the consultation results indicated that:

- 64% of businesses and 66% of residents considered the Service provided good value for money; and
- 80% of businesses and 81% of residents were either very or fairly satisfied with the service provided.

Appended to the report was a statement on the robustness of the budget estimates and the adequacy of the levels of reserves and balances, as required by Section 25 of the Local Government Act 2003.

The Treasurer added that, the budget proposals circulated were predicated upon a Grey Book pay award of 5% being agreed under the national arrangements. Should this figure be increased above 5%, then this would impact on the budget presented. It was noted that the Authority, at its meeting on 15 February 2023, would be requested to grant the Treasurer delegated authority to make up any shortfall in budget from reserves arising as a result of any pay award which exceeded the 5% assumed in the figures outlined above.

RESOLVED that the Authority be recommended:

(a). to set the level of Council Tax in 2023-24 for a Band D property at £96.79, as outlined above, representing a £5 increase over 2022-23 and that accordingly, a Net Revenue Budget Requirement for 2022-23 of £85,412,600 be approved;

(b). that, as a consequence of this:

(i). the tax base for payment purposes and the precept required from each billing authority for payment of a total precept of £60,798,019, as set out in the revised figures above (Option B) be approved;

(ii). the council tax for each of the property bands A to H associated with the total precept as detailed in the budget booklet be approved; and

(c). that the Treasurer's Statement on the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances, as set out in Appendix B to the report, be endorsed.

RC/22/15 **Capital Strategy**

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (RC/23/2) setting out a proposed capital strategy for the Authority, as required by the Chartered Institute of Public Finance and Accountancy Prudential Code.

The Strategy provided a high-level overview of how capital expenditure and the way it was financed contribute to the provision of services together with an overview of how associated risk would be managed and the implications for future financial sustainability. The Strategy also set out the governance processes for approval and monitoring of capital expenditure.

The Strategy was a key document for the Authority and formed part of the financial planning arrangements, reflecting the priorities of the Medium Term Financial Plan.

RESOLVED that the Authority be recommended to endorse the Capital Strategy as set out in the report.

(See also Minutes RC/22/14 above and RC22/16 below)

RC/22/16 **Capital Programme 2023-24 to 2025-26**

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (RC/23/3) on the proposed Authority Capital Programme 2023-24 to 2025-26 and associated Prudential Indicators.

While the proposed programme and funding would increase the external borrowing requirement from the current level of £24.3million to £25.8million by 2025-26, the debt ratio of financing costs to the net revenue scheme, a key Prudential Indicator, would remain below the 5% maximum limit previously approved by the Authority throughout the period of the programme.

The report identified proposed expenditure on both estate and fleet capital projects over the period of the programme, with indicative expenditure (and associated Prudential Indicators) for a further two years (2025-26 and 2026-27).

There remained considerable difficulties in meeting the full capital expenditure needs for the Service and in maintaining the 5% debt ratio limit. The proposed capital programme had been constructed on the basis that revenue budget contribution to capital would be maintained in future years but this may not be possible. Unless capital assets were further rationalised, however, there would be a need for external borrowing in 2024-25. Decisions on further spending would be subject to annual review based on the financial position of the Authority.

RESOLVED

(a). that the Authority be recommended to approve the draft Capital Programme 2022-23 to 2025-26 and associated Prudential Indicators as detailed in report RC/22/3; and

(b). that, subject to (a) above, the forecast impact on the 5% debt ratio Prudential Indicator of the proposed Capital Programme from 2026-27 onwards, as indicated in the report, be noted.

(See also Minutes RC/22/15 above and RC/22/17 below)

RC/22/17 **Treasury Management Strategy (Including Prudential and Treasury Indicators 2023-24 to 2025-26)**

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (RC/23/4) detailing:

- the proposed Treasury Management Strategy (including Prudential Indicators) and investment strategy for 2023-24;
- Prudential Indicators associated with the proposed Capital Programme 2023-24 to 2025-26;
- a Minimum Revenue Provision Statement 2023-24; and
- certification that none of the Authority's spending plans would include the acquisition of assets primarily for yield.

The proposed Strategy had been prepared in accordance with the requirements of the Local Government Act 2003 and the Treasury Management Code of Practice produced by the Chartered Institute of Public Finance and Accountancy.

RESOLVED that the Authority be recommended to approve:

(a). the Treasury Management Strategy and Annual Investment Strategy 2023-24 as set out in report RC/23/4; and

(b). the Minimum Revenue Provision Statement 2023-24as appended to the report.

(See also Minute RC/22/16 above)

*** RC/22/18** **<u>Treasury Management Performance 2022-23: Quarter 3</u>**

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/23/4) that set out the Authority's performance relating to the third quarter of 2022-23 (to December 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 2 of 2022-23 which was squeezing economic growth. Inflation was at 11.1% in quarter 2 of 2022-23 but fell to 10.7% in quarter 3;
- The UK bank base rate rose in quarter 3 to 3.50%, rising again in early February 2023 to 4%. Interest was 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 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 been pushed up to 3.7% in October 2022 due to a small loosening in the labour market.
- 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 £0.232m (4.05%) generated in quarter 3 of 2022-23, outperforming the new 3 month SONIA (Sterling Overnight Index) benchmark of 2.74% by 1.31bp. 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 1 with external borrowing at 31 December 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 Treasurer, in response to a question, confirmed that the Service would be bringing forward an investment strategy to the Committee which may have a more ethical outlook for consideration in due course.

*** RC/22/19** **Financial Performance Report 2023-24: Quarter 3**

The Committee received for information a report of the Director of Finance, People & Estates (Treasurer) (RC/23/5) that provided the Committee with details of the third quarter performance (to December 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 £1.568m more than the budget of £77.289m at £78.857m, representing an overspend of 2.03% 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 Treasurer drew attention to a slight change in the reporting of variances to add a percentage change column based on a practice within central government to report on salaries +-2% and on other non salary lines of +-5%. Commenting that this highlighted those areas where the position was materially different from previous reported.

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 from 1 July 2022 with 2% budgeted and 5% expected - £0.707m;
- 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% - £2.113m;
- Fire Service Pension Costs – unexpected ill health retirements moved this budget line into a forecasted overspend position - £0.217m.
- Energy costs – overspend of £0.306m; and

- Investment income – an over recovery of £0.715m.

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

- Training - £0.252m;
- Transport, repair and maintenance costs - £0.302m;
- Running costs and insurance - £0.255m;
- Equipment and furniture - £0.524m.

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 (£1.040m), together with the repurposing of other ring-fenced reserves (£0.525m) 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 underspend of £0.107m largely due to the rebuild of Plymstock station. The total debtor invoices outstanding at quarter 3 totalled £0.699m of which £0.342m related to Red One Ltd.

*** RC/22/20** **<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. and Councillor Radford) 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/22/21** **<u>Red One Ltd. Financial Performance 2022-23: Quarter 3</u>**

(An item taken in accordance with Section 100A(4) of the Local Government Act 1972 during which the press and public (with the exception of representatives from Red One Ltd. and Councillor Radford) 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/23/6) on the financial performance of the company during quarter three of the 2022-23 financial year.

The Committee also received for information a supplementary, associated report of the Chief Fire Officer and Director of Finance, People & Estates (Treasurer) (RC/23/7) which provided a response to points raised within the Financial Performance report for quarter 3 of 2022-23.

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

The Meeting started at 10.00 am and finished at 12.55 pm

REPORT REFERENCE NO.	**DSFRA/23/1**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**15 FEBRUARY 2023**
SUBJECT OF REPORT	**MEDIUM-TERM FINANCIAL PLAN**
LEAD OFFICER	**Director of Finance, People and Estates (Treasurer)**
RECOMMENDATIONS	***That the Medium-Term Financial Plan as set out in this report be endorsed.***
EXECUTIVE SUMMARY	The requirement to produce and publish a Medium-Term Financial Plan is included in the current iteration of the Fire & Rescue National Framework for England. The document now attached outlines funding, income and expenditure forecasts for the Authority for the next five financial years (to 2027-28). The Plan identifies how the financial forecast is constructed (including funding sources and expenditure/cost pressures) together with savings targets over the period covered the Target Operating Model will be the principal vehicle for delivering these savings. As such, the Medium-Term Financial Plan should be considered alongside the Target Operating Model (which aims to deliver against those objectives in the Community Integrated Risk Management Plan) and the Reserves Strategy. The Medium-Term Financial Plan will be updated at least annually as part of the budget setting process and will be refreshed more frequently as soon as any information making a material difference becomes available.
RESOURCE IMPLICATIONS	As set out in the Medium-Term Financial Plan appended to this report.
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing Equalities and Human Rights legislation.
APPENDICES	A. Glossary and methodology for calculating assumptions.
BACKGROUND PAPERS	Community Risk Management Plan 2022 - 2027 Report RC/21/5 (Reserves Strategy 2020-21) to the Resources Committee meeting on 9 September 2021, together with the Minutes of that meeting and the Minutes of the Authority Meeting held on 29 September 2021 Fire & Rescue National Framework for England 2018

1. INTRODUCTION

1.1. The Devon & Somerset Fire & Rescue Authority (the Authority) covers a diverse geographical area across two counties; with large towns and cities, market towns and isolated rural areas together with major roads and two extensive lengths of coastline. The current budget (2022-23) of £77.3m is used to resource 83 fire stations, 112 fire engines in addition to numerous special appliances. Around 1,800 staff deliver fire prevention and protection activity, respond to emergency calls and incidents and provide professional support functions. The Authority is progressing well in making a significant investment in our On Call service. The COVID-19 pandemic is already increasing pressure on public service finances and its impacts are likely to be felt for some years to come.

1.2 This document is the Medium-Term Financial Plan and outlines funding, income and expenditure forecasts for the next five years. The Medium-Term Financial Plan will be updated annually as part of the budget setting process and will be refreshed more frequently if information which makes a material difference becomes available. Understanding the Authority’s finances is really important when making decisions about the future and this document should be read alongside the Authority’s Community Risk Management Plan and Reserves Strategy together with the Safer Together Programme.

2. FUNDING AND INCOME

2.1. The Authority has three main sources of revenue funding:

- Council Tax Precept;
- National Non-Domestic Rates Scheme; and
- Revenue Support Grant.

2.2. Additionally, income from one-off grants, recharges and services is offset against our expenditure in order to reach the “net revenue budget” in each year.

3. BUILDING THE MEDIUM-TERM FINANCIAL FORECAST

Planning for different scenarios

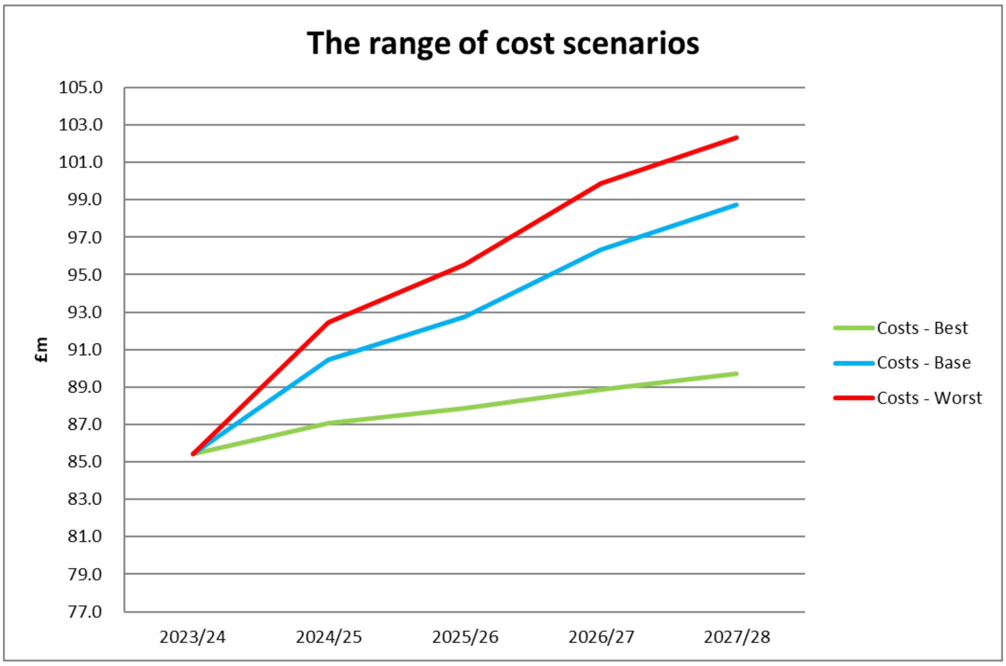
3.1. The forecasts in this document represent a “base case” scenario built on the latest information from government, sector knowledge and experience of finance officers. “Worst case” and “best case” scenarios are also developed to show the impact of various funding and cost pressures.

