



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

**S.J. Sharman
CLERK TO THE AUTHORITY**

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

(see below)

**SERVICE HEADQUARTERS
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Date : 8 February 2024
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DEVON & SOMERSET FIRE & RESCUE AUTHORITY

Friday, 16th February, 2024

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

S.J. Sharman
Clerk to the Authority

AGENDA

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

1 Apologies

2 Minutes (Pages 1 - 6)

of the previous meeting held on 11 December 2023 attached.

3 Items Requiring Urgent Attention

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

PART 1 - OPEN COMMITTEE

4 Questions and Petitions from the Public

In accordance with [Standing Orders](#), to consider any questions and petitions submitted by the public. Questions must relate to matters to be considered at this meeting of the Authority. Petitions must relate to matters for which the Authority is responsible, or which affect the Authority. Neither questions nor petitions may require the disclosure of confidential or exempt information. Questions and petitions must be submitted in writing or by e-mail to the Clerk to the Authority (e-mail address: clerk@dsfire.gov.uk) **by midday on Tuesday 13 February 2024.**

5 Addresses by Representative Bodies

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

6 Questions from Members of the Authority

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

7 Minutes of Committees

a Audit & Governance Committee (Pages 7 - 10)

The Chair of the Committee, Councillor Coles, to **MOVE** the Minutes of the meeting held on 22 January 2024 (attached).

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

b People Committee (Pages 11 - 14)

The Chair of the Committee, Councillor Clayton, to **MOVE** the Minutes of the meeting held on 24 January 2024 (attached).

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

c Community Safety Committee (Pages 15 - 18)

The Chair of the Committee, Councillor Hendy, to **MOVE** the Minutes of the meeting held on 31 January 2024 (attached).

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

d Resources Committee (Pages 19 - 26)

The Chair of the Committee, Councillor Peart, to **MOVE** the Minutes of the meeting held on 5 February 2024 (attached).

RECOMMENDATIONS

(i).that the recommendations in relation to:

- the Capital Strategy;
- the 2024-25 Revenue Budget and Council Tax levels;
- the Capital Programme 2024-25 to 2026-27; and
- the Treasury Management Strategy (including Prudential and Treasury Indicators) 2024-25 to 2026-27

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

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

8 **Medium Term Financial Plan (Pages 27 - 36)**

Report of the Director of Finance & Corporate Services (Treasurer) (DSFRA/24/1) attached.

9 **Capital Strategy (Pages 37 - 46)**

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

10 **REVENUE AND CAPITAL BUDGETS**

a **2024-25 Revenue Budget and Council Tax Levels** (Pages 47 - 78)

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

b **Draft Capital Programme 2024-25 to 2026-27** (Pages 79 - 88)

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

c **Treasury Management Strategy (Including Prudential and Treasury Indicators) 2024-25 to 2026-27** (Pages 89 - 116)

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

11 **Extraordinary Authority Meeting - 25 March 2024 (Pages 117 - 118)**

Report of the Clerk to the Authority (& Monitoring Officer) (DSFRA/24/6) attached.

- 12 **Red One Limited - Review of Governance (Pages 119 - 156)**
Report of the Director of Finance & Corporate Services (Treasurer) and Monitoring Officer (DSFRA/24/7) attached.
- 13 **Appointments to Committees (Pages 157 - 158)**
Report of the Clerk to the Authority (& Monitoring Officer) (DSFRA/24/8) attached.
- 14 **Appointment of Chief Fire Officer (Pages 159 - 162)**
Report of the Clerk to the Authority (& Monitoring Officer) (DSFRA/24/9) attached.
- 15 **Reapportionment of Independent Member of the Local Pension Board (Pages 163 - 166)**
Report of the Clerk to the Authority (& Monitoring Officer) (DSFRA/24/10) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Atkinson, Best, Biederman (Vice-Chair), Brazil, Carter, Chesterton, Clayton, Coles, Cook-Woodman (Chair), Fellows, Gilmour, Hendy, Kendall, Kerley, Patel, Randall-Johnson, Peart, Power, Radford, Roome, Sellis, Slade, Sproston, Sully and Trail BEM

NOTES

1. **Access to Information**

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

2. **Reporting of Meetings**

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

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

3. **Declarations of Interests at meetings (Authority Members only)**

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

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

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

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

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

	NOTES (Continued)
4.	<p><u>Part 2 Reports</u></p> <p>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.</p>
5.	<p><u>Substitute Members (Committee Meetings only)</u></p> <p>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.</p>
6.	<p><u>Other Attendance at Committees)</u></p> <p>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.</p>

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

(Devon & Somerset Fire & Rescue Authority)

11 December 2023

Present:

Councillors Cook-Woodman (Chair), Biederman (Vice-Chair), Atkinson, Best, Brazil, Clayton, Coles, Gilmour, Kerley, Randall-Johnson, Peart, Power, Radford, Roome, Sellis, Slade, Sproston, Sully and Trail BEM

Apologies:

Councillors Fellows, Hendy, Kendall and Patel

DSFRA/23/25 Change in Authority Membership

The Clerk advised the Authority that, as a result of a change in political balance, Torbay Council had appointed Councillor Christine Carter (LD) to the Authority in place of Councillor Anna Tolchard (Con).

This would have implications for the political balance of the Authority and appointments to its Committees. The Clerk would advise the Authority of these implications at the earliest opportunity.

DSFRA/23/26 Minutes

a **Minutes of the Ordinary Meeting held on 25 September 2023**

RESOLVED that, subject to the following amendment, the Minutes of the meeting held on 25 September 2023 be signed as a correct record:

- Amendment – “Councillor Biederman (Vice-Chair)”, in place of “Councillor Biederman (Chair)”.

b **Minutes of the Extraordinary Meeting held on 31 October 2023**

RESOLVED that the Minutes of the Extraordinary Authority meeting held on 31 October 2023 be signed as a correct record.

DSFRA/23/27 Minutes of Committees

a **People Committee**

The Chair of the Committee, Councillor Clayton, **MOVED** the Minutes of the meeting held on 30 October 2023 which had considered, amongst other things:

- A report on performance monitoring for the second quarter of the current (2023-24) financial year against those key performance indicators falling within the remit of the Committee;

- A report on actions currently in train by the Service to address issues raised following its last People Survey;
- A report on progress with the Action Plan to address the Cause for Concern and Areas for Improvement identified by His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) following its 2022 inspection of the Service; and
- A report on progress by the Service to address issues raised by HMICFRS in report, published in March 2023, on values and culture in fire and rescue services.

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

b **Appointments & Disciplinary Committee**

The Chair of the Committee, Councillor Cook-Woodman, **MOVED** the Minutes of the meeting held on 31 October 2023 which had considered an issue on the appointment of a Authority Member Non-Executive Director to the Board of Red One Ltd.

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

c **Community Safety Committee**

In the absence of both the Chair and Vice-Chair of the Committee, Councillor Radford **MOVED** the Minutes of the meeting held on 10 November 2023 which had considered, amongst other things:

- A review of Key Performance Indicators falling within the remit of the Committee;
- A report on performance of the Service in quarter two of the current (2023-24) financial year against those Key Performance Indicators for Strategic Priorities 1 and 2, as falling within the remit of the Committee;
- A report on progress by the Service against the Action Plan developed to address Areas for Improvement within the remit of the Committee and as identified by HMICFRS following its inspection of the Service in 2022.

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

d **Resources Committee**

The Chair of the Committee, Councillor Peart, **MOVED** the Minutes of the meeting held on 22 November 2023 which had considered, amongst other things:

- A report on Service Treasury Management Performance during Quarter 2 of the current financial year;
- A report on financial performance during Quarter 2 of the current financial year against those Key Performance Indicators falling within the remit of the Committee;

- A report on progress with the Action Plan developed to address Areas for Improvement falling within the remit of the Committee and as identified by HMICFRS following its inspection of the Service in 2022; and
- A report on the financial performance of Red One Ltd. during Quarter 2 of the current financial year.

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

e **Audit & Governance Committee**

The Chair of the Committee, Councillor Coles, **MOVED** the Minutes of the meeting held on 30 November 2023 which had considered, amongst other things:

- An update from the Authority's external auditor (Grant Thornton) on progress with the audit of the Authority's financial statements for the year ended 31 March 2023;
- An interim report on progress against the approved internal audit plan for 2023-24;
- The 2022-23 annual report of the Authority's Local Pension Board; and
- A report on progress against the Action Plan developed to address Areas for Improvement falling within the remit of the Committee and as identified by HMICFRS following its inspection of the Service in 2022.

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

DSFRA/23/28 Independent Review of Members' Allowance Scheme 2024-25 to 2027-28

The Authority considered a report of the Clerk to the Authority (DSFRA/23/26) to which was appended a review, conducted by an independent consultant, on the level of Members' allowances to be payable from the 2024-25 financial year (including a mechanism for automatically uprating these allowances for the following three financial years up to and including 2027-28). The review had been informed by existing legislation and guidance on allowances and had examined, amongst other things, allowances payable by other combined fire and rescue authorities and allowances currently payable by Devon and Somerset County Councils, Plymouth City Council and Torbay Council (the constituent authorities which appointed to the Devon & Somerset Fire & Rescue Authority).

Following a debate on the report, including discussion as to affordability – for which the Treasurer provided an assurance that the proposals could be contained within available resources – Councillor Randall-Johnson **MOVED**, with Councillor Clayton seconding, that the recommendations contained in the report of the independent consultant be approved.

This motion was put to the vote whereupon it was

RESOLVED that

- (a). the basic allowance be set at:
 - £3,346 from 1 April 2024, and
 - Provisionally, £3,505 from 1 April 2025, subject to:
 - the officers increase not being more than 4.75%;
 - that should the increase be higher than the higher amount should be used as the uprating for the basic allowance and the SRAs appropriately; and
 - that if there is a pay freeze, this provisional increase should also be revisited);
- (b). Members should only be able to claim one Special Responsibility Allowance (at the highest rate applicable);
- (c). the multiplier for the Chair's Allowance be set at 4.9x basic allowance giving an allowance of £16,395 from 1 April 2024 and £17,175 from 1 April 2025 (subject to (a) above);
- (d). the Vice Chair's allowance be set at 2.48x basic allowance giving an allowance of £8,298 from 1 April 2024 and £8,692 from 1 April 2025 (subject to (a) above);
- (e). the Committee Chair's Allowance be set at 1.45x basic allowance giving an allowance of £4,522 from 1 April 2024 and £5,082 from 1 April 2025 (subject to (a) above);
- (f). the allowance for the Non-Executive Directors placed on the board of Red One Ltd should be set at 2.2x basic allowance at £7,361 from 1 April 2024 and £7,771 from 1 April 2025 (subject to (a) above);
- (g). the allowance for the Local Pensions Board should be set at 0.15x basic allowance giving an allowance of £501 from 1 April 2024 and £525 from 1 April 2025 (subject to (a) above);
- (h). the allowance for Independent Members of the Audit & Governance Committee should be set at 0.5x basic allowance giving an allowance of £1,673 from 1 April 2024 and £1,753 from 1 April 2025 (subject to (a) above);
- (i). from 1 April 2026 uprating of allowances should continue to be linked to any annual increase agreed by the NJC for Local Government Services (Green Book). In the event of a flat-rate increase arising from the Green Book pay award in any future year, the automatic uprating applied should be the percentage increase on the overall Green Book staffing budget resulting from the pay award.
- (j). travel rates should be linked to the rates published by HMRC and uprated as appropriate.

- (k). subsistence should be linked to the employee scheme and updated as appropriate.
- (l). overnight accommodation should be approved via Democratic Services based on the introduction of the following guidelines:

Members would be eligible for overnight accommodation when:

- *A Member is attending a residential event as the Devon & Somerset Fire & Rescue Authority appointed representative; and*
- *Attendance at a non-residential meeting by a member as the Devon & Somerset Fire & Rescue Authority appointed representative would require them to leave home before 7.00am or arrive back home after 11pm.*

When booking accommodation, either via Democratic Services or directly, there is an expectation that reasonable effort be made to book as far in advance as possible to secure the best rate available

DSFRA/23/29 Strategic Business Change Plan Tranche One

The Authority considered a report of the Chief Fire Officer (DSFRA/23/27) on steps proposed by the Service Executive Board to ensure the future sustainability of the Devon & Somerset Fire & Rescue Service (the Service).

The Chief Fire Officer (CFO) was proposing to make changes, under powers as set out within the Authority's approved Scheme of Delegations, to the current service delivery operating model to address the predicted budgetary deficit as reported within Medium-Term Financial Plan (MTFP). These changes were intended to boost productivity and facilitate diversity and inclusion within the workforce and would begin a step-change towards achieving the Service's desired future Target Operating Model (TOM).

The report set out the case for change and plans to address current and future challenges, with the following key areas to form the focus for the first tranche of the 'Sustainable Transformation Programme':

- a change to Whole Time Duty Systems;
- changes to the operating model for specialist rescue capability (SRT);
- amendments to the Pay for Availability remuneration agreement; and
- amendments to the policy and practice for dealing with unwanted fire signals.

Following an extensive debate on the report, Councillor Randall Johnson **MOVED**, with Councillor Roome seconding, that the recommendations in the report be approved.

Councillor Biederman proposed, with Councillor Atkinson seconding, that the above Motion be amended by the addition of the following:

- (c). that the Clerk be authorised to make representation on behalf of the Authority to the Local Government Association and the Government pressing for specialist rescue services to be made a statutory duty for fire and rescue services and funded accordingly.

