DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

S.J. Sharman
CLERK TO THE AUTHORITY

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

(see below)

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

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

Date : 26 January 2024
Please ask for : Sam Sharman
Email : ssharman@dsfire.gov.uk

Telephone : 01392 872200
Fax : 01392 872300
Direct Telephone : 01392 872393

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

Monday, 5 February, 2024

The budget 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 22 November 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 **2024-25 Revenue Budget and Council Tax Levels (Pages 7 - 22)**

Joint report of the Director of Finance & Corporate Services (Treasurer) and the Chief Fire Officer (RC/24/1) attached.

5 **Capital Strategy (Pages 23 - 32)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/24/2) attached.

6 **Capital Programme 2024-25 to 2026-27 (Pages 33 - 42)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/24/3) attached.

7 **Treasury Management Strategy (Including Prudential and Treasury Indicators report 2024-25 to 2026-27) (Pages 43 - 68)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/24/4) attached.

8 **Treasury Management Performance 2023-24: Quarter 3 (Pages 69 - 82)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/24/5) attached.

9 **Financial Performance Report 2023-24: Quarter 3 (Pages 83 - 96)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/24/6) attached.

10 **His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) Areas for Improvement Action Plan Update (Pages 97 - 100)**

Report of the Chief Fire Officer (RC/24/7) attached.

11 **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 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.

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

12 **Red One Ltd. Financial Performance 2023-24: Quarter 3 (Pages 101 - 110)**

Report of the Director of Finance & Corporate Services (Treasurer) (RC/24/8) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

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

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.

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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 Kingdom (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 Financial Performance Report 2023-24: Quarter 2**

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 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 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

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REPORT REFERENCE NO.	**DSFRA/24/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2024**
SUBJECT OF REPORT	**2024-25 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Director of Finance and Corporate Services (Treasurer) and Chief Fire Officer**
RECOMMENDATIONS	***(a) That the committee consider the contents of this report in order to make a recommendation to the Fire Authority budget meeting that either:*** ***I. that the level of council tax in 2024-25 for a Band D property be set at £96.79, as outlined in Option A in this report, representing no increase over 2023-24, and that accordingly a Net Revenue Budget Requirement for 2024-25 of £91,067,600 be approved;*** ***OR*** ***II. that the level of council tax in 2024-25 for a Band D property be set at £99.68, as outlined in Option B in this report, representing a 2.99% increase over 2023-24, and that accordingly a Net Revenue Budget Requirement for 2024-25 of £92,908,400 be approved;*** ***(b) That, as a consequence of the decisions at (a) above:*** ***i. the tax base for payment purposes and the precept required from each billing authority for payment of total precept of £62,507,913 (Option A) OR £64,348,746 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;*** ***ii. the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and*** ***iii. that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances', as set out at Appendix B to this report, be endorsed.***

EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 11 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2024-25 that would trigger a requirement to hold a Council Tax referendum is to be 2.0%. This report considers potential options A and B below for Council Tax in 2024-25: i. OPTION A – Freeze Council Tax at 2021-22 level **(£96.79 for a Band D Property).** ii. OPTION B – Increase Council Tax by maximum permitted of 2.99% above 2023-24 **(£99.68 for Band D Property).** The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 16 February 2024. Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2024-25 and therefore, the figures will be subject to change. The impact of any changes will be reported at the meeting.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2024-25. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

1.1. The draft budget for 2024-25 provides an opportunity to support reform of Devon and Somerset Fire and Rescue Service (the Service) now and in the future. During December 2023 a number of significant changes to the Service Delivery operating model were presented to the Authority on how the Service can reduce costs by amending how it delivers the core functions.

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 2024-25. 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 18 December 2023, 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 2024-25. Despite requests from the sector to extend the option to increase by up to £5 again for 2024/25, the limit was set at a 2.99% increase. If exceeded, this would trigger the need to hold a referendum. Given that the administration costs associated with holding a local referendum for the Service for one year are estimated to be in excess of £2.3m, this report does not include any proposals to go beyond the referendum limit.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2024-25

2.1. The provisional Local Government Finance Settlement for 2024-25 was announced on 18 December 2023, which provided local authorities with individual settlement funding assessment figures for one year only.

2.2. Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which indicates an increase in 2024-25 of 21.09% over 2023-24 with an overall reduction of 0.27% since 2015-16. However, since 2019-20, the Service have received a separate grant of £3.9m to cover the increase in the employer's pension contributions following an actuarial review by the Government Actuarial Department (GAD). This grant has now been *rolled-up* within the Revenue Support Grant and thus has increased the SFA by that amount:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)			
	SFA	**SFA (Reduction)/Increase**	
	£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%
2024-25	28.843	5.024	21.09%
Reduction over 2015-16		**-0.064**	**-0.27%**

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 £0.575m for 2024-25.

2.4. There are other Section 31 grant funds, allocated to reduce the impact of the increase in social costs of £0.100m which is included within the revenue budget as income.

2.5. A Funding Guarantee Grant, provided to ensure the Settlement Funding Assessment is increased by 4% before any Council Tax rises, has also been awarded of £1.920m.

3. COUNCIL TAX AND BUDGET REQUIREMENT 2024-25

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 2024-25, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2023-24 level (£96.79 for a Band D Property);
- **OPTION B** – Increase Council Tax by 2.99% above 2023-24 - an increase of just over 24p a month, to £99.68 for a Band D Property.

3.2. The Authority could decide to set any alternative level below 2.99%. Each 1% increase in Council Tax represents an 96p a year increase for a Band D property, and is equivalent to a £0.613m 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 2.99% threshold.

3.3. ***Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2024-25 and therefore, the figures in Table 2 will be subject to change. The materiality of this outstanding data is estimated within the region of +/- £0.100m. The impact of any changes will be reported at the meeting.***

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2024-25

	OPTION A Council Tax Freeze at £96.79 £m	OPTION B Council Tax Increase of 2.99% to £99.68 £m
TOTAL FUNDING 2023-24	**85.413**	**85.413**
Increase in Formula Funding	4.841	4.841
Increase in Retained Business Rates from Business Rate Retention System*	0.167	0.167
Changes in Council Tax Precept		
- Increase in Council Tax Base	0.854	0.854
- resulting from an increase in Council Tax	-	1.841
- Increase (reduction) in Share of Billing Authorities Council Tax Collection Funds	(0.206)	(0.206)
TOTAL FUNDING AVAILABLE 2023-24	**91.067**	**92.908**
NET CHANGE IN FUNDING	**5.654**	**7.495**
*at time of producing the paper not all information is available from local authorities		

Council Tax Base

3.4 The total increase in government funding through the revenue support grant of £4.841m is positive. When the pension grant is removed, the net increase is £0.937m which is above inflation of 12.8%. The Service has seen an increase in the Council Tax base of just over 1.4%. The Authority's share of Council Tax collection fund surplus has reduced from £1.062m in 2023-24 to £0.856m for the new year – a reduction of £0.206m

Retained Business Rates

3.4. We estimate the funding available from business rates will be in-line with previous years now that the amount received from this funding stream has stabilised following Covid. Member will remember that Business Rates were suspended whilst businesses were forced to close. . At the time of writing the report, the returns from the District/Unitary Councils were outstanding.

Net Budget Requirement

3.5. Table 3 overleaf provides a summary of the Core Budget Requirement for 2024-25. 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 2024-25

	£m	£m
Net Revenue Budget 2023-24		**85.413**
PLUS Provision for pay and price increases (Pay award assumed 5%)	4.829	
PLUS Inescapable Commitments	0.219	
Less Reduction in fundig from reserves	2.682	
One Off Investment - e.g. NFSP system replacement and EV chargepoints	0.895	
Recurring investment - e.g increase to maternity pay	0.164	
Revene Contribution to Capital Expenditure	0.484	
PLUS New Investment	0.773	
PLUS increase in income and budget savings	(2.550)	
INCREASE in budget requirement over 2023-24		**7.496**
Core spending requirement 2024-25		**92.909**

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 2024-25 has been assessed as £92.909m 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 2024-25

PROPOSALS TO BALANCE THE REVENUE BUDGET	**OPTION A £m**	**OPTION B £m**
Funding Available	91.067	92.909
LESS Net spending requirement 2024-25	92.909	92.909
Shortfall	(1.842)	**(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	0.484	0.000
Transfer from Reserves – in order to balance the budget.	1.357	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 £1.841m in the coming year if it is frozen. Should Council Tax be frozen, the Authority would remove the contribution to capital expenditure (£0.484m) and then utilise its capital reserves to fund the gap in the short term while a plan to implement greater spending reductions across all areas of the Service is developed.

