DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

S.J. Sharman
CLERK TO THE AUTHORITY

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

(see below)

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Your ref :		Date :	30 April 2024	Telephone :	01392 872200
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Thursday, 9 May, 2024

A meeting of the Resources Committee will be held on the above date, **commencing at 2.00 pm 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 - 8)**

of the previous meeting held on 5 February 2024 attached.

3 **Items Requiring Urgent Attention**

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

PART 1 - OPEN COMMITTEE

4 **Treasury Management Performance 2023-24: Quarter 4 & Annual Report 2023-24 (Pages 9 - 20)**

Report of the Head of Finance (Treasurer) (RC/24/9) attached.

5 **Provisional Financial Outturn 2023-24 (Pages 21 - 36)**

Report of the Head of Finance (Treasurer) (RC/24/10) attached.

6 **Revision to Capital Programme 2024-25 to 2026-27 (Pages 37 - 42)**

Report of the Head of Finance (Treasurer) (RC/24/11) attached.

7 **Reserves Strategy 2024-25 (Pages 43 - 52)**

Report of the Head of Finance (Treasurer) (RC/24/12) attached.

8 **His Majesty's Inspectorate of Constabulary & Fire & Rescue Services Areas for Improvement Action Plan Update (Pages 53 - 54)**

Report of the Chief Fire Officer (RC/24/13) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:

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

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.

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

5 February 2024

Present:

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

Apologies:

Councillor Slade

In attendance:

Councillor Cook-Woodman (in person), Biederman, Kendall and Randall Johnson`(via Teams)

* **RC/23/14** **Minutes**

RESOLVED that the Minutes of the meeting held on 22 November 2023 be signed as a correct record.

RC/23/15 **2024-25 Revenue Budget and Council Tax Levels**

The Committee considered a joint report of the Director of Finance & Corporate Services (Treasurer) and the Chief Fire Officer (RC/24/1) on the draft 2024-25 revenue budget and associated Council Tax levels.

Two options were presented in the report circulated, namely:

- Option A: that the level of council tax in 2023-24 for a Band D property be set at £96.79, as outlined in Option A, representing no increase over 2023-24and representing a Net Revenue Budget Requirement for 2024-25 of £91,067,600 (£91.067m); or
- Option B: that the level of council tax in 2024-25 for a Band D property be set at £99.68, as outlined in Option B, representing a 2.99% increase over 2023-24 and representing a Net Revenue Budget Requirement for 2024-25 of £92,908,400 (£92.408m).

A one-year Local Government Finance Settlement had been announced on 18 December 2023. This indicated a Settlement Funding Assessment for the Authority of £28.843m for 2024-25, a 21.09% increase on the settlement for 2023-24 but representing a -0.27% decrease on the settlement for 2015-16.

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 which is 2.99%. The Authority had also received a £0.575m share of the Rural Services Delivery Grant for 2024-25together with £0.100m Section 31 grant funding to reduce the impact of the increase in social costs. These sums were included as income in the proposed revenue budget.

The Treasurer gave an update at the meeting on the Net Budget Requirement given that the Authority had now received the final returns on the National Non-Domestic Rates (NNDR) from billing authorities. The final funding settlement had not been confirmed yet, however, which may result in a change to the Net Budget Requirement set out above. The updated figures would be submitted to the Authority at its meeting on 16 February 2024.

The Committee was advised that, should budget option A be selected, then the net spending requirement exceeded available funding by £1.357m. This shortfall could be met by a transfer from reserves in the short-term while a plan to implement spending reductions across all Service areas was developed. Option B, however, would not require any contribution from reserves.

The Medium-Term Financial Plan identified a requirement for further savings beyond 2024-25 to ensure that balanced budgets could be set in each year of the Spending Review period.

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

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

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

- 64% of businesses agreed that it was 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%.
- 74% of residents agreed that it was reasonable for the Authority to consider increasing its Council Tax charge for 2024-25, while 13% disagreed, giving a net agreement of +61%.

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

Additionally, the consultation results indicated that:

- 52% of businesses and 58% of residents considered the Service provided good value for money; and
- 68% of businesses and 69% of residents were either very or fairly satisfied with the service provided.

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

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

RESOLVED that the Authority be recommended:

(a). to set the level of Council Tax in 2024-25 for a Band D property at £99.68, as outlined above, 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 this:

- (i). the tax base for payment purposes and the precept required from each billing authority for payment of a total precept of £60,798,019, as set out in the revised figures above (Option B) be approved;
- (ii). the council tax for each of the property bands A to H associated with the total precept as detailed in the budget booklet be approved; and

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

RC/23/16 **Capital Strategy**

The Committee considered a report of the Director of Finance & Corporate Services (Treasurer) (RC/24/2) setting out a proposed capital strategy for the Authority, as required by the Chartered Institute of Public Finance and Accountancy Prudential Code.

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

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

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

(See also Minutes RC/23/15 above and RC/23/17 below).

RC/23/17 **Capital Programme 2024-25 to 2026-27**

The Committee considered a report of the Director of Finance & Corporate Services (Treasurer) (RC/24/3) on the proposed draft Capital Programme 2024-25 to 2026-27 and associated Prudential Indicators.

The proposed programme and funding increased the external borrowing requirement from the current level of £23.8m to £28.2m by 2026-27 with the debt ratio of financing costs to the net revenue scheme, a key Prudential Indicator, remaining below the 5% maximum limit previously approved by the Authority throughout the period of the programme.

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

There remained considerable difficulties in meeting the full capital expenditure needs for the Service and in maintaining the 5% debt ratio limit. The proposed capital programme had been constructed on the basis that revenue budget contribution to capital would be maintained in future years but this may not be possible. Unless capital assets were further rationalised, however, there would be a need for external borrowing in 2027-28. Decisions on further spending would be subject to annual review based on the financial position of the Authority.

RESOLVED

(a). that the Authority be recommended to approve the draft Capital Programme 2024-25 to 2026-27 and associated Prudential Indicators as detailed in report RC/24/3; and

(b). that, subject to (a) above, the forecast impact of the proposed Capital Programme (from 2027-28) on the 5% debt ratio Prudential Indicator, as indicated in this report, be noted.

(See also Minutes RC/23/16 above and RC/23/18 below)

RC/23/18 **Treasury Management Strategy (Including Prudential and Treasury Indicators report 2024-25 to 2026-27)**

The Committee considered a report of the Director of Finance & Corporate Services (Treasurer) (RC/24/4) detailing:

- the proposed Treasury Management Strategy (including Prudential Indicators) and investment strategy for 2024-25;
- Prudential Indicators associated with the proposed Capital Programme 2024-25 to 2026-27;
- a Minimum Revenue Provision Statement 2024-25; and
- certification that none of the Authority's spending plans would include the acquisition of assets primarily for yield.

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

RESOLVED that the Authority be recommended to approve:

(a). the Treasury Management Strategy and Annual Investment Strategy 2024-25 as set out in report RC/24/4; and

(b). the Minimum Revenue Provision Statement 2024-25 as appended to the report.

(See also Minute RC/24/17 above).

*** RC/23/19** **Treasury Management Performance 2023-24: Quarter 3**

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/24/5) that set out the Authority's performance relating to the third quarter of 2023-24 (to December 2023) in accordance with the Treasury Management in Public Service Code of Practice (published by the Chartered Institute of Public Finance and Accountancy {CIPFA}) and the CIPFA Prudential Code. The report set out how this Authority was demonstrating best practice in accordance with these Codes.

During consideration of this item, the following key points were noted:

- The United Kingdon (UK) economy had seen a 0.3% decline in real Gross Domestics product (GDP) in October 2023 potentially due to the wet weather and also the drag form higher interest rates together with a sharp fall in wage growth from 8.0% in September 2023 to 7.2% in October 2023;
- Consumer Price Inflation (CPI) continued on its downward trajectory from 8.7% in April 2023 to 4.6% in October 2023 then again to 3.9% in November 2023;
- interest rates had remained unchanged with the bank of England keeping the base rate at 5.25%;
- the Authority had benefitted from the recent rises in interest rates with an increased return on investments at a yield of 5.40% against the 3-month SONIA benchmark return of 5.19% for quarter 3 of 2023-24 was (£0.958m). The forecast return on investment at year end was now £1.183m;
- 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 December 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.