Councillors Randall-Johnson and Roome (as mover and seconder of the original motion) indicated their willingness to accept this amendment with the consent of the Authority (signified without discussion) whereupon the Motion (as amended) was put to the vote, following which it was

RESOLVED that

- (a). the planned areas for change as identified in report DSFRA/23/27 be endorsed;
- (b). the planned areas for change as identified in report DSFRA/23/27 be included within the proposals for the Revenue Budget and Council Tax 2024-25 to be considered at the Authority Budget Meeting in February 2024; and
- (c). the Clerk be authorised to make representations on behalf of the Authority to the Local Government Association and the Government pressing for specialist rescue services to be made a statutory duty for fire and rescue services and funded accordingly.

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

The Meeting started at 10.00 am and finished at 11.55 am

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

22 January 2024

Present:

Councillors Coles (Chair), Clayton, Cook-Woodman, Fellows, Roome, Sellis, Slade (Vice-Chair) and Sully.

Independent, Co-opted Members:

Messrs Perks and Turkington

Apologies:

Councillor Sproston

* **AGC/23/22** **Minutes**

RESOLVED that the Minutes of the meeting held on 30 November 2023 be signed as a correct record.

* **AGC/23/23** **Revised Forward Plan 2023-24**

The Committee considered a report of the Clerk to the Authority (AGC/24/1) on proposed revisions to its Forward Plan which had arisen as a result of delays in submission of the Authority's financial statements for the 2022-23 financial year.

RESOLVED that the revised Forward Plan for 2023-24 as appended to report AGC/24/1 be approved.

* **AGC/23/24** **Devon & Somerset Fire & Rescue Authority Audit Progress Report and Sector Update**

The Committee received, for information, an external audit progress report and sector update from Grant Thornton (the Authority's external auditor) covering, amongst other areas:

- A summary of emerging national and sector issues and developments relevant to the fire & rescue service;
- An update on progress made up to January 2024;
- A number of challenging questions in respect of the emerging issues for consideration by the Committee.

Andrew Davies, representing Grant Thornton, advised the Committee that the audit of the Authority's financial statements was progressing well now, albeit that there had been an initial delay with its commencement.

The following key points were highlighted:

- Management over-ride of controls: the only reference had been to two previously identified control deficiencies. (No authorisation limit on journal posting and checking of journal postings). The Treasurer advised that a new finance system would be introduced in 2024-25 which would address the risks outlined. Mr Perks raised concerns around unusual journals as there had been no second line of defence. He requested a brief paper from management outlining the lower and higher risk journals to allow the Committee to challenge management. The Treasurer responded that 95% of the journals were automated and focused on payroll, recharges and site fuel costs. He confirmed he would submit a paper to the Committee on this matter. Grant Thornton had also recognised the retrospective controls that were in place providing a level of mitigation. The Treasurer reconfirmed the risk would be mitigated once new financial software was in situ.
- ISA240 Revenue Risk: Grant Thornton had re-considered their assessment upon receipt of the draft financial statement and had not identified any reasons to change their assessment. The Treasurer advised that the Committee had limited control over the Red One Ltd. financial audit. The company's Articles of Association stated that the appointment of its statutory auditors was a matter reserved to the Authority. The Treasurer's view was that this had not taken place. He added that the Authority was progressing a governance review which would improve its oversight of the company overall. A report thereon would be considered by the Authority at its meeting on 16 February 2024.
- Valuation of land and buildings: It was noted that Grant Thornton had asked for vehicle policies to be updated to reflect their asset lives. The Treasurer advised that the policies had been updated and the Service had responded to Grant Thornton accordingly. Grant Thornton had subsequently responded that the age of the asset life was not used appropriately. The Treasurer advised that, from an accounting perspective, the Service recognised the depreciating value of the asset as items aged.

* **AGC/23/25 Annual Audit Report 2022-23**

The Committee received for information the Annual Report on Devon & Somerset Fire & Rescue Authority's Value for Money (VFM) arrangements as submitted by the external auditor, Grant Thornton for the 2022-23 financial year.

Under the National Audit Office Code of Practice, the external auditor was required now to consider whether the Authority had put into place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in 2022-23 rather than giving a qualified/unqualified VFM conclusion.

Justine Thorpe, representing Grant Thornton, presented the VFM findings to the Committee. The criteria under which the Authority's VFM arrangements were judged was:

- Financial sustainability;
- Governance; and
- Improving economy, efficiency and effectiveness.

The external auditor had to consider whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. There were no significant weaknesses identified in the Authority's arrangements in all three of the above areas and good progress had been achieved overall since the previous Annual Audit Report albeit that two improvement recommendations were made (governance) as set out within the report circulated.

Reference was made to the significant financial challenges faced by the Service in future years (£20.8m) as identified within its Medium-Term Financial Plan which required the Authority's continued focus.

* **AGC/23/26** **Corporate Risk Register**

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (AGC/24/2) that provided an update on the Corporate Risk Register. The Corporate Risk Register (CRR) captured and described the most significant risks, both internally and externally, facing the Devon & Somerset Fire & Rescue Service ("the Service"), with a focus on cross-cutting risks and major projects and was reported to the Committee on a bi-yearly basis.

The risk management process included the identification, assessment and recording of risks together with mitigating activities. The Service's Risk Manager advised that there were currently 12 risks entered on the Corporate Risk Register with 1 risk added and 5 de-escalated to local and thematic risk and no risks closed. Of the 12 risks on the CRR currently, 5 were high risk and 7 were medium. The five high risks on the CRR were:

- CR044 - Cyber-attack causes sustained business systems outage, risk owner Shayne Scott (SIRO). Risk added September 2018. Risk remains indefinitely on register;
- CR050 - Failure to agree actions to set a balance budget in future years. Risk owner Shayne Scott. This risk was added September 2018. Risk remains indefinitely on the register;
- CR055 - (SSC003) Failure to thoroughly investigate and learn from safety events and take corrective action to prevent foreseeable reoccurrences. Risk owner Maria Phillips. This risk was added December 2019. Based on current progress it was anticipated that the risk should be de-escalated by 31 March 2024;

- CR070 - Failure to operate an effective risk assessment process. Risk owner Maria Phillips. This risk was added March 2021. It was anticipated that this risk should be de-escalated 31 March 2024; and
- CR079 - Inability to assure ourselves that the HFS data created, held and reported on is correct. Risk owner Gerald Taylor. This risk was added February 2022. It was anticipated that this risk should be de-escalated by the end of 2024.

The report set out details of the current position in respect of each of the 5 high risks together with information on how long each risk had been on the Register as requested by the Committee at its previous meeting. Based on current progress, it was anticipated that both CR055 and CR070 (as above) should be de-escalated to the Health & Safety thematic risk register by 31 March 2024. The Committee noted that the Executive Board monitored the position in respect of the CRR monthly and took decisions in respect of the closure, amendment or de-escalation of risks as set out within paragraph 3.1 and 3.2 of this report.

The Committee received assurance that appropriate controls were in place to protect the Service's interests and to achieve its Strategic Objectives.

Reference was made to the point that response to incidents involving flooding for the Service did not attract any funding from Government since this was not a statutory duty under the Fire & Rescue Services Act 2004. The Committee requested that the Authority consider this matter further with a view to pressing the Government for funding as appropriate to cover this work given the position with climate change and its acute financial pressures.

* **AGC/23/27**

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 (AGC/24/3) on progress against the Action Plan to address the Areas for Improvement falling within the remit of this Committee and as identified by His Majesty's Inspectorate of Constabulary & Fire & Rescue Services following its last inspection of the Service.

The report identified that all four Area for Improvement linked to this Committee were recorded as "in progress – OnTrack" albeit that the timescale for completion of (HMI-1.3-202205 – Quality Assurance of Audits and Fire safety Checks) had been extended to 31 August 2024. Mr Perks suggested that this action could be closed potentially as this could be an area in which the quality assurance process would be continually changing as further audits were undertaken. The Treasurer undertook to look into this matter and report back to the Executive Board accordingly.

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

The Meeting started at 2.00 pm and finished at 4.10 pm

PEOPLE COMMITTEE

(Devon & Somerset Fire & Rescue Authority)

24 January 2024

Present:

Councillors Clayton (Chair), Biederman, Coles (vice Kendall) and Trail BEM (Vice-Chair)

Apologies:

Councillors Atkinson and Peart

* **PC/23/11** **Minutes**

RESOLVED that the Minutes of the meeting held on 30 October 2023 be signed as a correct record.

* **PC/23/12** **Performance Monitoring Report 2023-24: Quarter 3**

The Committee received for information a report of the Director of Finance & Corporate Services (Treasurer) (PC/24/1) detailing performance as at Quarter 3 of 2023-24 against those Key Performance Indicators agreed by the Committee for measuring progress against the following three strategic priorities as approved by the Authority:

- 3(a). Ensure that the workforce is highly trained and has the capability and capacity to deliver services professionally, safely and effectively;
- 3(b). Increase the diversity of the workforce to better reflect the communities we serve, promoting inclusion and developing strong and effective leaders who ensure that we have a fair place to work where our organisational values are a lived experience; and
- 3(c). Recognise and maximise the value of all employees, particularly the commitment of on-call firefighters, improving recruitment and retention.

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

- operational core competence skills (beathing apparatus; incident command; water rescue; safety when working at heights or in confined spaces; maritime; driving; and casualty care);
- health and safety (a general overview of the work undertaken on station audits and the risk from contaminants, accidents [including near misses]; personal injuries; vehicle incidents (together with the correlation to appliance mobilisation) and reporting against the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR));

- sickness and absence (including mental health) for wholetime, on-call, support, Control and casual staff, types of sickness absence, details of the health and wellbeing support offered by the Service. The report also provided comparisons with national fire service data and featured benchmarking for sickness absence against comparable, neighbouring fire and rescue services;
- fitness testing (including support offered for red and amber groups);
- diversity, with a particular emphasis on the work being undertaken on promoting inclusion and developing strong leaders within the organisation;
- strategic workforce planning including details of staff turnover in all categories of the workforce; and
- an overview of the People Services Systems project.

Attention was drawn at the meeting to the following points:

- The performance on operational core competence skills was updated at the meeting as follows:
 - Breathing Apparatus – 99%;
 - Incident command – 98.9%;
 - Maritime – 97.1%;
 - Water Rescue – 96%; and
 - SHACS – 92.9% (amber).

It was noted that 45% of staff were booked in for courses under the new system so good progress was being made.

- Fitness - 1520 staff had been tested to date, meeting the required standard with 27 staff failing to meet the required fitness;
- Accidents - there had been a decrease in the overall trend for accidents during 2023. The quarter 3 accident numbers were up by 9 on the previous quarter and up 5 for the same quarter in 2022-23. Vehicle related safety events remained the greater proportion of safety events though when vehicle related safety events (34) were compared to vehicle mobilisations (8386) over quarter 3, only 0.4% resulted in a vehicle related safety event.
- There were 12 near misses in Quarter 3 of 2023-24, a 14% (2 events) reduction on reporting from the previous quarter. The benefits of near miss reporting continue to be communicated by the Health and Safety Team.
- Personal injuries – these figures remained low with the trend showing a decrease over the 12 month period from quarter 4 of 2022-23 to the end of quarter 3 in 2023-24. Quarter 3 of 2023-24 showed an increase on one event on the previous quarter;

- Vehicle accidents – there were 34 vehicle incidents in quarter 3, the same number as in quarter 2. The Organisational Road Risk Group continued to meet monthly to monitor the position and to increase communication proactively to raise awareness of the areas where vehicle accidents were occurring;
- RIDDOR – there had been 4 reports during quarter 3 of 2023-24. The incidents were all being investigated further.

It was noted that total sickness had increased marginally in the last quarter of 2023-24 (6.9 days/shifts lost in December 2023) primarily relating to long term absence with short term absence decreasing in comparison to this (2.2 days uncertified and 1.6 days certified). Total sickness for the year to date (to December 2023) was 8.04 days. Musculoskeletal injuries were still high but not as high as mental health absence which remained the main causes of absence. It was noted that the Service continued to promote the support available to staff in such circumstances.

The Committee was apprised of the work being undertaken to address capability, disciplinary and grievance cases within the Service. In 2023 (January to December), there had been 18 formal capability cases, 23 disciplinary cases and 19 grievances. The report provided further information in respect of the type of cases and an overview of the outcomes.

The report also set out details of the work being undertaken on diversity and inclusion issues within the Service with an update on strategic workforce planning issues.

The Committee made reference to issues that had been picked up via station visits by Members on training and estates matters. The Director of Service Delivery Support advised that she would pick up these issues outside of this meeting.

* PC/23/13

His Majesty's Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) Cause of Concern and Areas for Improvement Action Plan Update

The Committee received for information a report of the Chief Fire Officer (PC/24/2) outlining progress to date against the Action Plans developed to address both the Cause of Concern and Areas for Improvement identified following the most recent Service inspection by His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS).

In terms of the Cause of Concern and 14 Areas for Improvement identified by HMICFRS, 8 had been linked to the People Committee for tracking.

Two of the actions within the Cause of Concern Action Plan were recorded currently as "In Progress - Off Track" which were:

- 01a.07 - Expectations documents (charters);
- 01b.15 – 01 evidence and assurance.