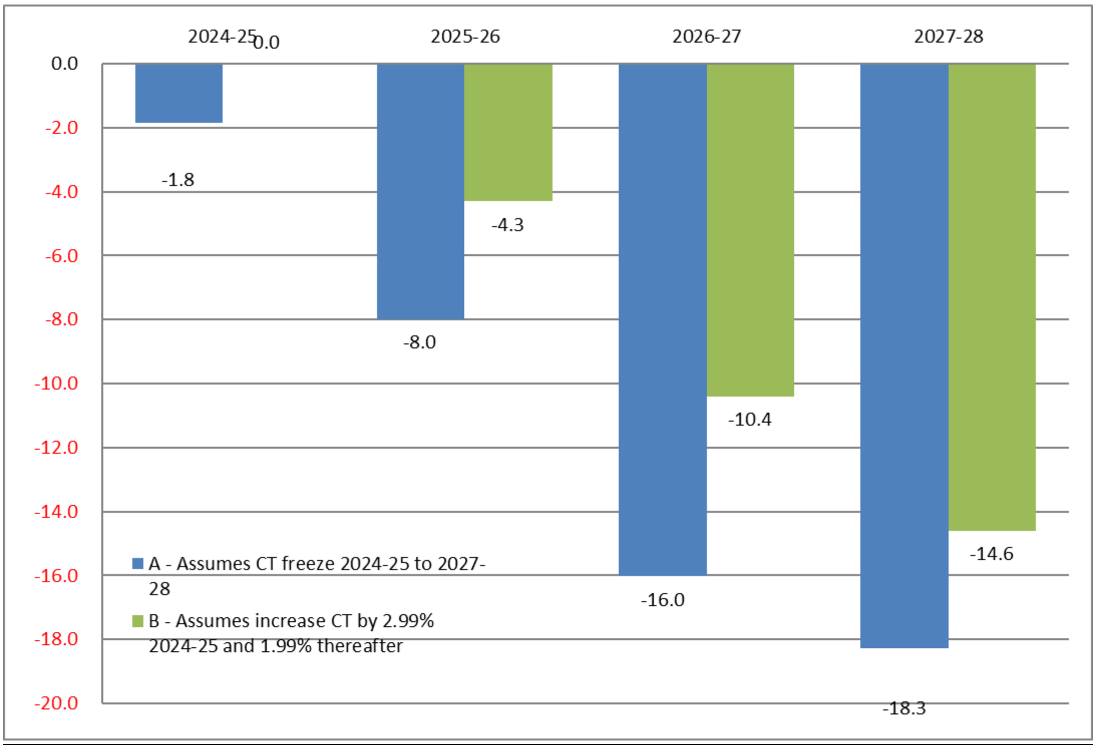
3.9. There is significant risk attached to Option A, as this proposal will draw down against the capital funding reserve, meaning it will not be available to meet the future capital programme and the scale of efficiencies required would see reductions made to front line services.

4. MEDIUM TERM FINANCIAL PLAN

4.1. Given that the 2024-25 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 2024-25 to 2027-28. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2024 TO 2028 (BASE CASE) - £MILLIONS



4.3. Chart 1 illustrates that further savings will be required beyond 2024-25 to plan for a balanced budget over the next three years to 2027-28. Should the Authority decide to freeze Council Tax in 2024-25 (Option A) and the following three years, then the MTFP forecasts that total savings of up to £18.3m need to be planned for.

4.4. For year 2025-26, the delayed legislation that will provide Councils the option to charge a 100% council tax premium on second homes becomes live. The estimated additional income resulting from this change has been factored into our forecasts.

Authority Plan 2024 onwards

4.5. This budget report proposes a balanced budget for the next financial year 2024-25 including proposals as to how budget savings can be achieved.

4.6. Looking beyond 2024-25 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. <u>PRECEPT CONSULTATION 2024-25</u>

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:

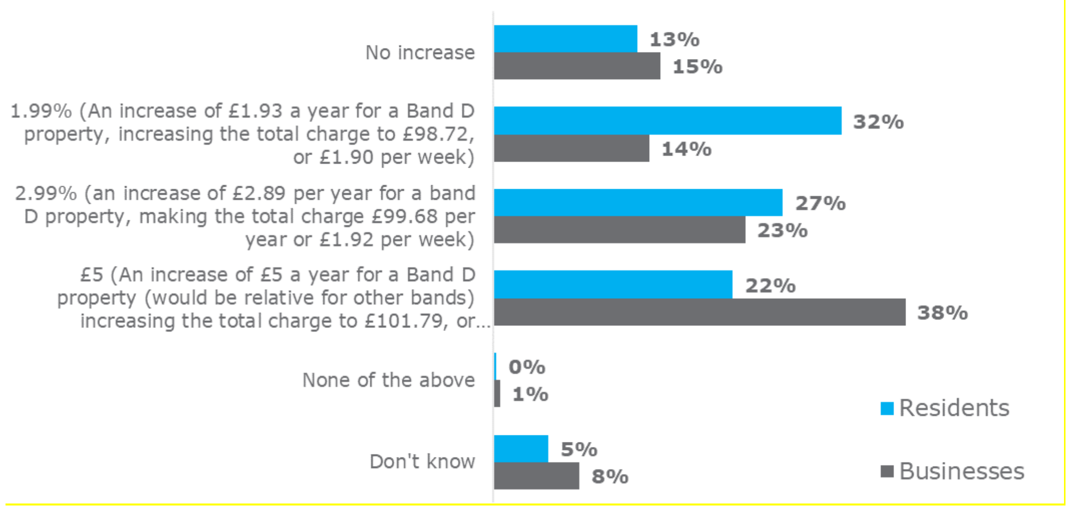
A telephone survey of 400 business and 400 residents.

Results from the Telephone Survey

5.4. 64% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2024-25, while 16% disagreed that it is reasonable for them to do so, resulting in a net agreement of +48%.

5.5. 74% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2024-25, while 13% disagreed, giving a net agreement of +61%.

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 2024-25)

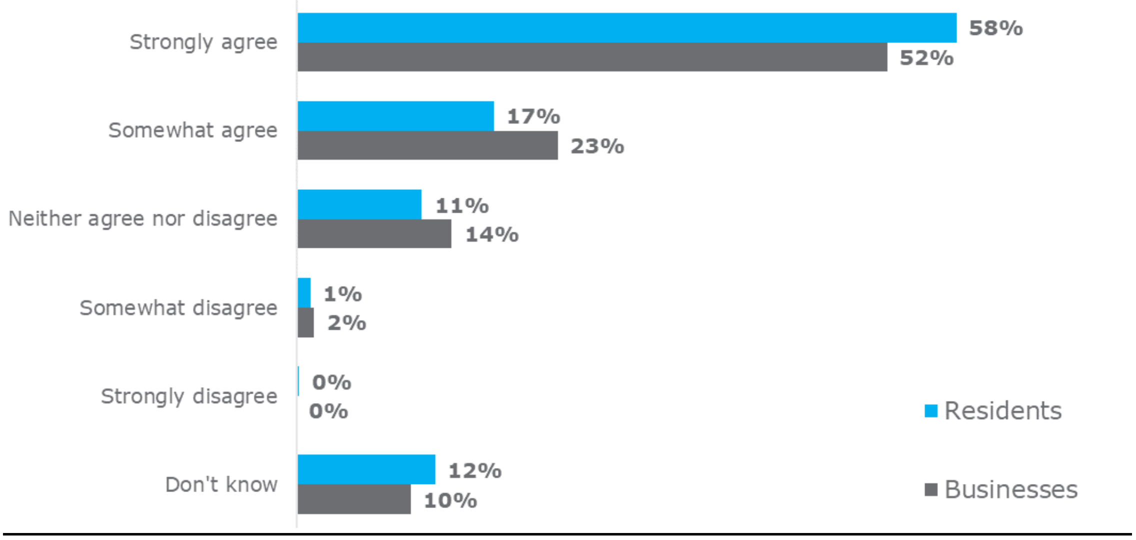


5.6. Of those respondents who agreed that a Council Tax increase would be reasonable 61% of businesses and 49% residents would support an increase of 2.99% or above.