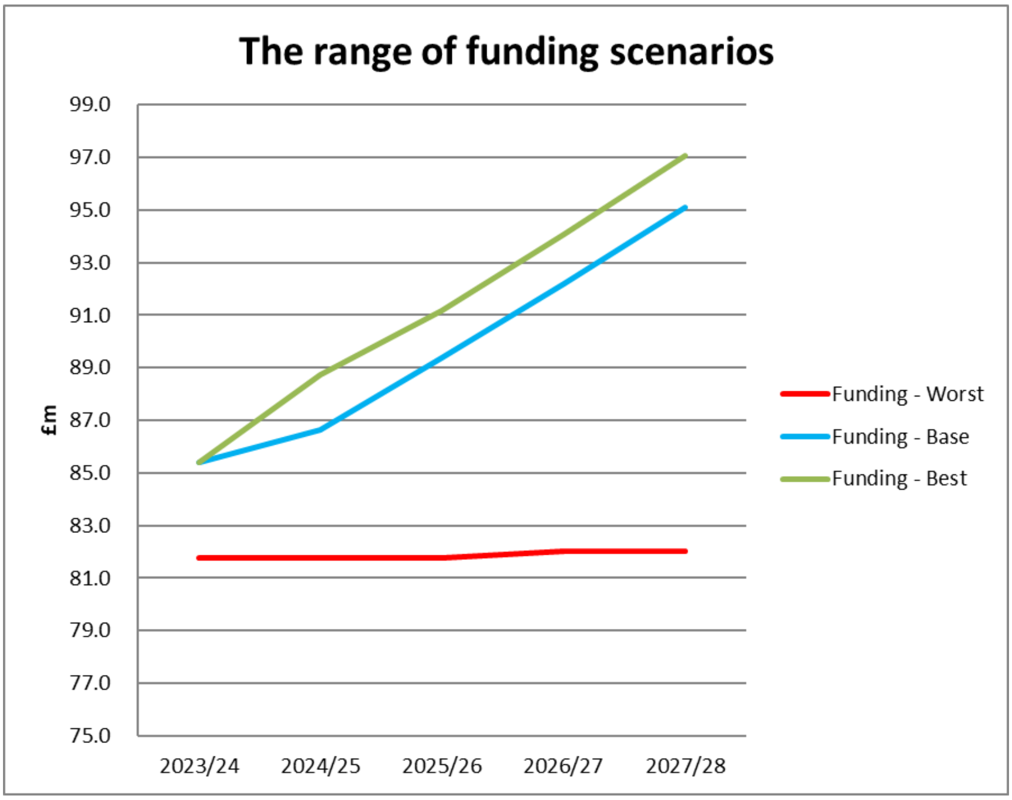
3.2. In the Worst case, government grants are frozen, pay and inflation see a steep increase, additional pensions costs arise, council tax is frozen and the base continues to remain as is with no growth and a very modest mid-period increase in council tax collection surplus.

3.3. In the Best case, government grants, pay and inflation remain steady, pension costs are funded and Council tax is increased every year, with the council tax base achieving modest growth.

3.4. In the Base case, which is presented here, government grants rise with inflation, pay and inflation remain steady, pension costs are minimal and council tax losses are minimised. This is considered the most likely scenario.

3.5. The Base case is presented to the Authority with options over council tax and where savings targets are fed back into the budget setting process each year.

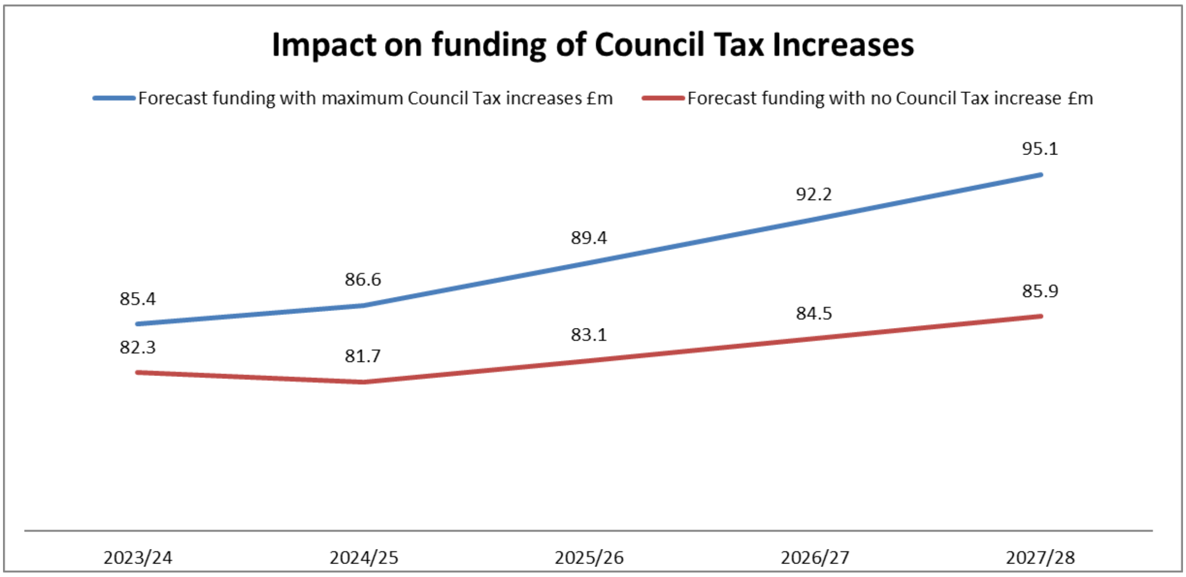




3.6. The range of scenarios presented in the charts above demonstrates that the savings gap (the difference between funding and costs) could vary from a deficit of £20.3m to a benefit of £7.3m over the next five years. The base case £15.7m gap) represents the most likely scenario and informs the Medium-Term Financial Plan. Because the Plan is reviewed annually, variations can be built in and projections are refined at regular intervals, short term exceptions can also be smoothed out using reserves.

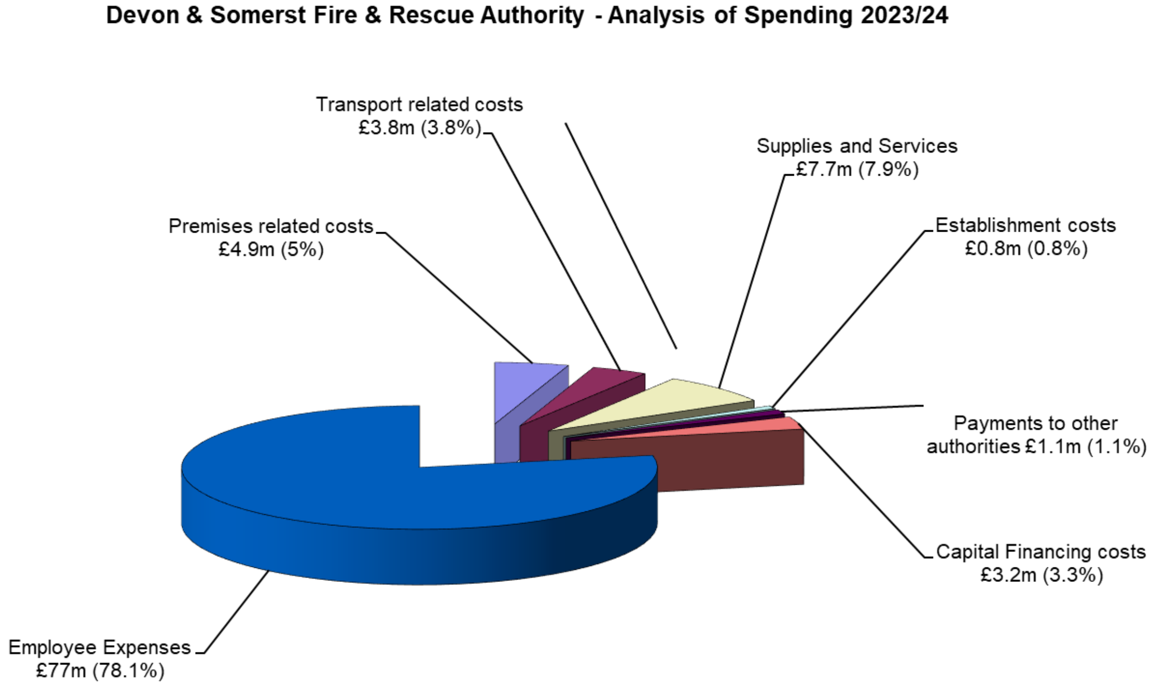
Funding

3.7. When building the five year forecast, assumptions are made about each of the funding sources and how they may change in the coming years. A range of scenarios can then be used to calculate the anticipated funding available. The Authority only has direct control over the level of Council Tax raised each year and the following graph shows the impact on funding of maximum raises against no increases, which could amount to a difference of 9.2m over the next five years.



Expenditure

3.8. Assumptions are also made about forecast expenditure. The Authority can control some of its costs by managing its budget effectively; other elements are dependent on national drivers such as inflation, superannuation (pension) costs and pay awards. Expenditure is shown in the chart overleaf which highlights that 78.1% of Service costs are related to employees, meaning that increases in this area can have a significant impact on the budget. The Capital Programme is also paid for through Revenue funds; a combination of money set aside to pay for historic borrowing, budget provision to fund future capital expenditure and Reserves designated for Capital Use.