*** RC/23/20 Financial Performance Report 2023-24: Quarter 3**

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (RC/24/6) that provided the Committee with details of the third quarter performance (to December 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 £1.621m less than the budget of £85.413 at £83.548m representing an underspend of 1.90% of total budget. He reiterated 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 £0.999m due largely to a number of vacancies being held within the Service pending a review of shift patterns;
- Professional and Technical staff – underspend of £0.972m due largely to multiple vacancies being held albeit that it was acknowledged that there were key posts that needed to be filled in some areas in due course;
- Fire Service pension Costs – overspend of £0.109m associated with ill health retirements;
- Transport running costs and insurance – underspend of £0.299m due largely to the reduction in wholesale fuel prices; and
- Investment income – over recovery of £1.184m - 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 expressed its thanks to the Treasurer and staff for the excellent work undertaken in moving the financial performance to this position.

*** RC/23/21 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/24/7) 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. The Committee noted that the completion date for this AFI was 31 January 2024 which had passed now and asked that a revised completion date in two weeks’ time be instigated in respect of completion of this work.

*** RC/23/22** **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/23/23** **Red One Ltd. Financial Performance 2023-24: Quarter 3**

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/24/8) setting out the financial performance of Red One Ltd. in quarter 3 of the 2023-24 financial year.

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

The Meeting started at 10.00 am and finished at 2.27 am

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REPORT REFERENCE NO.	**RC/24/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 MAY 2024**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2023-24: QUARTER 4 & ANNUAL REPORT 2023-24**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2023-24 including the fourth quarter, as set out in this report, be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted. The report includes a performance report relating to the final quarter of the 2023-24 financial year and a summary of annual performance.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISK AND BENEFIT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Prudential indicators 2023-24 B. Glossary of Terms
BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 16 February 2024 – Agenda item DSFRAC/24/5 refers.

1. INTRODUCTION

1.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). The Authority fully complies with the primary requirements of the Code, which 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 Authority of an annual strategy report for the year ahead, a mid-year treasury update report and an annual review report of the previous year.
- 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.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.
- Minimum reporting requirements, in addition, the Resources Committee has received quarterly treasury management update reports.

1.2. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

1.3. The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resources Committee before they were reported to the full Authority. The Committee has been supported in their scrutiny role through regular updates and the attendance at Committee meetings by the Authority's Treasury Management advisors, Link Market Services.

1.4. A glossary of terms and acronyms used is provided at Appendix B of this report

2. OVERALL TREASURY POSITION AS AT 31 MARCH 2024

2.1. The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

2.2. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

2.3. At the end of 2023-24, the Authority's treasury management position was as follows:

SUMMARY	31st March 2023 Principal	Rate/ Return	31st March 2024 Principal	Rate/ Return
Total Debt - PWLB (All fixed rate funding) -Other Long-Term Liabilities Total	*£24.264m* *£0.790m* *£25.055m*	*4.25%*	*£23.771m* *£0.656m* *£24.426m*	*4.25%*
CFR	*£25.055m*		*£24.426m*	
Over/(under) borrowing	*£0.000m*		*£0.000m*	
Total Investments	*£29.050m*	*4.15%*	*£22.470m*	*5.74%*
NET DEBT	***£(3.995)m***		***£1.956m***	

2.4. The maturity structure of the debt portfolio was as follows:

	31 March 2023 actual	2023-24 original limits	31 March 2024 actual
Under 12 months	£0.493m	30% = £7.328m	£0.093m
12 months and within 24 months	£0.458m	30% = £7.328m	£2.593m
24 months and within 5 years	£3.280m	50% = £12.213	£0.767m
5 years and within 10 years	£0.274m	75% = £16.852m	£1.100m
Over 10 years	£19.758m	100% = £24.470m	£18.758m

3. STRATEGY FOR 2023-24

3.1. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

3.2. Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.

3.3. The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

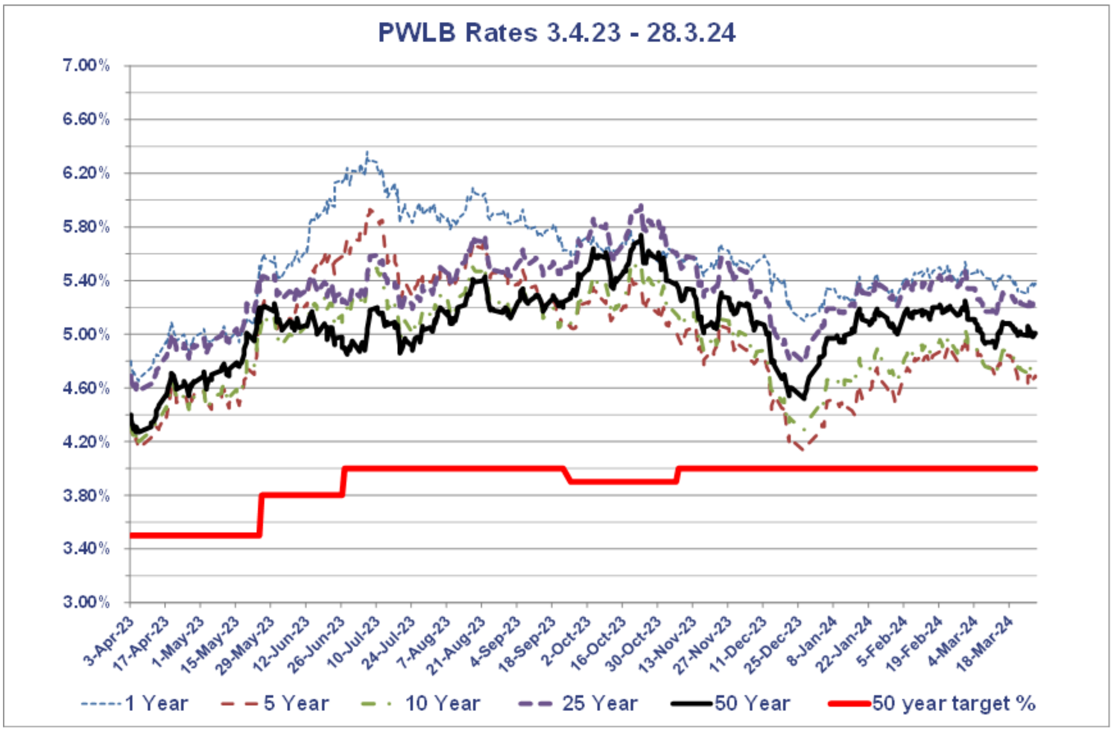
3.4. With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

3.5. While the Authority has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

4. BORROWING

Public Works Loan Board (PWLB) borrowing rates 2023-24

4.1. The graphs and tables for PWLB rates overleaf show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



HIGH/LOW/AVERAGE PWLB Rates for 2023-24

	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	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

5. DSFRA BORROWING STRATEGY

Prudential Indicators

5.1. 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 Treasury Management Strategy.

5.2. During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

Authority borrowing during and at the end of 2023-24

5.3. No new borrowing was taken out in 2023-24 to support capital spending and therefore, because repayments of £0.493m loan principal have been made in year, the value of loans outstanding has decreased to £23.771m by 31 March 2024. A summary of the loan (debt) position of the Authority is given in the table below. All existing borrowing has been taken out at Fixed Interest Rates.

5.4. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022-23) plus the estimates of any additional capital financing requirement for the current (2023-24) or the following financial year. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2023-24.

5.5. It is noted that the external borrowing figure of £25.055m as 31 March 2024 is the same as the Capital Financing Requirement (CFR), which means that there is no over-borrowing position at the year-end. The Authority has complied with this prudential indicator. The table below demonstrates how the CFR is calculated and shows the CFR for 2023-24.

Capital Financing Requirement (£m)	31 March 2023 Actual	31 March 2024 Budget	31 March 2024 Actual
Opening balance	25.665	25.055	25.055
Add borrowing applied in year	1.365	1.283	1.283
Less MRP/VRP*	1.859	1.777	1.777
Less PFI & finance lease repayments	0.117	0.135	0.135
Closing balance	25.055	24.426	24.426

5.6. No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of loan movements during 2023-24	**Amount £m**
Value of loans outstanding as at 1/4/2023	**24.264**
Loans taken during 2023-24	0.00
Loans repaid upon maturity during year	(0.493)
Loans rescheduled during year	0.00
Total value of loans outstanding as at 31/3/2024	**23.771**

6. INVESTMENTS

Authority Investment Strategy

6.1. The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

6.2. The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. 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 highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Authority Investments during and at the end of 2023-24

6.3. No institutions in which investments were made during 2023-24 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.4. A full list of investments held as at 31 March 2024 are shown in the table below:

Investments as at 31 March 2024						
Counterparty	Maximum to be invested	Amount Invested	Maturity Date	Call or Term	Period invested	Interest rate(s)
	£m	£m				
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%
SMBC	7.000	-2.000	08/04/2024	T	3 mths	5.33%
Lloyds	7.000	-2.000	05/07/2024	T	6 mths	5.35%
Spelthorne Borough Council	7.000	-5.000	30/04/2024	T	1 mth	7.50%
Barclays Bank	8.000	-0.150		C	Instant Access	Variable
Aberdeen Standard	8.000	-0.110		C	Instant Access	Variable
Black Rock	8.000	-3.210		C	Instant Access	Variable
Total Amount Invested		-22.470				

6.5. Funds available for investment are on a temporary basis, the level of which are dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

6.6. The benchmark used to gauge performance of the investments is the Sterling Overnight Index Average (SONIA). SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Benchmark – 3 month SONIA	Average level of funds available for Investment £m	Benchmark Return	Authority Performance	Investment Interest Earned £m
Quarter 1	32.976	4.38%	4.87%	£0.028m
Quarter 2	39.607	5.09%	5.15%	£0.429m
Quarter 3	35.952	5.19%	5.40%	£0.958m
Quarter 4	29.838	5.19%	5.74%	£0.356m
2023-24	**34.593**	**4.96%**	**5.29%**	**£1.771m**

6.7. The amount of investment income earned of £1.771m has beaten the target by £1.246m as a result of a very buoyant investment market.