Providing Value for Money

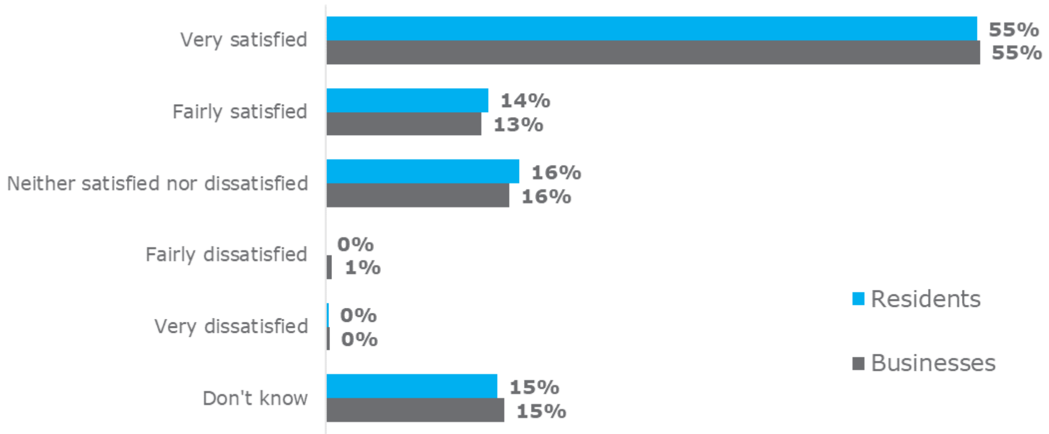
5.7. The consultation asked the responder if they felt the Fire Service provided value for money. The results in Chart 3 indicate 52% of businesses and 58% of residents strongly agreed.

Chart 3: Question; Results of agreement whether the Service provides Value for Money



5.8. The responses indicate that the public are either very satisfied or fairly satisfied with the satisfaction on the service that is provided. 68% of businesses and 69% of residents felt this way.

Chart 4: Satisfaction with the service provided by DSFRS



Survey Conclusion

5.9. 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 2024-25. 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.

5.10. 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 2024-25 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 16 February 2024.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

GAVIN ELLIS
Chief Fire Officer

APPENDIX A TO REPORT RC/24/1

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY
SUMMARY MEDIUM TERM FINANCIAL STRATEGY PROJECTIONS 2024

	Row Number	£'000	2024/25 £000	%
Approved Budget 2023-24			**85,413**	
Provision for pay and prices increase				
Grey Book Pay Award (assume 5% from July 2024)	1,2,3	3,163		
Green Book Pay Award (Assume 5% April 24)	4	659		
Prices increases (assumed 2.0% CPI from April 2024)	ll non-pay	883		
Pensions inflationary increase (tracks CPI - 3.2%)	6	124		
			4,829	5.7%
Funding Adjustments				
Revenue Contribution to Capital	26	484		
Reduction in transfers from Reserves	32	2,682		
			3,166	
Inescapable Commitments				
Support Staff Increments	4	187		
Increase to pension charges for FFPS rate increase - McCloud/Sargent		0		
NFSP Control Future project		750		
Maternity pay extension		164		
Conversion of Green to Grey book posts		423		
EV Charging Infrastructure		145		
IFRS16 Fleet leases reducing service costs		-515		
IFRS16 Fleet leases increasing MRP & interest		515		
IFRS16 Estates leases reducing service costs		-100		
IFRS16 Estates leases increasing MRP & interest		100		
Pensions - anticipate reduced Ill Health/ Injury leavers	6	32		
			1,701	
New Investment				
On Call Pay for availability	2	863		
Reduction in Professional Staff establishment				
Operational staff including control	1 & 3	-89		
Replacement Structural PPE				
			774	
Income				
Reduction in Firelink grant		362		
Section 31 grants	29	-1,611		
Increase in investment interest		-675		
Red One Income		2		
			-1,922	
Anticipated savings				
ICT Service Delivery (Office 365 licence)	16	-45		
Unforeseen budget requirements (savings)		-1,075		
Decrease in minumum revenue provision	25	69		
			-1,051	
CORE BUDGET REQUIREMENT			**92,909.0**	

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 2024-25 BUDGET

The net revenue budget requirement for 2024-25 has been assessed as £92.908m (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. It should be emphasised that these assessments are being made for a period up to the 31st March 2025, 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 potential pay awards for colleagues which are 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 2024-25 to 2028-29. 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 2024-25 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2024-25 £m	*RISK AND IMPACT*	MITIGATION
Service Delivery staff costs	67.8	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	2.6	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	1.0	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 is investing in new ways of working associated with the environmental strategy so have introduced electric vehicles during 2023-24 with more on order for 2024-25.	General Reserve
Treasury Management Income	(1.2)	As a result of the uncertainty, bank base rates have increased to the highest levels since 2008. This has resualted in an increase in investment returns. This has resulted in an increase in the budget of £0.675m. The markets are anticiparing a interest rarte reduction during Q3 2024 so rates will start to reduce in year.	The target income has been set at a level consistent with the returns achieved during 2023. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.8)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.8m 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	7.2	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.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2023 was £27.0m made up of Earmarked Reserves (committed) of £22.8m, and General Reserve (uncommitted) of £4.28m. 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 5.0% of the total revenue budget for 2023-24 or 18 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 2024-25 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 and Corporate Services (Treasurer)

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REPORT REFERENCE NO.	**RC/24/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2024**
SUBJECT OF REPORT	**CAPITAL STRATEGY**
LEAD OFFICER	**Director of Finance & Corporate Services (Treasurer)**
RECOMMENDATION	***That the Authority be recommended to endorse the Capital Strategy as set out in this report.***
EXECUTIVE SUMMARY	The 2017 Prudential Code included the requirement for all Local Authorities to produce an annual capital strategy that is agreed by the Members. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high-level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure. The 2021/22 revised Prudential Code also required the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily for yield.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
BACKGROUND PAPERS	The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017

1. INTRODUCTION

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 included a new requirement for local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

1.2. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high-level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.

2. CAPITAL EXPENDITURE

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

3. CAPITAL EXPENDITURE COMPARED TO TREASURY MANAGEMENT INVESTMENTS

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

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

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

4. CAPITAL REQUIREMENTS

4.1. This Authority has experienced significant revenue grant reductions since 2010 and no longer receives any capital grant. With further revenue grant reductions a possibility and increasing cost pressures, new ways of working are being implemented so that the Service can address the risks within our communities and balance the budget. The National Risk Register identifies emerging challenges such as the continued threat of terrorism, the impacts of climate change (wildfires and increasing flooding) and the 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.

4.3. At the commencement of the 2024-25 year, the Service will have 112 front-line fire engines, of which 25 have surpassed their recommended economic life, and 22 Special Appliances. Of the 22 Special Appliances, an order has been placed to replace three aged Aerial Ladder Platforms with an anticipated delivery starting during Q2 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 2024-25 – 2028-29

6.1. The Service capital programme for 2024-25 – 2027-28 is considered annually and is set out in the table below.

Table 1

Capital Programme 2024/25 to 2028/29								
2023/24 £000 Budget	**2023/24 £000 Forecast Outturn**	**Item**	**PROJECT**	**2024/25 £000 Budget**	**2025/26 £000 Budget**	**2026/27 £000 Budget**	**2027/28 £000 Indicative Budget**	**2028/29 £000 Indicative Budget**
			Estate Development					
1,919	85	1	Site re/new build	450	3,884	500	0	0
5,009	1,040	2	Improvements & structural maintenance	4,208	2,075	8,122	3,430	855
6,928	**1,125**		**Estates Sub Total**	**4,658**	**5,959**	**8,622**	**3,430**	**855**
			Fleet & Equipment					
4,522	3,150	3	Appliance replacement	1,478	2,119	2,180	1,430	1,460
2,266	1,913	4	Specialist Operational Vehicles	1,944	455	0	920	505
570	235	5	ICT Department	0	0	0	0	0
7,358	**5,298**		**Fleet & Equipment Sub Total**	**3,422**	**2,574**	**2,180**	**2,350**	**1,965**
(1,200)	**0**	6	**Optimism bias Sub Total**	**(900)**	**(300)**	**(500)**	**1,000**	**700**
13,086	**6,423**		**Overall Capital Totals**	**7,180**	**8,233**	**10,302**	**6,780**	**3,520**
			Programme funding					
11,753	4,769	7	Earmarked Reserves:	4,835	4,380	1,692	0	0
50	10	8	Revenue funds:	534	2,050	2,050	2,050	2,050
0	361	9	Capital receipts:	0	0	0	0	0
1,283	1,283	10	Borrowing - internal	1,382	1,803	0	1,170	1,470
		11	Borrowing - external	0	0	6,560	3,560	
0	0	12	Contributions:	429	0	0	0	0
13,086	**6,423**		**Total Funding**	**7,180**	**8,233**	**10,302**	**6,780**	**3,520**

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 24 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 2026-27 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:

- Community Risk Management Plan;
- Contract Standing Orders; and
- Financial Regulations.
- During 2024-25, a Fire Cover review will also be published.

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 2024-25, the amount has been set at £0.534m to support the revenue budget. The £2m target will be resumed, in a phased approach, over the forthcoming years.

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 surplus 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 2024 external debt will be £23.7m, down from £25.9m 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 £10.9m at the end of 2023-24 year. However, with the savings anticipated to be made as a result of the changes to the Service Delivery operating model, it will be possible to contribute some funding from the Revenue budget to be used to contribute towards funding some of the Capital programme for 2024-25.