The reasons behind this were as set out in the report circulated. The report also set out the position with regard to the status of other projects which were either “In Progress – On Track” or “Completed”. Of the 23 areas for improvement actions identified for this Committee, 20 actions had been completed with 2 off track and 1 paused.

* **PC/23/14** **People & Culture Update**

The Committee received for information a report of the Chief Fire Officer (PC/24/3 setting out the progress made against the 35 recommendations in His Majesty’s Inspectorate of Constabulary & Fire & Rescue Services (HMICFRS) published report into values and culture in the fire and rescue service. 19 of these recommendations were specific to the fire and rescue service and 15 required action at national level.

Two recommendations (REC26 and REC33) had been closed following review by the HMICFRS Governance Board and the Service’s Executive Board since the previous meeting of the Committee. 3 were “in progress” (as below), two “not started” and one “awaiting closure”.

The three recommendations which remained ‘In Progress’ were:

- REC09– background checks;
- REC32 – diversity in succession planning;
- REC024 – monitor and evaluate feedback; and

This was due to the following factors:

- Recommendations 24 (Monitoring and Evaluating Feedback) and 32 (Diversity in succession planning) remain ‘In Progress’ until further action has been taken.
- People Services are currently considering a process and timelines for ensuring that DSFRS meet the new national requirements for DBS checks. Once this timeline has been established, contact will be made with HMICFRS to outline actions being taken, in line with the national standards, and a revised completion date.

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

The Meeting started at 10.00 am and finished at 1.03 pm

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

31 January 2024

Present:

Councillors Hendy (Chair), Chesterton (Vice-Chair), Brazil, Coles (vice Kerley) and Power.

Apologies:

Councillors Kerley and Patel

In attendance (via Teams):

Councillors Biederman and Clayton

* **CSC/23/10 Minutes**

RESOLVED that the Minutes of the meeting held on 10 November 2023 be signed as a correct record.

* **CSC/23/11 Strategic Priority 1 and 2 Performance Measures: Quarter 3 - 2023-24**

The Committee considered a report of the Director of Service Delivery (CSC/24/1) to which was appended a performance monitoring report for the third quarter of the current (2023-24) financial year against those Key Performance Indicators (KPIs) falling within the remit of this Committee for scrutiny purposes and aligned to Authority-approved Strategic Priorities 1 and 2.

In summary, the KPI performance was:

	Succeeding (i.e. achieving target)	Near target (i.e. less than 10% away from achieving target)	Needs Improvement (i.e. at least 10% away from achieving target)
Priority 1	10	5	4
Priority 2	6	7	1

The five KPIs with a status of “needs improvement” were:

- KPI 1.1.2.2 - Fire-related deaths in dwellings;
- KPI 1.1.9.2 - Fire-related deaths in other locations;
- KPI 1.2.4.1 - Fire safety checks completed;
- KPI 1.2.5.4 - Non-domestic false alarms due to apparatus; and
- KPI 2.1.4.2 - Level 4 operational risk sites in date for revalidation.

The report provided a detailed exception report for the five KPIs requiring improvement, explaining the reasons for the exceptions and measures to remediate the performance.

In terms of the exception report on the number of fire safety checks completed, the Director of Service Delivery advised that better monitoring system were in place now to improve the efficiency of wholetime crews which should impact on the delivery of home fire safety checks. The Committee asked if non achievement of this target was a one-off position which the Director of Service Delivery confirmed. He added that this was an ambiguous target, however, and the Service may wish to revisit this in future.

In respect of the target on non-domestic alarms due to apparatus, the Director of Service Delivery advised that this pattern was being seen nationally. The Clerk added that a full review of the response to was underway on this matter in line with the projects identified under the Medium-Term Financial Plan to make savings and further report would come forward to the Committee in due course. The Committee drew attention to the need to ensure that the true costs of all responses to automatic fire alarm activations were recovered without increasing the risk and impact on the community. A report would be submitted to the Committee on this matter in due course as per the discussion at the previous meeting (Minute CSC/23/8 refers).

It was noted that performance on Level 4 operational risk sites in date had improved since publication of this report and was no longer in exception.

* **CSC/23/12 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 (CSC/24/2) on progress against action plans to address Areas for Improvement within the remit of this Committee and stemming from His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) 2022 inspection report of the Devon & Somerset Fire & Rescue Service (the Service).

Action plans had been developed to address the following two Areas for Improvement which were specifically related to the remit of this Committee:

- HMI-1.2-202203 - The Service should evaluate its prevention activity so it understands what works; and
- HMI-1.2-202204 - Safeguarding training should be provided to all staff.

It was noted that delivery of the Areas for Improvement action plan was on track now with Safeguarding training in progress. There were outstanding actions to mitigate the quality assurance process, however, which had impacted the timescale for completion slightly.

* **CSC/23/13** **Changes to Fire Protection Legislation**

The Committee received for information a report of the Director of Service Delivery (CSC/24/3) setting out details of recent changes in fire safety legislation.

The main changes included:

- Fire Safety Act 2021 - Changes to clarify that, in buildings with two or more sets of domestic premises, the Regulatory Reform (Fire Safety) Order 2005 applied;
- The Fire Safety (England) Regulations 2022 (which came into force on 23 January 2023) - to change the definition of a high rise residential building to at least 18m above ground level with at least seven storeys; and
- The Building Safety Act 2022 (which came into force on 1 October 2023) which provided greater accountability and responsibility for fire and structural safety issues throughout the lifetime of a building with a stricter regulatory regime for high rise buildings (at least 18m above ground).

The Committee noted that these pieces of legislation had arisen primarily as a result of the Grenfell tragedy but represented a very positive way forward for fire safety in future.

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

The Meeting started at 2.03 pm and finished at 2.51 pm

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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 2023-24 and 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 2024-25 together 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 Kingdom (UK) economy had seen a 0.3% decline in real Gross Domestic product (GDP) in October 2023 potentially due to the wet weather and also the drag from 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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Agenda Item 8

REPORT REFERENCE NO.	DSFRA/24/1
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)
DATE OF MEETING	16 FEBRUARY 2024
SUBJECT OF REPORT	MEDIUM-TERM FINANCIAL PLAN
LEAD OFFICER	Director of Finance and Corporate Services (Treasurer)
RECOMMENDATIONS	<i>That the Medium-Term Financial Plan as set out in this report be endorsed.</i>
EXECUTIVE SUMMARY	<p>The requirement to produce and publish a Medium-Term Financial Plan is included in the current iteration of the Fire & Rescue National Framework for England.</p> <p>The document now attached outlines funding, income and expenditure forecasts for the Authority for the next five financial years (to 2027-28). The Plan identifies how the financial forecast is constructed (including funding sources and expenditure/cost pressures) together with savings targets over the period covered the Target Operating Model will be the principal vehicle for delivering these savings.</p> <p>As such, the Medium-Term Financial Plan should be considered alongside the Target Operating Model (which will deliver against those objectives in the Community Integrated Risk Management Plan) and the Reserves Strategy.</p> <p>The Medium-Term Financial Plan will be updated at least annually as part of the budget setting process and will be refreshed more frequently as soon as any information making a material difference becomes available.</p>
RESOURCE IMPLICATIONS	As set out in the Medium-Term Financial Plan appended to this report.
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing Equalities and Human Rights legislation.
APPENDICES	A. Glossary and methodology for calculating assumptions.
BACKGROUND PAPERS	Community Risk Management Plan 2022 - 2027 Fire & Rescue National Framework for England 2018

1. INTRODUCTION

- 1.1. The Devon & Somerset Fire & Rescue Authority (the Authority) covers a diverse geographical area across two counties; with large towns and cities, market towns and isolated rural areas together with major roads and two extensive lengths of coastline. The current budget (2023-24) of £85.4m is used to resource 83 fire stations, 112 fire engines in addition to numerous special appliances. Around 1,800 staff deliver fire prevention and protection activity, respond to emergency calls and incidents and provide professional support functions.
- 1.2. This document is the Medium-Term Financial Plan and outlines funding, income and expenditure forecasts for the next five years. The Medium-Term Financial Plan will be updated annually as part of the budget setting process and will be refreshed more frequently if information which makes a material difference becomes available. Understanding the Authority's finances is really important when making decisions about the future and this document should be read alongside the Authority's Community Risk Management Plan and Reserves Strategy together with the change Programme.
- 1.3. The CIPFA Prudential Code ensure that, within this framework, that the Capital investment plans are affordable, prudent and sustainable. Please refer to the published Capital Strategy for more information.

2. FUNDING AND INCOME

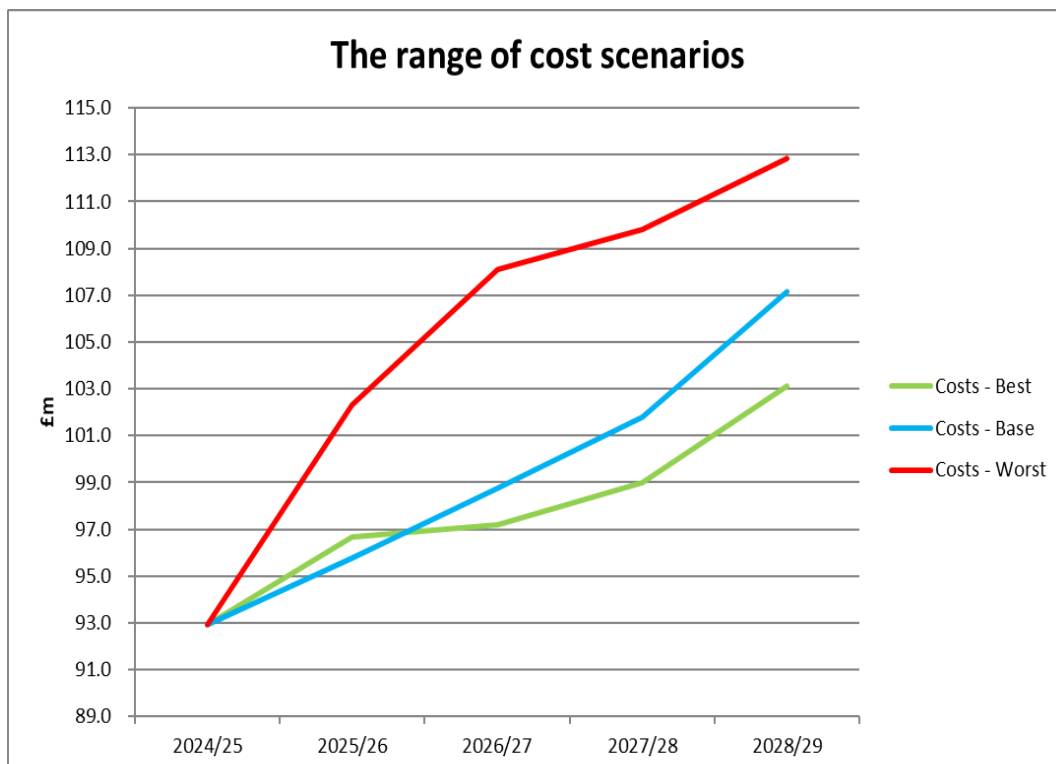
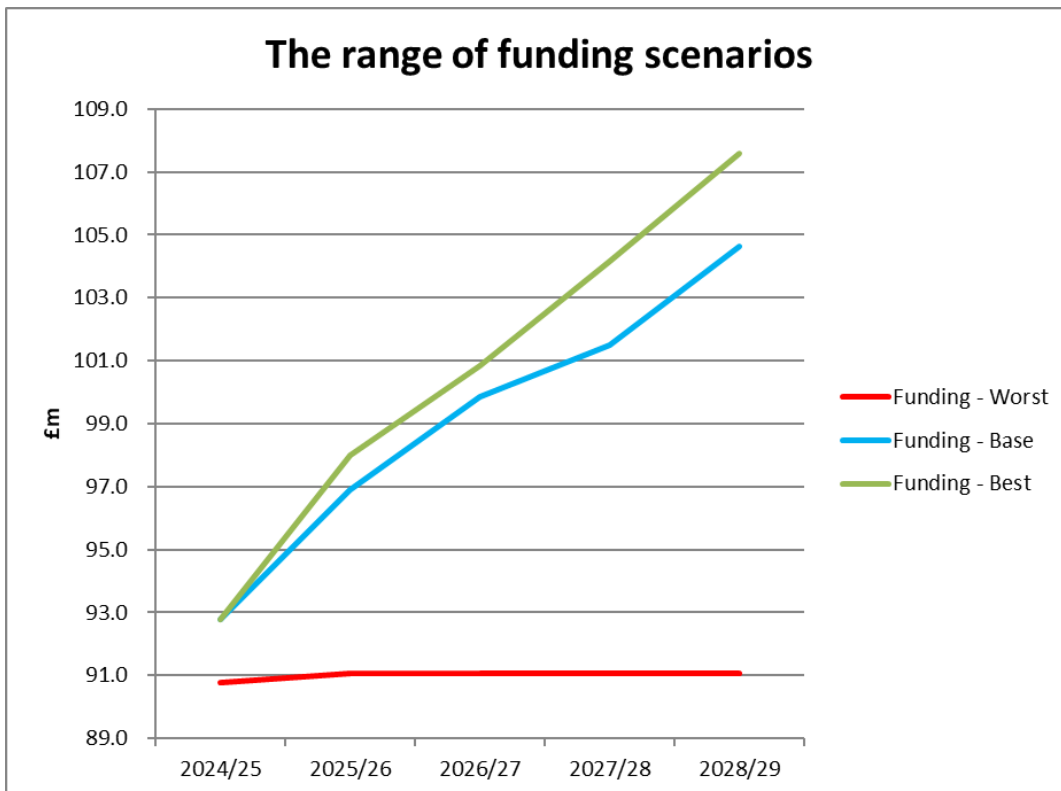
- 2.1. The Authority has three main sources of revenue funding:
 - Council Tax Precept;
 - National Non-Domestic Rates Scheme; and
 - Revenue Support Grant.
- 2.2. Additionally, income from one-off grants, recharges and services is offset against our expenditure in order to reach the "net revenue budget" in each year.

