DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

S.J. Sharman
CLERK TO THE AUTHORITY

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

(see below)

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Our ref : DSFRA/SJS/RC
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday, 22nd November, 2023

A meeting of the Resources Committee will be held on the above date, **commencing at 10.00 am in Committee Room A, Somerset House, Devon & Somerset Fire & Rescue Service Headquarters** to consider the following matters.

S.J. Sharman
Clerk to the Authority

A G E N D A

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

1 Apologies

2 Minutes (Pages 1 - 6)

of the previous meeting held on 5 September 2023 attached.

3 Items Requiring Urgent Attention

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

PART 1 - OPEN COMMITTEE

4 **Treasury Management Performance 2023-24: Quarter 2 (Pages 7 - 18)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/23/17) attached.

5 **Financial Performance Report 2023-24: Quarter 2 (Pages 19 - 34)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/23/18) attached.

6 **His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) Areas for Improvement Action Plan Update (Pages 35 - 38)**

Report of the Chief Fire Officer (RC/23/19) attached.

7 **Exclusion of the Press and Public**

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

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

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

8 **Red One Ltd. Financial Performance 2023-24: Quarter 2 (Pages 39 - 48)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/23/20) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

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

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

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

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

5 September 2023

Present:

Councillors Peart (Chair), Best (Vice-Chair), Coles (vice Fellows), Sully and Cook-Woodman (vice Power).

Apologies:

Councillors Gilmour and Slade

* **RC/23/1** **Minutes**

RESOLVED that the Minutes of the meeting held on 11 May 2023 be signed as a correct record.

* **RC/23/2** **Treasury Management Performance 2023-24: Quarter 1**

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (RC/23/12) that set out the Authority's performance relating to the first quarter of 2023-24 (to June 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 Kingdom (UK) economy had fared better than anticipated and avoided a recession with small growth in Gross Domestic Product (GDP) of 0.2% month on month. As interest rates bore down on the economy, the UK may fall into recession over the next 6 months, however;
- Consumer Price Inflation (CPI) had fallen from 10.1% to 8.7% in April 2023 but was static thereafter. This was the highest reading of G7 countries but was expected to continue on a downward trajectory;
- interest rates had increased by 75bp to June 2023 taking the bank base rate to 5%. Since June 2023, the base rate had been increased again to 5.25% and was expect to rise to circa 6% in the next two quarters;
- the Authority had benefitted from the recent rises in interest rates with an increased return on investments at a yield of over 5%. The forecast return on investment at year end was now over £1m;

- the annual treasury management strategy had continued on a prudent approach, underpinned by investment priorities based on security of capital, liquidity and yield. Investment income of £0.028m (4.87%) had been generated in quarter 1 of 2023-24 against the new 3-month SONIA (Sterling Overnight Index) benchmark of 4.38%;
- none of the Prudential Indicators (affordability limits) had been breached in quarter 1 with external borrowing at 30 June 2023 being £24.264m, 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.

*** RC/23/3** **Financial Performance Report 2023-24: Quarter 1**

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (RC/23/13) that provided the Committee with details of the first quarter performance (to June 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 £0.053m less than the budget of £85.411m at £85.360m representing an underspend of 0.1% of total budget. He drew attention to the point that the reserve of £2.8m to cover pay awards was included within these figures albeit that only £1.173m of this reserve was forecast to be utilised to close the budget gap as a result of better than expected in year financial performance. The Executive Board continued to bear down on costs across the Service as it was reflecting a much larger budgetary gap to be bridged in 2025-26 and 2026-27 as outlined within the Medium Term Financial Plan (MTFP) and needed to keep this in sight.

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

- Wholetime pay – £0.520m or 1.4% of budget - driven by vacancies primarily. The Service had a window of retirements coming shortly so was holding vacancies in light of the knowledge that it would be looking at the workforce in due course.
- Professional and Technical staff spend - £0.220k underspend or 1.3% of budget – the Service continued to hold vacancies and maintain spending control. A complete review of zero hours contracts had also undertaken to ensure everything was fit for purpose and the Service was getting Value for Money;
- Transport costs - £0.096k underspend – largely due to the drop in fuel costs;
- Travel and subsistence - £0.139m or 8.6% of budget due largely to savings on vehicle rental costs and slippage on delivery and also pursuing the environmental agenda with new, electric vehicles. Line 13. Telematics also added to vehicles so seeing a change in driver behaviour as well which made vehicles more efficient;

- Support services contracts - £0.139m or 12.7% of budget – due to a new contract achieving better value for money and closer management of the provision; and
- Investment income - £0.807m or 153.7% of budget – due to increased interest rates seeing a much higher rate of return being achieved.

The Committee asked about potential spikes in pension costs in future years and how the Service was going to deal with this. The Treasurer confirmed that events had moved forward and Government had addressed historical issues surrounding pension detriment. The Service had paused processing immediate detriment claims pending the receipt of appropriate advice but this had resumed now with guidance from the Treasury in place. Fewer staff than anticipated had applied for retirement in 2023-24 with under 10 requests to date. Anecdotal evidence suggested that the recent Grey Book pay awards may have impacted upon such decisions but once the year end was reached, it was thought that staff would come forward with applications for retirement. The Chief Fire Officer indicated that much work was being undertaken to predict this through workforce planning but it was felt that any spikes may be seen in 2026-27 now. The Service was looking at high potential schemes and career pathways not only for operational but non-operational staff as well. The Treasurer added that the Service was also looking at the apprenticeship programme as well so Professional and Technical staff could see a route in for career progression.

In terms of Capital, it was noted that there would be a thorough review of the Capital Programme undertaken in the next 2 months. There was slippage of £1.7m due timing differences largely on Camels Head rebuild.

The Treasurer made refence to the reporting of the MTFP in line with the recommendation made by the external auditor for transparency. There was a gap in 2024-25 of around £3m but the Executive Board had set a target of £4m to find to address this next year. Reference was made to the need for additional grant funding and the Committee asked for a crib sheet setting out the picture on rurality as it was considered this was not recognised within the funding received from Government and needed to be addressed via lobbying as appropriate.