18.9. There are a large number of assets needing replacement or enhancement and the proposed programme totals £36.0m over the next five years. In the absence of additional borrowing in the future, Officers will need to develop plans to prioritise expenditure with a view of reducing this requirement.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

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REPORT REFERENCE NO.	**RC/24/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**05 FEBRUARY 2024**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2024-25 TO 2026-27**
LEAD OFFICER	**Director of Finance & Corporate Services (Treasurer)**
RECOMMENDATIONS	***That the Authority at its budget meeting on 16 February 2024 be recommended to approve:*** ***(a) the draft Capital Programme 2024-25 to 2026-27 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively, be approved; and*** ***(b) subject to (a) above, the forecast impact of the proposed Capital Programme (from 2027-28 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 2024-25 to 2026-27 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 2027/28 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 2026-27 based upon indicative capital programme levels, noting the comment about decisions around stations and vehicles above, for the years 2027-28 to 2028-29.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2024-25 to 2026-27 (and indicative Capital Programme 2027-28 to 2028-29). B. Prudential Indicators 2024-25 to 2026-27 (and indicative Prudential Indicators 2027-28 to 2028-29).

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 previous years used revenue contributions and capital reserve to finance the capital programme, ensuring the Authority stays with in the 5% ratio. The Authority has faced increasing revenue budget pressures making the revenue contribution unaffordable in the last two financial years, 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. Due to the age of current fleet there are still plans to introduce further new Medium Rescue Pumps (MRPs) including, all-wheel drive, Aerial Ladder Platforms (ALP), and Water Carriers 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 2026-27.

1.4. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2024-25 to 2026-27 and indicative Capital Programme 2027-28 to 2028-29 show that, despite the reduced number of assets, the Authority may need to borrowed up to £10.1m. When further decisions are made around stations and vehicles this figure is likely to increase significantly. Alternatively, there may be a need to restrict the amount of funding available to the Capital Programme and task the Service with further rationalising its assets.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1. The tests of affordability of future capital spending are measured by compliance with the Chartered Institute of Public Financial Accountants (CIPFA) Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.2. The proposed programme and funding, as contained in this report, increases the external borrowing requirement to £28.2m by 2026-27 from the current external borrowing of £23.8m as at 31 March 2024. 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. Despite increasing pressure on revenue budgets, the revised programme has been prepared on the basis that Revenue Contributions to Capital will resume for 2024-25, albeit at a reduced rate of £0.484m in comparison to the strategic intent, which remains to increase this gradually to historical levels over the forthcoming years, however, significant pressures 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 2024-25 to 2026-27

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2024-25 to 2026-27 as contained in this report. This programme represents a net increase in overall spending of £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			
2023-24	6.9	7.4	14.3
2024-25	3.8	1.8	5.6
2025-26 (provisional)	0.1	4.5	4.6
2026-27 (provisional)	0.1	3.3	3.4
Total 2023-24 to 2026-27	10.9	17.0	27.9
Proposed Programme			
2023-24 (forecast spending)	1.1	5.3	6.4
2024-25	4.7	3.4	8.1
2025-26 (provisional)	6.0	2.6	8.6
2026-27 (provisional)	8.6	2.2	10.8
Total 2023-24 to 2026-27	20.4	13.5	33.9
Proposed change	9.5	-3.5	6.0

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 DSFRS 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), a Fire Cover Review and the Target Operating Model (TOM) the programme for 2024-25 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 Wholetime Fire Stations, alongside works to ensure compliance such as Muster Bay Separation works and associated PPE at On Call Stations as well as the major refurbishment and extension of Bere Alston Fire Station.

3.4 Within the programme is investment in a replacement hot villa and scrubbers based at the airport. There is also a potential investment in carbon reduction at 2 Stations which is incumbent on a grant application from the Public Sector Decarbonisation Scheme.

Operational Assets

3.5 The contract for MRPs was awarded in January 2020 and has renewed a considerable number of vehicles. The last 5 MRPs will be received into Service in early 2024-25, as will All-Wheel-Drive MRPs (1-4), ALPs 1-3 and water carriers. Moving forward, the Service is preparing for the development of the MRP2 (previously known as 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 CRMP.

3.6 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.

3.7 The benefits of the Fleet Replacement Programme are:

- Economic benefits of new fleet
- Standardisation of vehicles leading to reduced maintenance and training costs
- Environmental benefits from reduced emissions and savings on fuel consumption

3.8 The Fleet Replacement plan has replaced some of our oldest appliances with new MRPs and cascade existing vehicles to the reserve and training fleet. Currently we have:

3.9 MRP – 56 front-line appliances of which 25 are overdue replacement (more than 15 years old –44%).

3.10 MRP Reserves – 11 MRP reserve appliances of which 9 are overdue replacement (more than 15 years old – 82%).

3.11 LRP – 38 front-line LRP appliances of which 6 become due replacement in 2025/26 based on 12 years expected life-cycle.

3.12 LRP Reserves – 4 LRP Reserve appliances which are 9 years old.

3.13 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)

3.14 RIV Reserves – 2 RIV reserve appliances which are both 6 years old.

3.15 Training Appliances – 6 MRP training appliances of which 5 are over 15 years old.

3.16 Driver Training Appliances – 2 x MRP driver training specific appliances which are 13 years old. 2 x new MRP appliances (not driver training specific). 1 is new and the other 15 years old.

4. FORECAST DEBT CHARGES

4.1. Appendix A also provides indicative capital requirements beyond 2026-27 to 2028-29. 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

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	23.313	23.219	28.211	31.178	31.085
Base budget for capital financing costs and debt charges	3.807	4.127	4.134	4.493	4.222
Change over previous year		0.321	0.006	0.360	(0.271)
Debt ratio	3.02%	3.27%	3.17%	3.43%	3.00 %

4.2. The forecast figures for external debt and debt charges beyond 2026-27 are based upon the indicative programmes as included in Appendix A for the years 2027-28 to 2028-29. 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 increased from current levels of £27.4m to £30.9m (including impact of proposed revenue contributions) by 2028-29.

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 2028-29, 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 2026-27. The programme proposed in this report does not commit any spending beyond 2026-27. 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 and Corporate Services (Treasurer)

APPENDIX A TO REPORT RC/24/3

Capital Programme 2024/25 to 2028/29								
2023/24 £000 Budget	2023/24 £000 Forecast Outturn	Item	PROJECT	2024/25 £000 Budget	2025/26 £000 Budget	2026/27 £000 Budget	2027/28 £000 Indicative Budget	2028/29 £000 Indicative Budget
			Estate Development					
1,919	85	1	Site re/new build	450	3,884	500	0	0
5,009	1,040	2	Improvements & structural maintenance	4,208	2,075	8,122	3,430	855
6,928	**1,125**		**Estates Sub Total**	**4,658**	**5,959**	**8,622**	**3,430**	**855**
			Fleet & Equipment					
4,522	3,150	3	Appliance replacement	1,478	2,119	2,180	1,430	1,460
2,266	1,913	4	Specialist Operational Vehicles	1,944	455	0	920	505
570	235	5	ICT Department	0	0	0	0	0
7,358	**5,298**		**Fleet & Equipment Sub Total**	**3,422**	**2,574**	**2,180**	**2,350**	**1,965**
(1,200)	**0**	6	**Optimism bias Sub Total**	**(900)**	**(300)**	**(500)**	**1,000**	**700**
13,086	**6,423**		**Overall Capital Totals**	**7,180**	**8,233**	**10,302**	**6,780**	**3,520**
			Programme funding					
11,753	4,769	7	Earmarked Reserves:	4,835	4,380	1,692	0	0
50	10	8	Revenue funds:	534	2,050	2,050	2,050	2,050
0	361	9	Capital receipts:	0	0	0	0	0
1,283	1,283	10	Borrowing - internal	1,382	1,803	0	1,170	1,470
		11	Borrowing - external	0	0	6,560	3,560	
0	0	12	Contributions:	429	0	0	0	0
13,086	**6,423**		**Total Funding**	**7,180**	**8,233**	**10,302**	**6,780**	**3,520**

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				INDICATIVE INDICATORS	
	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate
Capital Expenditure					
Non - HRA	7.180	8.233	10.302	6.780	3.520
HRA (applies only to housing authorities)					
Total	7.180	8.233	10.302	6.780	3.520
Ratio of financing costs to net revenue stream					
Non - HRA	3.02%	3.27%	3.17%	3.43%	3.00%
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	23,312	23,220	28,211	31,110	30,547
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	4,120	3,150	2,163	1,137	362
Total	27,432	26,370	30,374	32,247	30,909
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	3,005	(1,062)	4,004	1,873	(1,338)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	3,005	(1,062)	4,004	1,873	(1,338)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,037	25,574	33,315	34,427	33,805
Other long term liabilities	4,825	4,777	3,758	2,719	1,655
Total	30,862	30,351	37,073	37,146	35,460
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,871	24,413	31,904	32,871	32,278
Other long term liabilities	4,620	4,620	3,650	2,663	1,637
Total	29,490	29,032	35,554	35,534	33,915
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 2024/25		
Under 12 months	30%	2%
12 months and within 24 months	30%	11%
24 months and within 5 years	50%	3%
5 years and within 10 years	75%	5%
10 years and above	100%	79%