3. BUILDING THE MEDIUM-TERM FINANCIAL FORECAST

Planning for different scenarios

- 3.1. The forecasts in this document represent a "base case" scenario built on the latest information from government, sector knowledge and experience of finance officers. "Worst case" and "best case" scenarios are also developed to show the impact of various funding and cost pressures.
- 3.2. In the Worst case, government grants are frozen, pay and inflation see a steep increase, additional pensions costs arise, council tax is frozen and the base continues to remain as is with no growth and a very modest mid-period increase in council tax collection surplus.
- 3.3. In the Best case, government grants, pay and inflation remain steady, pension costs are funded and Council tax is increased every year, with the council tax base achieving modest growth.

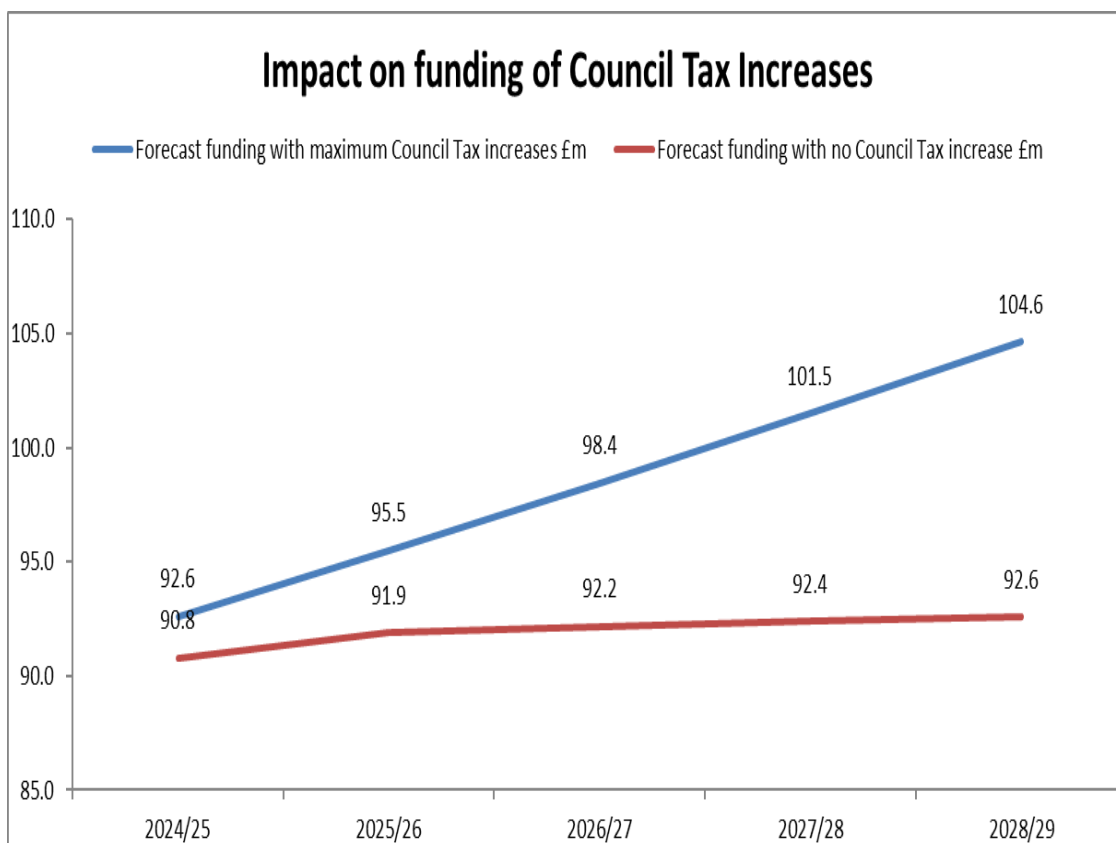
- 3.4. In the Base case, which is presented here, government grants rise with inflation, pay and inflation remain steady, pension costs are minimal and council tax losses are minimised. This is considered the most likely scenario.
- 3.5. The Base case is presented to the Authority with options over council tax and where savings targets are fed back into the budget setting process each year.



3.6. The range of scenarios presented in the charts above demonstrates that the savings gap (the difference between funding and costs) could vary from a deficit of £20.7m to a benefit of £4.7m over the next five years. The base case (£13.4m gap) represents the most likely scenario and informs the Medium-Term Financial Plan. Because the Plan is reviewed annually, variations can be built in and projections are refined at regular intervals, short term exceptions can also be smoothed out using reserves.

Funding

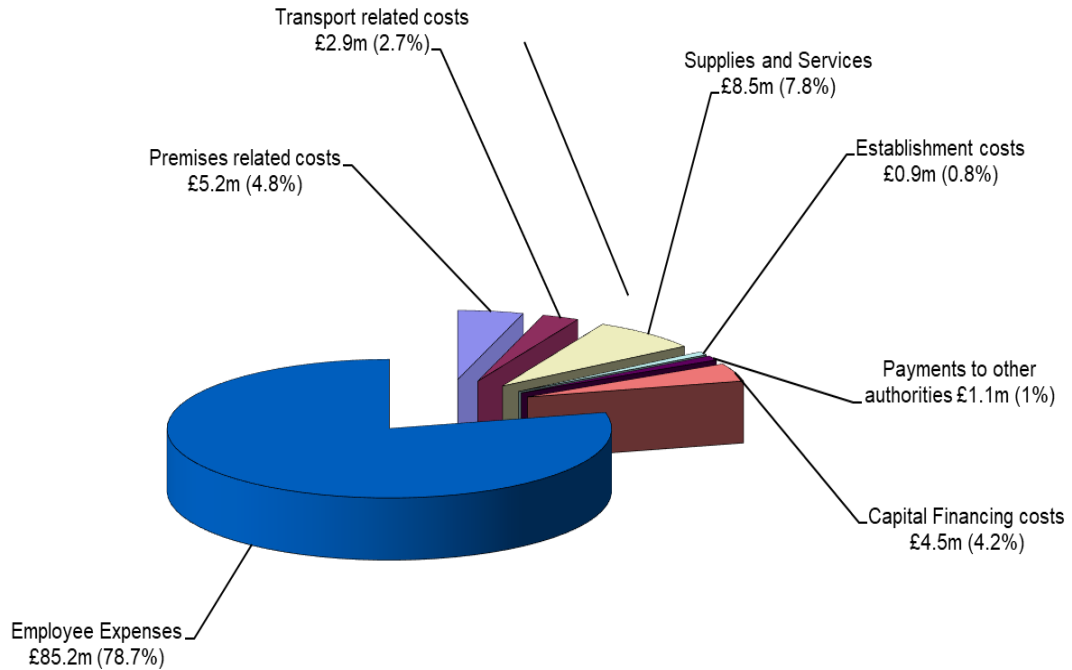
3.7. When building the five-year forecast, assumptions are made about each of the funding sources and how they may change in the coming years. A range of scenarios can then be used to calculate the anticipated funding available. The Authority only has direct control over the level of Council Tax raised each year and the following graph shows the impact on funding of maximum raises against no increases, which could amount to a difference of £12.0m over the next five years.



Expenditure

3.8. Assumptions are also made about forecast expenditure. The Authority can control some of its costs by managing its budget effectively; other elements are dependent on national drivers such as inflation, superannuation (pension) costs and pay awards. Expenditure is shown in the chart overleaf which highlights that 78.7% of Service costs are related to employees, meaning that increases in this area can have a significant impact on the budget. The Capital Programme is also paid for through Revenue funds; a combination of money set aside to pay for historic borrowing, budget provision to fund future capital expenditure and Reserves designated for Capital Use.

Devon & Somerset Fire & Rescue Authority - Analysis of Spending 2024/25



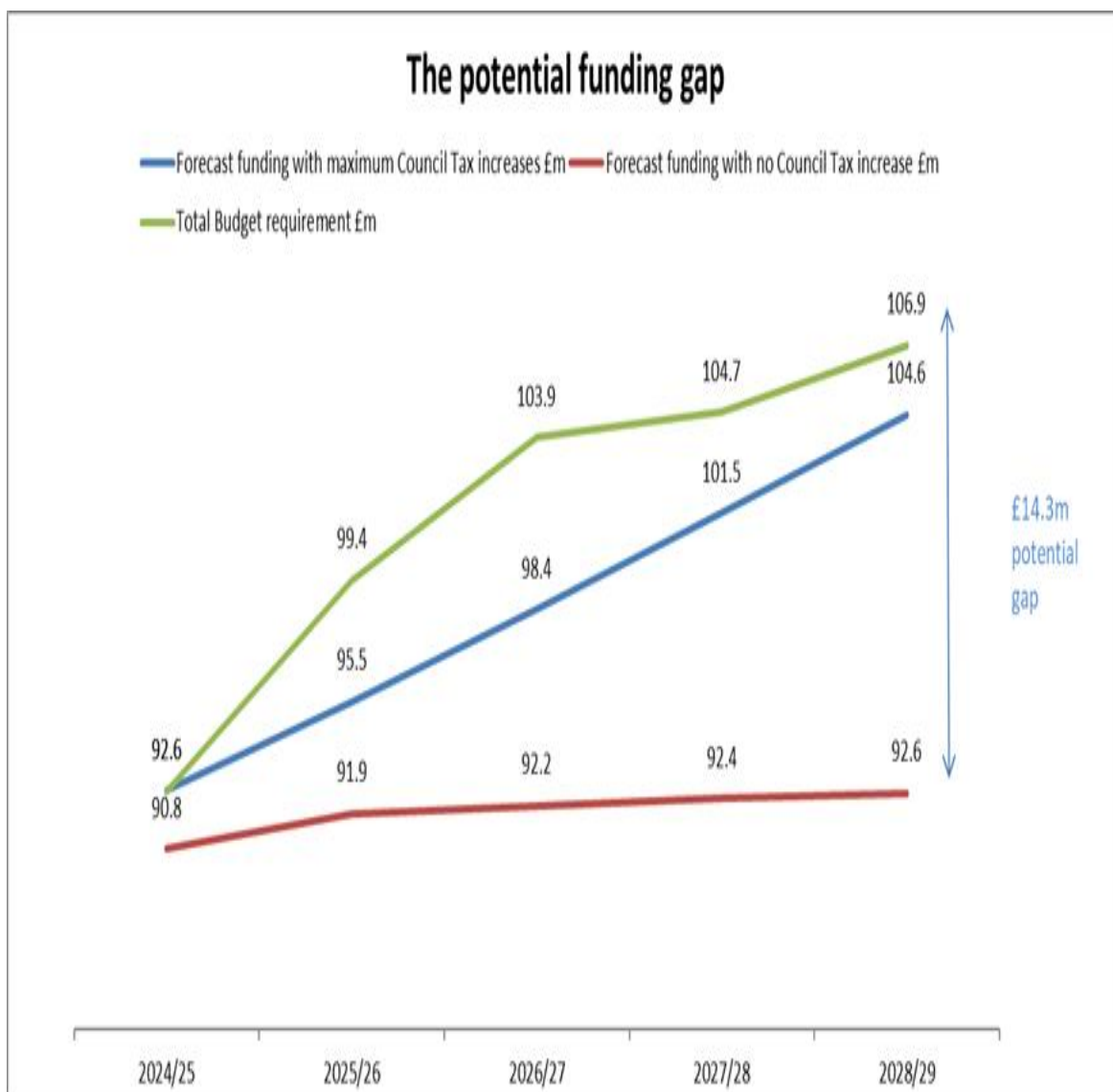
Cost Pressures

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

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

Savings targets and the Target Operating Model

3.10. The chart overleaf shows the gap between potential funding available versus the budget requirement, including cost pressures. This is known as the funding gap. Over five years the funding gap could reach £14.3m if Council Tax is frozen, falling by £12.0m if increased in line with assumed referendum limits (i.e. 1.99%) set by HM Treasury.



3.11. The Authority has an excellent history of achieving savings targets, with over £23.1m saved over the years since 2011-12 to 2023-24.

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

4. **MEETING THE FUNDING GAP**

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

- Publication of an Estates Strategy including rationalisation of buildings;
- Smarter working and continued Digital Transformation; and
- Exploring opportunities to improve the productivity of Service staff and assets including the wholtime shift patterns.