The Treasurer referred to the point that Government was going to gradually reduce the Revenue Support Grant funding for Airwave so this was an extra cost that Servies had to bear. The Committee commented that it seemed the only way to raise revenue was to increase Council Tax every year in future although fire and rescue services had not seen the same level of increase as other blue light emergency services. It was considered that there was now a strong argument for this to be achieved as it would be difficult to maintain services in future without the requisite level of funding in place.

*** RC/23/4** **Environmental Strategy Update**

The Committee received for information a report of the Assistant Chief Fire Officer - Director of Service Delivery (RC/23/14) that detailed progress on the Environmental Strategy and Action Plan.

It was noted that a Strategic Environmental Board had been implemented to develop, deliver and oversee progress of the Environmental Strategy and action plan. The action plan was aligned to the goals and targets to be carbon net zero by 2030 and on delivery of the recommendations in the initial Environmental Review (IER). The work had been focussed on the following areas:

- Environmental policy and procedures;
- Environmental aspects, legislative registers annual review;
- Action planning aligned to ISO1400 standard annual review;
- UK climate risk assessment (2023) review;
- Implementation of the electric vehicle (EV) charging points and electric vehicles in Service;
- Undertaking an energy efficiency review across 10 sites and implementing activities;
- Establishing an environmental protection group (operations);
- National Fire Chiefs' Council (NFCC) sustainability and environmental toolkit and group support;
- Small reductions in the fleet and estate;
- Introducing the fleet to the latest European standards;
- Implementing an electric vehicle salary sacrifice scheme; and
- delivering environmental awareness training to all staff via eLearning.

The Committee was advised that good progress had been made against the Action Plan which was indicated above. There had also been success with the award of £0.095m of grant funding and efforts were being made to secure further funding to support work on the Service's environmental strategy.

The Committee commented that electric vehicles and charging required appropriate infrastructure to cope with this. Local planning authorities were indicating that all new properties should have charging points installed but infrastructure had to be able to cope with this and the Government needed to focus in this area. Further, if the Service was buying EV instead of leasing vehicles, it needed to address the costs of replacement batteries which could be up to £0.005m each. The Treasurer acknowledged this point.

* **RC/23/5** **<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/23/15) 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 off track” currently but it was acknowledged that this was due largely to ensuring that the Estates Strategy aligned to work that was being undertaken on the Service’s Target Operating Model. The Committee asked if the Service was confident that it could achieve the revised target of February 2024. The Chief Fire Officer replied that the Executive Board was meeting on 6 September 2023 to discuss the measures to be taken and was confident by January 2024 it would be able to report the position to the Authority.

*** RC/23/6 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/23/7 Red One Ltd. Financial Performance 2023-24: Quarter 1**

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

The Committee received for information a report of the Co- Chief Executives and Finance Director of Red One Ltd. (RC/23/16) together with a supplementary report of the Director of Finance & Corporate Services (Treasurer) (RC/23/16(a)) setting out the financial performance of Red One Ltd. in quarter 1 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

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REPORT REFERENCE NO.	**RC/23/17**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**22 NOVEMBER 2023**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2023-24 – QUARTER 2**
LEAD OFFICER	**Director of Finance and Corporate Service (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2023-24 (to September 2023) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Investments held as at 30 September 2023. B. A detailed look on how the economy faired during Quarter 2 of 2023/24.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 15 February 2023 – Minute DSFRA/28D refers.

1. INTRODUCTION

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

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

- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives; and

- The receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;

1.2. The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.3. Treasury management in this context is defined as:

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

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

2. ECONOMICS UPDATE

2.1. The first half of 2023/24 saw:

- Interest rates rise by a further 100 base points (bps), taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle;
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside;
- A 0.5% month on month (m/m) decline in real GDP in July, mainly due to more strikes;
- Consumer Price index (CPI) inflation falling from 8.7% in April 2023 to 6.7% in August 2023, its lowest rate since February 2022, but still the highest in the G7;

- Core CPI inflation declining to 6.2% in August 2023 from 7.1% in April and May 2023, a then 31 years high; and
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

2.2. Further detail on the economy can be found within Appendix B of this report.

3. INTEREST RATE FORECASTS

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

3.2. The latest forecast on 25th September 2023 sets out a view that short, medium and long-dated interest rates will be elevated for some while, as the Bank of England seeks to squeeze inflation out of the economy.

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

3.4. The current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

4. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

4.1. The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 15 February 2023. It outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

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

Creditworthiness

4.3. Following the Government's fiscal event on 23rd September 2022, rating agencies placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 2
3 Month SONIA	5.09%	5.15%	£0.429m.

4.4. As illustrated above, the Authority outperformed the 3-month Sterling Overnight Index Average (SONIA) benchmark by 0.06bp. SONIA replaced LIBID at the end of December 2022 and has traded at a higher average rate than the previous LIBID benchmarks. Based on current market deposit rates on offer, it is currently anticipated that the actual investment return for the whole of 2023-24 will over recover the Authority's budgeted investment target of £0.525m by £1.055m. However, there is much volatility with interest rates at the moment, so this forecast is likely to be revised.

Borrowing Strategy

<u>Prudential Indicators</u>:

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

4.6. A full list of the approved limits (as amended) are included in the Financial Performance Report 2023-24, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to September 2023 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

4.7. The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing as at 30 September 2023 was £24.217m, forecast to reduce to £23.771m by the end of the financial year as a result of standard loan repayments. All of this debt is at fixed rate with the remaining principal having an average rate of 4.25% and average life of 23.0 years.

Loan Rescheduling

4.8. No debt rescheduling was undertaken during the quarter. As per previous updates. the Authority will continue to work closely with our treasury advisors to explore any opportunities to repay existing loans, however the differential between current Public Works Loan Board early repayment rates and new loan rates, mean there is no financial benefit in undertaking premature loan repayment at this time. A number of options were run during Q1 2022 and will be kept under review. Savings could materialise following the increases in the UK Bank Rate.