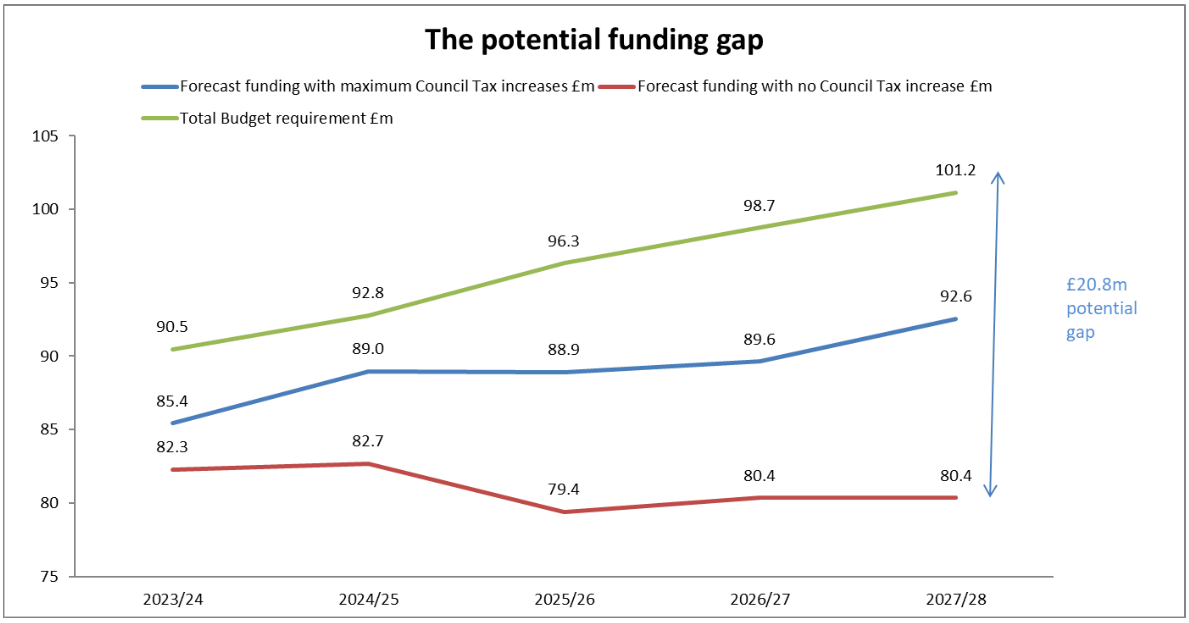
Cost Pressures

3.9. The medium-term financial forecast identifies the following cost pressures within the next five years which are added to the current budget to reach the future budget requirement:

- Pay increases
- Inflation
- Pension increases
- Reduction to one-off grant income
- Capital investment

Savings targets and the Target Operating Model

3.10. The chart overleaf shows the gap between potential funding available versus the budget requirement, including cost pressures. This is known as the funding gap. Over five years the funding gap could reach £20.8m if Council Tax is frozen, falling by £8.6m if increased in line with assumed referendum limits (i.e. 1.99%) set by HM Treasury.



3.11. The Authority has an excellent history of achieving savings targets, with over £22.5m saved over the since 2011-12 to 2022-23.

3.12. Given the big challenge posed by the funding gap and the need to reform the Service, plans have been approved to future-proof the organisation and deliver budget savings. The Community Risk Management Plan will define the Service high-level strategy alongside the creation of a Target Operating Model (TOM) which will align the Service workforce in the most efficient and effective way.

4. MEETING THE FUNDING GAP

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

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

5. CONCLUSION

5.1. The medium-term financial forecast is indicating significant budget pressures over the next five year period and robust plans must be made to meet the challenge. The Service is progressing well with change plans and will need to identify further benefits within the next year to ensure longer term financial sustainability. In addition to savings realised from the Safer Together programme, ongoing work will be done to reduce costs through budget management, procurement, collaboration and efficiency reviews.

GLOSSARY AND METHODOLOGY FOR CALCULATING ASSUMPTIONS

Council Tax Precept. Each household receives an annual Council Tax Bill which is made up of charges for various services such as County, Unitary, District and Parish Councils, Police and Fire. The charge is known as the Council Tax Precept and is determined by the Authority each year and is usually quoted as the amount for a Band D property. In Devon & Somerset there are 14 billing authorities made up of district and unitary councils and those bodies are responsible for sending out bills to households and collecting the money which is then paid over to the Authority.

Council Tax income received in each year is based on three elements and these are forecast separately:

- The amount of Council Tax Precept that each household pays is set by the Authority each year and in 2022-24 is subject to a maximum of £5 increase (any increase above that level would require a local referendum to be held).
- The number of households in the area (the Council Tax Base) which is estimated based on housing growth.
- The success of billing authorities in collecting their Council Tax; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Authority (Council Tax Surplus/Deficit). NOTE: These figures have been impacted due to COVID-19

National Non-Domestic Rates, also known as Business rates retention scheme, is made up of two elements; a proportion of business rates collected by billing authorities and paid directly to the Authority and a “Top-up grant” from central government which is intended to make up the difference between the Authority’s baseline funding and actual income (calculated by central government based on a proportion of total business rates funding across the fire sector).

National Non-Domestic Rates income received in each year is based on three elements and these are forecast separately:

- The amount of Business Rates Income
- The success of billing authorities in collecting their Business Rates; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Authority (Surplus/Deficit)
- The amount of Top-Up Grant due to the Authority which is notified by central government annually

Revenue Support Grant is received directly from central government and is based on the Settlement Funding Agreement which is determined based on analysis of spending requirement across English Fire Services. The Settlement Funding Agreement can be set annually or for a longer period. A one year settlement was made for 2023-24. Beyond that period assumptions have to be made as to the level of grant income to be received.

Medium Term Financial Plan Assumptions	2023/24	2024/25	2025/26	2026/27	2027/28
Council Tax Precept	5.45%	2.99%	1.99%	1.99%	1.99%
Council Tax Base	1.00%	0.10%	1.60%	1.60%	1.60%
Council Tax Surplus	0.01%	0.00%	1.00%	1.00%	1.00%
National Non-Domestic Rates	0.00%	2.00%	2.00%	2.00%	2.00%
Revenue Support Grant	10.10%	1.70%	1.90%	1.90%	1.90%
Total Impact on net funding £m	**8.1**	**1.2**	**2.7**	**2.8**	**2.9**
Forecast funding with maximum Council Tax increases £m	**85.4**	**86.6**	**89.4**	**92.2**	**95.1**
Forecast funding with no Council Tax increase £m	**82.3**	**81.7**	**83.1**	**84.5**	**85.9**

Section 31 Grants are made from central government and determined on an annual basis. The biggest grants for the Authority are Small Business Rates Relief (reimbursement from the government for reduced business rates income), Rural Services and Transition Grants.

Grants, Reimbursements and Other Income. The Service undertakes a range of activities outside of its statutory duties, some of which are paid for by third parties. This can include Co-responding to Ambulance Service incidents, rent on our premises and running training courses.

Cost Pressures:

Pay Awards are subject to agreement by the relevant National Joint Council (pay bodies for public sector) and apply to English and Welsh Fire and Rescue Authorities. Pay awards are often agreed annually within the financial year they apply and are therefore subject to variation against the forecast. Assumptions are benchmarked against the Fire Sector at least annually.

Inflation. The Authority is responsible for funding inflationary increases. The rate is set for pensions on an annual basis and prices for goods and services may fluctuate depending on the contract in place for purchasing them.

Superannuation. The Authority is responsible for paying employer pension contributions (also known as superannuation) which are based on a percentage of pensionable pay. There are several pension schemes for firefighters and support staff and the employer contribution percentage rates are determined every three years via an actuarial valuation. Superannuation currently accounts for around 20% of expenditure on employee costs so variations to rates can have a significant impact. Estimated increases are included in the Medium Term Financial Plan as a cost pressure.

Capital Programme. Significant purchases of assets costing £20,000 or more with a useful life beyond one year are classified as Capital expenditure. Can include purchasing vehicles and equipment, building new stations, extensions and major refurbishment, as well as ICT infrastructure.

REPORT REFERENCE NO.	**DSFRA/23/2**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
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. This report was previously considered by the Resources Committee at its budget meeting on 6 February 2023. The Committee resolved to recommend that the Authority endorse the Capital Strategy.
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.

1.3. This report was previously considered by the Resources Committee at its budget meeting on 6 February 2023. The Committee resolved to recommend that the Authority endorse the Capital Strategy.

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.	**DSFRA/23/3**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**15 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, as recommended by the Resources Committee at its budget meeting held on 6 February 2023:*** ***(i). 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 £85,412,600 be approved;*** ***(ii). that, as a consequence of the decisions at (i) above:*** ***(A). the tax base for payment purposes and the precept required from each billing authority for payment of a total precept of £60,798,019 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;*** ***(B). 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.*** ***(b). That, as the budget is subject to variations in the pay for operational staff, negotiations for which are still on-going for the 2022-23 award:*** ***(i). the Treasurer be delegated authority to balance the budget from reserves in the event that the final pay award settlements for 2022-23 and 2023-24 exceed the budgeted amounts for those years (5% and 2% respectively);*** ***(ii). that any use of reserves so required be reported for information to the next appropriate meeting of the Resources Committee.***

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).** These options were initially considered by the Resources Committee at its budget meeting on 6 February 2023. The Committee resolved to recommend that the Authority approve Option B.
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. 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.

1.5. A previous iteration of this report, setting out Options A and B in relation to Council Tax levels for 2023-24, was considered by the Resources Committee at its budget meeting on 6 February 2023. The Committee resolved to recommend that the Authority approve Option B. These options are set out at Section 3 of this report. It should be noted that this paper contains the updated information on National Non-Domestic Rates (NNDR) as reported to the Resources Committee meeting and which reduces the net budget requirement.

1.6. It should also be noted that the budget for the current financial year (2022-23) was set on the basis of a 5% pay award for operational staff. Similarly, an estimated pay award of 2% has been used in preparing the proposed budget for 2023-24. The pay settlement for 2022-23 is still subject to negotiation. Should the final settlement for this year and 2023-24 ultimately exceed the indicated amounts, then – to deliver a balanced budget for both financial years - it is recommended that the Treasurer be delegated authority to meet the amounts from reserves, subject to this being reported for information to the next appropriate meeting of the Resources Committee.

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 below 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.

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*	2.522	2.522
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 2023-24	**82.272**	**85.413**
NET CHANGE IN FUNDING	**4.983**	**8.124**

Council Tax Base

3.3. The total increase in government funding through the revenue support grant and of £0.987m is in line with inflation at 10.1% and comes after significant reductions amounting to 19.67% 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

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

Net Budget Requirement

3.5. Table 3 below 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	2.817	
PLUS Inescapable Commitments	0.151	
LESS Reduction in Professional staff posts and licence fees	(0.927)	
PLUS New Investment	2.104	
PLUS increase in income	(1.392)	
INCREASE in budget requirement over 2022-23		**8.124**
Core spending requirement 2023-24		**85.413**

3.6. 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

3.7. As is indicated in Table 3, the Revenue Budget Requirement for 2023-24 has been assessed as £85.413m. 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	82.272	85.413
LESS Net spending requirement 2023-24	85.413	85.413
Shortfall	(3.141)	**0.000**
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	0.000	0.000
Transfer from Reserves – in order to balance the budget.	3.142	0.000
Total	**0.000**	**0.000**

3.8. 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 (i.e. Option A). 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.

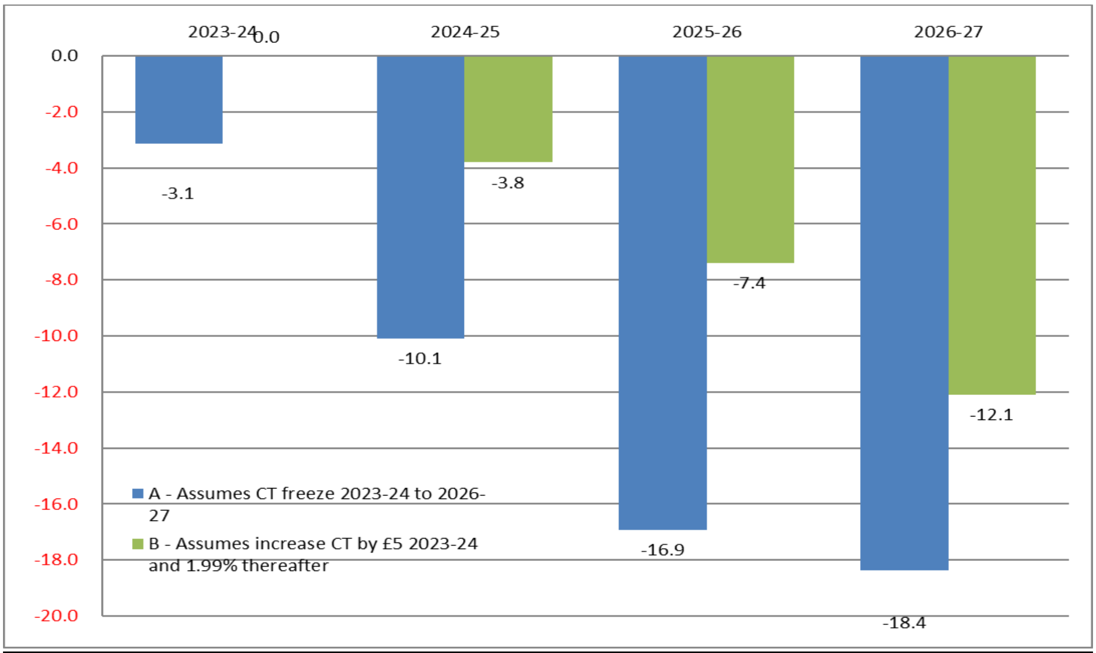
3.9. There is significant risk attached to Option A as this proposal will draw down against the capital funding reserve, meaning it will not be available to meet the future capital programme and the scale of efficiencies required would see reductions made to front line services.

