RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

22 November 2023

Present:

Councillors Peart (Chair), Best (Vice-Chair), Coles (vice Fellows), Gilmour, Power, Slade and Sully

Apologies:

Councillor Fellows

In attendance (via Teams):-

Councillors Cook-Woodman and Randall Johnson

* **RC/23/8** **Minutes**

RESOLVED that the Minutes of the meeting held on 5 September 2023 be signed as a correct record.

* **RC/23/9** **Treasury Management Performance 2023-24: Quarter 2**

NB. Adam Burleton, representing Link Asset Services, the Authority's Treasury Management advisers, was in attendance for this item of business.

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (RC/23/17) that set out the Authority's performance relating to the second quarter of 2023-24 (to September 2023) 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 key points were noted:

- The United Kingdon (UK) had been seeing marginal growth but was at risk of potential, technical recession based on information received from supplier markets on current performance in key areas;
- Consumer Price Inflation (CPI) had fallen from 6.8% to 6.7% in August 2023 which when coupled with the drop in core CPI inflation to 6.2%, meant that the UK was drawing closer to the position for other G7 countries;
- interest rates had increased by 25bp in August 2023 taking the bank base rate to 5.25% although this had remained static since then;
- the Authority had benefitted from the recent rises in interest rates with an increased return on investments at a yield of over 5%. The benchmark return for quarter 2 of 2023-24 was 5.09% with performance at 5.15% (£0.429m). The forecast return on investment at year end was now £1.055m;

- the annual treasury management strategy had continued on a prudent approach, underpinned by investment priorities based on security of capital, liquidity and yield;
- none of the Prudential Indicators (affordability limits) had been breached in quarter 2 with external borrowing at 30 September 2023 being £24.217m, forecast to reduce to £23.771 by the end of the financial year with no new borrowing undertaken; and
- There were no plans to borrow any further funds in the immediate future.

The question was raised as to the likelihood of a technical recession given that the UK had experienced over 2 quarters of no growth. It was noted that this was in the balance currently. Around 48% of responses from the market currently indicated no growth but the UK was not in technical recession as yet albeit it was expected. Employment was expected to rise, however, which should contribute to lower inflation in due course. Action was being targeted in accordance with monetarist policy to move inflation down to 2% again.

The Committee had anticipated that interest rates would go down more quickly than set out in the report circulated. Adam Burleton responded that the 3-year gilt deposit rate was around 4.80% so this anticipated a drop in interest rates. Things could change quickly and with inflation at 4.7% currently, it was moving in the right direction but wage growth was hiking inflating still and needed to come down. The issues in the Middle East and Ukraine had all impacted on inflation.

The Treasurer advised that, when drilling down into the data behind the drop in the level of inflation, whilst the decrease seemed positive on the face of it, the key factors were due to reductions in energy costs which ignored the point that while these costs were higher at this time in 2022-23, households were receiving direct cash support from Government. As such, the actual spending by households was more comparative despite the reported drop in inflation. Other factors such as mortgage and food costs had seen an increase, all of which continue to impact negatively on householders' income.

Attention was drawn to the potential for future political changes and how this might impact along with the Middle East crisis. Adam Burleton responded that the price of oil was a major factor in the economy and if supply was cut off, this could impact such as with higher borrowing costs etc. Public finances were at high levels of national debt (nearly 100% of GDP) so any new government would need to consider its position very carefully.

The Treasurer agreed and indicated that, at this stage, the Service would be insulated from such factors as the budget to be set in February 2024 would be one of fiscal consolidation as the risk of having to borrow to support capital expenditure was high. The Authority needed to return to making contributions from revenue to capital in future to avoid the high costs of borrowing. If the Authority did need to borrow in future, it was hoped interest rates would be at a lower rate to make this more viable.

***   RC/23/10   <u>Financial Performance Report 2023-24: Quarter 2</u>**

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (RC/23/18) that provided the Committee with details of the second quarter performance (to September 2023) against the agreed financial targets for 2023-24.

The Director of Finance & Corporate Services (Treasurer) advised that, at this stage in the financial year, it was projected that spending would be £0.817m less than the budget of £85.413 at £84.596 representing an underspend of 0.96% of total budget. He drew attention to the point that the reserve of £2.8m to cover the cost of pay awards arising post budget in 2023-24 would not be required due to better than anticipated in year investment returns. This money would be returned to Reserves at the year end. It was noted that the Executive Board continued to bear down on costs across the Service to try to close the budgetary gap in 2024-25, 2025-26 and 2026-27 as outlined within the Medium Term Financial Plan (MTFP).