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REPORT REFERENCE NO.	**RC/24/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2024**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2024-25 TO 2026-27)**
LEAD OFFICER	**Director of Finance & Corporate Services (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve:*** ***(a). the Treasury Management Strategy and the Annual Investment Strategy;*** ***(b). the CFR projections below as included in Appendix A of this report*** ***(c). the Minimum Revenue Provision statement for 2024-25, as contained as Appendix B.***
EXECUTIVE SUMMARY	As agreed at the Authority meeting of 18 December 2017, there is a requirement for Resources Committee to review the Treasury Management Strategy for recommendation to the Authority. This report sets out a treasury management strategy and investment strategy for 2024-25, including the Prudential Indicators associated with the capital programme for 2024-25 to 2026-27 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2024-25 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.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2024-25 to 2026-27 B. Minimum Revenue Provision Statement 2024-25. 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 revenue 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.

Statutory requirements

1.6. 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.

1.7. 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.

1.8. 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

1.9. 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.

1.10. 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

1.11. 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.

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

1.13. In addition to the Treasury management reports identified in 1.11 of this report, quarterly treasury management reports will be prepared as part of the budget monitoring reporting cycle. These will update on the approved indicators as required by the CIPFA Prudential Code 2021.

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.

Treasury Management Strategy for 2024-25

1.15. The suggested strategy for 2024-25 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).

1.16. The strategy for 2024-25 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

1.17. 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

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

1.19. 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.

1.20. 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.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2024-25 TO 2025-26

2.1. 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.

2.2. 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. The Committee is asked to approve the capital expenditure forecasts as proposed in the Capital Programme report considered elsewhere on the agenda for this meeting. Other long-term liabilities such as PFI (Private Finance Initiative) and leasing arrangements which already include borrowing instruments are excluded.

Proposed Capital Expenditure	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
	£m	£m	£m	£m
Estates	1.125	3.758	5.659	8.122
Fleet & Equipment	5.298	3.422	2.574	2.180
Total	6.423	7.180	8.233	10.302

2.3. 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	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.361	0.429	0.000	0.000
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	4.769	4.835	4.380	1.692
Revenue	0.010	0.534	2.050	2.050
Existing borrowing	1.283	1.382	1.803	0.000
New borrowing	0.000	0.000	0.000	6.560
Total	6.423	7.180	8.233	10.302

The Authority's Borrowing Need (Capital Financing Requirement)

2.4. 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.

2.5. 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.

2.6. The CFR includes any other long-term liabilities (e.g. Private Finance Initiative (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 £4.120m of such schemes within the CFR.

2.7. Please note the large increase in the other long-term liabilities from 2024-25 onwards is as a result of the implementation of a new International Finance Reporting Standard (16) which has changed the way we are required to treat and record leases.

2.8. The Committee is asked to recommend approval to the Authority of the CFR projections below as included in Appendix A of this report:

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	23.312	23.220	28.211
Other Long Term Liabilities	0.656	4.120	3.150	2.163
Total CFR	24.426	27.432	26.370	30.374
Movement in CFR	1.283	5.530	1.803	6.560
Less MRP	(1.911)	(2.525)	(2.865)	(2.556)
Net movement in CFR	(0.628)	3.005	(1.062)	4.004

Core funds and expected investment balances

2.9. 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	15.400	9.500	-1.918	-2.764
Capital receipts/ contributions	0.000	0.000	0.000	0.000
Other	17.104	18.486	20.288	27.391
Total core funds	32.504	27.986	18.370	24.627
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	33.504	28.986	19.370	25.627

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

Minimum Revenue Provision Strategy

2.10. 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).

2.11 The Department for Levelling-Up, Housing and Communities (DLUHC) 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. At the time of drafting the 2024/25 TMSS report, DLUHC had issued consultation on proposed changes to the current MRP regulations and Secretary of State MRP Guidance. The implementation date is planned for 1st April 2024, but the MRP Policy for the Authority is not expected to change significantly when it is introduced.

2.12 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.

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

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

The Asset Life Method

2.15 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.

2.16 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.

2.17 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.

2.18 A draft Minimum Revenue Provision statement for 2024-25 is attached as Appendix B for recommendation to the Authority for approval.

2.19 The financing of the approved 2024-25 capital programme and the resultant prudential indicators have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

2.20 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.

2.21 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 2024-25 to 2026-27 based on current commitments and the proposed Capital Programme are shown overleaf.

Financing costs as a % of net revenue	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
Annual cost	1.61%	3.02%	3.27%	3.17%

3. BORROWING

3.1. The capital expenditure plans set out in Section 2 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

3.2. The Authority's treasury portfolio position at 31 March 2023 and the current position are summarised below

TREASURY PORTFOLIO				
	actual **31.3.23**	actual **31.3.23**	current **31.12.23**	current **31.12.23**
Treasury investments	£000	%	£000	%
banks	22,000	76%	19,000	64%
building societies - unrated		0%		0%
building societies - rated		0%		0%
local authorities		0%		0%
DMADF (H.M.Treasury)		0%		0%
money market funds	7,050	24%	10,650	36%
certificates of deposit		0%		0%
Total managed in house	**29,050**	**100%**	**29,650**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**29,050**	**100%**	**29,650**	**100%**
Treasury external borrowing				
local authorities		0%		0%
PWLB	24,264	100%	24,217	100%
LOBOs		0%		0%
Total external borrowing	**24,264**	**100%**	**24,217**	**100%**

3.3. 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	23.313	23.219
Expected change in Debt	(0.493)	(0.458)	(0.093)	4.992
Other long-term liabilities (OLTL)	0.791	0.656	4.120	3.150
Expected change in OLTL	(0.135)	3.464	(0.969)	(0.988)
Actual gross debt at 31 March	24.427	27.432	26.369	30.374
CFR	24.426	27.432	26.370	30.374
Under/ Over borrowing	0.000	0.000	(0.000)	(0.000)

3.4. 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 2024-25 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.

3.5. 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

3.6. 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	24,871	24,413	31,904
Other Long Term Liabilities	791	4,620	4,620	3,650
Total	25,155	29,490	29,032	35,554

- **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 of 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.

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	26,037	25,574	33,315
Other Long Term Liabilities	823	4,825	4,777	3,758
Total	26,376	30,862	30,351	37,073

Prospects for interest rates

3.7. 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 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Borrowing strategy

3.8. As reported in the separate report on this agenda "Capital Programme 2024-25 to 2026-27", 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 2024-25.

3.9. This being the case there is no intention to take out any new borrowing during 2024-25 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

3.10. 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

3.11. 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.

3.12. 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.

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

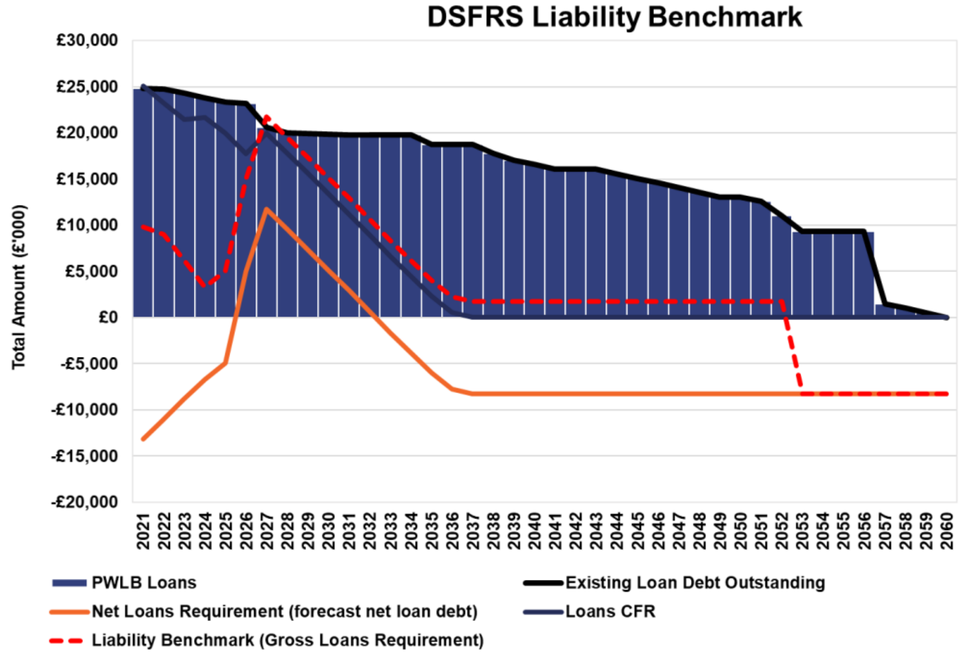
Liability Benchmark

3.14. 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.