New Borrowing

4.9. Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

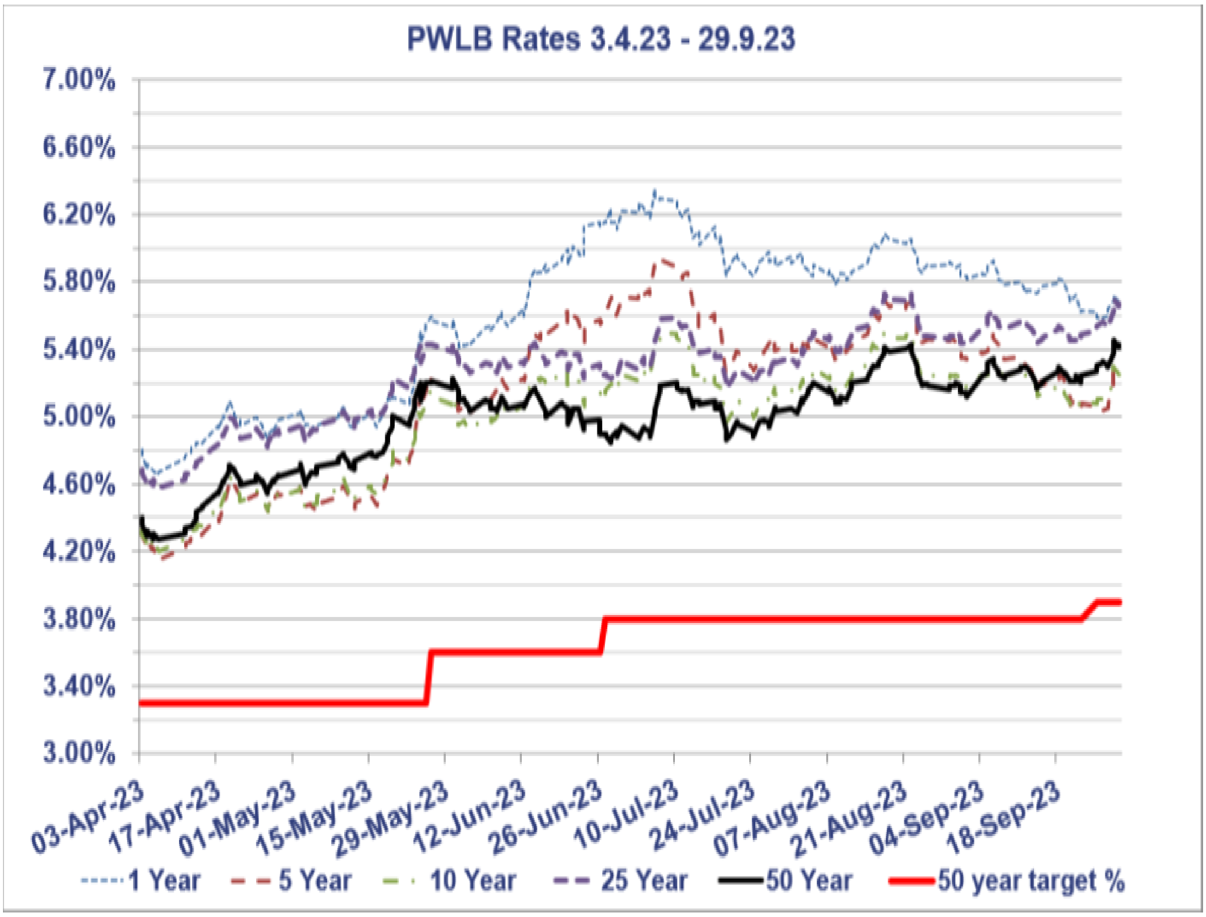
4.10. July 2023 saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

4.11. It is forecast that rates will fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

PWLB rates quarter ended 29 September 2023

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

4.12. Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

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

5. SUMMARY AND RECOMMENDATION

5.1. In compliance with the requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the first quarter report on treasury management activities for 2023-24 to 30th September 2023. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are high as a result of the increase in interest rates, the Authority is still anticipating that investment returns will meet the budgeted target, as rates were forecast to rise when the budget was set.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

APPENDIX A TO REPORT RC/23/17

Investments as at 30 September 2023							
Counterparty	**Maximum to be invested**	**Amount Invested**	**Maturity Date**	**Call or Term**	**Period invested**		**Interest rate(s)**
	£m	£m					
First Abu Dhabi	7.000	-3.000	04/10/2023	T	12 mths		4.99%
NatWest	7.000	-5.000	30/11/2023	T	5 mths		5.52%
Nationwide	7.000	-4.000	21/12/2023	T	4 mths		5.09%
National Bank of Canada	7.000	-2.000	29/01/2024	T	6 mths		5.87%
National Bank of Canada	7.000	-2.000	19/01/2024	T	6 mths		5.72%
Heleba	7.000	-2.000	29/02/2024	T	9 mths		5.31%
National Bank of Canada	7.000	-3.000	29/02/2024	T	6 mths		5.77%
Heleba	7.000	-3.000	26/07/2024	T	12 mths		5.97%
Heleba	7.000	-2.000	06/09/2024	T	12 mths		5.87%
Barclays Bank	8.000	-0.150		C	Instant Access		Variable
Aberdeen Standard	8.000	-5.400		C	Instant Access		Variable
Black Rock	8.000	-5.780		C	Instant Access		Variable
Total Amount Invested		**-37.330**					