7. SUMMARY

7.1. In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2023-24. 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 during the year, with priority being given to liquidity and security over yield.

7.2. Continued uncertainty in the aftermath of the 2008 financial crisis and high inflationary pressures with rising bank base rates have seen relatively high returns compared to borrowing rates. Even so, the Authority is able to report that its returns are above the SONIA 3 month rate, the benchmark return for this type of short term investments.

ANDREW FURBEAR
Head of Finance (Treasurer)

APPENDIX A TO REPORT RC/24/9

PRUDENTIAL INDICATOR	2022-23 £m actual	2023-24 £m approved	2023-24 £m Actual
Capital Expenditure			
TOTAL	8.254	13.086	5.977
Ratio of financing costs to net revenue stream			
Non – HRA	2.9%	2.92%	1.39%
Capital Financing Requirement as at 31 March (borrowing only)			
TOTAL	20.055	24.426	24.426
Annual change in Cap. Financing Requirement			
TOTAL	(0.610)	(0.628)	(0.628)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	**£m**	**£m**
Authorised Limit for external debt -			
Borrowing	26.071	25.553	
other long term liabilities	0.947	0.823	
TOTAL	27.018	26.376	
Operational Boundary for external debt -			
Borrowing	24.857	24.364	
other long term liabilities	0.907	0.791	
TOTAL	25.765	25.155	
Actual external debt	24.264	23.771	

	Actual 31st March 2023	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	100%	70%
Limits on borrowing at variable interest rates	0%	30%	0%
Maturity structure of fixed rate borrowing during 2023-24			
Under 12 months	2.00%	30%	0%
12 months and within 24 months	2.00%	30%	0%
24 months and within 5 years	14.00%	50%	0%
5 years and within 10 years	1.00%	75%	0%
10 years and above	81.00%	100%	50%

APPENDIX B TO REPORT RC/24/9

ABBREVIATIONS USED IN THIS REPORT

This is a list of abbreviations and definitions used within the report for reference.

ALMO: an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.

LAS: Link Asset Services, Treasury solutions – the Authority's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the Authority's annual underlying borrowing need to finance capital expenditure and a measure of the Authority's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MHCLG: the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target.

Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: Sterling Overnight Index Average is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full Authority before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

REPORT REFERENCE NO.	**RC/24/10**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 MAY 2024**
SUBJECT OF REPORT	**PROVISIONAL FINANCIAL OUTTURN 2023-24**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***(a) That the Authority be recommended to approve that, of the provisional underspend against the 2023-24 revenue budget, £2.356m be transferred to the Revenue Contribution to Capital reserve and an element transferred to the General Reserve to ensure it is within 5% of the revenue budget for 2023-24.*** ***(b) That, subject to (a) above, the following be noted:*** ***(i) The draft position in respect of the 2023-24 Revenue and Capital Outturn position, as indicated in this report.*** ***(ii) That the net underspend figure of £2.612m is allocated as follows;*** ***A. There is a requirement to transfer £0.100m to the Grants Unapplied Reserve as required under International Financial Reporting Standards (IFRS) relating to a grant received during the financial year but not utilised per 4.1.b.*** ***B. The balance be allocated for the Fire Cover review £0.040, £1.125m be used to fund the Control Room system change and £1.0m be used to support the Change & Improvement Programme per 4.1.c.*** ***C. The 2.8m added to the budget to fund the pay award for 2023-24, as agreed by the Fire Authority on 15 February 2023, is returned to the Capital Reserve per 4.1.d.*** ***(c) That a transfer of £0.348m is approved to increase the balance of the general fund balance reserve to ensure it is 5% of the revenue budget for 2023-24 as per paragraph 6.1.***
EXECUTIVE SUMMARY	This report sets out the draft financial outturn position for 2023-24 against agreed financial targets.

	In particular, it provides a draft outturn spending position against the 2023-24 revenue budget with explanations of the major variations. Spending will be £4.968m below budget, equivalent to 3.9% of the total budget. There have been some significant movements against the budget which was set in February 2023, due to the potential of a change to the working patterns of wholetime station-based staff moving towards a model of annualised hours. To ensure the workforce is not over-established, vacancies have been held open to ensure the Service is lean once the project commences. The figures included in the report are provisional at this stage, subject to external audit of the Accounts.
RESOURCE IMPLICATIONS	As indicated in the report
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing equalities and human rights legislation.
APPENDICES	A. Provisional Revenue Outturn Position 2023-24. B. Summary of Reserve and Provision Balances at 31 March 2024 C. Details of Earmarked reserves
BACKGROUND PAPERS	None

1. INTRODUCTION

1.1. This report provides the Authority with the final outturn position (subject to audit) for revenue and capital spending for the financial year 2023-24 and makes recommendations as to how the overspend against the revenue budget is to be funded. The report is in two parts. Section 1 deals with the revenue outturn position while Section 2 deals with the position in relation to capital spending.

1.2. The Authority is well aware of the difficult financial climate that local authorities are currently operating under as a result of cuts in government funding. In setting the 2023-24 revenue budget for the Authority in February 2023, consideration of the Medium-Term Financial Plan (MTFP) recognised that further recurring savings will be required over the next five years to 2027-28 over above the savings already achieved.

1.3. Mindful of this difficult outlook, the strategy adopted during the last financial year of 2023-24 was to balance the budget using revenue contribution to capital whilst focussing on development of the Authority's strategy to improve the Service by releasing savings from the existing operating model in the future.

2. SECTION 1 – REVENUE OUTTURN 2023-24

2.1. Total revenue spending in 2023-24 was £80.438m compared to an agreed budget of £85.413m, resulting in an underspend of £4.782m, equivalent to 5.8% of total budget. A summary of spending is shown in Table 1 overleaf and Appendix A provides a more detailed analysis of spending against individual budget heads.

TABLE 1 – SUMMARY OF REVENUE SPENDING 2023-24

	£m	£m	£m
Approved Budget			**85.413**
Gross Spending (Appendix A Line 27)	95.887		
Gross Income (Appendix A Line 31)	(15.256)		
Net Spending		80.631	
PLUS Transfers to /(from) Earmarked Reserves			
- Transfers from Reserves (Appendix A Line 32)	0.201		
- Capital Funding (Appendix A Line 33)	2.356		
- Grants Unapplied (Appendix A Line 34)	0.100		
- Change & Improvement Reserve (Appendix A Line 35)	1.000		
- Create Control Room Futures reserve (Appendix A Line 36)	1.125		
Total Transfer to/from Earmarked Reserves (Appendix A Line 37)		4.781	
TOTAL NET SPENDING			85.413
NET UNDERSPEND			**0.000**

2.2. These figures are based upon the spending position at the end of March 2024 and whilst they provide a provisional financial performance for the year, are subject to final accounting adjustments and audit scrutiny for the year end.

2.3. The underspend is due to variances against budget as reported in Appendix A to this report but, is mainly due to vacancies being held due to a review of the working patterns, coupled with difficulties recruiting within the Professional side (green book staff). The Authority has also benefited from a fantastic return on the investments made – this is of course a short-term due to rising interest rates which cannot be relied upon in the short-term.

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.)

3. VARIATION AGAINST BUDGET

Wholetime employee costs

3.1. **Underspend of £1.525m – 4.2%**: Due to a potential change to the shift patterns moving towards an Annualised Hours model coupled with a review of the Specialist Rescue Teams (SRT), multiple vacancies (26 FTE at the end of March 2024) have been held open throughout the year in order that the Service is in a position to move towards new working practices as and when they become consulted on and implemented.