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 £18.4m 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:

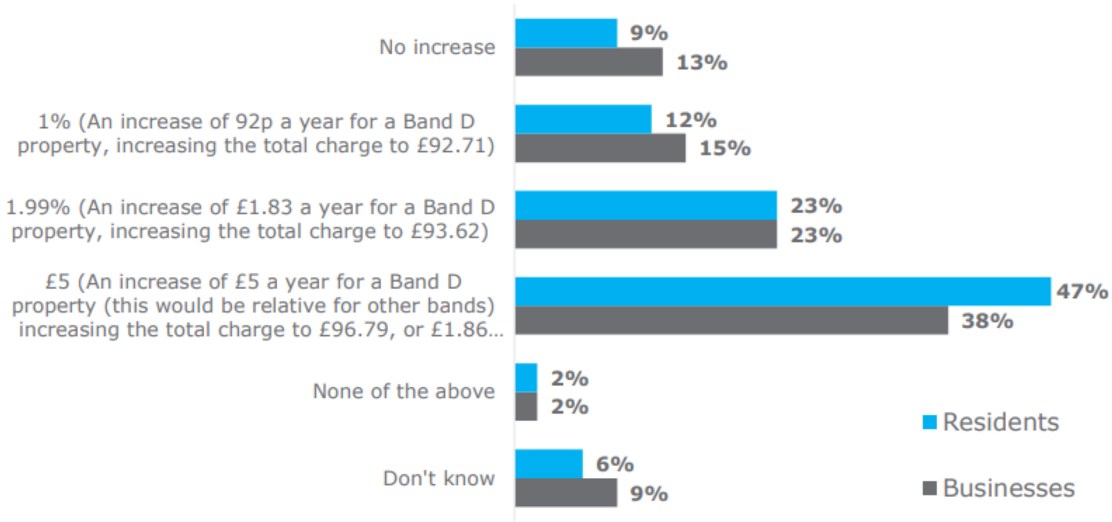
5.4. A telephone survey of 402 business and 400 residents.

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)

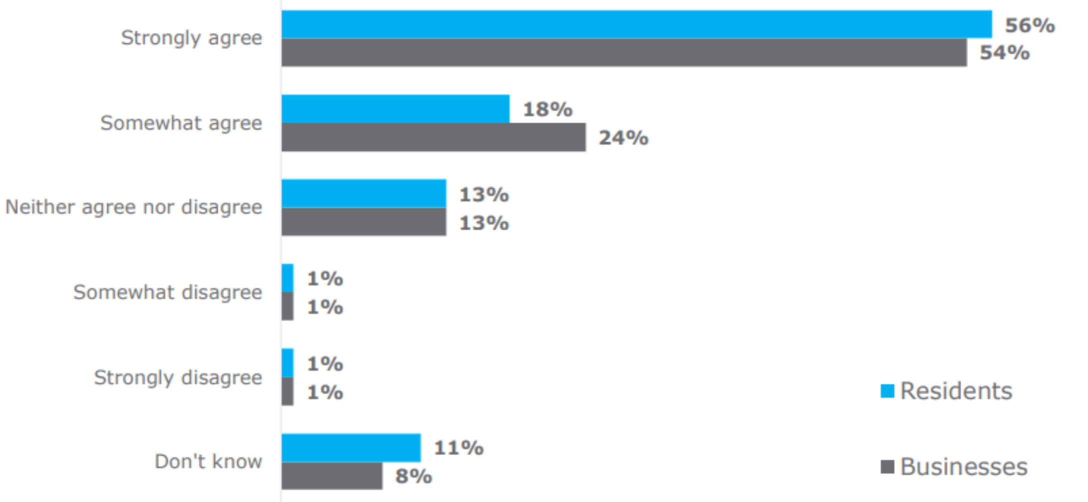


5.7. Of those respondents who agreed that a Council Tax increase would be reasonable 38% of businesses and 47% residents would support an increase of £5

Providing Value for Money

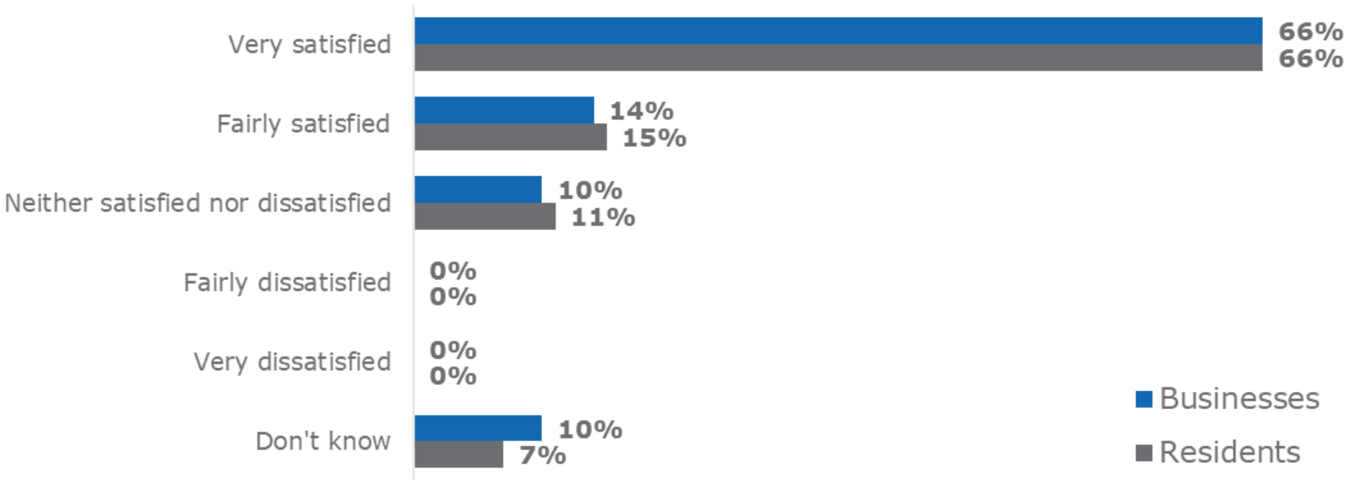
5.8. The consultation asked the responder if they felt the Fire Service provided value for money. The results in Chart 3 indicate 64% of businesses and 66% of residents strongly agreed.

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



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

Chart 4: Satisfaction with the service provided by DSFRS



Survey Conclusion

5.10. The results of the consultation indicate that the majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 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 eleven 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 DSFRA/23/3

	£'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)	2,508		
Green Book Pay Award (Assume approx. 4.5% April 22 and 2% April 23)	582		
Prices increases (assumed 5.0% CPI from April 2023)	2,175		
Pensions inflationary increase (tracks CPI - 3.2%)	106		
LGPS ER's increase of 1% (end of 3 year discount period)			
		5,371	6.9%
Funding Adjustments			
Revenue Contribution to Capital	-1,150		
Reduction in transfers from Reserves	3,967		
		2,817	
Inescapable Commitments			
Support Staff Increments	126		
Increase to pension charges for FFPS rate increase - McCloud/Sargent	0		
Pensions - anticipate reduced Ill Health/ Injury leavers	25		
		151	
New Investment			
On Call Pay for availability	1,344		
Operational staff including control	758		
		2,102	
Income			
Increase in investment interest	-425		
Reduction in Firelink grant	374		
Red One Income	283		
Section 31 grants	-864		
		-632	
Anticipated savings			
Cumulative budget savings	0		
Professional subscriptions	-17		
Reduction in Professional Staff establishment	-788		
ICT Service Delivery (Office 365 licence)	-139		
Unforeseen budget requirements (savings)	-713		
Decrease in minumum revenue provision	-30		
		-1,687	
CORE BUDGET REQUIREMENT		**85,413.0**	

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 £85.413m (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 31 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.	**DSFRA/23/4**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**15 FEBRUARY 2023**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2023-24 TO 2025-26**
LEAD OFFICER	**Director of Finance, People & Estates (Treasurer)**
RECOMMENDATIONS	***(a) That, as recommended by the Resources Committee at its budget meeting on 6 February 2023, the Authority approves 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) That, 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.

	This report was previously considered by the Resources Committee at its budget meeting on 6 February. The Committee resolved to recommend that the Authority approved the Capital Programme 2023-24 to 2025-26, and associated Prudential Indicators, as set out in Appendices A and B respectively.
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 10 January 2020, the Authority approved changes to the Service Delivery Operating Model, which has reduced some pressure on the proposed capital programme. However, due to the age of current fleet there are still ambitious plans to introduce 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.

1.5. This report was previously considered by the Resources Committee at its budget meeting on 6 February. The Committee resolved to recommend that the Authority approved the Capital Programme 2023-24 to 2025-26, and associated Prudential Indicators, as set out in Appendices A and B respectively.

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 overleaf:

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. 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)

APPENDIX A TO REPORT DSFRA/23/4

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%

REPORT REFERENCE NO.	**DSFRA/23/5**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**15 FEBRUARY 2023**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS) 2023-24 TO 2025-26**
LEAD OFFICER	**Director of Finance, People & Estates (Treasurer)**
RECOMMENDATIONS	***That, as recommended by the Resources Committee at its budget meeting on 6 February 2023, the Authority approves:*** ***(a). the Treasury Management Strategy and the Annual Investment Strategy (including the Capital Financing Requirement and Estimated Authorised Borrowing Limit as included in the Prudential Indicators at Appendix A), as identified in this report; and*** ***(b). the Minimum Revenue Provision statement for 2023-24, as contained as Appendix B.***
EXECUTIVE SUMMARY	This report sets out a treasury management strategy and investment strategy for 2023-24, including the Prudential Indicators associated with the capital programme for 2023-24 to 2025-26 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2023-24 is also included for approval. The 2021-22 revised Prudential Code also requires the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily held for yield. This report was initially considered by the Resources Committee at its budget meeting on 6 February 2023. The Committee resolved to recommend that the Authority approve the identified Treasury Management and Annual Investment Strategy together with the Minimum Revenue Provision statement as appended.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2023-24 to 2025-26

	B. Minimum Revenue Provision Statement 2023-24. C. Link Treasury Solutions economic report
BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice

1. INTRODUCTION

Background

1.1. The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2. The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

1.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4. CIPFA defines treasury management as:

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

1.5. The Authority has not engaged in any commercial investments and has no non-treasury investments.

1.6. This report was initially considered by the Resources Committee at its budget meeting on 6 February 2023. The Committee resolved to recommend that the Authority approve the identified Treasury Management and Annual Investment Strategy together with the Minimum Revenue Provision statement as appended.

Statutory requirements

1.7. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

1.8. The Act therefore requires the Authority to set outs its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 8 of this report); this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.9. MHCLG (now Department for Levelling Up, Housing and Communities - DLUHC) issued revised investment guidance which came into force from 1 April 2018. This guidance was captured within the revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code 2017.

CIPFA requirements

1.10. The CIPFA 2021/22 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability
- declare that the capital spends do not include the acquisition of assets primarily for yield.