A detailed update on the economy for Quarter 2 2023/24

- The 0.5% m/m fall in Gross Domestic Product (GDP) in July 2023 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August 2023 to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June 2023, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August 2023is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July 2023. Sales volumes in August 2023were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July 2023to 0.989m in August 2023 suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July 2023as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June 2023 to -0.9% in July 2023, a lot of that was due to the one-off bonus payments for NHS staff in June 2023 not being repeated in July 2023. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June 2023 to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July 2023 to 6.7% in August 2023, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March 2023 and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July 2023 to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March 2023 and takes it below the forecast of 7.2% the Bank of England published in early August 2023.
- In its latest monetary policy meeting on 20 September 2023, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five Monetary Policy Committee (MPC) members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Federal Bank, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November 2023, or even pause in November and raise rates in December 2023.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August 2023 to 4.44% on 29th September 2023, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of $1.30 in the middle of July 2023 to $1.21 in late September 2023. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September 2023. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September 2023. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

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REPORT REFERENCE NO.	**RC/23/18**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**22 NOVEMBER 2023**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2023-24 – QUARTER 2**
LEAD OFFICER	**Director of Finance and Corporate Services (Treasurer)**
RECOMMENDATIONS	***(a) That the monitoring position in relation to projected spending against the 2023-24 revenue and capital budgets be noted;*** ***(b) That the performance against the 2023-24 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the second quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2023-24 revenue budget with explanations of the major variations. At this stage in the financial year, it is forecast that spending will be £0.817m less than budget, an underspend of 0.96% of total budget. The budgets have been increased by £2.8m to take account of the pay awards agreed for both the Grey Book and Green Book staff as approved by the Fire Authority in February 2023.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Prudential Indicators 2023-24. B. Reserves Position by Reserve C. Reserves Position by Expense Code
BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the second quarterly financial monitoring report for the current financial year, based upon the position as at the end of September 2023. As well as providing projections of spending against the 2023-24 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

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

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2023-24

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 2	Previous Quarter	Quarter 1%	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£85.413m	£84.596m	£85.360m	0.01%	0.96%
2	General Reserve Balance as % of total budget (minimum)	5.00%	5.01%	5.01%	(0.01)bp*	(0.01)bp
	Capital Targets					
3	Spending within agreed capital budget	£13.086m	£9.126m	£10.698m	(30.26%)	(18.25%)
4	External Borrowing within Prudential Indicator limit	£25.155m	£24.426m	£24.426m	(2.90%)	(2.90%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	2.91%	2.91%	(2.09)bp*	(2.09)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2023-24.
- **SECTION B** – Capital Budget and Prudential Indicators 2023-24.
- **SECTION C** – Other Financial Indicators.
- **SECTION D** – Medium-Term Financial Plan.

1.4. Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. SECTION A - REVENUE BUDGET 2023-24

2.1. Table 2 below provides a summary of the forecast spending against all agreed subjective budget heads, e.g., employee costs, transport costs etc.

TABLE 2 – REVENUE MONITORING STATEMENT 2023-24

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2023/24

		2023/24 Budget £'000	Year To Date Budget £'000	Spending to Month 6 £'000	Projected Outturn £'000	Projected Variance over/ (under) £'000	Projected Variance over/ (under) %
	Employee Costs						
1	Wholetime	36,700	18,282	17,469	35,955	(745)	-2.0%
2	On-Call	21,410	10,270	8,544	21,256	(154)	-0.7%
3	Fire Control	1,675	832	827	1,721	46	2.8%
4	Professional & Technical	16,742	8,364	7,445	16,034	(708)	-4.2%
5	Training	753	377	636	707	(46)	-6.1%
6	Fire Service Pension costs	2,480	1,427	1,218	2,569	88	3.6%
		79,760	**39,552**	**36,138**	**78,242**	**(1,518)**	
	Premises						
7	Repair and maintenance	1,133	566	574	1,077	(56)	-5.0%
8	Energy costs	1,104	463	362	1,076	(28)	-2.5%
9	Cleaning costs	626	313	475	623	(3)	-0.5%
10	Rent and rates	2,082	1,223	1,897	2,030	(52)	-2.5%
		4,945	**2,565**	**3,308**	**4,806**	**(139)**	
	Transport						
11	Repair and maintenance	713	357	296	636	(77)	-10.8%
12	Running costs and insurances	1,597	970	654	1,373	(224)	-14.1%
13	Travel and subsistence	1,528	666	683	1,383	(145)	-9.5%
		3,838	**1,992**	**1,633**	**3,392**	**(447)**	
	Supplies & Services						
14	Equipment and furniture	3,697	1,849	1,997	3,715	18	0.5%
15	Hydrants-installation and maintenance	196	98	108	229	33	17.1%
16	Communications Equipment	2,716	1,358	2,190	2,663	(53)	-2.0%
17	Protective Clothing	605	302	171	556	(49)	-8.1%
18	External Fees and Services	125	62	101	173	48	38.6%
19	Partnerships & regional collaborative projects	310	155	116	308	(2)	-0.6%
20	Catering	24	12	11	23	(1)	-2.1%
		7,672	**3,836**	**4,694**	**7,667**	**(5)**	
	Establishment Costs						
21	Printing, stationery and office expenses	247	147	151	264	17	7.1%
22	Advertising including Community Safety	31	15	7	20	(11)	-35.8%
23	Insurances	504	503	290	504	0	0.0%
		781	**665**	**447**	**787**	**7**	
	Payments to Other Authorities						
24	Support service contracts	1,091	510	360	922	(169)	-15.5%
		1,091	**510**	**360**	**922**	**(169)**	
	Capital Financing						
25	Loan Charges & Lease rentals	3,140	515	19	3,140	(0)	0.0%
26	Revenue Contribution to Capital Spending	50	-	-	11	(39)	-77.2%
		3,190	**515**	**19**	**3,151**	**(39)**	
	Income						
28	Investment Income	(525)	(263)	(429)	(1,580)	(1,055)	201.0%
29	Grants and reimbursements	(11,671)	(5,835)	(10,537)	(11,946)	(276)	2.4%
30	Other income	(731)	(366)	(342)	(844)	(113)	15.5%
		(12,927)	**(6,463)**	**(11,308)**	**(14,371)**	**(1,444)**	
	Reserves						
32	Transfer to/(from) Earmarked Reserves	(2,937)	(1,468)	-	(0)	2,937	-100.0%
		(2,937)	**(1,468)**	**-**	**(0)**	**2,937**	
	NET SPENDING	**85,413**	**41,704**	**35,290**	**84,596**	**(817)**	-1.0%

2.2. This table indicates that spending by the year end is forecast to be £84.596m, representing a predicted underspend of £0.817m, equivalent to 0.96% of the total budget. It should be noted that 'Spending to month 6' represents actual year to date expenditure and those which have already been committed but not spent as yet. Additionally, the budget profile and actual costs for Service Delivery staff (i.e., Wholetime and On-call) appear low due to the time lag in claiming the hours worked – for instance, time worked in June is paid in July. This naturally catches up at year-end when there are two payroll entries for March relating to claims worked in February and March.