3.2. A review had been undertaken of how the 'crewing pool' was resourced did see changes made which saw those providing this voluntary cover offered separate employment contracts to that of their primary fire fighter role. This change affords greater flexibility to the Service in how this resource is utilised, whilst negating the need to pay pre-arranged overtime.

On-call employee costs

3.3. **Underspend of £0.990m – 4.6%:** A much quieter year, incident wise, has resulted in a saving of £0.300m when compared against budget. A summer of normal activity, when compared to 2022, with the number of wildfires attended returning to a normal level. Budget savings on 'other hours' (station admin, cleaning, equipment checks etc.) of over £0.210m were achieved. A consequence of the above is a saving of both National Insurance and Pension contributions which accounted for over £0.300m.

Professional and Technical Staff

3.4. **Underspend of £1.254m – 7.5%:** As a result of recruitment controls put in place by the Service since July of 2022, coupled with a tighter recruitment market has seen vacancies of posts held open longer than planned. The largest differences were with People Services (£0.140m), the Protection Department (0.270m), DDat (£0.190m) and the Programme office (0.116m).

Training Investment

3.5. **Underspend of £0.193m – 25.6%**: The underspend on procured external training is as a result of spending controls which were implemented in July 2022, which required budget holders to pause on all non-essential discretionary spend i.e. any spend which is not underpinned by a statutory/ contractual obligation or activity and which does not directly support the Service Delivery strategy. The large savings originated from Protection (aligned to the delays in recruitment) of (£0.093m), the Training Academy (£0.039m) and People Services (£0.026m). The balance coming from smaller variances across the Service.

Fire Service Pension Costs

3.6. **Overspend of £0.095m – 3.8%:** An unbudgeted increase in costs associated with injury benefits of £0.086m is the major contributor to this overspend position.

Premises repair and Maintenance

3.7. **Underspend of £0.095m – 8.4%:** A reduction in spend associated with Planned Service Maintenance of £0.068m is the factor relating to this underspend. It was anticipated additional costs would be incurred due to staff sickness but, it didn't materialise.

Cleaning Costs

3.8. **Underspend of £0.041m – 6.5%:** It was planned to spend £0.010m on foam disposal during 2023-24, the costs are less than anticipated. Refuse collection has also come in under budget by £0.0.021m.

Transport Repair and Maintenance

3.9. **Underspend of £0.060m – 8.4%:** The requirement for replacement parts at both workshops is £0.034m less than budget. A delay in replacement officer cars has also generated a saving on blue-light fit out and removal of £0.046m. The balance being made up of multiple minor variances.

Running Costs and Insurances

3.10. **Underspend of £0.0388m – 21.2%:** There is a large underspend associated with the reduction in wholesale vehicle fuel prices. This resulted in a saving of £0.319m, coupled with savings on vehicle insurance of £0.047m have contributed to this position.

Travel & Subsistence

3.11. **Underspend of £0.390m – 25.5%:** The largest underspend is on lease car rental of £0.287m due to a delay in the ordered replacement vehicles. The budget was built on the basis that the more expensive replacement vehicles would have arrived by the start of the year. As these have been delayed, the cheaper current vehicles have been extended producing the savings. A further £0.058m has been underspent associated with casual mileage. The balance being made up of multiple minor variances.

Equipment & Furniture

3.12. **Underspend of 0.238m – 6.4%:** This position is as a result of multiple variances across the Service. Major items being; a underspend on Research & Development reviewing wildfire PPE and boots resulted in a saving of £0.051m. Lower demand on replacement Operational Equipment saved £0.048m. From within DDaT; delays in procuring a replacement call-handing software system resulted in a saving of £0.060m and delays in replacing Mobile Data Terminals (MDTs) has also resulted in an underspend of £0.035m.

Hydrants – installation and maintenance

3.13. **Overspend of £0.101m – 51.5%:** The overspend is as a result of 2 issues; the first one being South West Water (SWW) has recruited a member of staff with the intention of clearing the back-log of invoices for maintenance of the network. The second issue is the fact that SWW have also outsourced some of their work which means they can devote more time to inspecting hydrants resulting in more reported defects.

Protective Clothing

3.14. **Underspend of £0.148m 24.4%:** Lower demand, largely as a result of the temporary recruitment freeze, on the stores for replacement Personal Protective Equipment (PPE) has resulted in this underspend position.

External Fees and Services

3.15. **An overspend of £0.106m – 85.0%:** Costs associated with the Low Carbon Skills Fund have been charged here of £0.094m which make up the majority of the overspend. There is a corresponding contra grant within row 29 (Grants and reimbursements) that net-off these costs.

Partnerships & Regional Collaborative Projects

3.16. **An underspend of £0.039m – 12.6%:** More staff provided by Devon & Somerset FRS to the project team has resulted in less costs being incurred from the partnership. This accounts for £0.017m of the underspend.

Printing, Stationery and office expenses.

3.17. ***An underspend of £0.015m – 6.0%:*** Multiple underspends from the majority of budget holders have ensured this section was underspent by £0.015m at year-end.

Support service contracts

Underspend of £0.151m (13.9%): 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 £0.177m. An overspend of £0.020m against external audit fees contributes to the net underspend position.

Revenue Contribution to Capital Spending

3.18. **Underspend of £0.033m – 67%:** 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.

Treasury Management and Investment Income

3.19. ***Over recovered by £1.246m – 237.4%.*** The Service benefited from higher returns on investments which, coupled with delays in the capital programme, ensured there was more short-term cash to invest which attracted greater returns.

Grants and Re-imbursements

Grants were £0.913m higher than budget – 7.8%. Secondment income (off-set by employee costs above) account for £0.106m of this position. Additional grants; (NNDR Business Rates 2022-23 additional grant of £0.118m and Business Rates Levy Surplus £0.136m being the largest), received from Central Government account for £0.470m. As mentioned in paragraph 3.14, the grant received from the Low Carbon Skills Fund accounts for £0.094m and another £0.094m was received in connection to the Hinkley Point C project. The Service also received grants in relation to the Building Safety Regulator, an element of which is requested to be moved into an Earmarked Reserve (see Section 4.1.b below) as it relates to activity not yet delivered.

Other Income

3.20. ***Other income was £0.169m more than budget – 23.1%.*** An increase in income from Procurement (0.031m) resulting from use of framework contracts, Estates of £0.038m resulting from an increase in charges for partners share of utilities and EV charging. On top of these, income resulting from co-responding of £0.113m over budget due to the fact the charging process has been remodelled so the Service is now billing for all activity, has resulted in this line to over-recover.

4. CONTRIBUTION TO EARMARKED RESERVES

4.1. A summary of predicted balances on Reserves and Provisions is shown in Appendix B to this report. These figures include those proposed transfers to Earmarked Reserves and provisions outlined in this report and referenced in Appendix B which are recommended for approval:

a) **Capital Funding (£2.356m)** – As per the strategy to reduce the requirement to borrow to fund the capital programme, an amount of £2.356m is requested to be moved into the Capital reserve.

b) **Grants Unapplied (£0.100m)** - under International Financial Reporting Standards (IFRS) accounting arrangements, any unused grants at the year-end, which are not subject to repayment, are to be identified and carried forward to 2024-25 via an Earmarked reserve. The grant relates to training which has yet to be delivered, and was provided in relation to the Building Safety Regulator . Members are requested to note the grant received which is within the delegated limit of £0.200m.

c) **Budget Pressures £2.165m –** it is recommended that the balance of the underspend is allocated to Reserves as per Appendix C with £0.040 being used for a Fire Cover review, 1.125m for the Control Room system change and £1.0m to support he Change & Improvement Programme.

d) ***Return Reserve allocated for Pay Awards*** - The 2.8m added to the budget to fund the pay award for 2023-24, as agreed by the Fire Authority on 15 February 2023, is returned to the Capital Reserve as wasn't required.

5. RESERVES AND PROVIIONS

5.1. A summary position of Reserves and Provisions as at 31 March 2024, including the recommendations included in this report, is included as Appendix B to this report.

Provisions

5.2. Included in Appendix B is a summary of the Provision balances as at 31 March 2024. As part of the year-end process the Authority is required to review the adequacy of Provision balances and consider whether any changes during the year require additional amounts to be set aside. The only Provision the Authority has now is one for doubtful debt. It has been reviewed and has been educed following the size of the outstanding debt as at 31 March 2024.

6. SECTION 2 – CAPITAL OUTTURN 2023-24

6.1. The 2023-24 capital programme was originally set at £14.000m at the budget setting meeting held on 15 February 2023. The programme figure was decreased during the financial year to £13.086m, as a result of timing differences in spending from the previous year and revisions to the capital spending plan. As has been reported to the Resources Committee during the year, whilst these changes represent a change in the 2023-24 programme, they do not represent any increase to the previously agreed borrowing requirement.