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

Treasury Management reporting

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

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

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

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

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

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

1.14. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
- Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a mid-year review report and an annual report (stewardship report) covering activities during the previous year.
- Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices - for the Authority the delegated body is Resources Committee - and for the execution and administration of treasury management decisions - for the Authority the responsible officer is the Treasurer.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and polices to a named body - for the Authority the delegated body is Resources Committee.

2. <u>TREASURY MANAGEMENT STRATEGY FOR 2023-24</u>

2.1. The suggested strategy for 2023-24 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, Link Group (Link).

2.2. The strategy for 2023-24 covers two main areas:

Capital Issues

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

Treasury Management Issues

- treasury limits in force which will limit the treasury risk and activities of the Authority
- treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers

Training

2.3. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Treasury Management Advisors

2.4. The Authority uses Link Group - Treasury solutions as its external treasury management advisors.

2.5. The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, its treasury advisers.

2.6. The Authority also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

3. CAPITAL PRUDENTIAL INDICATORS FOR 2023-24 TO 2025-26

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

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

Proposed Capital Expenditure	2022-23 (forecast spending)	2023-24	2024-25 (provisional)	2025-26 (provisional)
	£m	£m	£m	£m
Estates	2.483	4.789	4.200	0.900
Fleet & Equipment	3.981	7.962	2.700	4.500
Total	6.464	12.751	6.900	5.400

3.3. The following table summarises the financing of the capital programmes shown above. Additional capital finance sources may become available during the year, for example, additional grants or external contributions. The Authority will be requested to approve increases to the capital programme to be financed from other capital resources as and when the need arises.

Capital Financing	2022-23 (forecast spending)	2023-24	2024-25 (provisional)	2025-26 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.663	0.000	0.000	0.000
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	4.296	11.418	1.405	0.846
Revenue	0.140	0.050	2.050	2.050
Existing borrowing	1.365	1.283	1.370	1.962
New borrowing	0.000	0.000	2.075	0.542
Total	6.464	12.751	6.900	5.400

The Authority's Borrowing Need (Capital Financing Requirement)

3.4. The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

3.5. The CFR does not increase indefinitely, as the Minimum Revenue Provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

3.6. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI via a public-private partnership lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £1.010m of such schemes within the CFR.

3.7. The Authority is asked to approve the CFR projections below as included in Appendix A:

Capital Financing Requirement (CFR)	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	23.771	25.388	25.836	24.291
Other Long Term Liabilities	0.656	0.509	0.349	0.182
Total CFR	24.426	25.897	26.186	24.473
Movement in CFR	1.283	3.445	2.504	0.150
Less MRP	(1.911)	(1.975)	(2.215)	(1.863)
Net movement in CFR	(0.628)	1.471	0.289	(1.713)

Core funds and expected investment balances

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

Estimated Year end Resources	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Reserve Balances	19.032	13.500	2.082	1.236
Capital receipts/ contributions	0.000	0.000	0.000	0.000
Other	15.821	17.104	20.549	23.053
Total core funds	34.853	30.604	22.631	24.289
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	35.853	31.604	23.631	25.289

*Working capital balances shown are estimated year-end; these may be higher mid-year

4. MINIMUM REVENUE PROVISION STRATEGY

4.1. The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision).

4.2. The Department for Levelling-Up, Communities and Housing (DLUCH) regulations have been issued which require the Authority to approve a **Minimum Revenue Provision Statement** in advance of each year. A variety of options are provided under which Minimum Revenue Provision could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

4.3. The Authority does not plan to make any Voluntary Revenue Provisions within the next three years.

4.4. Although four main options are provided under the guidance, the Authority has adopted:

The Asset Life Method

4.5. Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, Minimum Revenue Provision is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when Minimum Revenue Provision commences and not changed after that.

4.6. Minimum Revenue Provision should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the Authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make Minimum Revenue Provision until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.

4.7. As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

4.8. A draft Minimum Revenue Provision statement for 2023-24 is attached as Appendix B for Authority approval.

4.9. The financing of the approved 2023-24 capital programme, and the resultant prudential indicators have been set on the basis of the content of this statement.

5. PRUDENTIAL INDICATORS FOR AFFORDABILITY

5.1. The previous sections of the report cover the overall limits for capital expenditure and borrowing, but within the overall framework indicators are also included to demonstrate the affordability of capital investment plans.

5.2. A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2023-24 to 2025-26 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
Annual cost	2.91%	2.97%	3.15%	2.67%

6. BORROWING

6.1. The capital expenditure plans set out in Section 3 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current borrowing position

6.2. The Authority's treasury portfolio position at 31 March 2022 and the current position are summarised below.

TREASURY PORTFOLIO				
	actual 31.3.22	actual 31.3.22	current 31.12.22	current 31.12.22
Treasury investments	£000	%	£000	%
banks	31,000	91%	30,000	97%
building societies - unrated		0%		0%
building societies - rated		0%		0%
local authorities	1,500	4%		0%
DMADF (H.M.Treasury)		0%		0%
money market funds	1,751	5%	785	3%
certificates of deposit		0%		0%
Total managed in house	**34,251**	**100%**	**30,785**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**34,251**	**100%**	**30,785**	**100%**
Treasury external borrowing				
local authorities		0%		0%
PWLB	24,757	100%	24,710	100%
LOBOs		0%		0%
Total external borrowing	**24,757**	**100%**	**24,710**	**100%**

6.3. The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	2023-24 (forecast spending)	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Debt at 1 April	24.264	23.771	25.388	25.836
Expected change in Debt	(0.493)	1.617	0.449	(0.593)
Other long-term liabilities (OLTL)	0.791	0.656	0.509	0.349
Expected change in OLTL	(0.135)	(0.147)	(0.160)	(0.167)
Actual gross debt at 31 March	24.427	25.897	26.186	25.425
CFR	24.426	25.897	26.186	24.473
Under/ Over borrowing	0.000	(0.000)	0.000	0.953

6.4. Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023-24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

6.5. The Authority complied with this prudential indicator in the current year and is not envisaging difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Limits to Borrowing Activity

6.6. Two Treasury Management Indicators control the level of borrowing. They are:

- **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Estimated Operational Boundary	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Non-HRA expenditure	24,364	25,946	26,030	25,936
Other Long Term Liabilities	791	656	509	349
Total	25,155	26,602	26,539	26,286

- **The authorised limit for external debt**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level o external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

  This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authority's plans, or those of a specific Authority, although this power has not yet been exercised.

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

Estimated Authorised Limit	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Non-HRA expenditure	25,553	27,215	27,321	27,151
Other Long Term Liabilities	823	681	527	359
Total	26,376	27,897	27,848	27,509

Prospects for interest rates

6.8. The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table and narrative within Appendix C - paragraphs C28 and C33 gives their view.

Link Group Interest Rate View	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

Borrowing strategy

6.9. As reported in the separate report on this agenda “Capital Programme 2023-24 to 2024-25”, it is the strategic intent of the Authority not to increase its exposure to external borrowing during the next three years. However, due to pressures within the revenue budget, a revenue contribution to capital investment has been suspended for 2023-24.

6.10. This being the case there is no intention to take out any new borrowing during 2023-24 as the Authority can rely on its prudent Capital Reserve. Should this position change then the Treasury Management Strategy will need to be reviewed to reflect any change to the borrowing strategy and would be subject to a further report to the Authority.

Policy on borrowing in advance of need

6.11. Per statutory requirements, the Authority will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

Debt rescheduling

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

6.13. Rescheduling of current borrowing in our debt portfolio is unlikely to occur in the short-term but a watchful eye is kept on the viability of early repayment without incurring a penalty in doing so.

6.14. If rescheduling was done, it will be reported to this Committee, at the earliest meeting following its action.

Liability Benchmark

6.15. CIPFA has issued revised codes of practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. One of the changes to the Treasury Management code is the introduction of a liability benchmark that can be compared to the local authority's borrowing strategy and can be calculated to show the lowest risk level of borrowing.

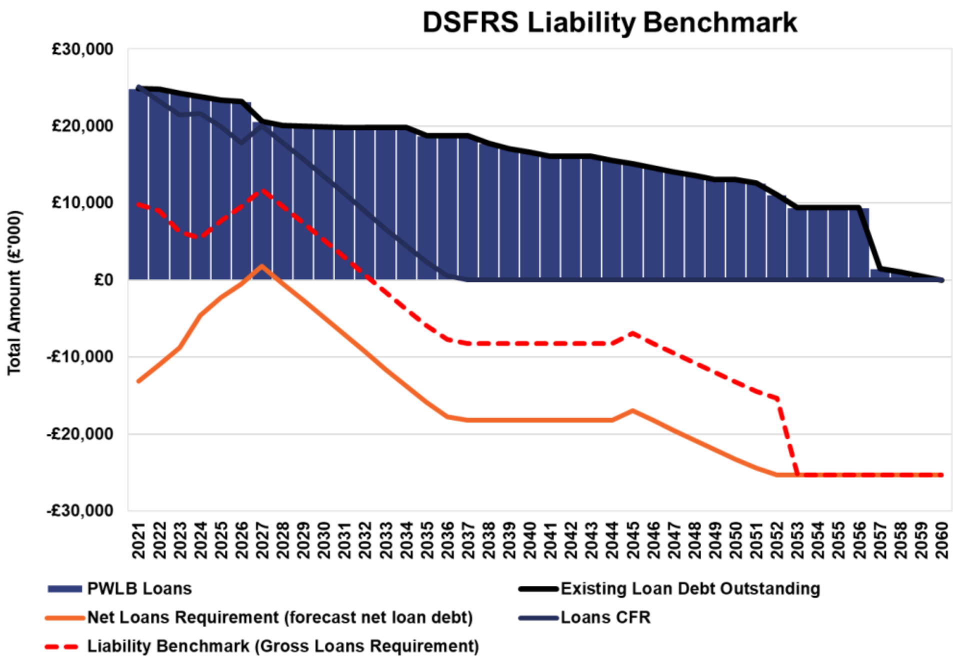
6.16. The chart below shows the liability benchmark that has been calculated from 2021 and future years: The following explanations are provided to assist with understanding the chart:

i. Blue shaded area – represents the Authority's current fixed term loans for 2021 and future years. The amounts shown include any new borrowing for schemes included in the capital programme but does not include the replacement borrowing for maturing loans, hence the line reduces over time as existing loans are paid off.

ii. Solid blue line – an estimate of Loans Capital Financing Requirement (the CFR less any other long-term debt liabilities), this being the required level to fund the capital programme.

Solid red line – a forecast of the year end liability benchmark representing the lowest amount of borrowing that should be undertaken to maintain the Authority's liquidity and minimise credit risk.

6.17. It is anticipated that the above borrowing requirement is manageable within the current borrowing strategy.



7. ANNUAL INVESTMENT STRATEGY

Investment Policy

7.1. The Authority's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code") and the CIPFA Treasury Management Guidance Notes 2018. The Authority's investment priorities will be security first, portfolio liquidity second, then yield.

7.2. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

7.3. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

7.4. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

7.5. The Authority applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's.

7.6. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit defaults swap spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

7.7. This modelling approach combines credit ratings, credit watches, credit outlooks and Credit Default Swap spreads in a weighted scoring system which is then combined with an overlay of Credit Default Swap spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.

7.8. The Link Group creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

7.9. Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

7.10. All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

7.11. Sole reliance will not be placed on the use of this external service. In addition the Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Approved Instruments for Investments

7.12. Investments will only be made with those bodies identified by the authority for its use through the Annual Investment Strategy.

7.13. **Country Limits** The Authority will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. At the time of writing this was AA long term and F1+ short term. It is possible that the credit rating agencies could downgrade the sovereign rating for the UK but as we have no minimum sovereign rating applying to the UK this approach will not limit the number of UK counterparties available to the Authority. Therefore, to ensure our credit risk is not increased outside the UK, the sovereign rating requirement for investments was amended to "Non UK countries with a minimum sovereign rating of AA-".