2.3. These forecasts are based on the spending position at the end of September 2023, historical trends and information from budget managers on known commitments. It should be noted that, whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. on-call pay costs which are linked to activity levels. It is inevitable, therefore, that final spending figures for the financial year will differ than those projected in this report.

2.4. Reporting of variances has switched from a flat rate (previously £0.050m) to a percentage of the budget of either 2% for pay lines or 5% for non-pay lines. This is to ensure the narrative is more meaningful and to also hone-in on the major variances. That said, the Treasurer reserves the right to report on budgets that fall outside of this. (e.g. based on materiality etc.)

Wholetime pay: underspend of £0.745m – 2.0% of budget.

2.5. A number of vacancies, within the Service has resulted in a modest forecasted underspend. Notable vacancies are; a Business Change Manager (£0.100m), two posts within Prevention and Protection totalling £0.160m. Learning and Development have a vacancy which is forecast to save £0.045m. Vacancies within the station based personnel are being held open, pending a review of the shift patterns, which is forecast to save £0.370m this year.

Fire Control: overspend of £0.046m – 2.8%

2.6. An overspend against pre-arranged overtime incurred to cover sickness and maternity leave of £0.042m has moved this section into an anticipated overspend position.

Professional & Technical pay: underspend of £0.708m – 4.2% of budget.

2.7. A number of vacancies across the Service has resulted in this forecasted underspend position. Notable savings per Directorate are listed overleaf.

Professional & Technical Variances	
Department	£m
Assistant Director - Corporate Services Portfolio	(0.046)
Chief Fire Officer Portfolio	(0.069)
Corporate Services Portfolio	(0.144)
Service Delivery Portfolio	(0.072)
Service Delivery Support Portfolio	(0.342)
Other	(0.035)
Total	(0.708)

Training: underspend of £0.046m – 6.1% of budget

2.8. Difficulties in finding suitable staff within Protection has delayed the planned training. This has resulted in a £0.062m underspend. Minor variances across multiple budget heads account for the balance.

Fire Service Pension Costs: overspend of £0.088m – 3.6% of budget.

2.9. An unbudgeted increase in costs associated with injury benefits of £0.059m is the major contributor to this overspend position.

Repair and Maintenance (premises): underspend of £0.056m – 5.0%

2.10. A reduction in the requirement to utilise external contractors of £0.057m has moved this section into an underspend position.

Repair and Maintenance (transport): underspend of £0.077m – 10.8% of budget.

2.11. A delay in the fit-out of officer response cars (due to a delay in delivery) has resulted in a forecasted underspend of £0.066m against this line.

Transport running Costs and Insurance: underspend of £0.224m – 14.1% of budget.

2.12. There is a large underspend associated with the reduction in wholesale vehicle fuel prices. This is currently forecasting an underspend of £0.228m.

Travel and Subsistence: £0.145m underspend – 9.5% of budget.

2.13. The largest underspend is on lease car rental of £0.129m due to a delay in the ordered replacement vehicles. The budget was built on the basis that the replacement vehicles were more expensive. As these have been delayed, the cheaper current vehicles have been extended producing the savings. A further saving on casual mileage of £0.024m is expected.

Hydrants – installation and maintenance: overspend of £0.033m – 17.1% of budget.

2.14. One of the water companies the Service use has recruited a member of staff with the intention of clearing the back-log of invoices for maintenance of the network. This has resulted in the stipulated overspend.

Protective Clothing: underspend of £0.049m – 8.1% of budget.

2.15. Lower demand on the stores for replacement Personal Protective Equipment (PPE) has resulted in a forecasted underspend.

External Fees and Services: overspend of £0.048m – 38.6% of budget.

2.16. Costs incurred in relation to a grant bid submitted relating to the Low Carbon Skills Fund of £0.055m have resulted in this overspend. These costs are match-funded by a grant (net-nil) which is found within row 29 of the report.

Printing, stationery and office expenses: overspend of £0.017m – 7.1% of budget.

2.17. An increase in forecast for on-line Human Resources advice of £0.008m is the major contributory factor for this overspend. The balance being made up from multiple minor variances across various budgets.

Advertising including Community Safety: underspend of £0.011m – 35.8% of budget.

2.18. An underspend of £0.011m on recruitment advertising is the reason for this forecasted underspend position.

Support Service Contracts: £0.169m underspend – 15.5% of budget

2.19. A new contract that offered better value-for-money coupled with closer management of the provision has resulted in a forecasted underspend on occupational health costs of £0.158m.

Revenue Contribution to Capital Spending: underspend of £0.039m – 77.2% of budget.

2.20. Due to a reduction in income from Red One (resulted from limitations of the facilities at the Academy) the amount that can be used to support the Capital Programme has been reduced.

Investment Income: £1.055m over-recovery – 201.0% of budget

2.21. The expectation when the budget was set was for interest rates to fall during Quarter 3 of 2023. The opposite has happened which has seen bank base rates rise from 4% in February 2023 to 5.25% which continues to date. This has meant the returns on investments are much healthier than anticipated. Coupled with this is the delay in the Capital programme which means the Authority has more cash available to invest. More detail can be found within the Treasury Management paper found elsewhere within the agenda for this meeting.