3.15. 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:

- 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.
- 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.

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



4 ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1. 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.

4.2. 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.

4.3. 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.

4.4. 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

4.5. 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.

4.6. 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.

4.7. 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.

4.8. 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.

4.9. 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.

4.10. 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.

4.11. 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

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

4.13. **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-".

4.14. **IFRS9 Financial Instruments** 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 leases to which this accounting standard would apply.

Non-specified Investments

4.15. 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.

4.16. 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.

4.17. 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.

4.18. 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.

4.19. 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	

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

Investment Strategy

4.21. 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.

4.22. Investment returns: Bank Rates has seen much upward activity during the last 12 months rising from 4.0% in March 2023 to the current 5.25% however, the projection is for reductions in the rate during the later part of 2024. 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.

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

2024-25	4.55%
2025-26	3.10%
2026-27	3.00%
2027-28	3.25%
Later years	3.25%

4.24. **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	**2024-25**	**2025-26**	**2026-27**
Principal sums invested > 365 days	£5m	£5m	£5m

End of year investment report

4.25. 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; and
- 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 and Corporate Services/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; and
- Recommending the appointment of external service providers.

5. SUMMARY AND RECOMMENDATIONS

5.1. 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 2024-25 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

APPENDIX A TO REPORT RC/24/4

PRUDENTIAL INDICATORS

	2024/25	2025/26	2026/27	2027/28	2028/29
				INDICATIVE INDICATORS	
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure					
Non - HRA	7.180	8.233	10.302	6.780	3.520
HRA (applies only to housing authorities)					
Total	7.180	8.233	10.302	6.780	3.520
Ratio of financing costs to net revenue stream					
Non - HRA	3.02%	3.27%	3.17%	3.43%	3.00%
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	23,312	23,220	28,211	31,110	30,547
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	4,120	3,150	2,163	1,137	362
Total	27,432	26,370	30,374	32,247	30,909
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	3,005	(1,062)	4,004	1,873	(1,338)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	3,005	(1,062)	4,004	1,873	(1,338)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,037	25,574	33,315	34,427	33,805
Other long term liabilities	4,825	4,777	3,758	2,719	1,655
Total	30,862	30,351	37,073	37,146	35,460
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,871	24,413	31,904	32,871	32,278
Other long term liabilities	4,620	4,620	3,650	2,663	1,637
Total	29,490	29,032	35,554	35,534	33,915
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 2024/25		
Under 12 months	30%	2%
12 months and within 24 months	30%	11%
24 months and within 5 years	50%	3%
5 years and within 10 years	75%	5%
10 years and above	100%	79%

MINIMUM REVENUE STATEMENT 2024-25

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 2023 the total Voluntary Revenue Provision overpayments were £nil.

LINK TREASURY SOLUTIONS ECONOMIC REPORT

ECONOMICS UPDATE

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding rates at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

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

- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is

likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains the view that the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

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REPORT REFERENCE NO.	**RC/24/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2024**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2023-24 – QUARTER 3**
LEAD OFFICER	**Director of Finance & Corporate Service (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2023-24 (to December 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 RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Investments held as at 31 December 2023. B. A detailed look at how the economy faired during Quarter 3 of 2023/24
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;
- 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:

1.4 "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."

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

2. ECONOMICS UPDATE

2.1 The third quarter of 2023/24 saw:

- A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;

- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding rates at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

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

2.3 The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.

2.4 However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

2.5 The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

2.6 Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

2.7 Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

2.8 The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

2.9 The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

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2.11 The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

2.12 Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains the view that the Bank of England won't feel comfortable cutting interest rates until H2 2024.

2.13 The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.

2.14 Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

2.15 The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

MPC meetings 2 November and 14 December 2023

2.16 On 2 November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.

2.17 Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

2.18 In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

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 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 7 November sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

3.3 Our 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 Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	07.11.23												
	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	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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, both S&P and Fitch 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 3**
3 Month SONIA	5.19%	5.40%	£0.958m.

4.4 As illustrated above, the Authority outperformed the 3-month Sterling Overnight Index Average (SONIA) benchmark by 0.21bp. 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 £1.183m. However, we have noticed some downward movement with interest rates offered at the moment, so this forecast is likely to be revised.

Borrowing Strategy

(a). Prudential Indicators:

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 December 2023 and that there are no concerns that they will be breached during the financial year.

(b). 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 31 December 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 22.7 years.

(c). Loan Rescheduling

4.8 No debt rescheduling was undertaken during the quarter. Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt.

(d). New Borrowing

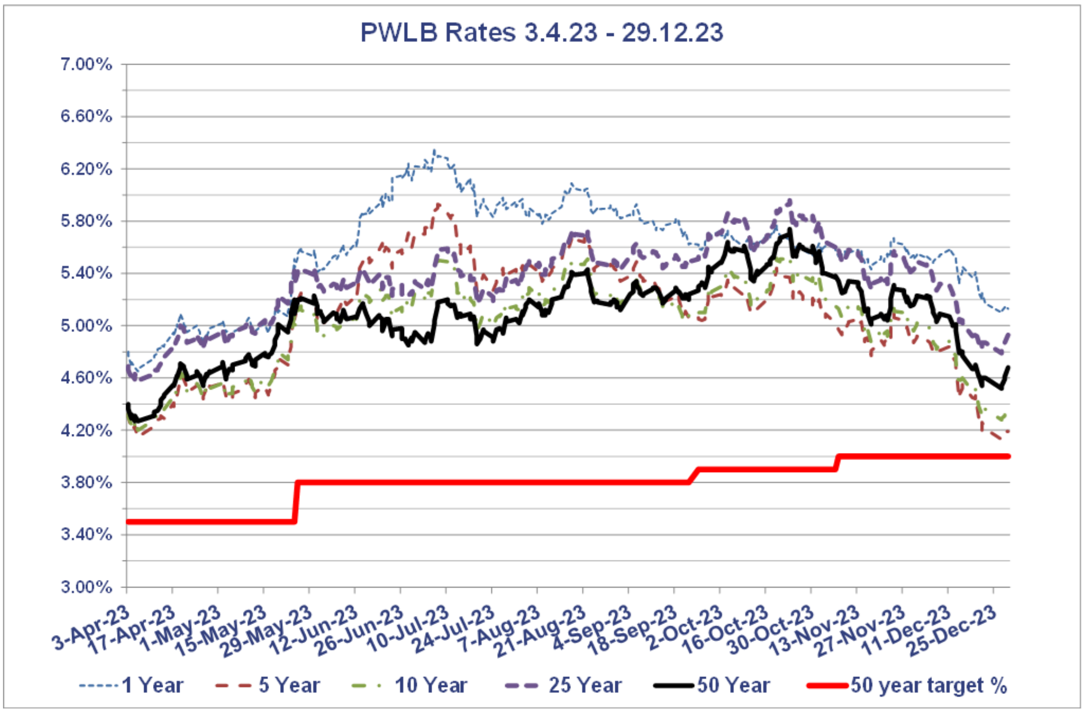
4.9 Gilt yields and PWLB rates were on a rising trend from April through to October but dropped back significantly in November and December.

4.10 The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.50% (the lowest forecast rate within a two-year time horizon), increasing to a peak of 4.00% in November. With rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable. (Please also note that from 15th June, HRA borrowing is 0.4% lower than the Certainty Rate.)

PWLB rates 2023/24 financial year to date (period ending 31 December 2023)

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

4.11 Borrowing rates for this quarter are shown below.



(e). Borrowing in Advance of Need

4.12 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 December 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)

Investments as at 31 December 2023						
Counterparty	Maximum to be invested	Amount Invested	Maturity Date	Call or Term	Period invested	Interest rate(s)
	£m	£m				
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%
Aberdeen City Council	7.000	-5.000	21/11/2024	T	12 mths	5.60%
Barclays Bank	8.000	-0.150		C	Instant Access	Variable
Aberdeen Standard	8.000	-2.610		C	Instant Access	Variable
Black Rock	8.000	-7.890		C	Instant Access	Variable
Total Amount Invested		**-29.650**				

A detailed update on the economy for Quarter 3 2023/24

- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%.

Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains the view that the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.

- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

MPC meetings 2 November and 14 December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

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REPORT REFERENCE NO.	**RC/24/6**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2024**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2023-24 – QUARTER 3**
LEAD OFFICER	**Director of Finance & 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 third 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 £1.621m less than budget, an underspend of 1.9% of total budget.
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 third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 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 3	**Previous Quarter**	**Quarter 1%**	**Previous Quarter %**
	Revenue Targets					
1	Spending within agreed revenue budget	£85.413m	£83.548m	£84.596m	(1.90%)	(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	£6.423m	£9.126m	(50.9%)	(30.26%)
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 9 £'000	Projected Outturn £'000	Projected Variance over/ (under) £'000	Projected Variance over/ (under) %
	Employee Costs						
1	Wholetime	36,700	27,479	26,291	35,701	(999)	-2.7%
2	On-Call	21,410	15,632	13,720	21,161	(249)	-1.2%
3	Fire Control	1,675	1,252	1,252	1,684	10	0.6%
4	Professional & Technical	16,742	12,550	11,662	15,770	(972)	-5.8%
5	Training	753	565	747	706	(47)	-6.2%
6	Fire Service Pension costs	2,480	2,045	1,641	2,589	109	4.4%
		79,760	**59,523**	**55,312**	**77,612**	**(2,148)**	
	Premises						
7	Repair and maintenance	1,133	850	814	1,087	(46)	-4.1%
8	Energy costs	1,104	739	521	1,082	(22)	-2.0%
9	Cleaning costs	626	470	529	628	2	0.2%
10	Rent and rates	2,082	1,834	1,976	2,044	(38)	-1.8%
		4,945	**3,892**	**3,840**	**4,840**	**(104)**	
	Transport						
11	Repair and maintenance	713	535	507	672	(41)	-5.8%
12	Running costs and insurances	1,597	1,242	1,279	1,298	(299)	-18.7%
13	Travel and subsistence	1,528	1,048	938	1,237	(291)	-19.1%
		3,838	**2,825**	**2,725**	**3,207**	**(632)**	
	Supplies & Services						
14	Equipment and furniture	3,697	2,773	2,712	3,873	176	4.7%
15	Hydrants-installation and maintenance	196	147	164	240	44	22.7%
16	Communications Equipment	2,716	2,037	2,485	2,616	(100)	-3.7%
17	Protective Clothing	605	454	297	523	(82)	-13.5%
18	External Fees and Services	125	94	225	271	146	117.4%
19	Partnerships & regional collaborative projects	310	232	166	324	14	4.6%
20	Catering	24	18	16	22	(2)	-8.1%
		7,672	**5,754**	**6,065**	**7,869**	**197**	
	Establishment Costs						
21	Printing, stationery and office expenses	247	201	205	252	5	2.2%
22	Advertising including Community Safety	31	23	9	22	(9)	-29.4%
23	Insurances	504	503	814	509	5	1.0%
		781	**727**	**1,029**	**782**	**1**	
	Payments to Other Authorities						
24	Support service contracts	1,091	783	577	971	(119)	-10.9%
		1,091	**783**	**577**	**971**	**(119)**	
	Capital Financing						
25	Loan Charges & Lease rentals	3,140	515	625	3,139	(1)	0.0%
26	Revenue Contribution to Capital Spending	50	-	-	10	(40)	-80.0%
		3,190	**515**	**625**	**3,149**	**(41)**	
	Income						
28	Investment Income	(525)	(394)	(959)	(1,709)	(1,184)	225.5%
29	Grants and reimbursements	(11,671)	(8,753)	(11,206)	(12,163)	(492)	4.2%
30	Other income	(731)	(548)	(484)	(852)	(121)	16.6%
		(12,927)	**(9,695)**	**(12,648)**	**(14,724)**	**(1,797)**	
	Reserves						
32	Transfer to/(from) Earmarked Reserves	(2,937)	(2,203)	85	(159)	3,022	-102.9%
		(2,937)	**(2,203)**	**85**	**(159)**	**3,022**	
	NET SPENDING	**85,413**	**62,121**	**57,609**	**83,548**	**(1,621)**	-1.9%

2.2. This table indicates that spending by the year end is forecast to be £83.548m, representing a predicted underspend of £1.621m, equivalent to 1.90% of the total budget. It should be noted that 'Spending to month 9' 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 December 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 £0.999m – 2.7% of budget.

2.5. A number of vacancies, within the Service has resulted in this 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 £0.637m this year.

Professional & Technical pay: underspend of £0.972m – 5.8% of budget.

2.6. Multiple 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	(0.063)
Chief Fire Officer Portfolio	(0.069)
Corporate Services Portfolio	(0.133)
Service Delivery Portfolio	(0.310)
Service Delivery Support Portfolio	(0.366)
Other	(0.031)
Total	(0.972)

Training: underspend of £0.047m – 6.2% of budget

2.7. Difficulties in recruiting suitable staff within Protection has delayed the planned training. This has resulted in a £0.063m underspend. Minor variances across multiple budget heads account for the balance.

Fire Service Pension Costs: overspend of £0.109m – 4.4% of budget.

2.8. An unbudgeted increase in costs associated with injury benefits of £0.086m is the major contributor to this overspend position.

Repair and Maintenance (transport): underspend of £0.041m – 5.8% of budget.

2.9. A delay in the fit-out of officer response cars (due to a delay in delivery) has resulted in a forecasted underspend of £0.060m against this line. The balance is made up of minor variations in spend across multiple spend categories.

Transport running Costs and Insurance: underspend of £0.299m – 18.7% of budget.

2.10. There is a large underspend associated with the reduction in wholesale vehicle fuel prices. This is currently forecasting an underspend of £0.267m.

Travel and Subsistence: £0.291m underspend – 19.1% of budget.

2.11. The largest underspend is on lease car rental of £0.245m due to a delay in the delivery of 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 £0.035m is expected.

Hydrants – installation and maintenance: overspend of £0.044m – 22.7% of budget.

2.12. 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 £0.082m – 13.5% of budget.

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

External Fees and Services: overspend of £0.146m – 117.4% of budget.

2.14. Costs incurred in relation to a grant bid submitted relating to the Low Carbon Skills Fund of £0.098m have resulted in this overspend. These costs are match-funded by a grant (net-nil) which is found within row 29 of the report.

Catering: Underspend of £0.002m – 8.1% of budget.

2.15 A very small variance in meal provision from within the Academy has led to this modest underspend.

Advertising including Community Safety: underspend of £0.009m – 29.4% of budget.

2.15. An underspend of £0.009m on recruitment advertising is the reason for this forecasted underspend position.

Support Service Contracts: £0.119m underspend – 10.9% of budget

2.16. 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 £0.146m. This is off-set in an overspend on legal fees of £0.023m

Revenue Contribution to Capital Spending: underspend of £0.010m – 80.0% of budget.

2.17. 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: £1.184m over-recovery – 225.5% of budget

2.18. The expectation when the budget was set was for interest rates to fall during Q3 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 resulted in the returns on investments being much healthier than anticipated. Coupled with this is the delay in the Capital programme, this means the Authority have more cash available to invest. More detail can be found within the Treasury Management paper elsewhere within the agenda.

Other income: over-recovery of £0.121m – 16.6% of budget.

2.19. Co-responding income is anticipated to over-recover by £0.109m, due to greater activity, which has resulted in the majority of this forecasted is over-recovery.

Transfer to/(from) Earmarked Reserves: £3.022m under budget – 100.00% of budget

2.20. Members will remember that at the budget setting meeting for the Authority held on the 15 February 2023, 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.(Ref DSFRA/22/31)

2.21. 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.

3.3 There will be a proposal at the 2023-24 year-end to return the £2.8m used to cover the additional costs associated with the pay awards back into the Capital Reserve as it hasn't been required. Table 3 reflects that proposed return.

Provisions

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

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

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

TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES

RESERVES AND PROVISIONS						
RESERVES	Balance as at 1 April 2023 £'000	Approved Transfers £'000	Proposed Transfers £'000	Spending Month 9 £'000	Forecast Outturn 2023/24 £'000	Forecasted Balance as at 31 March 2024 £'000
Earmarked reserves						
Grants unapplied from previous years	(1,137)	-	-	103	754	(383)
Invest to Improve	(1,878)	(85)		850	1,513	(451)
Budget Smoothing Reserve	(666)	-	-	-	-	(666)
Direct Funding to Capital	(15,424)	2,800	(2,800)	(10)	4,592	(10,832)
Projects, risks, & budget carry forwards	-	-	-	-	-	-
PFI Equalisation	(50)	-	-	-	-	(50)
Emergency Services Mobile Communications Programme	(1,050)	-	-	-	-	(1,050)
Mobile Data Terminals Replacement	(145)	-	-	-	-	(145)
Pension Liability reserve	(1,218)	-	-	-	150	(1,068)
Budget Carry Forwards	(890)	-	-	468	776	(114)
Environmental Strategy	(243)	-	-	112	112	(131)
Uncategorised	-	-	-	-	-	-
MTA Action Plan	(76)	-	-	-	-	(76)
Total earmarked reserves	**(22,777)**	**2,715**	**(2,800)**	**1,522**	**7,897**	**(14,966)**
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**	**(2,800)**	**1,522**	**7,897**	**(19,246)**
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 provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

4.2. At the end of Quarter 3, we are forecasting to underspend of £6.639m – which includes an optimism bias built in to allow for some timing differences. Timing differences (slippage into next year) are forecast to be £6.639m of which notable items are; £1.834m relates to the rebuild of Camels Head Fire Station and £0.970m relates to Paignton Fire Station refurbishment. The delivery of the Aerial Ladder Platform's has been delayed until Q2 and Q3 2024 which accounts for £0.510m with the new Medium Rescue Pumps (MRP) and All-Wheeled Drive MRP's which delayed until Q2/3 2024 which accounts for £1.412m.