6.2. Table 2 overleaf provides a summary of the provisional outturn position against the agreed 2023-24 capital programme. Against a final capital programme of £13.086m, capital spending in year was £5.966m, resulting in unspent programme of £7.120m, of which £7.039m relates to timing differences to be carried forward to 2024-25, and £0.081m of savings.

6.3. The 2023-24 budget included an "optimism bias" again, based on experience of considerable timing differences in capital spending against plans. The figures in table 2 below are net of the optimism bias and the outturn suggests that it would be prudent to continue using this approach, which has been incorporated into the programme for 2024-25.

TABLE 2 – SUMMARY OF CAPITAL SPENDING IN 2023-24

Capital Programme 2023-24				
PROJECT	2023/24 £000 Revised Budget	2023/24 £000 Actuals	2023/24 £000 Timing Differences	2023/24 £000 (Savings)/ Over-spend
Estate Development				
Site re/new build	1,919	4	(1,915)	1
Improvements & structural maintenance	5,009	783	(4,150)	(76)
Estates Sub Total	**6,928**	**787**	**(6,065)**	**(75)**
Fleet & Equipment				
Appliance replacement	4,522	3,121	(1,427)	26
Specialist Operational Vehicles	2,266	1,822	(427)	(17)
ICT Department	570	235	(320)	(15)
Fleet & Equipment Sub Total	**7,358**	**5,178**	**(2,174)**	**(6)**
Optimism bias	(1,200)	0	1,200	0
Overall Capital Totals	**13,086**	**5,965**	**(7,039)**	**(81)**
Programme funding				
Earmarked Reserves:				
Earmarked Reserves:	11,753	4,266	(7,039)	(81)
Revenue funds:				
Revenue contribution to capital in year			0	0
Revenue funds:	50	17	0	0
Capital Receipt	0	400	0	0
Borrowing - internal	1,283	1,283	0	0
Total Funding	**13,086**	**5,966**	**(7,039)**	**(81)**

Capital Spending 2023-24

6.4. This Authority has a three-year rolling capital programme, reviewed annually. This reflects changes in circumstances within individual projects and slippage that will occur from time to time. This has particularly been the case in relation to some Estates projects and, to a lesser extent, with Fleet - these have been delayed and moved into 2024-25.

6.5. Timing differences for Estates projects include; Camels Head rebuild (£1.833m); improvements at (Paignton £0.975m); roof repairs at Barnstaple (£0.275m); Stn 60/45 main drainage connection (£0.270m); Barnstaple roof (£0.275m); Potential adaptions following ALP roll-out (£0.350m); Bere Alston extension (£0.373m); SHQ buildings (£0.512m); Holsworthy upgrade (£0.175m); Crownhill rear entrance and retaining wall (£0.317m); Dignity at work schemes (£0.295m); replacement drill towers (£0.135m); other smaller schemes (£0.279m).

6.6. Timing differences for Fleet & Equipment and ICT projects relate to: MRPs (£0.697m); MRP 4 X 4 (£0.680m); Aerial Ladder Platforms (£0.365m); Maintenance Vans (£0.085m); Incident Command Training Van (£0.027m); Control Replacement System (£0.320m).

7. FINANCING THE 2023-24 CAPITAL PROGRAMME

7.1. The table below provides an analysis of how the 2023-24 capital spending of £5.966m is to be financed.

TABLE 3 – SUMMARY OF CAPITAL FINANCING IN 2023-24

	Actual Financing Required £m
Application of existing borrowing	**1.283**
Other financing sources:	
Revenue contribution to capital	0.000
Red One contribution to capital	0.017
Capital reserve	4.266
Sub-total – Direct revenue funding/earmarked reserve	**4.283**
Capital receipts	0.400
Total Financing	**5.966**

Borrowing

7.2. The amount of external borrowing at the beginning of the financial year stood at £24.264m. No new borrowing was taken out during the year and an amount of £0.493m has been repaid, resulting in an overall reduction of external borrowing to £23.771m as at 31 March 2024. This level of borrowing is well below the agreed maximum borrowing figure of £26.376m allowed under the Prudential Code.

8. DRAFT PRUDENTIAL INDICATORS

8.1. The prudential indicators at this time can only be regarded as provisional subject to the completion of the Statement of Accounts and resultant audit scrutiny.

Capital Expenditure

8.2. This prudential indicator reports actual capital spending for the year against the approved programme. Spending has proved to be £3.431m less than anticipated as a consequence of delays on progressing Estates & Fleet capital projects.

	£m
Approved Budget	13.086
Actual Expenditure	5.966
Variance	(7.120)

Capital Financing Requirement– External Borrowing

8.3. The Capital Financing Requirement (CFR) reflects the underlying need to borrow for capital purposes. Given that existing borrowing has been applied to the spending in 2023-24 the need to borrow to fund capital spending has remained static.

	£m
Approved CFR	23.771
Revised CFR (Based on Actual Spending)	23.771
Variance	0.000

Capital Financing Requirement– Other Long-Term Liabilities

8.4. This Capital Financing Requirement (CFR) reports long term financing liabilities other than external borrowing, e.g. Private Finance Initiative (PFI) and Finance Leases, which under accounting rules are required to be reported alongside traditional borrowing liabilities.

	£m
Approved CFR	0.656
Revised CFR (Based on Actual Spending)	0.656
Variance	0.000

Authorised Limit and the Operational Boundary for External Debt

8.5. Actual external debt as at 31 March 2024 was £23.771m. This is within the revised authorised limit (absolute maximum borrowing approval) of £26.376m and the operational boundary of £25.155m.

Ratio of Financing Cost to Net Revenue Stream

8.6. This ratio aims to show the percentage of revenue resources which are applied to financing debt. The Authority's estimate was that 3.80% would be applied, a better ratio has been achieved as a result of investment returns.

	£m
Capital Financing Costs	2.942
Interest on Investments	(1.771)
Net Financing Costs	1.171
Net Revenue	85.413
Percentage	1.39%
Budgeted	3.80%
Variance	(2.41) bp

9. DETERMINATION OF CAPITAL FINANCE

9.1. The Authority is required to determine its use of capital finance as defined by capital control legislation. The following use of capital finance resources is proposed:

- That an amount of £1.283m of external borrowing from previous years be utilised to fund the Capital programme;
- That an amount of £4.283m is capitalised and funded from revenue contributions to capital spending, either directly from the 2023-24 revenue budget or from balances in Earmarked Reserves;
- That an amount of £0.400m of capital receipts be utilised to fund the Capital Programme.

10. RESERVES

10.1. An additional requirement was introduced in 2018 under CIPFA guidance for the Fire Authority to publish a Reserves Strategy which outlines the intended use of reserves over the medium-term financial period. The strategy for 2022-23 is available on the Authority's website and the next iteration will be reviewed and presented to the Authority in light of proposals made in this report.

10.2. The provisional Authority reserves position as at 31 March 2024 is £28.909m, subject to approval of the recommendations in this report, the details of which are shown at Appendix B and in paragraph 4.1 above.

ANDREW FURBEAR
Head of Finance (Treasurer)