Other income: over-recovery of £0.113m – 15.5% of budget.

2.22. Co-responding income is anticipated to over-recover by £0.109m, due to greater activity, has resulted in this over-recovery.

Transfer to/(from) Earmarked Reserves: £2.937m under budget – 100.00% of budget

2.23. At the budget setting meeting for the Authority held on the 15 February 2023 (Minute DSFRA/22/31 refers), delegated authority was given to the Treasurer to fund the additional pay awards (5% for grey book staff and an anticipated 5% for green book staff) up to a maximum of £2.8m.

2.24. This has been actioned in order that budget holders have the correct devolved budget allocated to them. However, due to underspends detailed above, it is unlikely this amount will be required and can be returned back to the Reserve. A detailed plan will be presented to the Authority at year-end presenting the options for use of the underspend.

3. RESERVES AND PROVISIONS

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

Reserves

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

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

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

Provisions

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

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

3.4. A summary of predicted balances on Reserves and Provisions is shown in Table 3 overleaf.

3.5.

<u>TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES</u>

RESERVES AND PROVISIONS						
RESERVES	**Balance as at 1 April 2023 £'000**	**Approved Transfers £'000**	**Proposed Transfers £'000**	**Spending Month 6 £'000**	**Forecast Outturn 2023/24 £'000**	**Forecasted Balance as at 31 March 2024 £'000**
Earmarked reserves						
Grants unapplied from previous years	(1,137)	-	-	56	763	(373)
Invest to Improve	(1,878)	(85)		653	1,559	(405)
Budget Smoothing Reserve	(666)	-	-	-	666	0
Direct Funding to Capital	(15,424)	2,800	-	(10)	7,616	(5,008)
Projects, risks, & budget carry forwards	-	-	-	-	-	-
PFI Equalisation	(50)	-	-	-	-	(50)
Emergency Services Mobile Communications Programme	(1,050)	-	-	-	5	(1,045)
Breathing Apparatus Replacement	-	-		-	-	-
Mobile Data Terminals Replacement	(145)	-	-	-	145	0
Pension Liability reserve	(1,218)	-	-	-	150	(1,068)
Budget Carry Forwards	(890)	-	-	476	891	2
Environmental Strategy	(243)	-	-	112	243	0
Uncategorised	-	-	-	-	-	-
MTA Action Plan	(76)	-	-	-	-	(76)
Total earmarked reserves	**(22,777)**	**2,715**	**-**	**1,287**	**12,039**	**(8,023)**
General reserve						
General Fund (non Earmarked) Balance	**(4,280)**	**-**	**-**	**-**	**-**	**(4,280)**
Percentage of general reserve compared to net budget						
TOTAL RESERVE BALANCES	**(27,057)**	**2,715**	**-**	**1,287**	**12,039**	**(12,303)**
PROVISIONS						
Doubtful Debt	(55)		-	-	-	(55)

4. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2023-24

Monitoring of Capital Spending in 2023-24

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

4.2. At the end of Quarter 2, we are forecasting to underspend of £2.388m – which includes an optimism bias built in to allow for some timing differences. Timing differences (slippage into next year) are forecast to be £2.388m of which £1.794m relates to the rebuild of Camels Head Fire Station – the estimate is for the contractors to be on-site during Quarter 1 of 2024-25.

TABLE 4 – FORECAST CAPITAL EXPENDITURE 2023-24

Capital Programme 2023-24					
PROJECT	2023/24 £000 Revised Budget	2023/24 £000 Forecast Outturn	2023/24 £000 Actuals	2023/24 £000 Timing Differences	2023/24 £000 (Savings)/ Over-spend
Estate Development					
Site re/new build	1,919	125	(54)	(1,794)	0
Improvements & structural maintenance	5,009	4,039	99	(970)	0
Estates Sub Total	**6,928**	**4,164**	**45**	**(2,764)**	**0**
Fleet & Equipment					
Appliance replacement	4,522	4,063	0	(459)	0
Specialist Operational Vehicles	2,266	1,901	0	(365)	0
ICT Department	570	570	0	0	0
Fleet & Equipment Sub Total	**7,358**	**6,534**	**0**	**(824)**	**0**
Optimism bias	(1,200)		0	1,200	0
Overall Capital Totals	**13,086**	**10,698**	**45**	**(2,388)**	**0**
Programme funding					
Earmarked Reserves:					
Earmarked Reserves:	11,753	9,365	0	(2,388)	(331)
Revenue funds:	50	50	0	0	331
Borrowing - internal	1,283	1,283	0	0	0
Total Funding	**13,086**	**10,698**	**0**	**(2,388)**	**0**

Prudential Indicators (including Treasury Management)

4.3. Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2023 stands at £24.218m and is forecast to reduce to £23.771m as at 31 March 2024. This level of borrowing is well within the Authorised Limit for external debt of £26.376m (the absolute maximum the Authority has agreed as affordable). No new external borrowing is planned in this financial year.

4.4. Investment returns in the quarter yielded an average return of 5.15% which outperforms the SONIA 3 Month return (industry benchmark) by 0.06bp. It is forecast that investment returns from short-term deposits will overachieve the budgeted figure by £1.055m at 31 March 2024.

4.5. Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2023-24, which illustrates that there is no anticipated breach of any of these indicators.

5. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

5.1. Total debtor invoices outstanding as at Quarter 2 were £0.345m table 5 below provides a summary of all debt outstanding as at 30 September 2023.

5.2. Of this figure an amount of £0.210m was due from debtors relating to invoices that are more than 85 days old, equating to 76% of the total debt outstanding.

TABLE 5 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	68,882	20.0%
29-56 days	43,993	13.0%
57-84 days	6,207	2.0%
Over 85 days	226,341	65.0%
Total Debt Outstanding as at 30 September 2023	**345,423**	**100.00%**

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

TABLE 6 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	Total Value	Action Taken
Red One Ltd	9	£209,959	A repayment plan for 2023-24 has been agreed with the subsidiary company and is reviewed each quarter.
Previous employee	1	£230	An invoice relating to an overpayment with a previous employee is under collection using standard procedures and will be pursued with our debt recovery office where appropriate.