5. **STRATEGIC ASSESSMENT OF RISK**

- 5.1. To ensure that our Community Risk Management Plan (CRMP) remains relevant and reflective of the wider landscape in which we operate, we undertake an annual review including the strategic assessment of risk.
- 5.2. This assessment examines a range of key factors that impact on our organisation from opportunities and challenges emerging from within the fire sector and those within the wider public-sector environment.
- 5.3. The assessment aims to help ensure that our planning and decision-making remains current and reflective of the landscape within which we operate. It is developed from analysis that draws on a broad range of information, data, and intelligence, looking both externally and internally and against risk and demand.
- 5.4. The document evidences a large number of key strategic issues facing the Authority within its current and future planning including:
 - Financial uncertainty for the Authority and its partners is set to continue for the foreseeable future.
 - Our targeted prevention and protection activities reduce the risks on our communities, improving health, safety and wellbeing and supporting the local economy.
 - There is a requirement to consider the sustainability of our operational training centres, including the feasibility of developing a single, central and modernised training facility to further improve firefighter safety; reduce medium-term costs and mitigate the risks associated with the existing PFI arrangements.
 - The recruitment and retention of on-call firefighters will remain increasingly difficult with a significant impact upon the availability of appliances and costs
 - The number of people killed or seriously injured on our roads remains consistently high and needs to be further reduced
 - There is a need to ensure that the Authority plays its part in reducing the Service's environmental impact, which will need some one-off "Invest to Save" funding to generate longer term, ongoing savings as part of our efficiency plan
 - The diversity of the workforce is not sufficiently reflective of the community we serve.
 - There is a need to continue strengthening the work pursued within the Network Fire Service Partnership (NFSP) with our neighbouring fire and rescue services to upgrade the mobilising systems and drive costs and efficiency savings through borderless mobilising operational assets
 - There is a continued need to engage and financially resource the much delayed national emergency services' mobile communications programme to improve future resilience of communications and incident management as the Airwave system comes to end of its contract.

6. CAPITAL PROGRAMME.

- 6.1. Capital expenditure and financing are contained within the 5-year Capital Programme which is presented to the Fire Authority under a separate report. This can be read in conjunction with the Capital Strategy, which is also presented annually to the Fire Authority and is published on the website.
- 6.2. The 2024-25 programme includes the outcomes of independently undertaken property conditions survey, identifying the property assets in most need of attention now and over the next few years, based on risk and priority. The Estates programme also includes the required investment to deliver the project to provide future-proofed operational training facilities within the Academy. A replacement for the Fire Station in Plymouth (Camels Head) is also included alongside some station improvements.
- 6.3. Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. After some significant investment over the past few years the 2024-25 capital programme includes replacement of five fire appliances, four all-wheel drive fire appliances, 3 aerial ladder platforms, 5 water carriers, three incident command support vehicles and a number of other smaller vehicles.

7. CONCLUSION

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

SHAYNE SCOTT

Director of Finance & Corporate Services (Treasurer)

GLOSSARY AND METHODOLOGY FOR CALCULATING ASSUMPTIONS

Council Tax Precept. Each household receives an annual Council Tax Bill which is made up of charges for various services such as County, Unitary, District and Parish Councils, Police and Fire. The charge is known as the Council Tax Precept and is determined by the Authority each year and is usually quoted as the amount for a Band D property. In Devon & Somerset there are 11 billing authorities made up of district and unitary councils and those bodies are responsible for sending out bills to households and collecting the money which is then paid over to the Authority.

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

- The amount of Council Tax Precept that each household pays is set by the Authority each year and in 2024-25 is subject to a maximum of 2.99% increase (any increase above that level would require a local referendum to be held).
- The number of households in the area (the Council Tax Base) which is estimated based on housing growth.
- The success of billing authorities in collecting their Council Tax; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Authority (Council Tax Surplus/Deficit).

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

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

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

Revenue Support Grant is received directly from central government and is based on the Settlement Funding Agreement which is determined based on analysis of spending requirement across English Fire Services. The Settlement Funding Agreement can be set annually or for a longer period. A one-year settlement was made for 2024-25. Beyond that period assumptions have to be made as to the level of grant income to be received.

Medium Term Financial Plan Assumptions	2024/25	2025/26	2026/27	2027/28	2028/29
Council Tax Precept	2.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base	0.50%	1.60%	1.60%	1.60%	1.60%
Council Tax Surplus	1.00%	1.00%	1.00%	1.00%	1.00%
National Non-Domestic Rates	2.00%	2.00%	2.00%	2.00%	2.00%
Revenue Support Grant	6.70%	1.90%	1.90%	1.90%	1.90%
Total Impact on net funding £m	8.1	7.2	2.9	3.0	3.1
Forecast funding with maximum Council Tax increases £m	92.6	95.5	98.4	101.5	104.6
Forecast funding with no Council Tax increase £m	90.8	91.9	92.2	92.4	92.6

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

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

Cost Pressures:

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

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

Superannuation. The Authority is responsible for paying employer pension contributions (also known as superannuation) which are based on a percentage of pensionable pay. There are several pension schemes for firefighters and support staff and the employer contribution percentage rates are determined every three years via an actuarial valuation. Superannuation currently accounts for around 22% of expenditure on employee costs so variations to rates can have a significant impact. Estimated increases are included in the Medium Term Financial Plan as a cost pressure.

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

REPORT REFERENCE NO.	DSFRA/24/2
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)
DATE OF MEETING	16 FEBRUARY 2024
SUBJECT OF REPORT	CAPITAL STRATEGY
LEAD OFFICER	Director of Finance & Corporate Services (Treasurer)
RECOMMENDATION	<i>That the Authority endorses the Capital Strategy as set out in this report.</i>
EXECUTIVE SUMMARY	<p>The 2017 Prudential Code included the requirement for all Local Authorities to produce an annual capital strategy that is agreed by the Members. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high-level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure. The 2021/22 revised Prudential Code also required the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily for yield.</p> <p>This report was previously considered by the Resources Committee at its budget meeting on 5 February 2024. The Committee resolved to recommend that the Authority endorse the Capital Strategy.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017

1. INTRODUCTION

- 1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 included a new requirement for local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with the Service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.
- 1.2. The capital strategy is a key document for the Authority and forms part of the financial planning arrangements, reflecting the priorities set out in the Fire & Rescue Plan and the Medium-Term Financial Strategy. It provides a high-level overview of how capital expenditure, and the way it is financed, contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure.

2. CAPITAL EXPENDITURE

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

3. CAPITAL EXPENDITURE COMPARED TO TREASURY MANAGEMENT INVESTMENTS

- 3.1. Treasury Management investments arise from the organisation's cash flows and debt management activity, and ultimately represent balances which can be invested until the cash is required for use in the course of business. As an example, the Authority set-a-side an amount each year to reflect the usage of an asset (Minimum Revenue Provision – see Section 17 below). This amount is invested but cannot be used to fund future capital expenditure as it is required to pay off a loan on maturity.
- 3.2. For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the annual Treasury Management Strategy Statement.
- 3.3. Performance of the Treasury Management investments is reported to the Resources Committee at the end of each quarter.

4. CAPITAL REQUIREMENTS

- 4.1. This Authority has experienced significant revenue grant reductions since 2010 and no longer receives any capital grant. With further revenue grant reductions a possibility and increasing cost pressures, new ways of working are being implemented so that the Service can address the risks within our communities and balance the budget. The National Risk Register identifies emerging challenges such as the continued threat of terrorism, the impacts of climate change (wildfires and increasing flooding) and the impacts of an ageing population. These have been considered through the recently published Community Risk Management Plan (CRMP) for years 2022-2027, along with the requirements of the Fire and Rescue National Framework and local risks to Devon and Somerset.
- 4.2. The Authority currently has 83 fire stations across the counties of Devon and Somerset.
- 4.3. At the commencement of the 2024-25 year, the Service will have 112 front-line fire engines, of which 25 have surpassed their recommended economic life, and 22 Special Appliances. Of the 22 Special Appliances, an order has been placed to replace three aged Aerial Ladder Platforms with an anticipated delivery starting during Q2 2024. Ensuring prioritisation over where capital resources are used to best utilise our estate and fleet of vehicles is paramount.

5. PROJECT INITIATION

- 5.1. Capital projects are subject to a robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken.
- 5.2. Proposals are commissioned by the Executive Board and then monitored through regular meetings between capital leads, procurement and finance officers. The Project Board considers variations to plan and monitors milestones.
- 5.3. A formal process of project management is followed with a project manager or building surveyor assigned to each Capital scheme to ensure they are subject to thorough oversight for the duration of the project. The project manager will oversee planning, delivery, management, skills assessment and governance of capital projects.
- 5.4. Capital projects will be assessed for:
- Strategic fit – corporate objectives are being met by the expenditure.
 - Identified need – e.g. vital repairs and maintenance to existing assets.
 - Achievability – this may include alternatives to direct expenditure such as partnerships.

- Affordability and resource use – to ensure investment remains within sustainable limits.
- Practicality and deliverability.
- Resource time is assessed when considering projects to ensure both delivery of projects and day-to-day work is covered.

5.5. To support a robust governance process, for larger capital investment projects, the Service uses the “Five Case” model to develop the business case as recommended by HM Treasury. The model provides a discipline and structure to arrive at the best possible decision and considers; The strategic case (the case for change), the economic case (value for money), the commercial case (it is commercially viable and attractive to the market), the financial case (to ensure the proposed spend is viable) and finally the management case (that the requirement is achievable).

6. THE SERVICE CAPITAL PROGRAMME 2024-25 – 2028-29

6.1. The Service capital programme for 2024-25 – 2028-29 is considered annually and is set out in the table below.

Table 1

Capital Programme 2024/25 to 2028/29									
2023/24 £000 Budget	2023/24 £000 Forecast Outturn	Item	PROJECT	2024/25 £000 Budget	2025/26 £000 Budget	2026/27 £000 Budget	2027/28 £000 Indicative Budget	2028/29 £000 Indicative Budget	
			Estate Development						
1,919	15	1	Site re/new build	520	3,884	500	0	0	
5,009	955	2	Improvements & structural maintenance	4,293	2,075	8,122	3,430	855	
6,928	970		Estates Sub Total	4,813	5,959	8,622	3,430	855	
			Fleet & Equipment						
4,522	3,150	3	Appliance replacement	1,489	2,119	2,180	1,430	1,460	
2,266	1,913	4	Specialist Operational Vehicles	1,944	455	0	920	505	
570	235	5	ICT Department	0	0	0	0	0	
7,358	5,298		Fleet & Equipment Sub Total	3,433	2,574	2,180	2,350	1,965	
(1,200)	0	6	Optimism bias Sub Total	(1,000)	(200)	(500)	1,000	700	
13,086	6,268		Overall Capital Totals	7,246	8,333	10,302	6,780	3,520	
			Programme funding						
11,753	4,563	7	Earmarked Reserves:	4,716	4,480	1,918	0	0	
50	22	8	Revenue funds:	719	2,050	2,050	2,050	2,050	
0	400	9	Capital receipts:	0	0	0	0	0	
1,283	1,283	10	Borrowing - internal	1,382	1,803	0	1,229	1,470	
0	0	11	Borrowing - external	0	0	6,334	3,501		
0	0	16	Grants						
0	0	12	Contributions:	429	0	0	0	0	
13,086	6,268		Total Funding	7,246	8,333	10,302	6,780	3,520	

7. FUNDING THE CAPITAL PROGRAMME

- 7.1. There are several funding sources available to meet the Authority's capital expenditure requirements. These are explored in more detail.

8. REVENUE FUNDING

- 8.1. The Authority agreed on 24th February 2014 that an element within the Revenue budget for each year will go towards funding the capital programme and this has continued into each subsequent financial year. The amount awarded to assist with the capital programme is based on affordability and is specific to that year. Table 1 identifies the amount the Authority is hoping to fund from Revenue each year.

9. PRUDENTIAL BORROWING

- 9.1. The Authority is permitted to take out regulated external borrowing. The Local Government Act 2003 refers to affordability and the requirement that the local authorities in England and Wales keep under review the amount of money they borrow for capital investment.
- 9.2. The Code requires that "The local authority shall ensure all of its capital and investment plans and borrowing are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt (including Minimum Revenue Provision) and consideration of risk and the impact on the overall fiscal sustainability". The impact of borrowing is outlined within the Treasury Management Strategy Statement and monitored by the Resources Committee on a quarterly basis.
- 9.3. In line with the revised 2021/22 prudential Code, I can certify that the Authority's capital spending plans do not include the acquisition of assets primarily held for yield.

10. RESERVES

- 10.1. It has been the strategy of the Authority to utilise revenue contribution to fund capital expenditure. Following approval by the Authority, an amount of the in-year revenue budget underspend has been set-a-side and moved into a reserve to fund the future capital programme. The amount of Earmarked Reserve funding identified to fund the Capital programme is shown above. No additional external borrowing has been taken out - the last loan the Authority took out was in 2012. Depending on the size of the Capital programme, there could be a requirement for new borrowing within financial year 2026-27 if the quantity and type of assets remain the same.

11. MONITORING CAPITAL EXPENDITURE

- 11.1. The performance of the capital programme is reported to Officers each month and to Members each quarter and forms part of the Financial Performance report. Any timing differences are also identified within the report.

12. RISK MANAGEMENT

- 12.1. The Prudential Code recognises that in making its capital investment decisions, the authority must have explicit regards to option appraisal and risk:

“The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future sustainability.”