SUBJECTIVE ANALYSIS OF REVENUE SPENDING

Line No	DEVON & SOMERSET FIRE AND RESCUE AUTHORITY	2022/23 Budget £000	Outturn £000	Projected Variance over/ (under) £000
	SPENDING			
	EMPLOYEE COSTS			
1	Wholetime	36,700	35,174	(1,525)
2	On-Call	21,410	20,420	(990)
3	Control	1,675	1,681	6
4	Professional and technical support staff	16,742	15,488	(1,254)
5	Training investment	753	560	(193)
6	Fire Service Pension costs	2,480	2,575	95
		79,760	**75,898**	**(3,861)**
	PREMISES RELATED COSTS			
7	Repair and maintenance	1,133	1,038	(95)
8	Energy costs	1,104	1,097	(7)
9	Cleaning costs	626	585	(41)
10	Rent and rates	2,082	2,040	(42)
		4,945	**4,761**	**(184)**
	TRANSPORT RELATED COSTS			
11	Repair and maintenance	713	653	(60)
12	Running costs and insurances	1,597	1,259	(338)
13	Travel and subsistence	1,528	1,138	(390)
		3,838	**3,050**	**(788)**
	SUPPLIES AND SERVICES			
14	Equipment and furniture	3,697	3,459	(238)
15	Hydrants-installation and maintenance	196	297	101
16	Communications Equipment	2,716	2,595	(121)
17	Protective Clothing	605	457	(148)
18	External Fees and Services	125	231	106
19	Partnerships & regional collaborative projects	310	271	(39)
20	Catering	24	20	(4)
		7,672	**7,330**	**(342)**
	ESTABLISHMENT COSTS			
21	Printing, stationery and office expenses	247	232	(15)
22	Advertising	31	10	(20)
23	Insurances	504	509	5
		781	**751**	**(30)**
	PAYMENTS TO OTHER AUTHORITIES			
24	Support service contracts	1,091	939	(151)
		1,091	**939**	**(151)**
	CAPITAL FINANCING COSTS			
25	Capital charges	3,140	3,141	1
26	Revenue Contribution to Capital spending	50	17	(33)
		3,190	**3,158**	**(32)**
27	**TOTAL SPENDING**	**101,276**	**95,887**	**(5,389)**
	INCOME			
28	Treasury management investment income	(525)	(1,771)	(1,246)
29	Grants and Reimbursements	(11,671)	(12,584)	(913)
30	Other income	(731)	(900)	(169)
31	**TOTAL INCOME**	**(12,927)**	**(15,256)**	**(2,329)**
	NET SPENDING	**88,349**	**80,631**	**(7,718)**
	TRANSFERS TO EARMARKED RESERVES			
32	Transfers to/from reserves	-2,937	201	(3,138)
33	Transfer to Capital funding	0	2,356	2,356
34	Grants Unapplied	0	100	100
35	Transfer to Change & Improvement Reserve		1,000	
36	Control Room Futures Project	0	1,125	1,125
37		**(2,937)**	**4,781**	**443**
38	**NET SPENDING**	**85,413**	**85,413**	**0**

SUMMARY OF RESERVES AND BALANCES AS AT 31 March 2024

Due to the tight timescales, these are provisional balances any may alter following the year-end process. Any changes will be reported to the next Resources Committee.

RESERVES AND PROVISIONS						
RESERVES	**Note**	**Balance as at 1 April 2023 £'000**	**Approved Transfers £'000**	**Proposed Transfers £'000**	**Spending Month 12 £'000**	**Proposed Balance as at 31 March 2024 £'000**
Earmarked reserves						
Grants unapplied from previous years	4.1.a and b	(1,137)	-	(100)	331	(805)
Change & Improvement	4.1.c	(1,878)	-	(1,000)	(307)	(2,185)
Budget Smoothing Reserve		(666)	-	-	-	(666)
Direct Funding to Capital	4.1.a and d	(15,424)	2,800	(5,156)	(1,064)	(16,488)
Projects, risks, & budget carry forwards		-	-	-	-	-
PFI Equalisation		(50)	-	-	-	(50)
Emergency Services Mobile Communications Programme		(1,050)	-	-	-	(1,050)
Mobile Data Terminals Replacement		(145)	-	-	1	(144)
Pension Liability reserve		(1,218)	-	-	(4)	(1,222)
Budget Carry Forwards		(890)	-	-	635	(255)
Environmental Strategy		(243)	-	-	96	(148)
Control Room System change	4.1.c	-	-	(1,125)	(1,125)	(1,125)
Fire Cover Review	4.1.c	-	-	(40)	-	(40)
MTA Action Plan		(76)	-	-	76	-
Total earmarked reserves		**(22,777)**	**2,800**	**(7,421)**	**(1,361)**	**(24,178)**
General reserve						
General Fund (non Earmarked) Balance	6.1	**(4,280)**	**-**	**(348)**	**-**	**(4,631)**
TOTAL RESERVE BALANCES		**(27,057)**	**2,800**	**(7,769)**	**(1,361)**	**(28,809)**
PROVISIONS						
Doubtful Debt		(55)			28	(27)

APPENDIX C TO REPORT RC/24/10

EARMARKED RESERVES

Initiative	£000
Fire Cover review	40
Control Room Futures project	1,125
Support C & I unallocated balance	1,000
Total	2,165

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REPORT REFERENCE NO.	**RC/24/11**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 MAY 2024**
SUBJECT OF REPORT	**REVISION TO CAPITAL PROGRAMME 2024-25 TO 2026-27**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve the revised capital programme and associated prudential indicators for 2024-25 to 2026-27, as included in this report.***
EXECUTIVE SUMMARY	A three-year capital programme for 2024-25 to 2026-27 was approved at the budget meeting in February 2024. This report proposes a revision to that programme to reflect: a) An amount of money not spent in 2023-24 to be carried forward to 2024-25; b) A revision in the timing of some of the Fleet capital programme to reflect the manufacturers project plans; c) Part (£2,356,308) of the 2023/24 revenue underspend be transferred to the capital reserve. The proposed revision does not require any adjustments to the Authority's external borrowing requirements. The Authority has not taken any new borrowing in the last eleven years and, currently, there is no new borrowing required to support the Authority's Capital Programme forecast until 2026/27, but level required will be reduced due to the transfer to the capital reserve.
RESOURCE IMPLICATIONS	As indicated within the Report
EQUALITY IMPACT ASSESSMENT	The contents of this report are considered compatible with existing equalities and human rights legislation.
APPENDICES	A. Capital Programme 2024-25 to 2026-27. B. Revised Prudential Indicators 2024-25 to 2026-27.
LIST OF BACKGROUND PAPERS	Capital Programme 2024-25 to 2026-27 report to DSFRA on 16 February 2024 (DSFRA/24/4).

1. INTRODUCTION

1.1 The current capital programme covering the three years 2024-25 to 2026-27 was approved at the budget meeting in February 2024.

1.2 This report seeks approval of the Authority to revise this programme to reflect budget not spent in 2023-24, a revision to the timing of the Fleet capital programme, and an increase to the capital reserve used to fund the capital programme.

1.3 It should be noted that the proposed changes do not require any additional external borrowing, over and above what has already been agreed, and therefore places no further burden on the revenue budget in terms of debt charges. In fact, the increase in the capital reserve will reduce the need to borrow in 2026/27 and therefore reduce the debt charges for that year.

2. CURRENT CAPITAL PROGRAMME 2024-25 TO 2026-27

2.1 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.

2.2 At the budget meeting in February the Authority considered and approved a three-year capital programme covering the years 2024-25 to 2026-27. This approved programme is included at Appendix A (2024/25 Approved Budget column).

3. PROPOSED REVISION TO THE CAPITAL PROGRAMME

3.1 Appendix A to this report also provides a revised capital programme for the years 2024-25 to 2026-27. The changes included in the revised programme reflect that:

a) Since setting the original programme, in February 2024, there is further variance against budget in 2023/24 of £0.302m.
b) This is made up of savings of £0.069m and budget unspent in 2023/24 of £0.233m against schemes which will align the Capital programme with the future aspirations of the service going forward. The £0.233m unspent budget is still required (carried forward to 2024-25) but reflects only a change to the timing of spend rather than an increase to funding requirements.
c) Fleet have received updated project plans for the all-wheel-drive medium rescue pumps (vehicles 5 to 8) and water carriers (x 4) by the manufacture. This reflects a change in the timing of the projects but no change to the overall programme spends.
d) It is proposed to utilise some of the 2023/24 revenue budget underspend to fund the capital programme via the capital reserve. This will reduce the forecast level of borrowing needed in 2026/27.

3.2 A summary of the impact to the overall programme of these changes is provided in Figure 1 overleaf.

Figure 1

	Estates	Fleet & Equipment	Total	Optimism Bias	Total
	£m	£m	£m	£m	£m
Original Programme					
2023-24 (predicted outturn)	1.0	5.3	6.3	0.0	6.3
2024-25	4.8	3.4	8.2	-1.0	7.2
2025-26 (provisional)	6.0	2.6	8.6	-0.2	8.4
2026-27 (provisional)	8.6	2.2	10.8	-0.5	10.3
Total 2023-24 to 2026-27	20.4	13.5	33.9	-1.7	32.2
Revised Programme					
2023-24 (actual outturn)	0.8	5.2	6.0	0.0	6.0
2024-25	4.9	3.8	8.7	-1.0	7.7
2025-26 (provisional)	6.0	2.9	8.9	-0.2	8.7
2026-27 (provisional)	8.6	1.6	10.2	-0.5	9.7
Total 2023-24 to 2026-27	20.3	13.5	33.8	-1.7	32.1
Proposed change	-0.1	0.0	-0.1	0.0	-0.1

3.3 Appendix B to this report provides a summary of the revised prudential indicators emanating from the revised programme. The current forecasts are that the ratio of financing costs to net revenue stream 5% ceiling will not be breached in the medium term as reported to the Authority in February 2024. The next review of capital spending plans will take place in good time to inform the budget setting process for 2025-26.