7.14. **IFRS9 Lease Accounting** As a result of the change in accounting standards for 2019/20 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.). The Authority does not currently hold any finance leases to which this accounting standard would apply.

Non-specified Investments

7.15. Non specified investments are those which do not meet the Specified Investment Criteria and covers those counterparties where there is either no recognised credit rating and/or an anticipation that an investment will be for greater than one year in duration.

7.16. The Authority had not previously placed non-specified investments as a result of its prudent approach to place security and liquidity over yield. However, from April 2015 it was agreed that the strategy be amended to include investments with maturity of longer than 364 days. The maximum duration limit on any non-specified deposit will be determined by the colour assigned to the Counterparty on the Link Group credit list on the date the investment is placed, but typically will be for no longer than 24 months. Where such investments are placed via the Secondary Market i.e. buying the remaining term of an existing instrument, then the term will be for 24 months.

7.17. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in Table 13 overleaf.

7.18. The maturity limits recommended will not be exceeded. Under the delegated powers the Section 112 Officer (Treasurer) can set limits that are based on the latest economic conditions and credit ratings.

7.19. The following table shows those bodies with which the Authority will invest.

Specified Investments	Non Specified Investments
	Subsidiary entities
Deposits with the Debt Management Agency Deposit Facility	
Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals)	Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals) Non-credit rated building societies.

	The total amount of non-specified investments will not be greater than £5m in value.
Banks nationalised/part nationalised or supported by the UK government	Banks nationalised/part nationalised or supported by the UK government
Money Market Funds	
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

7.20. The Authority's detailed risk management policy is outlined in the Treasury Management Policy which is reviewed and considered on an annual basis.

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

Investment Strategy

7.22. In-house funds: The Authority's in-house managed funds are mainly cash-flow derived and investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

7.23. Investment returns: Bank Rates has seen much upward activity during the last 12 months rising from 0.25% in February 2022 to the current 3.5% with the projection for further increases during the next 12 months. We have assumed that investment earnings from money market-related instruments will be in the region of 3.50%-4.00% for the next 12 months.

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

2023-24	3.50%
2024/25	3.00%
2025/26	2.50%
2026/27	2.50%
Later years	2.00%

7.25. **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Maximum principal sums invested > 365 days			
£m	**2023-24**	**2023-24**	**2024-25**
Principal sums invested > 365 days	£5m	£5m	£5m

End of year investment report

7.26. At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

Treasury Management Scheme of Delegation

The Authority;

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Approving the selection of external service providers and agreeing terms of appointment.
- Reviewing the treasury management policy and procedures and making recommendations to the Authority.

Resources Committee;

- Receiving and reviewing regular monitoring reports and acting on recommendations
- Review of annual strategy prior to recommendation to full authority

Role of the Section 112 officer (Director of Finance, People and Estates/ Treasurer)

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function

- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit and liaising with external audit
- Recommending the appointment of external service providers.

8. SUMMARY AND RECOMMENDATIONS

8.1. The Authority is required to consider and approve the treasury management strategy to be adopted prior to the start of the financial year. This strategy must also include proposed prudential indicators and a Minimum Revenue Provision statement. Approval of the strategy for 2023-24 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

Shayne Scott
Director of Finance, People and Estates (Treasurer)

APPENDIX A TO REPORT DSFRA/23/5

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2023/24 £m Estimate	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	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%	3.02%	3.18%	2.68%	2.61%
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%

MINIMUM REVENUE STATEMENT 2023-24

Supported Borrowing

The Minimum Revenue Provision will be calculated using the regulatory method (option 1). Minimum Revenue Provision will therefore be calculated using the formulae in the old regulations, since future entitlement to RSG in support of this borrowing will continue to be calculated on this basis.

Un-Supported Borrowing (including un-supported borrowing prior to 1 April 2008)

The Minimum Revenue Provision in respect of unsupported borrowing under the prudential system will be calculated using the asset life method (option 3). The Minimum Revenue Provision will therefore be calculated to repay the borrowing in equal annual instalments over the life of the class of assets which it is funding. The repayment period of all such borrowing will be calculated when it takes place and will be based on the finite life of the class of asset at that time and will not be changed.

Finance Lease and PFI

In the case of Finance Leases and on balance sheet PFI schemes, the Minimum Revenue Provision requirement is regarded as met by a charge equal to the element of the annual charge that goes to write down the balance sheet liability. Where a lease of PFI scheme is brought, having previously been accounted for off-balance sheet, the Minimum Revenue Provision requirement is regarded as having been met by the inclusion of the charge, for the year in which the restatement occurs, of an amount equal to the write-down for the year plus retrospective writing down of the balance sheet liability that arises from the restatement. This approach produces a Minimum Revenue Provision charge that is comparable to that of the Option 3 approach in that it will run over the life of the lease or PFI scheme and will have a profile similar to that of the annuity method.

Minimum Revenue Provision will normally commence in the financial year following the one in which the expenditure was incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone the beginning to make Minimum Revenue Provision until that year. Investment properties will be regarded as becoming operational when they begin to generate revenues.

Minimum Revenue Provision Overpayments

A change introduced by the revised MHCLG Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory Minimum Revenue Provision, Voluntary Revenue Provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total Voluntary Revenue Provision overpayments were £nil.

LINK TREASURY SOLUTIONS ECONOMIC REPORT

ECONOMICS UPDATE

The third quarter of 2022/23 saw:

- A 0.5% m/m rise in GDP in October, mostly driven by the reversal of bank holiday effects;
- Signs of economic activity losing momentum as households increased their savings;
- CPI inflation fall to 10.7% in November 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;
- Interest rates rise by 125bps over Q4 2022, taking Bank Rate to 3.50%;
- Reduced volatility in UK financial markets but a waning in global risk appetite.

GDP fell by 0.3% q/q in Q3 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 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, then GDP over Q4 as a whole could avoid a contraction, which would prevent a recession in 2022.

However, at 49.0 in December, the flash composite activity PMI stayed below the "boom-bust" level of 50 and pointed to a small 0.1% q/q contraction in GDP in Q4. 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 Q4 by around 0.1% q/q.

Meanwhile, the 0.4% m/m fall in retail sales volumes in November 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 Q2 to 9.0% in Q3 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.

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 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. 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 fell for the sixth consecutive month and were 18% below their peak in May.

Crucially, though, wage growth remained resilient. Average earnings growth, excluding bonuses, grew by 0.7% m/m in October, 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.

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 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.

Domestic inflation pressures also eased in Q4. The 0.2% m/m rise in core CPI inflation in November 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 suggests that inflation may become less persistent.

The Chancellor’s Autumn Statement on 17th November 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 Q4. 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.

With fiscal policy now doing much less to fan domestic inflation pressures, we think 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, taking Bank Rate from 2.25% to 3.00%, the MPC’s 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%.

The Bank sounded dovish again in December 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. We expect 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.

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

Gilt yields have fallen sharply since their highs following the “mini-budget” on 23rd September 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. 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, partially on the back of a global rise in yields. But if we are 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.

Lower volatility in gilt markets in Q4 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. It was also able to begin active gilt sales in November, 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.

The restoration of fiscal credibility boosted the pound and the FTSE 100 early in Q4. While much of the benefit passed in the first half of Q4, sterling continued to rally against a softer dollar. Our 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.

Through December, the rally in the 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 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, while the 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

On 3rd November, the Bank of England’s Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December moved rates up a further 50 basis points 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.

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.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US 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 BoJ has "tightened" its policy by widening the accepted yield levels for 10yr JGBs, from 0.25% to 0.5% on 20th December). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.

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.

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REPORT REFERENCE NO.	**DSFRA/23/6**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**15 FEBRUARY 2023**
SUBJECT OF REPORT	**LOCALISM ACT 2011 – PAY POLICY STATEMENT 2023-24**
LEAD OFFICER	**Deputy Monitoring Officer**
RECOMMENDATIONS	***That the Pay Policy Statement 2023-24 as appended to this report be approved and published on the Authority's website.***
EXECUTIVE SUMMARY	The Authority is required under the Localism Act 2011 to approve and publish a Pay Policy Statement, by 31 March of each year, to operate for the forthcoming financial year. This Statement sets out the Authority's policy towards a range of issues relating to the pay of its workforce and in particular the senior staff and the lowest paid employees. This paper provides further background information in relation to the requirements of the Localism Act and includes a draft Pay Policy Statement for the forthcoming (2023-24) financial year. The draft Pay Policy Statement for 2023-24 has been updated to reflect current levels of pay for senior officers and other employees but, other than that, is unchanged from the previous year and is recommended to the Authority for approval.
RESOURCE IMPLICATIONS	There are no resource implications associated with production of the Pay Policy Statement. Funding for staffing costs etc. are contained within the approved Authority revenue budget.
EQUALITY RISKS & BENEFITS ANALYSIS	The contents of this report are considered compatible with existing equalities and human rights legislation.
APPENDICES	A. Draft Pay Policy Statement 2023-24
BACKGROUND PAPERS	1. Localism Act 2011 Sections 38 to 43. 2. "Pay Policy and Practice in Local Authorities: A Guide for Councillors" produced by the Local Government Association, published January 2013. 3. Local Government Transparency Code 2015. 4. Fire and Rescue National Framework for England – May 2018

1. INTRODUCTION

1.1 The Localism Act 2011 ("the Act") introduced a new requirement for all public authorities, including combined fire and rescue authorities, to approve and publish annually a Pay Policy Statement. The reasons for the introduction of this new duty, included:

- the estimation that, between 2001 and 2008 median top salaries in local government grew at faster rate than entry salaries and that, in that context, around 800 local government employees were in the top 1% of all earners;
- the commitment of the Government at that time to strengthen councillors powers to vote on large salary packages for council officers;
- the outcome of the Hutton review into fair pay in the public sector which made several recommendations for promoting pay fairness in the public sector by increasing transparency over pay and tackling disparities between the lowest and the highest paid in public sector organisations.

1.2 The provisions on pay in the Act are designed to bring together the strands of Government thinking to address pay issues in local government as outlined above.

1.3 Pay Policy Statements must articulate an authority's policy towards a range of issues relating to the pay of its workforce, particularly its senior staff (or "chief officers") and its lowest paid employees. Pay Policy Statements must be prepared and approved by the Authority by 31 March in each year and be published as soon as reasonably practicable thereafter. Publication can be in such a manner as the Authority considers appropriate, but must include publication on the Authority's website. A Pay Policy Statement may be amended "in year" but, should it be amended, the revised Statement must again be published.

1.4 In essence, the purpose of the Pay Policy Statement is to ensure that there is the appropriate accountability and transparency of top salaries in local government. Under the Act, elected Members have the ability to take a greater role in determining the pay for top earners and therefore ensuring that these decisions are taken by those who are directly accountable to the local people. In addition, communities should have access to the information they need to determine whether remuneration, particularly senior remuneration, is appropriate and commensurate with responsibility.

2. CONTENT OF THE PAY POLICY STATEMENT

2.1 The Act requires that each authority's Pay Policy Statement must include its policies on:

- the level and elements of remuneration for each chief officer;
- the remuneration of its lowest paid employees (together with its definition of "lowest paid employees" and its reasons for adopting that definition);

- the relationship between the remuneration of its chief officers and other employees;
- other specific aspects of chief officers' remuneration namely:
  - remuneration on recruitment;
  - increases and additions to remuneration;
  - use of performance-related pay and bonuses; termination payments; and
  - transparency (i.e. the publication and access to information on the remuneration of chief officers).