The main drivers for this forecast underspend in 2024-25 were:

- Wholetime pay – underspend of £0.745m due largely to a number of vacancies being held within the Service pending a review of shift patterns;
- Professional and Technical staff – underspend of £0.708m due largely to a number of vacancies being held albeit that it was acknowledged that there were key posts that needed to be filled in some areas in due course;
- Transport running costs and insurance – underspend of £0.244m due largely to the reduction in wholesale fuel prices; and
- Investment income – over recovery of £1.055m - the budget was set when interest rates were still low but the recent rises had resulted in a much healthier return than had been anticipated.

The Committee asked if posts not being filled was just a short-term measure. Confirmation was also sought on provision for the anticipated pay awards in 2023-34. The Treasurer responded that no decision had been made on wholetime posts yet but there would be an update given at the Authority's meeting on 11 December 2023. It was anticipated that the vacancies held may not be needed but this decision had not been taken as yet. He added that he was keeping a close eye on the position on pay awards with an assumption of a 5% increase for Grey Book staff. He indicated that approval may be sought at the Authority's budget meeting in February 2024 to consider the use of Reserves should the pay increase be agreed above the 5% provision made.

It was noted that total Reserves held were £27m at the start of 2023-24 anticipated to be £12.303m at the year end. The Capital Programme had slippage reported due largely to delays in the arrival of new vehicles and the station rebuild at Camels Head which was anticipated to commence in quarter 1 of 2024-25.

Outstanding debt was due largely to the historic position for Red One Ltd. but a repayment plan was in pace and this was due to be fully repaid in April 2024.

In terms of the MTFP, a shortfall of £8.556m was anticipated in 2026-27 but this was cumulative. Key assumptions did not include a £5 council tax increase. Such an increase would bring in revenue of £1.3million towards the budget gap of £3m in 2024-25 although this did not factor in a contribution to capital from the revenue budget.

Reference was made to the council tax collection rate which was showing no surplus in 2023-24 and the impact of the pension detriment. The Treasurer stated that he was not expecting a direct cost to the Service as a result of the pension detriment as Government was making available grant funding to cover any increases together with providing assistance to support the administration of the backlog of cases. An actuarial evaluation would be undertaken and it was more likely that the costs of the employer pension contribution rate would increase in future rather than a one off hit.

It was noted that a 98% return rate on Council Tax was expected for 2023-24 but not all of the returns had been received from District Councils as yet. The Committee asked if the Treasurer was confident on achieving the £1.3m income anticipated from tax on second homes. The Treasurer advised that the Finance Team had contacted each of the precepting authorities to discuss the level of tax to be received and this was a conservative assumption bearing in mind that these were new rules subject to interpretation. Each district council had invoked this decision and an 80% assumption on second homes had been built into the calculation. There was there was secondary legislation in terms of what was classified as a second home which could also be invoked if necessary but it was unclear who would be policing this matter. The Treasurer reassured the Committee that the assumptions would be reviewed to ensure that a prudent approach was maintained.

*** RC/23/11** **<u>His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) Areas for Improvement Action Plan Update</u>**

The Committee received for information a report of the Chief Fire Officer (RC/23/19) upon the progress made by the Service in addressing the 14 Areas for Improvement (AFIs) identified by His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) and associated actions, of which two were linked to the Resources Committee, including:

- HMI-2.2-202206a - The Service needs to make sure that its fleet strategy is regularly reviewed and evaluated to maximise potential efficiency; and
- HMI-2.2-202206b – The Service needs to ensure that its estate strategy is regularly reviewed and evaluated to maximise potential efficiency.

The Committee noted that action AFI-2.2-202206a had been closed. AFI-2.2-202206b was "in progress on track" currently with the Estates Strategy being aligned to work on the Service's Target Operating Model.

*** RC/23/12 Exclusion of the Press and Public**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exception of Officers of Red One Ltd.) be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A (as amended) to the Act, namely:

- information relating to the financial and business affairs of any particular person – including the authority holding that information.

*** RC/23/13 Red One Ltd. Financial Performance 2023-24: Quarter 2**

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

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (RC/23/20) setting out the financial performance of Red One Ltd. in quarter 2 of the 2023-24 financial year.

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

The Meeting started at 10.00 am and finished at 12.15 pm