4. SUMMARY AND RECOMMENDATION

4.1 This report provides a revision to the agreed capital programme for the year 2024-25 considering the outturn figures for 2023-24. The Authority is asked to recommend this revision and associated prudential indicators.

ANDREW FURBEAR
Head of Finance (Treasurer)

APPENDIX A TO REPORT RC/24/11

PROJECT	2024/25 £000 Approved Budget	2024/25 £000 Revised Budget	2025/26 £000 Approved Budget	2026/27 £000 Approved Budget
Estate Development				
Site re/new build	520	531	3,884	500
Improvements & structural maintenance	4,293	4,396	2,075	8,122
Estates Sub Total	**4,813**	**4,927**	**5,959**	**8,622**
Fleet & Equipment				
Appliance replacement	1,489	2,236	1,950	1,630
Specialist Operational Vehicles	1,944	1,543	948	0
ICT Department	0	0	0	0
Fleet & Equipment Sub Total	**3,433**	**3,779**	**2,898**	**1,630**
Optimism bias Sub Total	**(1,000)**	**(1,000)**	**(200)**	**(500)**
Overall Capital Totals	**7,246**	**7,706**	**8,657**	**9,752**
Programme funding				
Earmarked Reserves:	4,716	5,167	4,795	3,803
Revenue funds:	719	719	2,050	2,050
Borrowing - internal	1,382	1,391	1,812	0
Borrowing - external		0		3,899
Contributions	429	429	0	0
Total Funding	**7,246**	**7,706**	**8,657**	**9,752**

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	7.706	8.657	9.752	6.780	3.520
HRA (applies only to housing authorities)					
Total	7.706	8.657	9.752	6.780	3.520
Ratio of financing costs to net revenue stream					
Non - HRA	3.04%	3.29%	3.04%	3.24%	2.88%
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	23,219	25,540	28,535	28,068
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	26,369	27,702	29,672	28,430
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	3,005	(1,063)	1,333	1,970	(1,242)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	3,005	(1,063)	1,333	1,970	(1,242)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,037	25,574	29,495	31,655	31,038
Other long term liabilities	4,825	4,777	3,758	2,719	1,655
Total	30,862	30,351	33,254	34,374	32,693
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,871	24,413	28,218	30,228	29,635
Other long term liabilities	4,620	4,620	3,650	2,663	1,637
Total	29,490	29,032	31,868	32,891	31,272
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/24/12**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 MAY 2024**
SUBJECT OF REPORT	**RESERVES STRATEGY 2024-25**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve the Reserves Strategy for publication.***
EXECUTIVE SUMMARY	The Fire and Rescue National Framework for England introduced a requirement for fire and rescue authorities to prepare and publish a Reserves Strategy setting out the purpose of each Earmarked Reserve, an analysis of the General Fund and the expected timing of expenditure from the reserves. The requirement commenced in 2018. This report includes a risk assessment of the General Fund and a section on each of the Earmarked Reserves – which it is proposed should be combined into broader categories to simplify the way that Reserves are reported on. It should be noted that this report has been prepared under those new categories.
RESOURCE IMPLICATIONS	As set out within this report.
EQUALITY RISKS AND BENEFITS ANALYSIS	N/a
APPENDICES	A. Risk Assessment of the Adequacy of General reserves B. Projected Reserve Balances over MTFP
BACKGROUND PAPERS	The Fire and Rescue National Framework for England Reserves Strategy 2021-22

1. INTRODUCTION AND BACKGROUND

1.1. Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

1.2. Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

1.3. In May 2018 the Government published the new Fire and Rescue National Framework for England. This introduces a requirement for fire and rescue authorities to publish a Reserve Strategy on their website and outlines the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan or be a stand-alone document.

1.4. The Reserves Strategy for this Authority has been prepared as a stand-alone document for 2024-25.

2. STRATEGIC CONTEXT

2.1. There are a number of reasons why a Local Government Authority might hold reserves, these include to:

(a). mitigate potential future risks such as increased demand and costs;

(b). help absorb the costs of future liabilities;

(c). temporarily plug a funding gap should resources be reduced suddenly;

(d). enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;

(e). spread the cost of large scale projects which span a number of years.

2.2. Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

3. LONG-TERM SUSTAINABILITY

3.1. Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term. Due to the fact that funding for future capital projects is held as an Earmarked Reserve, the overall level of reserves held by the Authority is reducing quickly and will continue to reduce as the capital programme progresses.

3.2. Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

3.3. There are two different types of reserve, and these are:

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 then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised; and

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. The aim is to ensure this balance remains at 5% of the current revenue budget.

3.4. In addition to reserves the Authority may also hold provisions which will 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.

4. RISK ASSESSMENT TO DETERMINE THE ADEQUACY OF THE GENERAL RESERVE

4.1. A well-managed multi-purpose authority will strive to maintain as low a level of general reserve as possible, whilst still covering its financial risks. As a single-purpose authority, this Authority has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its general reserve may be slightly higher than for a multi-purpose authority.

4.2. This Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties (such as the Local Government Employers and Government departments) have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for, e.g. the 2024-25 funding gap on the Firefighters pension scheme, inflationary pressures including pay awards, energy and any shortfall in council tax receipts.

4.3. The Authority has set its prudential Indictor for the general reserve at around 5% of annual budget which is a commonly used benchmark across the Fire Sector. At the start of 2024-25, the general reserve was slightly below this amount at 4.62% of the Authority's net revenue budget. Due to varying revenue budgets, maintaining a consistent level of general reserve will result in the percentage varying over time. Transfers in or out of the general reserve to conform to the 5% indicator would only be considered if there was significant variance in budgets, an emerging risk, or if resources were earmarked to another project. The general reserve will be increased to 5% if revenue budget as part of the 2023-24 accounts closedown.

4.4. The prudential indicator is a useful control measure but is a rudimentary way of assessing the adequacy of the general reserve and a more meaningful approach is to develop a risk assessment. The Authority will consider both measures as part of its annual reserve strategy.

4.5. A risk assessment of the adequacy of the Authority's General reserve will be carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the current financial year, 2024-25, has been expanded on that prepared as part of the budget setting process and is shown in Appendix A. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £3.6m. At the start of 2024-25 the general reserve stood at £4.3m and therefore it will not be necessary to amend the amount based on the current risk assessment.

5. ANNUAL REVIEW OF EARMARKED RESERVES

5.1. The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy. When the Authority approves the Reserves Strategy for publication it will be made available on its website.

Grants received in advance

5.2. **£0.805m:** These reserves relate to grants which have been given to the Authority which have either not been fully spent or have been received in advance of the intended expenditure period. Where a grant has been received in advance the Authority's policy and accounting rules dictate that the funding be transferred to an Earmarked Reserve to be spent in future years.

5.3. Any smaller amounts will be reviewed annually as part of the budget monitoring process to assess whether they are still needed. It is not anticipated that any of the current balances will be carried forward beyond the medium term financial plan period of 2024-28.

Change & Improvement

5.4. **£2.185m:** A significant amount of funding has been set aside in Reserves to support the change activity within the Service. Invest to Improve reserves will be used to invest in projects such as the People Services Project, the replacement of the Finance system and for digital transformation which will support the modernisation of the Service. If restructure is required, reserve funding could be required to pay for any associated costs.

Budget Smoothing Reserve

5.5. £0.666m: The budget smoothing reserve is intended to support any shortfalls in future revenue budgets which are identified during the development of the Medium Term Financial Plan. The reserve has arisen from a surplus of funding in previous financial years, particularly where non-domestic rates or grant income have exceeded the budget requirement

Capital Funding

5.6. **£16.488m:** Capital Funding is the largest of the Authority's earmarked reserves. There is a long-term strategy in place to reduce borrowing to fund capital expenditure and this reserve has been built up over several years from under spends in the Revenue Budget along with savings made in other areas. Reserves represents an opportunity to reduce borrowing in the future as well as the associated costs.

5.7. Borrowing currently stands at £23.8m and the loan portfolio is regularly reviewed for opportunities to pay off loans where there would be a long-term benefit but this is dependent on economic conditions. If the Authority does opt to pay off loans early, use of the Capital Funding reserve will accelerate. Currently it is forecast that the programme will require £4.7m of reserve funding in 2024-25 and for the reserve to be exhausted over the medium-term. This level of expenditure is due to the order of a significant upgrade to our fire engine fleet and several major Estates projects which have been formally commissioned.

5.8. Planning for the Capital Programme is undertaken as part of the annual budget setting programme and so each year the Authority will have the opportunity to review the funding options of the programme. The forecast use of the Capital Funding reserve will be determined by that programme. Given that it is prudent to maintain the long-term strategy to reduce, ideally remove, reliance on external borrowing to fund Capital expenditure, a healthy reserve will be maintained wherever possible.