6. SECTION D – MEDIUM-TERM FINANCIAL PLAN

6.1. The Medium-Term Financial Plan (MTFP) was presented to the Fire Authority on the 15 February 2023 where a number of scenarios were included based on the best, base and worse cases in relation to funding and costs.

6.2. The current MTFP identifies the need to reduce the costs for the Service over the next 3 years (2024-25, 2025-26 and 2026-27).

6.3. Table 7 below identifies the current position with regards to assumptions made regarding both funding and expenditure.

Table 7 – MTFP SHORTFALL FOR THE FOLLOWING 3 YEAR PERIOD.

2. FINANCIAL PLANNING MODELLING	2024/25	2025/26	2026/27
CORE REVENUE BUDGET	£91,285,967	£97,397,972	£101,019,098
REVENUE SUPPORT GRANT	£7,416,593	£7,557,508	£7,701,100
TARRIF TOP-UP	£11,055,140	£11,265,188	£11,479,227
NNDR	£5,497,139	£5,607,082	£5,719,223
COUNCIL TAX BASE	631,284	641,385	651,647
ANTICPATED INCREASE IN CT INCOME RESULTING FROM SECOND HOMES	1,353,615	1,353,615	1,353,615
COUNCIL TAX COLLECTION FUND SURPLUS	£0	£0	£0
COUNCIL TAX - BAND 'D' %	£99.68	£101.66	£103.68
COUNCIL TAX - BAND 'D' 0%	£96.79	£96.79	£96.79
3. SAVINGS REQUIRED TO MEET COUNCIL TAX FIGURE			
REDUCTION REQUIRED TO BASE BUDGET (CUMULATIVE)	(3,036,478)	(7,767,171)	(8,556,125)

6.4. A complete review of the operating model is being undertaken by the Service to identify where efficiencies can be made from both the operational side and the support side. These include a group admin review, station status and crewing arrangements, the Payment for Availability (P4A) contractual terms and the provision of specialist teams amongst others.

6.5. The MTFP is a dynamic tool that is amended and updated as and when intelligence is presented to the Service with regards to funding and costs. Funding can cover increases in sources such as council tax, national non-domestic rates or Government support. Costs will include items such as inflation or changes to legislation that have an impact.

6.6. A report outlining the proposals for addressing the gap in funding identified within the MTFP is in the process of being drafted. This will be presented to the Authority on 11 December 2023 to share the initiatives being considered to meet the anticipated shortfall.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

PRUDENTIAL INDICATORS 2023-24

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure	**9.126**	**13.086**	**(3.960)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**24.427** 23.771 0.656	**24.427** 23.771 0.656	**£0.000**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**25.055** 23.771 0.656	**26.376** 25.553 0.823	**(1.321)**
Debt Ratio (debt charges as a %age of total revenue budget	**1.88%**	**5.00%**	**(3.12)bp**
Cost of Borrowing – Total -Interest on existing debt as at 31-3-2023 -Interest on proposed new debt in 2023-24	**1.030** 1.030 0.000	**1.030** 1.030 0.000	**(0.000)**
Investment Income – full year	**1.580**	**0.525**	**(1.055)**
	Actual (30 September 2023) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**5.15%**	**5.09%**	**(0.06)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (31 March 2024) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	2.03%	30.00%	2.00%	(28.01%)
12 months to 2 years	2.27%	30.00%	2.00%	(28.15%)
2 years to 5 years	13.25%	50.00%	14.00%	(36.75%)
5 years to 10 years	0.75%	75.00%	1.00%	(73.89%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**81.43%** 17.31% 25.55% 38.57% 0.00%	**100.00%**	**81.00%**	**(20.19%)**

DSFRS Reserves in detail	Budget £'000	Committed spend £'000	Forecast spend £'000	Balance remaining £'000
Asset Management & Tracking	142	87	142	-
Audit Assurance EMR	11	8	10	2
Availability Systems	12	33	12	-
Budget Smoothing Reserve	666	-	666	-
Capital Support from 2011/12	15,500	-	7,616	7,884
CLG USAR Grant	55	20	55	-
Command support project	126	-	126	-
CT Irrecoverable Deficits	489	-	244	245
Digital Trans Strategy	332	243	243	89
Dignity At Work - HMICFRS	178	2	178	-
Environmental Strategy	243	112	243	-
ESMCP (reserve funding)	474	(6)	(1)	475
ESMCP Home Office Grant	576	6	6	570
Estate Conditional Survey	60	-	60	-
Future of Work	88	-	88	-
Grenfell Infrastructure grant	38	6	43	(5)
Haz Mat Det and ID Equip	17	-	17	-
Health and Safety Resource	16	16	16	-
ICT Managed Switch Replacement	55	-	55	-
Information Governance FTC	3	3	3	-
Invest to Improve Reserve	361	-	214	147
Learn 2 Live	59	8	15	44
Livery and Blue Light fit out	15	-	-	15
Management of Risk Information	171	-	171	-
MDT Replacement	145	-	145	-
NNDR Additional Reliefs	334	-	334	-
Office 365 Project	58	48	58	-
Pay for avaliability	61	1	6	55
Pensions Admin Grant c/f	114	-	25	89
Pensions Reserve	1,218	-	150	1,068
People Services System	579	274	579	-
Personal Misting Systems	8	1	1	7
PFI equalisation reserve	50	-	-	50
Prev Accred grant c/f	4	0	4	-
Protection uplift grant c/f	43	22	43	-
Bequest Axminster Gym Equip	-	(10)	0	-
Station Mobilising Equipment	380	380	380	-
Temp accom for capital project	92	14	34	58
Topsham Relocation	33	-	20	13
Vehicle Telematics	49	18	36	12
Website Comp and Comms Strat	3	-	-	3
	22,862	**1,287**	**12,039**	**10,821**