2.2 The term remuneration is defined as the chief officer's salary, any bonuses payable, any charges, fees or allowances payable, any benefits in kind to which the chief officer is entitled as a result of their office or employment, any increase in or enhancement of the chief officer's pension entitlement where the increase or enhancement is as a result of the resolution of the Authority and any amounts payable by the Authority to the chief officer on the chief officer ceasing to hold office under or be employed by the Authority other than amounts that may be payable by virtue of any enactment.

2.3 The term "chief officers" in a fire and rescue service context will refer to the Chief Fire Officer but "chief officers" are defined in Section 43 of the Act to include a Head of Paid Service, a Monitoring Officer, any other statutory chief officer, or a deputy chief officer or other non-statutory chief officer as defined in the Local Government and Housing Act 1989 (these include officers reporting directly either to the Head of Paid Service or the Authority).

3. SENIOR EMPLOYEES AND PAY RATIOS

3.1. Whilst the Localism Act 2011 does not require details on salary levels to be published in the Pay Policy Statement, Schedule 1 to the Accounts and Audit Regulations 2015 (as amended) requires the published Statement of Accounts for an authority to include information on the number of senior employees who are paid over £50,000. These numbers are to be reported in bands of £5,000. Any senior employee earning in excess of £150,000 must be identified by name.

3.2. "Senior employees" are defined as per the Local Government and Housing Act 1989 (see para. 2.3 above) but also include "a person who has responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body (in particular activities involving the expenditure of money), whether solely or collectively with other persons".

3.3. The Localism Act requires authorities to explain what they think the relationship should be between the remuneration of its chief officers and its employees who are not chief officers. The Hutton Review of Fair Pay recommended the publication of the ratio between the highest paid employee and the median pay-point of the organisation's whole workforce as a way of illustrating that relationship. Guidance produced by the [then] Department for Communities and Local Government (DCLG) on openness and accountability in local pay provides that:

> *"While authorities are not required to publish data such as a pay multiple within their pay policy statement, they may consider it helpful to do so, for example, to illustrate their broader policy on how pay and reward should be fairly dispersed across their workforce. In addition, while they are not required to develop local policies on reaching or maintaining a specific pay multiple by the Act they may wish to include any existing policy".*

3.4. Section 5 of the proposed Pay Policy Statement shows two pay multiples. The first is a comparison with the median earnings of the whole workforce (as recommended by Hutton), using the basic pay for full-time equivalents.

3.5. The second multiple is the relationship between the highest (for this Authority, the Chief Fire Officer) and lowest pay point. This method has previously been used as a benchmark following suggestions by the Government that a ratio of 20:1 should be regarded as a maximum level which public sector organisations should not exceed. The Service revised its pay grading structure for professional, technical and support staff ("Green Book" staff) in 2019-20. This resulted in a reduction in the number of pay increments within a salary grade from five to four for grades 3 to 11. For grade 2, the number of pay increments was decreased to three and for grade 1 this was reduced to two (although the Service does not currently have any posts at Grade 1). The effect of this was that the pay multiple ratio between the Chief Fire Officer and the lowest paid employee decreased from 12.8 to 1 to 8.5 to 1 in that year. The lowest pay point is currently £21,189, giving a ratio of 7.65 to 1.

4. RE-EMPLOYMENT OF OFFICERS

4.1 In 2013, the Local Government Association (LGA) published guidance titled "Pay Policy in Practice in Local Authorities – A Guide for Councillors". However, unlike other guidance published by [the then] DCLG, it does not constitute statutory guidance and is perhaps best viewed as "best practice". In November 2013, the LGA specifically issued the guidance to all fire and rescue authorities in England and Wales. Within the covering letter the LGA highlighted that the practice of re-employment of individuals who have been made redundant or have retired and are in receipt of a pension should be used only in exceptional and justifiable circumstances (such as business continuity).

4.2 The LGA guidance contains a model Pay Policy Statement which suggests the following paragraph:

> *"It is not the council's policy to re-employ or to contract with senior managers who have been made redundant from the council unless there are exceptional circumstances where their specialist knowledge and expertise is required for a defined period of time or unless a defined period of (define number of years) has elapsed since the redundancy and circumstances have changed."*

4.3 The covering letter to the LGA guidance suggested that this paragraph should be widened to incorporate retirements in addition to redundancies. This modification was incorporated into the Authority Pay Policy Statement 2014-15 and has been retained in subsequent Pay Policy Statements.

4.4 Additionally, the Fire and Rescue National Framework for England, published by the Home Office in May 2018, included a section of "Re-engagement of Senior Officers". Paragraph 6.8 of the Framework sets out that:

> "*Fire and rescue authorities must not re-appoint principal fire officers after retirement to their previous, or a similar, post save for in exceptional circumstances when such a decision is necessary in the interests of public safety. Any such appointment must be transparent, justifiable and time limited".*

4.5 Principal Officers in this respect is defined as Area Managers and above, or those with comparable responsibilities to those roles.

4.6 The Authority's Pay Policy Statement sets out, in Section 8, controls approved by the Authority for the re-employment of former employees (whether through redundancy or retirement) which reflect the relevant contents of the 2018 National Framework.

5. THE TRANSPARENCY CODE

5.1 The Local Government (Transparency Requirements) (England) Regulations 2015 imposed additional requirements in terms of publishing data relating to the Authority. The requirements are set out in the Local Government Transparency Code 2015. The Local Government Association produced a set of revised practical guidance documents to support local authorities in understanding and implementing the Transparency Code and to help them publish the data in a meaningful and consistent way. The Code covers information on spending and procurement, organisational information and asset and parking information.

5.2 The Transparency Code requirements overlap to a degree with certain staffing information required to be published both as part of the annual Statement of Accounts and the Pay Policy Statement. There are, however, some additions including requirements for further details of Senior Managers, including grading and responsibilities, where salary levels are in excess of £50,000 and also Trade Union Facility time.

6. PAY POLICY STATEMENT 2023-24

6.1 This is now the twelfth iteration of the Pay Policy Statement, the Authority having approved and published a Statement for each of the last ten consecutive years following introduction of the requirement by the Localism Act 2011.

6.2 The draft Pay Policy Statement to operate for the 2023-24 financial year is appended to this report. There are no substantial changes to the Pay Policy Statement as approved by the Authority for 2022-23.

7. CONCLUSION

7.1 The Localism Act requires the Authority to adopt, prior to the commencement of each financial year, a Pay Policy Statement to operate for the forthcoming financial year. This Statement sets out, amongst other things, the Authority's policy towards a range of issues relating to the pay of its workforce and in particular the senior staff and the lowest paid employees.

7.2 The Authority is now invited to approve the Pay Policy Statement 2023-24 as appended to this report for publication on the Authority's website.

STEVE YATES
Deputy Monitoring Officer

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

LOCALISM ACT 2011 – PAY POLICY STATEMENT 2023-24

1. INTRODUCTION

1.1 Under section 38(1) of the Localism Act 2011, Devon & Somerset Fire & Rescue Authority (the Authority) is required to prepare a Pay Policy Statement. The Authority is responsible for ensuring that its pay policy will set out the issues relating to the pay of the workforce and in particular, the senior officers and the lowest paid employees. This will ensure that there is the appropriate accountability and transparency of the salaries of the Authority's senior staff. The Authority will also publish the statement on its website and update it on an annual basis or at such times as it is amended. The purpose of the statement is to provide greater transparency on how taxpayer's money is used in relation to the pay and rewards for public sector staff.

1.2 This is the twelfth such Pay Policy Statement that the Authority has produced and it will continue to be reviewed and refined by the Authority as part of its rewards & recognition strategies.

1.3 It should be noted that the Accounts and Audit Regulations 2015 require authorities to disclose individual remuneration details for senior employees and these can be viewed here: Senior Management Salaries

1.4 In addition, the rates of pay for all other categories of staff can be found at: Rates of Pay

1.5 The Local Government (Transparency Requirements) (England) Regulations 2015 imposed additional requirements in terms of publishing data relating to the Authority. The requirements are set out in the Local Government Transparency Code 2015. The Local Government Association produced a set of revised practical guidance documents to support local authorities in understanding and implementing the Transparency Code and to help them publish the data in a meaningful and consistent way. The Code covers information on spending and procurement, organisational information and asset and parking information and this open data is accessible via the following link: Transparency Data

1.6 There is some overlap within the Transparency Code with certain staffing information that is already required as part of the annual Statement of Accounts and the Pay Policy Statement but there are also some additions including further details of organisational structures relating to Senior Managers, including grading and responsibilities, where salary levels are in excess of £50,000 and also Trade Union Facility time.

2. CATEGORIES OF STAFF

2.1 As part of the Pay Policy Statement, it is necessary to define the categories of staff within the Service and by which set of Terms and Conditions they are governed.

2.2 ***Executive Board Officers (including Chief Fire Officer)***: The Executive Board is a mix of uniformed Brigade Managers and non-uniformed Officers who are the Directors of the Service. The salary structure for Brigade Managers and other Executive Board members has previously been determined by the Authority and is subject to annual reviews in accordance with the Constitution and Scheme of Conditions of Service of the National Joint Council for Brigade Managers of Local Authorities' Fire Brigades (the "Gold Book"). The two non-uniformed Executive Board Officers are conditioned to the Gold Book for pay purposes only. The minimum remuneration levels for Chief Fire Officers are set nationally in relation to population bands and in accordance with the Gold Book. At a national level, the National Joint Council for Brigade Managers of Fire and Rescue Services reviews annually any cost of living increase applicable to all those covered by the national agreement and determines any pay settlement. All other decisions about pay levels and remuneration over and above the minimum levels for Chief Fire Officers are taken locally by fire authorities, arrangements for which are set out in paragraphs 3.8 to 3.10.

2.3 ***Uniformed Staff***: This includes Whole-time and On-call staff and also the Control Room uniformed staff. The remuneration levels for these staff are subject to national negotiation as contained in the Scheme of Conditions of Service of the National Joint Council for Local Authority Fire & Rescue Services which is known as the "Grey Book". Any other remuneration is subject to local agreement.

2.4 ***Support Staff***: This category is the non-uniformed employees who support our Operational Service. The Scheme of Conditions of Service for these employees is set out within the National Joint Council (NJC) for Local Government Services known as the "Green Book". The National Joint Council negotiates the level of any annual pay increases applicable to the nationally recognised local government pay spine and these increases are applied across the Authority's "Green Book" staff grading structure.

3. REMUNERATION OF THE CHIEF FIRE OFFICER AND EXECUTIVE BOARD

3.1. The position of Chief Fire Officer is subject to minimum remuneration levels as set out in the "Gold Book" and according to population bands. The Authority is in Population Band 4 (1.5m people and above). The minimum salary level for this position is currently £130,187 per annum. The Authority is the largest non-metropolitan fire and rescue authority in the UK.

3.2. In 2006, prior to the combination of Devon Fire & Rescue Service and Somerset Fire & Rescue Service, the [then] Shadow Devon and Somerset Fire and Rescue Authority reviewed the remuneration of the Chief Fire Officer and undertook a salary survey of other fire & rescue services within the same population band. The average salary, based on 2005 data, was found to be £124,184 and the salary level for the Chief Fire Officer for the new, combined service, was set at a notional level of £124,800 per annum for 2007. Since then, national annual pay awards, and the review of Executive Board Officers' pay conducted by the Authority in 2015, have increased the salary to £162,061.

3.3. The other positions within the Executive Board are as follows:

Deputy Chief Fire Officer

Assistant Chief Fire Officer – Director of Service Delivery

Assistant Chief Fire Officer – Director of Service Improvement

Director of Governance & Digital Services

Director of Finance & Resourcing

3.4. Further details of our Executive Board can be found at Devon and Somerset Fire and Rescue Service - Organisational Structure

3.5. The Deputy Chief Fire Officer and Assistant Chief Fire Officer salaries had previously been set locally at 80% and 75% respectively of the Chief Fire Officer salary, which reflected the previous minimum salary level set by the National Joint Council. However, following the review of Executive Board Officers' pay conducted by the Authority in 2015, the percentage link to the Chief Fire Officer salary was removed. The current salary for the Deputy Chief Fire Officer is £134,510. The current salary for an Assistant Chief Fire Officer is £121,543. Uniformed Brigade Managers (Chief Fire Officer, Deputy Chief Fire Officer and Assistant Chief Fire Officer) also provide "stand-by" hours outside of the normal working day within a Brigade Manager rota.