- 12.2. Each Capital scheme project will have its own risk register and options appraisal to manage the operational risk arising from the project, however this section of the strategy focuses on strategic risks arising from capital investment activity.
- 12.3. Every item will go through a rigorous justification process so that a greater scrutiny can be achieved over what is included within the capital programme. This will become even more critical if collated bids exceed the available funding. All investment will be aligned to the Integrated Risk Management Plan (this plan will soon be redesigned as the Community Risk Management Plan) and the Fire & Rescue Plan to ensure that the Service is replacing the right assets, at the right location to address the risk and at the same time reducing our revenue costs to help balance the budget.
- 12.4. The Capital budget requirement is determined on an annual basis. The process starts at the end of the summer with relevant departments determining their requirements. Once formalised, the requirements are discussed and scrutinised with the relevant Director. Following that, they are presented to the Executive Board in December before being presented to the Authority in February for approval in advance of the financial year to which it relates.

13. CREDIT RISK

- 13.1. There is a risk that a supplier becomes insolvent and cannot complete the agreed contract. Appropriate due diligence is carried out before a contract is placed as part of the procurement process.

14. LIQUIDITY RISK

- 14.1. This is the risk that the timing of cash inflows from a project will be delayed. In the main, the Authority's capital projects are self-funded and therefore don't rely on other organisations contributing or failing to make their contributions when agreed. Under the collaboration agenda it is possible that an increasing number of Capital projects will be shared across organisations. Liquidity risk and the impact on cash flows is monitored on a daily basis by the Treasury Management function.

15. FRAUD, ERROR AND CORRUPTION

- 15.1. This is the risk that financial losses will occur due to error, fraudulent or corrupt activities. The Authority has procedures in place to minimise the risk of fraud especially regarding changing of bank details for suppliers. There are also policies in place to address some of the risk such as the Whistleblowing Code, the Strategy on Protection and Detection of Fraud and the Declaration of Interests.

16. LEGAL AND REGULATORY RISK

- 16.1. This is the risk that changes to laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into a capital project, officers will determine the powers under which any investment is made with input from our Treasury Management advisors.
- 16.2. Capital schemes must comply with legislation (Disability and Discrimination Act as an example) and also consider Authority Regulations, Service plans and Policies such as:
- Community Risk Management Plan;
 - Contract Standing Orders; and
 - Financial Regulations.
 - During 2024-25, a Fire Cover review will also be commissioned.

17. MINIMUM REVENUE PROVISION

- 17.1. Within the Local Government Act 2003, local authorities are required to have regard to the statutory guidance on Minimum Revenue Provision. The Department for Levelling Up, Housing and Communities has produced statutory guidance which local authorities must have regard to.
- 17.2. Minimum Revenue Provision represents the minimum amount that must be charged to an authority's revenue budget each year for financing capital expenditure, where it has initially been funded from borrowing. The Minimum Revenue Provision accounting practice allows the Authority to set aside an amount of money each year to ensure that it can pay off the debts it has from buying capital assets.

17.3. The Minimum Revenue Provision Policy is reviewed annually and is outlined within the Authority's Treasury Management Strategy Statement.

18. AFFORDABILITY OF THE CAPITAL PROGRAMME

18.1. A variety of factors are taken into account when determining the affordability of the Capital programme, including the impact on revenue budgets and reserves:

- Minimum revenue provision
- Interest payable
- Interest receivable
- Revenue contribution to capital
- The Authority's affordability indicator, that debt charges must be <5% of net revenue budget in each financial year

18.2. The cheapest and most sustainable method to fund a Capital Programme is to set aside an amount from revenue each year to purchase assets, with any variations to the programme being smoothed out using an Earmarked Reserve for Capital.

18.3. The strategic objective within the medium-term financial plan is to ensure that revenue funds of at least £2m are included in the annual budget, which will increase as other capital costs fall as a result of reduced borrowing. This objective is based on affordability each year. For 2024-25, the amount has been set at £0.669m to support the revenue budget. The £2m target will be resumed, in a phased approach, over the forthcoming years.

18.4. Historically, the Authority received a Central Government Capital Grant of up to £2m per year and also supported its capital programme using borrowing where required. However, it became apparent that the 5% indicator of affordability for borrowing would be breached and this with the cessation of Government Grant meant that alternative ways of addressing the Capital programme needed to be explored.

18.5. Several years ago the Service engaged staff and developed a range of smaller fire engines that whilst able to make better progress through congested cities as well as narrow country lanes, were also cheaper to procure. By ensuring that we have the right balance between large traditional fire engines and smaller, lighter fire engines we have been able to reduce the capital costs for the Service without compromising public safety. Not only is this a more efficient use of the financial resources we have available to us, it is also better for the environment.

18.6. Following a review of hybrid-working in the future, the Service has commenced the disposal of any surplus property assets owned, that are no longer required – none of the assets identified were or are operational bases.

The Authority's strategy is to reduce borrowing

- 18.7. As at 31 March 2024 external debt will be £23.7m, down from £25.9m ten years ago.
- 18.8. Due to the introduction of a baselined revenue contribution to capital, budget and in year savings a healthy capital reserve had been built up. However, due to the current financial position, it has not been possible to either; use an element of the revenue budget to contribute towards the capital spending or, increase the reserve resulting from any year-end underspend position so the balance of the reserve is forecast to be down to £10.9m at the end of 2023-24 year. However, with the savings anticipated to be made as a result of the changes to the Service Delivery operating model, it will be possible to contribute some funding from the Revenue budget to be used to contribute towards funding some of the Capital programme for 2024-25.
- 18.9. There are a large number of assets needing replacement or enhancement and the proposed programme totals £36.2m over the next five years. In the absence of additional borrowing in the future, Officers will need to develop plans to prioritise expenditure with a view of reducing this requirement.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

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REPORT REFERENCE NO.	DSFRA/24/3
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)
DATE OF MEETING	16 FEBRUARY 2024 (Budget Meeting)
SUBJECT OF REPORT	2024-25 REVENUE BUDGET AND COUNCIL TAX LEVELS
LEAD OFFICER	Director of Finance and Corporate Services (Treasurer) and Chief Fire Officer
RECOMMENDATIONS	<p>(a). <i>that, as recommended by the Resources Committee (Budget) meeting on 5 February 2024, the level of Council Tax in 2024-25 for Band D property be set at £99.68, as outlined in Option B of this report, representing a 2.99% increase over 2023-24, and that accordingly a Net Revenue Budget Requirement for 2024-25 of £92,622,400 be approved;</i></p> <p>(b). <i>that, as a consequence of the decisions at (a) above:</i></p> <ul style="list-style-type: none"> (i) <i>the tax base for payment purposes and the precept required from each billing authority for payment of total precept of £63,492,754 (as detailed on Page 2 (option B) of the respective budget booklet, be approved;</i> (ii) <i>the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and</i> (iii) <i>that the Treasurer’s ‘Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances’, as set out at Appendix B to this report, be endorsed.</i> <p>(c). <i>that, as the budget is subject to variations in the pay for operational staff, negotiations for which are still on-going for the 2024-25 award:</i></p> <ul style="list-style-type: none"> (i). <i>the Treasurer be delegated authority to balance the budget from reserves in the event that the final pay award settlements for 2024-25 exceed the budgeted amounts for those years (5%) subject to a maximum of £3m;</i> (ii). <i>that the Treasurer endeavours to meet any pay award from within the approved budget for 2024-25 but any use of reserves so required be reported for information to the next appropriate meeting of the Resources Committee.</i>

<p>EXECUTIVE SUMMARY</p>	<p>It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 11 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2024-25 that would trigger a requirement to hold a Council Tax referendum is to be 2.99%. This report considers potential options A and B below for Council Tax in 2024-25:</p> <p style="padding-left: 40px;">OPTION A – Freeze Council Tax at 2023-24 level (£96.79 for a Band D Property).</p> <p style="padding-left: 40px;">OPTION B – Increase Council Tax by maximum permitted of 2.99% above 2023-24 (£99.68 for Band D Property).</p> <p>These options were initially considered by the Resources Committee as its budget meeting on 5 February 2024. The Committee resolved to recommend that the Authority approve Option B.</p>
<p>RESOURCE IMPLICATIONS</p>	<p>As indicated in the report</p>
<p>EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)</p>	<p>Not applicable.</p>
<p>APPENDICES</p>	<p>A. Core Net Revenue Budget Requirement 2024-25.</p> <p>B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.</p> <p>C. Budget Book Option A</p> <p>D. Budget Book Option B</p>
<p>LIST OF BACKGROUND PAPERS</p>	<p>Nil.</p>

1. FOREWORD AND INTRODUCTION

- 1.1. The draft budget for 2024-25 provides an opportunity to support reform of Devon and Somerset Fire and Rescue Service (the Service) now and in the future. During December 2023 a number of significant changes to the Service Delivery operating model were presented to the Authority on how the Service can reduce costs by amending how it delivers the core functions.
- 1.2. It is a legislative requirement that the Devon & Somerset Fire & Rescue Authority (the Authority) sets a level of revenue budget and Council Tax for the forthcoming financial year, before 11 March, in order that it can inform each of the eleven Council Tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2024-25. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels of precept for the Authority.
- 1.3. The 2024-25 budget is balanced subject to pay negotiations for the operational and professional staff. Should the agreed award be greater than the budgeted amount, it is recommended the Treasurer has delegated authority to determine which reserves the increases will be funded from which will be reported back to the next available Resources Committee meeting of those actions. This is with the caveat that all efforts should be made to accommodate the pay-award within the existing revenue budget and the delegation is capped at £3m. For reference, each 1% pay award is in the region of £1m additional cost to the Authority.
- 1.4. The Localism Act 2011 includes provisions which require a local authority to hold a Council Tax referendum where an authority's Council Tax increase exceeds the Council Tax "excessiveness principles" applied for that year.
- 1.5. On 18 December 2023, the Department for Levelling Up, Housing and Communities (DLUCH) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2024-25. Despite requests from the sector to extend the option to increase by up to £5 again for 2024/25, the limit was set at a 2.99% increase. If exceeded, this would trigger the need to hold a referendum. Given that the administration costs associated with holding a local referendum for the Service for one year are estimated to be in excess of £2.3m, this report does not include any proposals to go beyond the referendum limit.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2024-25

- 2.1. The provisional Local Government Finance Settlement for 2024-25 was announced on 18 December 2023, which provided local authorities with individual settlement funding assessment figures for one year only. A subsequent announcement of further additional grant funding was released on 24 January 2024 which was confirmed on the 5 February 2024.

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

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)			
	SFA	SFA (Reduction)/Increase	
	£m	£m	%
2015-16	29.413		
2016-17	26.873	-2.540	-8.64%
2017-18	23.883	-2.990	-11.13%
2018-19	22.618	-1.265	-5.30%
2019-20	21.961	-0.657	-2.91%
2020-21	22.319	0.358	1.63%
2021-22	22.354	0.035	0.16%
2022-23	22.551	0.197	0.88%
2023-24	23.819	1.268	5.62%
2024-25	28.843	5.024	21.09%
Reduction over 2015-16		-0.064	-0.27%

- 2.3. In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £0.575m for 2024-25.
- 2.4. There are other Section 31 grant funds, allocated to reduce the impact of the increase in social costs of £0.111m which is included within the revenue budget as income.
- 2.5. A Funding Guarantee Grant, provided to ensure the Settlement Funding Assessment is increased by 4% (it was 3% within the provisional announcement) before any Council Tax rises, has also been awarded of £1.752m. This grant has increased by £0.797m (was £0.955m) following the additional funding announcement made on the 24 January 2024.

3. **COUNCIL TAX AND BUDGET REQUIREMENT 2024-25**

Council Tax

- 3.1. It is, of course, an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2024-25, this report considers two options A and B as below:
- **OPTION A** – Freeze Council Tax at 2023-24 level (£96.79 for a Band D Property);
 - **OPTION B** – Increase Council Tax by 2.99% above 2023-24 - an increase of just over 24p a month, to £99.68 for a Band D Property.
- 3.2. The Authority could decide to set any alternative level below 2.99%. Each 1% increase in Council Tax represents an 97p a year increase for a Band D property and is equivalent to a £0.613m variation on the revenue budget. In relation to the referendum option, it is the Treasurer’s view that given the costs of holding a referendum (circa £2.3m), it is not a viable option for the Authority to consider a Council Tax increase in excess of the 2.99% threshold.

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

	OPTION A	OPTION B
	Council Tax Freeze at £96.79	Council Tax Increase of 2.99% to £99.68
	£m	£m
TOTAL FUNDING 2023-24	85.413	85.413
Increase in Formula Funding	4.841	4.841
Increase in Retained Business Rates from Business Rate Retention System*	(0.119)	(0.119)
<u>Changes in Council Tax Precept</u>		
- Increase in Council Tax Base	0.854	0.854
- resulting from an increase in Council Tax	-	1.841
- Increase (reduction) in Share of Billing Authorities Council Tax Collection Funds	(0.206)	(0.206)
TOTAL FUNDING AVAILABLE 2024-25	90.781	92.622
NET CHANGE IN FUNDING	5.368	7.209

Council Tax Base

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

Retained Business Rates

- 3.4. The funding available from business rates is in-line with expectations and is comparable to the previous year (2023-24).

Net Budget Requirement

- 3.5. Table 3 below provides a summary of the Core Budget Requirement for 2024-25. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

TABLE 3 – SUMMARY OF REVENUE BUDGET REQUIREMENT 2024-25

	£m	£m
Net Revenue Budget 2023-24		85.413
PLUS Provision for pay and price increases (Pay award assumed 5%)	4.829	
PLUS Inescapable Commitments	0.219	
Reduction in funding from reserves	2.682	
One Off Investment - e.g. NFSP system replacement and EV charge points	0.895	
Recurring investment - e.g. increase to maternity pay	0.164	
Revenue Contribution to Capital Expenditure	0.669	
PLUS New Investment	1.117	
PLUS increase in income and budget savings	(3.366)	
INCREASE in budget requirement over 2023-24		7.209
Core spending requirement 2024-25		92.622

- 3.6. As reduced funding will be available for the coming financial year and there will likely be further restrictions in coming years, officers have restricted requests for investment opportunities to only business critical initiatives.