DSFRS Reserves in detail	Committed spend £'000	Forecast spend £'000
Fire Protection Training Exter	-	4
External Trainer Hire	2	38
Retained Retainers Old	3	12
Admin/Manage Salary	87	207
Agency Staff Admin	267	243
Admin/Manage Salary NI	8	9
Admin/Manage Salary Superan	14	17
Unforseen Other Contractor	112	231
Refuse Collection loc. sourced	-	-
Rents - Non Building	2	2
Standard Equipment	119	2,194
ICT Desktop Service	-	88
ICT Application Services (Oth)	210	564
ICT Infrastructure Service	46	66
ICT Mobs Service Equipment	380	380
ICT Sat Nav Serv/Vehicle track	18	36
External Prof Support/Advice	24	151
Capital Exp from Rev Account	-	7,792
Other Miscellaneous Income	(10)	-
	1,287	**12,039**

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REPORT REFERENCE NO.	**RC/23/19**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**22 NOVEMBER 2023**
SUBJECT OF REPORT	**HIS MAJESTY'S INSPECTORATE OF CONSTABULARY & FIRE & RESCUE SERVICES (HMICFRS) AREAS FOR IMPROVEMENT ACTION PLAN UPDATE**
LEAD OFFICER	**Chief Fire Officer**
RECOMMENDATIONS	***That the Committee reviews progress in delivery of the action plan.***
EXECUTIVE SUMMARY	On Wednesday 27th July 2022 HMICFRS published the DSFRS 2022 inspection report. The inspection report identified one Cause of Concern and 14 Areas for Improvement (AFIs). Of these AFIs, two have been linked to the Resources Committee. The paper appended to this report outlines the progress that has been made against the HMICFRS Areas for Improvement action plan since the last update to the committee in September 2023. The key highlights are that: • Delivery of the Areas for Improvement action plan is on track.
RESOURCE IMPLICATIONS	Considered within the Action Plan where appropriate.
EQUALITY RISKS AND BENEFITS ANALYSIS	Considered within the Action Plan where appropriate.
APPENDICES	A. HMI Resources Committee Update
BACKGROUND PAPERS	None

HMICFRS ACTION PLAN – RESOURCES COMMITTEE UPDATE

1. INTRODUCTION

1.1. On Wednesday 27th July 2022, HMICFRS published the DSFRS 2022 inspection report. The inspection report identified one Cause of Concern and 14 Areas for Improvement (AFIs).

1.2. This report provides an update on the Areas For Improvement action plan that has been produced following the inspection, which concluded in October 2021.

2. AREAS FOR IMPROVEMENT ACTION PLAN COMPLETION STATUS

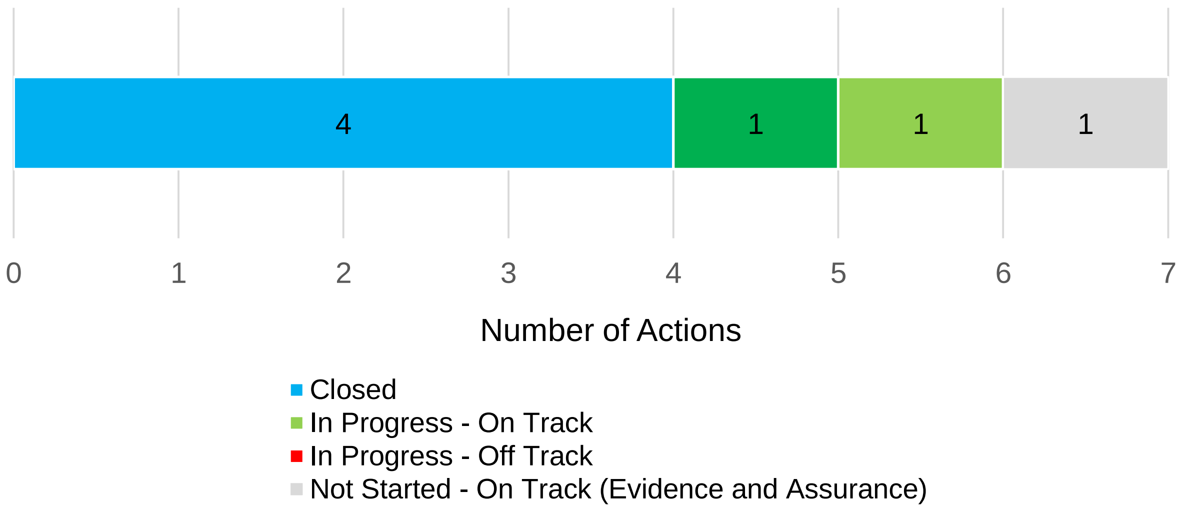
2.1. Table 1 lists the Areas For Improvement linked to the Resources Committee and their individual implementation status.

Table 1:

Reference	Description	Target Completion	Status
HMI-2.2-202206a	The service needs to make sure that its fleet strategy is regularly reviewed and evaluated to maximise potential efficiencies.	31/01/2024	Closed
HMI-2.2-202206b	The service needs to make sure that its estates strategy is regularly reviewed and evaluated to maximise potential efficiencies.	31/01/2024	In Progress – On Track

2.2. Figure 1 below outlines the completion status of all actions designed to address the Areas For Improvement linked to the Resources Committee, as outlined above.

Figure 1: Resources Committee Action Status - November 2023



2.3. Table 2 below outlines the completion status of these actions in table view.

Table 2: Summary of progress against the individual actions					
Areas For Improvement (Resources Committee)					
Not started (on track)	Not started (off track)	In progress (on track)	In progress (off track)	Completed	Closed
1 * (→ at 1)	0 (→ at 0)	1 (→ at 1)	0 (↓ from 1)	1 (↑ from 0)	4 (→ at 4)

* Please note that the action which has not yet started is the evidence and assurance required (for HMI-2.2-202206b – Estates Strategy) once all other actions have been completed.

GAVIN ELLIS
Chief Fire Officer

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