Specific projects, budget carry forwards or risks identified

5.9. The Authority holds several Earmarked Reserves for items which have been identified through a business case, to address a specific risk or where timing differences have arisen in the revenue budget. Expenditure on these items will normally be spread over several financial years.

5.10. These one-off reserves will be reviewed annually and either maintained or enhanced. Any unspent funds remaining at the end of the project will, subject to the relevant approval, be transferred to an alternative reserve such as the Invest to Improve or Capital Funding reserve.

5.11. Explanation of specific reserves:

- ***£0.050m**: PFI Equalisation* – The Authority is part of a tri-service Private Finance Initiative which covers the Severn Park training facility. Due to the nature of the contract and its longevity (will mature in 2028) the amount due at the end of the contract is dependent on various factors such as interest rates and investment performance. The reserve is held to mitigate the risk at the end of the contract period.
- ***£1.050m:** Emergency Services Mobile Communications Programme (ESMCP)* – The Authority has committed to be part of the ESMCP national project which provides the technology and network to allow Emergency Services a dedicated method of communication whilst being more financially efficient than its predecessor. Whilst funding has been allocated on a regional basis there is a need to support the project beyond the funding (which has been allocated for discrete time periods) because of the South West region being the last to transition which is why the reserve was established. The reserve also holds grant funding from central government to support the establishment of Emergency Services Network capability. The national project is currently under scrutiny of the Public Accounts Committee and may be subject to change or cancellation. If cancelled, there is a risk that the current Airwave facility will cost the Authority more although at this stage that cannot be quantified.
- ***£0.144m:** Mobile Data Terminals (MDT) Replacement* – MDTs are computers in appliances which provide site specific risk and technical information to firefighters when they respond to incidents. Due to the age of the current suite of MDTs, which are purchased and maintained under the Airwave Communications system, replacements are required in advance of the roll out of the new Emergency Services Mobile Communications Project. Refreshing the safety critical information available to firefighters at incidents supports the Authority's underlying principles of Public Safety and Firefighter safety.
- ***£1.222m:** Pension Liability reserve* – There are ongoing legal cases which may impact on future employers' costs and therefore a pension reserve has been established to contribute towards the revenue budget if a liability arises.
- ***£0.148m:** Environmental Strategy* – This new reserve has been established to support the Authority's environmental strategy, assessing the impact of services and seeking to adapt and mitigate to reduce emissions.

- ***£0.255m:*** *Budget Carry Forwards* – Arise as a result of timing differences, where a revenue project has been unable to complete in year and therefore the under spend on a particular budget line has been transferred to Earmarked Reserves. As reserve funds can span several financial years these are expected to be used in the short term, but the reserve may be enhanced at a later date if there are timing differences in the 2024-25 budget and beyond.
- ***1.125m:*** Reserve created to fund future development in the replacement of the Control Room system in conjunction with the four partners of the Networked Fire Services Partnership.
- **£0.040m**: Set up to fund the Fire Cover review which should be concluded during 2024-25.

ANDREW FURBEAR
Head Of Finance (Treasurer)

APPENDIX A TO REPORT RC/24/12

Risk Assessment of the Adequacy of General reserves

Budget Head	Budget Provision 2024-25 £m	RISK	Likelihood	Impact £m	Net Impact £m
Service Delivery Staff	67.3	Whole-time Pay **represents nearly a third of service costs. There is a low level of uncertainty around future pay increases, with inflation reducing.**	Low	0.337	0.337
Firefighter's Pensions	2.6	The Authority is required to fund the costs associated with ill-health retirements, and the potential costs of on-call firefighters who have joined the scheme. Due to the immediate detriment issue, there were more fewer retirees than anticipated during 2023-24 which has increased the likelihood of those individuals retiring in 2024-25.	High	0.400	0.300
Insurance Costs	1.0	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority. The Insurance Mutual holds a reserve which will enable the pool to absorb a reasonable level of claims.	Low	0.500	0.125
Fuel Costs	0.7	Fuel price fluctuations has seen some impact on fleet running costs. This risk has remained as medium due to the potential of conflict in the Middle-East.	Medium	0.175	0.088
Treasury Management Income	(1.2)	Interest Income. The target income for 24-25 has been set at a level slightly lower than achieved during 2023-24 due to anticipated interest rate reductions.	Low	0.075	0.019
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 whilst reducing the reliance on the Service budget for Red One Income at £0.050m. Therefore this risk has been reduced from medium to low.	Low	0.418	0.104
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. The risk of contract deviation up to 10% of value. This risk will be monitored as wage growth pressues are likely to be offset by low supply chain growth.	Low	0.720	0.180
External Contracts		The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier or a customer. The Authority maintains a bad debt provision based on aged debtor analysis but it would be insufficient to fully fund a loss from a major contract. Additionally, Public Sector procurement processes and contracts are coming under increasing scrutiny and could be open to legal challenge.	Low	2.000	0.500
Legal Issues		Given the nature of the work of the Authority there is a possibility that it could suffer a major health and safety or environmental failure.	Low	3.000	0.750
System/ Infrastructure Issues		In the event that a key system, such as the control mobilising system or system networks, were to fail, it is possible that urgent consultancy or replacement equipment would be required within short time constraints.	Low	1.500	0.375
Funding Issues		The changes to the funding mechanism for local government, introduced following the Local Government Resource Review, transferred potentially significant levels of financial risk to the Authority.	Medium	1.000	0.500
Inflation		Whilst allowances for inflation have been made within specific budget lines, generally at 2% per annum, the risk surrounding the current cost of living crisis in the UK has been reduced with inflation reducing steadily over the last 12 months experienced. This risk is reduced to Low due to current inflation forecasts for 2024-25.	Low	0.200	0.050
Employment Issues		Issues that might arise in respect of pay settlements or other factors which might lead to industrial action would, in the first instance, be managed within the revenue budget. Prolonged Action or issues would require funding from Reserves.	Low	1.000	0.250
Estimated Reserve Requirement					**3.6**

APPENDIX B TO REPORT RC/24/12

Projected Reserve Balances over Medium Term Financial Plan Period (2024-29)

RESERVES AND PROVISIONS					
RESERVES	Balance as at 1 April 2023 £'000	Spending Month 12 £'000	Proposed Balance as at 31 March 2024 £'000	Projected Spend 2024-2029	Projected Balance as at 31 March 2029 Spend 2024-2029
Earmarked reserves					
Grants unapplied from previous years	(1,137)	331	(805)	805	(0)
Change & Improvement	(1,878)	(307)	(2,185)	2,000	(185)
Budget Smoothing Reserve	(666)	-	(666)	666	(0)
Direct Funding to Capital	(15,424)	(1,064)	(16,488)	16,488	-
Projects, risks, & budget carry forwards	-	-	-		-
PFI Equalisation	(50)	-	(50)	50	-
Emergency Services Mobile Communications Programme	(1,050)	-	(1,050)	500	(550)
Mobile Data Terminals Replacement	(145)	1	(144)	144	0
Pension Liability reserve	(1,218)	(4)	(1,222)	1,222	(0)
Budget Carry Forwards	(890)	635	(255)	255	0
Environmental Strategy	(243)	96	(148)	148	0
Control Room System change	-	(1,125)	(1,125)	1,125	-
Fire Cover Review	-	-	(40)	40	-
MTA Action Plan	(76)	76	-		
Total earmarked reserves	**(22,777)**	**(1,361)**	**(24,178)**	**23,443**	**(735)**
General reserve					
General Fund (non Earmarked) Balance	**(4,280)**	-	**(4,631)**	-	**(4,631)**
TOTAL RESERVE BALANCES	**(27,057)**	**(1,361)**	**(28,809)**	**23,443**	**(5,366)**
PROVISIONS					
Doubtful Debt	(55)	28	(27)	-	(27)

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REPORT REFERENCE NO.	**RC/24/13**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**9 MAY 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 acknowledges completion of the two areas for improvement that it has been monitoring.***
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 February 2024. The key highlights are that: • Both areas for improvement linked to the Resources committee have now been marked as closed. • The closure of HMI-2.2-202206b (Estates Strategy) was approved by the Executive Board on 12/04/2024.
RESOURCE IMPLICATIONS	Considered within the Action Plan where appropriate.
EQUALITY RISKS AND BENEFITS ANALYSIS	Considered within the Action Plan where appropriate.
APPENDICES	Nil.
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	Closed

2.2 The closure of HMI-2.2-202206b (Fleet Strategy) was approved by the Executive Board on 11/07/2023.

2.3 The closure of HMI-2.2-202206b (Estates Strategy) was approved by the Executive Board on 12/04/2024.

GAVIN ELLIS
Chief Fire Officer