3.6. The remaining two "non-uniformed" Executive Board positions are the Director of Governance & Digital Services and the Director of Finance & Resourcing, both of which are on Grade 3 within a four-point grading structure, which was determined by the [then] Shadow Devon and Somerset Fire and Rescue Authority in 2006 following an external, independent Job Evaluation process. The salary levels for these grades were set as a percentage of the Chief Fire Officer's salary but following the review of Executive Board Officers' pay conducted by the Authority in 2015, the percentage link to the Chief Fire Officer salary was removed. The current salary levels for the four grades are:

Grade	Salary
4	£101,287
3	£92,846
2	£84,407
1	£75,967

3.7. The Gold Book NJC recommended that minimum increases are implemented with effect from 1 January of each year.

3.8. The relevant sections 9 – 11 from the Gold book in relation to salary increases are set out below:

> *Salaries*
>
> *The NJC will publish annually recommended minimum levels of salary applicable to chief fire officers/chief executives employed by local authority fire and rescue authorities.*
>
> *There is a two-track approach for determining levels of pay for Brigade Manager roles. At national level, the NJC shall review annually the level of pay increase applicable to all those covered by this agreement. In doing so, the NJC will consider affordability, other relevant pay deals and the rate of inflation at the appropriate date. Any increase agreed by the NJC will be communicated to fire authorities by circular.*
>
> *All other decisions about the level of pay and remuneration to be awarded to individual Brigade Manager roles will be taken by the local Fire and Rescue Authority, who will annually review these salary levels.*

3.9. Any locally determined increases in the Executive Board Officers' remuneration are subject to approval by the Authority. In accordance with the conditions within the Gold Book, the Authority is required to conduct an annual review of the remuneration afforded to members of the Executive Board. Any such reviews will be conducted by way of an expert, independent report to a full Authority meeting which will contain such relevant data as to enable the Authority to reach a determination on levels of appropriate remuneration. As a minimum, comparative benchmark data will be provided on chief executive and other senior officer salary levels in other relevant public bodies as may be determined, e.g. other fire and rescue authorities, constituent authorities, neighbouring police forces etc. The annual review will also consider the level of pay awards made for other groups of employees and the relationship between the remuneration of the Chief Fire Officer and the median basic pay of the Authority's whole workforce.

3.10. In 2015, the Authority conducted a review of Executive Board Officers' pay. Following that review, it was agreed that:

- i) the percentage link to the Chief Fire Officer salary for other Executive Board Officers would be removed;
- ii) the annual review process will be considered on an individual basis;
- iii) in conducting the annual review, any pay rise above the annual cost of living increases agreed nationally by the NJC for Brigade Managers, will be no greater than the percentage pay rise received by a Firefighter, unless such a pay rise is as a result of good performance, a reorganisation, restructure or other substantial reason.

4. REMUNERATION OF THE LOWEST PAID EMPLOYEES

4.1 The lowest grade in the Service is within the Support Staff category which has a grading structure from Grade 1 to 11. However, following the outsourcing of cleaning, there are no employees on Grade 1 so the lowest grade for substantive employees is Grade 2. Each grade has a number of spinal column points and a new joiner will progress through these with increasing service. The salary range at Grade 2 is currently £21,189 to £21,968 for a 37 hour week and is usually subject to review from 1 April each year. For contextual purposes the salary level for a competent full-time firefighter is £32,244 per annum and is usually subject to review from 1 July each year.

5. THE RELATIONSHIP BETWEEN THE REMUNERATION OF CHIEF OFFICERS AND THE REMUNERATION OF THOSE EMPLOYEES WHO ARE NOT CHIEF OFFICERS.

5.1 In terms of pay multiples, in line with recommendations contained within the Hutton Review of Fair Pay, the Authority will use two ratios to explain the relationship between the remuneration of the Chief Fire Officer and the remuneration of those employees who are not chief officers. The first is a comparison with the median earnings of the whole workforce (currently £32,829[1]). The second multiple is for the lowest pay point (currently £21,189). This multiple has previously been used as a benchmark following suggestions by the Government that a ratio of 20:1 should be regarded as a level which public sector organisations should not exceed.

5.2 The current pay multiple ratios are:

median basic pay	4.94 : 1
lowest pay point	7.65 : 1

5.3 In terms of the pay multiple between the Chief Fire Officer and other staff across the organisation, the Authority's Pay Policy is that this will be 5.0 : 1 when compared with the median basic pay across the organisation, subject to the national pay settlements and any review by the Authority. The Pay Policy Statement for future years will continue to be determined by the full Authority.

6. ADDITIONAL ELEMENTS OF THE REMUNERATION FOR THE CHIEF OFFICER

6.1 These additional elements relate to the following:

- Bonuses or Performance Related Pay;
- Charges, Fees or Allowances;
- Benefits in Kind;

[1] ***Note***: that this median is slightly higher than the base pay rate (salary level for a competent firefighter - £32,244) as the majority of firefighters are currently in receipt of Continuous Professional Development (CPD) payments.

- Any increase or enhancement to the pension entitlement as a result of the resolution of the Authority;
- Any amounts payable by the Authority to the Chief Fire Officer on the Chief Fire Officer ceasing to hold office other than amounts that may be payable by virtue of any enactment.

6.2 The Chief Fire Officer does not receive any additional bonuses, performance related pay, charges, fees or allowances. The Chief Fire Officer has an operational requirement for a Service provided emergency response vehicle. This is currently a 'Provided Car'. As Brigade Managers operate on continuous duty, no Benefit in Kind is attributable. It should be noted that, instead of a provided car, all flexible duty officers (including the CFO) are eligible to avail themselves of a car allowance at rates previously agreed by the Fire Authority. In the event that a car allowance is selected, tax on the benefit will be payable by the employee.

6.3 In relation to the pension entitlement, the Chief Fire Officer is eligible to be a member of the Firefighters' Pension Scheme. All members of this pension scheme (which is closed to new members) can retire on reaching age 50, provided they have at least 25 years' service. The maximum pension entitlement that a member of the pension scheme can accrue is 30 years' service. Chief Fire Officers appointed before 2006 are required to seek approval to retire before age 55 whilst those appointed after 2006 do not. All other members of the pension scheme are not required to obtain such approval. This requirement for Chief Fire Officers to have to seek approval has been recognised nationally as being potentially discriminatory on the grounds of age but can be overcome by agreement with the Authority to permit retirement from age 50. The Authority has previously given approval for the Chief Fire Officer to retire at age 50 subject to any pensions benefit payable before the age of 55 not representing an unauthorised payment as defined in the Finance Act 2004.

6.4 The notice period from either the employee or employer for termination of employment for the post of Chief Fire Officer is three months. There are no additional elements relating to the Chief Fire Officer ceasing to hold this post other than those covered under any other enactments.

7. REMUNERATION OF CHIEF OFFICERS ON RECRUITMENT

7.1 Within the Localism Act there is a requirement to state the remuneration of Chief Officers on recruitment. The pay level for the Chief Fire Officer was determined by the Authority in 2006, based on 2005 data, in preparation for the new combined Devon & Somerset Fire & Rescue Service commencing on 1 April 2007. The appointment of a Chief Fire Officer is subject to approval by the Authority. The current rate of remuneration would apply to any new Chief Fire Officer on recruitment, subject to any review that may take place in accordance with the arrangements set out within this Pay Policy Statement.

8. RE-EMPLOYMENT OF EMPLOYEES

Redundancy

8.1 The Authority will not normally re-employ or contract with employees who have been made redundant by the Authority unless:

- there are exceptional circumstances where their specialist knowledge and expertise is required for a defined period of time **and** there has been a break in service of at least one month; or
- a defined period of 12 months has elapsed since the redundancy and circumstances have changed; or
- the re-employment is in a different role **and** there has been a break in service of at least six months; or
- the re-employment is in the same role but at a lower cost and is within the context of an approved business case at the time of the redundancy **and** there has been a break in service of at least one month.

8.2 For each of the above scenarios:

- the approval of the People Committee will be required for the re-employment, following redundancy, of any former employee from Station Manager up to and including Area Manager level (or non-uniformed equivalent posts); or
- the approval of the full Authority will be required for the re-employment, following redundancy, of any post-holder at Brigade Manager (including non-uniformed equivalent); and
- for both of the above two approval processes, the Authority may require the repayment of one 24^{th} part of any redundancy payment made by the Authority for every month less than 24 months between the date of redundancy and the date of re-employment.

Retirement

8.3 The Authority will, in principle, allow the re-employment of employees who have retired, subject to a break in service of at least one month, because it is recognised that this often represents an effective way of retaining specialist knowledge and skills without any increase in cost to the Authority (and noting that costs to the Pension Scheme are no more than would be the case for normal retirement).

8.4 However, the Fire and Rescue National Framework for England ("the National Framework), published by the Home Office in May 2018, sets out that "fire and rescue authorities must not re-appoint principal fire officers after retirement to their previous, or a similar, post save for in exceptional circumstances when such a decision is necessary in the interests of public safety". In this context, Principal Officers refers to those officers at Area Manager and above, or those with comparable responsibilities to those roles. The National Framework also states that fire and rescue authorities will "have regard to this principle when appointing at any level".

8.5 Where retired uniformed staff are re-employed, then the Fire-Fighters' Pension shall be abated such that the income from the gross annual rate of pay whilst re-employed together with the gross annual pension (after commutation) will not exceed the gross annual rate of pay immediately prior to retirement. For staff within the Local Government Pension Scheme, where an individual is re-employed on the same terms and conditions [salary] as previously, the same abatement rules as apply to those within the Fire Fighters Pension Scheme will be applied.

8.6 However, the Authority's policy on Pension Discretions refers to flexible retirement and states that this "may be subject to abatement during such time as the individual remains employed by the Service". This allows the Authority to use flexible retirement opportunities where key employees may wish to continue working as they get older but step down in grade or reduce their working hours. This can be beneficial to the Authority in retaining key skills, knowledge and experience whilst also reducing costs. The authorisation of any such flexible retirement arrangements will be subject to the approval mechanism detailed below.

8.7 With this in mind and taking account of the National Framework provisions, the Authority has agreed the following approach in relation to requests for re-employment following retirement, subject in each case to an approved business case:

(a). the Chief Fire Officer has delegated authority to approve such requests up to and including Watch Manager level (or non-uniformed equivalent posts);

(b). the People Committee has delegated authority to approve such requests for Station Manager up to and including Area Manager level (or non-uniformed equivalent posts); and

(c). the approval of the full Authority is required for the re-employment, following retirement, of any post-holder at Brigade Manager (or equivalent non-uniformed) level i.e. any member of the Service Executive Board (the Chief Fire Officer, Deputy Chief Fire Officer, Assistant Chief Fire Officers, Director of Governance & Digital Services and Director of Finance and Resourcing). Such approval will only be granted in exceptional circumstances where the re-appointment is necessary in the interests of public safety. The rationale for the decision (together with any alternative approaches considered but deemed not appropriate) must be published.

9. <u>THE PUBLICATION OF AND ACCESS TO INFORMATION RELATING TO REMUNERATION OF CHIEF OFFICERS</u>

9.1 In order to make this information in relation to the Pay Policy Statement accessible to members of the public, the statement will be published on the Authority website.

10. REVIEW OF THE PAY POLICY STATEMENT

10.1 This document will be reviewed at least annually by the Authority.

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