Balancing the budget

- 3.7. As is indicated in Table 3, the Revenue Budget Requirement for 2024-25 has been assessed as £92.622m. This is more than the amount of funding available under Option A and therefore cuts or additional funding needs to be identified in order that a balanced budget can be set.

TABLE 4 – PROPOSALS TO BALANCE THE BUDGET 2024-25

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A £m	OPTION B £m
Funding Available	90.781	92.622
LESS Net spending requirement 2024-25	92.622	92.622
Shortfall	(1.841)	(0.000)
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	0.669	0.000
Transfer from Reserves – in order to balance the budget.	1.172	0.000
Total	(0.000)	(0.000)

- 3.8. Whilst the Service is confident that the budget can be balanced if Council Tax is increased in line with Option B, there will be a budget shortfall of £1.841m in the coming year if it is frozen. Should Council Tax be frozen, the Authority would remove the contribution to capital expenditure (£0.669m) and then utilise its capital reserve to fund the gap in the short term while a plan to implement greater spending reductions across all areas of the Service is developed.

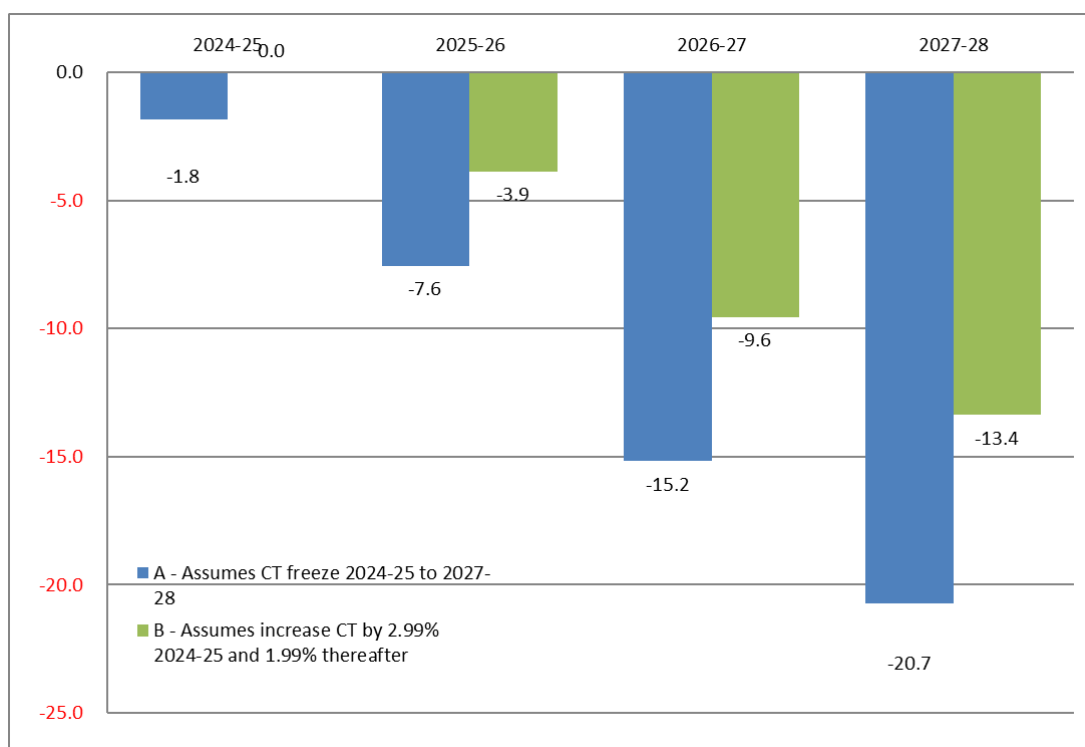
3.9. There is significant risk attached to Option A, as this proposal will draw down against the capital funding reserve, meaning it will not be available to meet the future capital programme and the scale of efficiencies required would likely see reductions made to front line services.

4. MEDIUM TERM FINANCIAL PLAN

4.1. Given that the 2024-25 final Local Government Settlement is a one-year settlement, the future funding position is less certain. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document, which is elsewhere on the agenda.

4.2. The MTFP financial modelling tool has assessed a likely ‘base case’ scenario in terms of savings required over the period 2024-25 to 2027-28. Chart 1 provides an analysis of those forecast savings required in each year.

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



4.3. Chart 1 illustrates that further savings will be required beyond 2024-25 to plan for a balanced budget over the next three years to 2027-28. Should the Authority decide to freeze Council Tax in 2024-25 (Option A) and the following three years, then the MTFP forecasts that total savings of up to £20.7m need to be planned for.

- 4.4. For year 2025-26, the delayed legislation that will provide Councils the option to charge a 100% council tax premium on second homes becomes live. The estimated additional income resulting from this change has been factored into our forecasts. For 2025-26 we estimate this to be £1.4m, which represents 80% of the homes currently classed as 'second homes.'

Authority Plan 2024 onwards

- 4.5. This budget report proposes a balanced budget for the next financial year 2024-25 including proposals as to how budget savings can be achieved.
- 4.6. Looking beyond 2024-25 the Authority needs to plan for the delivery of further recurring savings to ensure that balanced budgets can be set in each year of the Spending Review period. It is also evident, given the need for on-going capital investment, that all efforts must be made towards continuing to make revenue contributions to the capital reserve. This budget represents a formal resumption in this contribution, (albeit not to historical levels), which was temporarily paused which is a significant achievement. But sustaining the capital programme (without the need to borrow or securing external grants) can only be done through sustained fiscal prudence and spending restraint. The MTFP (above) models a resumption to £2.050m in 2025-26 and while ambitious, it is the view of the Treasurer that this is achievable.
- 4.7. The strategic approach to deliver the required savings is well underway and is outlined within the Services Targeted Operating Model. Spending reductions totalling £1.8m which were considered by the Authority in December 2023 are reflected within this budget (i.e. 2024-25) and represent the first tranche of what will be an on-going programme of transformation.

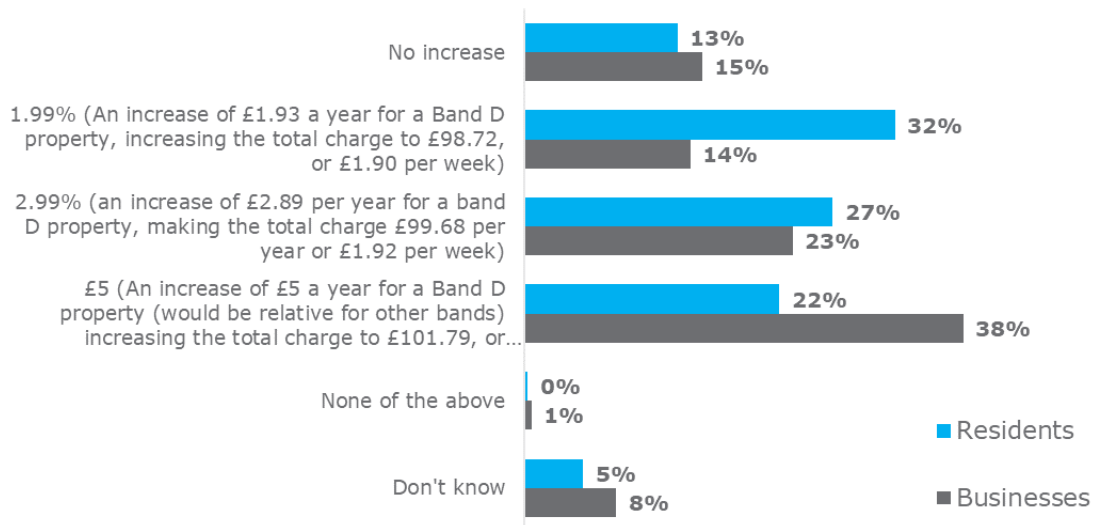
5. PRECEPT CONSULTATION 2024-25

- 5.1. Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure.
- 5.2. In addition to the statutory requirement, members of the public have in previous years also been consulted as it was deemed appropriate to include the public's views on the option of increasing Council Tax at a time of economic difficulty.
- 5.3. The consultation process ran throughout October and November 2023 and involved:
A telephone survey of 400 business and 400 residents.

Results from the Telephone Survey

- 5.4. 64% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2024-25, while 16% disagreed that it is reasonable for them to do so, resulting in a net agreement of +48%.
- 5.5. 74% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2024-25, while 13% disagreed, giving a net agreement of +61%.

Chart 2: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2024-25)

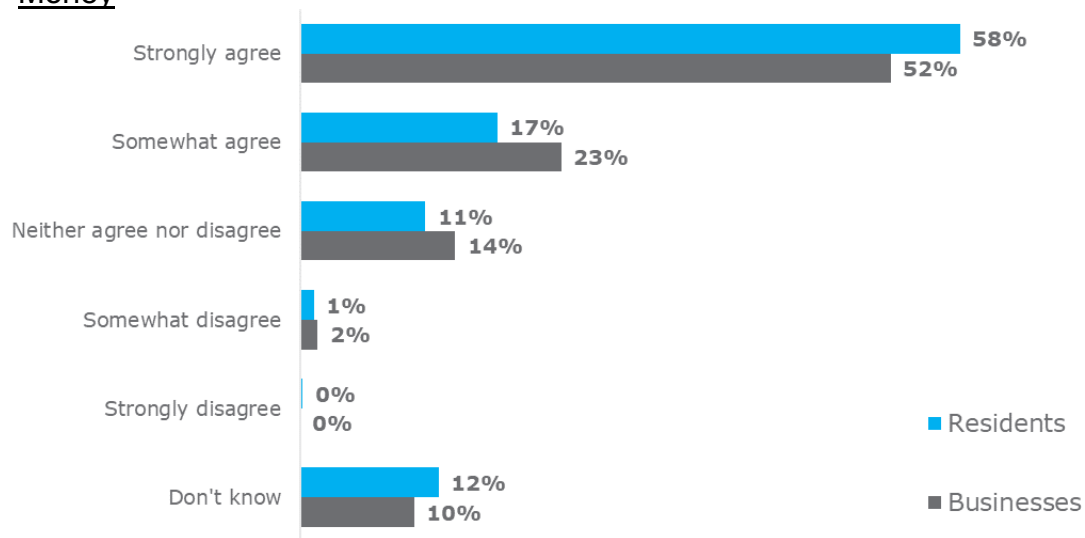


5.6. Of those respondents who agreed that a Council Tax increase would be reasonable 61% of businesses and 49% residents would support an increase of 2.99% or above.

Providing Value for Money

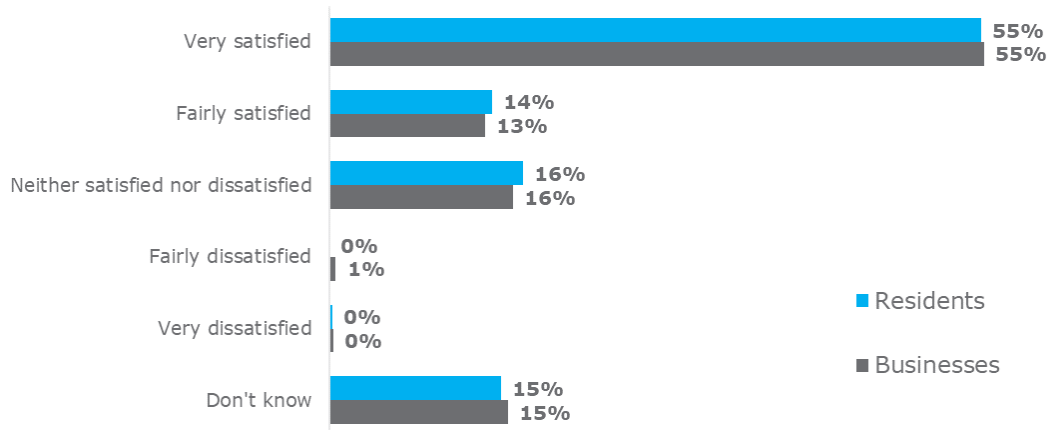
5.7. The consultation asked the responder if they felt the Fire Service provided value for money. The results in Chart 3 indicate 52% of businesses and 58% of residents strongly agreed.

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



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

Chart 4: Satisfaction with the service provided by DSFRS



Survey Conclusion

- 5.9. The results of the consultation indicate that the majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 2024-25. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of an increase of 1.99% or above.
- 5.10. Both businesses and residents agree that the Service provides value for money and were satisfied with the service provided.

6. STATEMENT ON ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE LEVELS OF RESERVES AND BALANCES

- 6.1. It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the ‘Chief Finance Officer’ to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions. This statement is included as Appendix B to this report.

7. SUMMARY

- 7.1. The Authority is required to set its level of revenue budget and Council Tax for 2024-25 by 11 March so that it can meet its statutory obligation to advise each of the eleven billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.

- 7.2. The report considers two potential options A and B and invites the Authority to approve the recommendation made by the Resources Committee at its budget meeting held on 5 February 2024.