4.3 The sale of Redwoods at Service Headquarters completed late December 2023, therefore the capital receipt is included within table 4 below:

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	85	(48)	(1,834)	0
Improvements & structural maintenance	5,009	1,040	402	(3,962)	(7)
Estates Sub Total	**6,928**	**1,125**	**354**	**(5,796)**	**(7)**
Fleet & Equipment					
Appliance replacement	4,522	3,150	1,145	(1,388)	16
Specialist Operational Vehicles	2,266	1,913	1,795	(335)	(18)
ICT Department	570	235	235	(320)	(15)
Fleet & Equipment Sub Total	**7,358**	**5,298**	**3,175**	**(2,043)**	**(17)**
Optimism bias	(1,200)		0	1,200	0
Overall Capital Totals	**13,086**	**6,423**	**3,529**	**(6,639)**	**(24)**
Programme funding					
Earmarked Reserves:					
Earmarked Reserves:	11,753	4,769	0	(6,639)	(24)
Revenue funds:	50	10	0	0	0
Capital Receipt	0	361	361	0	0
Borrowing - internal	1,283	1,283	0	0	0
Total Funding	**13,086**	**6,423**	**0**	**(6,639)**	**(24)**

Prudential Indicators (including Treasury Management)

4.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 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.

4.5 Investment returns in the quarter yielded an average return of 5.40% which outperforms the SONIA 3 Month return (industry benchmark) by 0.21bp. It is forecast that investment returns from short-term deposits will overachieve the budgeted figure by £1.183m at 31 March 2024.

4.6 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 3 were £0.294m table 5 below provides a summary of all debt outstanding as at 31 December 2023.

5.2. Of this figure an amount of £0.272m was due from debtors relating to invoices that are more than 85 days old, equating to 93% of the total debt outstanding.

TABLE 5 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	6,759	2.3%
29-56 days	14,772	5.0%
57-84 days	0.00	0.0%
Over 85 days	272,298	92.7%
Total Debt Outstanding as at 30 December 2023	**293,829**	**100.00%**

5.3. Table 6 below 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.

Others.	9	£62,339	Invoices relating to officers seconded to the NFCC (0.049m) and to the Avon & Somerset PCC £0.013m) relating to rental at a shared station account for the majority of this amount. We are in dialogue with them about payment.

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. An update was presented to the Fire Authority on the 11 December 2023 where 4 initiatives were discussed:

- A change to the Whole Time duty System (Annualised Hours) which is estimated would save £1.3m.
- Changes to the operating model for specialist rescue – estimated saving of £0.133m
- Amendments to the Pay for Availability remuneration agreement which is estimated to save £0.250m, and
- Amendments to the policy and practice for dealing with unwanted fore signals – estimated saving of £0.069m

6.4. Table 7 overleaf identifies the current position with regards to assumptions made regarding both funding and expenditure. Please note, at the time of writing this paper, the national non-domestic rates data hasn't been received (highlighted in yellow as it's an estimate at this stage) from the District/Unitary Councils so the figures will change. The initiatives listed above in paragraphs 6.3.have enabled the Authority to present a neutral position for 2024-25.

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

2. FINANCIAL PLANNING MODELLING	2024/25	2025/26	2026/27
CORE REVENUE BUDGET	£92,910,000	£100,069,206	£104,620,149
REVENUE SUPPORT GRANT	£11,679,714	£11,901,628	£12,127,759
TARRIF TOP-UP	£11,324,047	£11,550,528	£11,781,538
NNDR	5,555,936	£5,667,055	£5,780,396
COUNCIL TAX BASE	636,966	647,157	657,512
ANTICPATED INCREASE IN CT INCOME RESULTING FROM SECOND HOMES		£1,407,110	£1,407,110
COUNCIL TAX COLLECTION FUND SURPLUS	£855,991	£864,551	£873,196
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)	-	(4,297,124)	(5,884,731)

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.

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	**6.423**	**13.086**	**(6.663)**
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	**1.709**	**0.525**	**(1.184)**
	Actual (31 December 2023) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**5.40%**	**5.19%**	**(0.21)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**

REPORT REFERENCE NO.	**RC/24/7**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**05 FEBRUARY 2024**
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 27 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 in November 2023. The key highlights are that: • One Area for Improvement, HMI-2.2-202206b (Estates Strategy) is currently marked as 'In Progress – Off Track'. This is due to the following factors: - The Estates strategy has been shared with directorate leads and feedback has been received. The comments are currently being reviewed and any changes made as a result. The strategy will then be issued to the wider service leadership team before publication.
RESOURCE IMPLICATIONS	Considered within the Action Plan where appropriate.
EQUALITY RISKS AND BENEFITS ANALYSIS	Considered within the Action Plan where appropriate.
APPENDICES	None
BACKGROUND PAPERS	None

1. INTRODUCTION

1.1. On Wednesday 27 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

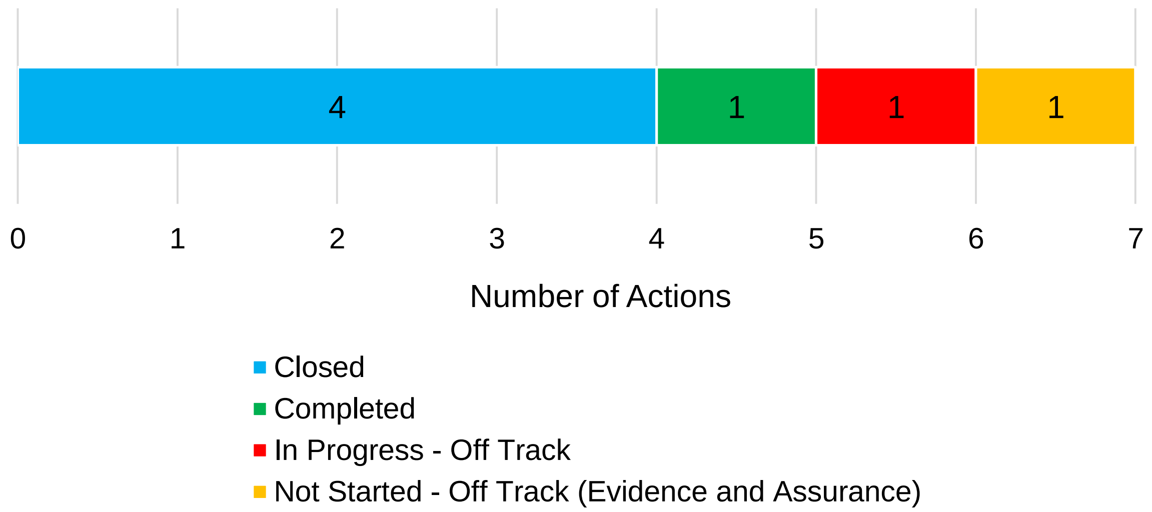
2.1 Table 1 lists the Areas For Improvement linked to the Resources Committee and their individual implementation status.

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 – Off 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 - February 2024



2.3 Table 2 below outlines the completion status of all actions designed to address the Areas for Improvement linked to the Resources Committee.

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
0 * (↓ from 1)	1 (↑ from 0)	0 (↓ from 1)	1 (↑ from 0)	1 (→ at 1)	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.

3. IMPROVEMENT AREAS WHICH ARE 'OFF-TRACK'

3.1. Table 3 below outlines one area for improvement which is currently marked as 'In Progress – Off Track'.

Table 3:

Improvement Area	**Status**
HMI-2.2-202206b – Estates Strategy	In Progress – Off Track
Factors impacting delivery	
The Estates strategy has been shared with directorate leads and feedback has been received. The comments are currently being reviewed and any changes made as a result. The strategy will then be issued to the wider service leadership team before publication.	

GAVIN ELLIS
Chief Fire Officer

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