SHAYNE SCOTT

Director of Finance and Corporate Services (Treasurer)

APPENDIX A TO REPORT DSFRA/24/3

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY SUMMARY MEDIUM TERM FINANCIAL STRATEGY PROJECTIONS 2024				
	Row Number	£'000	2024/25 £000	%
Approved Budget 2023-24			85,413	
<u>Provision for pay and prices increase</u>				
Grey Book Pay Award (assume 5% from July 2024)	1,2,3	3,163		
Green Book Pay Award (Assume 5% April 24)	4	659		
Prices increases (assumed 2.0% CPI from April 2024)	All non-pay	883		
Pensions inflationary increase (tracks CPI - 3.2%)	6	124		
			4,829	5.7%
<u>Funding Adjustments</u>				
Revenue Contribution to Capital	26	669		
Reduction in transfers from Reserves	32	2,682		
			3,351	
<u>Inescapable Commitments</u>				
Support Staff Increments	4	187		
NFSP Control Future project		750		
Maternity pay extension		164		
Conversion of Grey to Green book posts and reduction in vacancy margin		418		
EV Charging Infrastructure		145		
IFRS16 Fleet leases reducing service costs		-515		
IFRS16 Fleet leases increasing MRP & interest		515		
IFRS16 Estates leases reducing service costs		-100		
IFRS16 Estates leases increasing MRP & interest		100		
Pensions - anticipate reduced Ill Health/ Injury leavers	6	32		
			1,696	
<u>New Investment</u>				
On Call Pension increases (change in rate)	2	699		
			699	
<u>Income</u>				
Reduction in Firelink grant		362		
Section 31 grants	29	-1,695		
Increase in investment interest		-675		
Red One Income		2		
			-2,006	
<u>Anticipated savings</u>				
Operational staff including control		-350		
Across Service spending reductions		-1,010		
			-1,360	
CORE BUDGET REQUIREMENT			92,621.6	

STATEMENT OF THE ROBUSTNESS OF THE BUDGET ESTIMATES AND THE ADEQUACY OF THE DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY LEVELS OF RESERVES

It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions.

THE ROBUSTNESS OF THE 2024-25 BUDGET

The net revenue budget requirement for 2024-25 has been assessed as £92.622m (Option B in report). In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Community Risk Management Plan. It should be emphasised that these assessments are being made for a period up to the 31 March 2025, in which time external factors, which are outside of the control of the Authority, may arise which will cause additional expenditure to be incurred. The most significant example of this is the potential pay awards for colleagues which are yet to be agreed. The majority of On-Call pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. Other budgets, such as fuel and energy are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

Local government and the fire sector are entering a period of significant uncertainty over funding and cost pressures such as pay awards, going forward. Unfunded pension schemes and legal challenges over pension terms represent a significant risk to the Authority. It is therefore vitally important that resourcing and investment decisions are made which minimise risks going forward to enable the Authority to be as resilient as possible in future years.

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium-Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a five year period covering the years 2024-25 to 2028-29. These forecasts include only prudent assumptions in relation future pay awards and prices increases, which will need to be reviewed in light of pay settlements and movement in the Consumer Prices Index.

TABLE 1 – BUDGET SETTING 2024-25 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2024-25 £m	RISK AND IMPACT	MITIGATION
Service Delivery staff costs	67.8	There is a high level of uncertainty around pay increases, particularly whether pay awards will be linked to a change to the Firefighter role map to include emergency medical response. Each 1% pay award is equivalent to £0.590m of additional pressure on the revenue budget.	Funding decisions for this model will need to be considered for future years.
Fire-fighter's Pensions	2.6	Whilst net pension costs funded by the government through a top-up grant arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a Pensions Reserve an allowance has been made for a potential overspend on this budget
Insurance Costs	1.0	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.	General Reserve
Fuel Costs	0.7	This budget has increased to take into account the rising cost of fuel. The Service is investing in new ways of working associated with the environmental strategy so have introduced electric vehicles during 2023-24 with more on order for 2024-25.	General Reserve
Treasury Management Income	(1.2)	As a result of the uncertainty, bank base rates have increased to the highest levels since 2008. This has resulted in an increase in investment returns. This has resulted in an increase in the budget of £0.675m. The markets are anticipating a interest rate reduction during Q3 2024 so rates will start to reduce in year.	The target income has been set at a level consistent with the returns achieved during 2023. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	(0.8)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.8m of external income. Due to economic uncertainty this budget line may be at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible. A modest provision for doubtful debts is available to protect the Authority from potential losses.
Capital Programme	7.2	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.	Capital projects are subject to risk management processes that quantify risks and identify appropriate management action. Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2023 was £27.0m made up of Earmarked Reserves (committed) of £22.8m, and General Reserve (uncommitted) of £4.28m. This will decrease by the end of the financial year as a result of planned expenditure against those reserves during the year. A General Reserve balance of £4.1m is equivalent to 5.0% of the total revenue budget for 2023-24 or 18 days of Authority spending, the figure is subject to a risk assessment annually.

The Authority has adopted an “in principle” strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

The Authority used an element of the general reserve during 2021-22 however, the pleasing note is there was no requirement to call on them for 2022-23 or 2023-24 to fund emergency spending. The strategy remains to increase the general reserve to ensure the 5% level is maintained as a minimum. The importance of holding adequate levels of general reserves has been highlighted on a number of occasions in recent times, the impact of the pandemic and the problems experienced by the global financial markets are just two examples of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

The Authority’s Reserves Strategy is reviewed annually and is available on the website www.dsfire.gov.uk.

CONCLUSION

It is considered that the budget proposed for 2024-25 represents a sound and achievable financial plan and will not increase the Authority’s risk exposure to an unacceptable level. The estimated level of reserves is judged to be adequate to meet all reasonable forecasts of future liabilities.

Shayne Scott
Director of Finance and Corporate Services (Treasurer)

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DEVON & SOMERSET FIRE & RESCUE AUTHORITY

PROPOSED REVENUE BUDGET 2024/2025 OPTION A - 0%



**DEVON & SOMERSET
FIRE & RESCUE AUTHORITY**

REVENUE BUDGET 2024/2025

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Summary of Budget Changes and Commitments in Future Years	6
Analysis of Spending 2024/2025 - Pie Chart	7

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

COUNCIL TAX INFORMATION & PRECEPTS

TOTAL SPENDING TO BE MET FROM COUNCIL TAX			
Devon & Somerset Fire & Rescue Authority budget funded by District Councils' collection funds			£ 62,507,914
Net deficit/(surplus) on Council Tax collection in previous year			(855,991)
Total spending to be met from Council Tax precepts in 2024/2025			<u>61,651,923</u>
EQUIVALENT NUMBERS OF BAND "D" PROPERTIES			
Billing Authority	Tax Base Used for Collection		
East Devon	62,447.00		
Exeter	39,045.00		
Mid Devon	30,222.10		
North Devon	35,433.43		
Plymouth City	75,389.00		
Somerset Council	208,797.71		
South Hams	40,528.94		
Teignbridge	50,939.00		
Torbay	47,374.08		
Torrige	25,277.34		
West Devon	21,512.23		
	<u>636,965.83</u>		
DEVON & SOMERSET FIRE AUTHORITY COUNCIL TAX DUE FOR EACH PROPERTY VALUATION BAND			
Valuation Band	Ratio	Government Multiplier %	Council Tax £ p
A	6/9	0.667	64.53
B	7/9	0.778	75.28
C	8/9	0.889	86.04
D	1	1.000	96.79
E	11/9	1.222	118.30
F	13/9	1.444	139.81
G	15/9	1.667	161.32
H	18/9	2.000	193.58
Billing Authority	Surplus/(Deficit) for 2023/2024	Precepts Due 2024/2025	Total due in 2024/2025
	£	£	£
East Devon	38,036	6,044,245	6,082,281
Exeter	70,197	3,779,166	3,849,363
Mid Devon	(15,304)	2,925,197	2,909,893
North Devon	75,380	3,429,602	3,504,982
Plymouth City	106,000	7,296,901	7,402,901
Somerset Council	343,962	20,209,530	20,553,492
South Hams	21,000	3,922,796	3,943,796
Teignbridge	84,930	4,930,386	5,015,316
Torbay	59,029	4,585,337	4,644,366
Torrige	31,761	2,446,594	2,478,355
West Devon	41,000	2,082,169	2,123,169
	<u>855,991</u>	<u>61,651,923</u>	<u>62,507,914</u>

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

2024/2025 Revenue Budget

Line No	2023/2024 Budget £000 (1)		2024/2025 Budget £000 (2)
SPENDING			
EMPLOYEE COSTS			
1	63,339	Service Delivery staff	67,331
2	13,188	Professional and technical support staff	14,317
3	753	Training investment	957
4	2,480	Fire Service Pension costs	2,638
	79,760		85,242
PREMISES RELATED COSTS			
5	1,133	Repair and maintenance	1,281
6	1,104	Energy costs	1,143
7	626	Cleaning costs	677
8	2,082	Rent and rates	2,066
	4,945		5,167
TRANSPORT RELATED COSTS			
9	713	Repair and maintenance	709
10	1,597	Running costs and vehicle insurance	1,285
11	1,526	Travel and subsistence	901
	3,836		2,894
SUPPLIES AND SERVICES			
12	3,694	Equipment and furniture	4,399
13	196	Hydrants-installation and maintenance	246
14	2,718	Communications technology	2,851
15	605	Protective Clothing	564
16	128	External Fees and Services	119
17	310	Partnership & Regional collaborative projects	274
18	24	Catering	23
	7,675		8,475
ESTABLISHMENT COSTS			
19	247	Printing, stationery and office expenses	274
20	31	Advertising including Community Safety	31
21	504	Insurances	548
	781		853
PAYMENTS TO OTHER AUTHORITIES			
22	1,091	Support service contracts	1,119
	1,091		1,119
CAPITAL FINANCING COSTS			
23	3,140	Loan Charges & Lease rentals	3,807
24	50	Revenue Contribution to Capital Spending	50
	3,190		3,857
25	(2,937)	Transfer to/(from) Earmarked Reserves	(1,427)
26	98,339	TOTAL SPENDING	106,180

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

2024/2025 Revenue Budget

<i>Line No</i>	2023/2024 Budget £000 (1)		2024/2025 Budget £000 (2)
		INCOME	
27	(525)	Treasury management income	(1,200)
28	(11,671)	Grants and reimbursements	(13,363)
29	(731)	Other income	(835)
30	-	Internal Recharges	-
31	<u>(12,927)</u>	TOTAL INCOME	<u>(15,398)</u>
32	<u>85,413</u>	NET REVENUE BUDGET REQUIREMENT	<u>90,782</u>
		FINANCED BY:	
33	7,293	Formula Funding Grant	11,680
34	16,259	Share of Non Domestic Business Rates	16,594
35	61,861	District Councils Collection Funds	62,508
36	<u>85,413</u>	TOTAL FINANCING	<u>90,782</u>

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

Analysis of Budget Changes

2024/2025 Revenue Budget

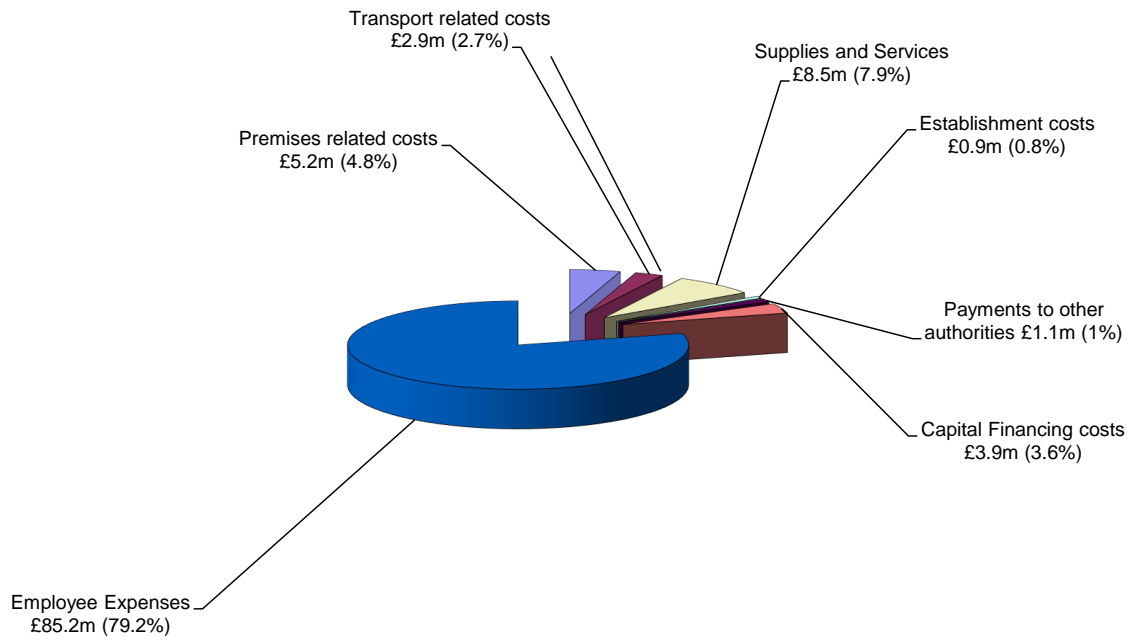
	£000	£000
2023/2024 Revenue Budget		85,413
Provision for Pay Awards and Prices Increases		
Provision for Cost of Pay Settlement for Uniformed Staff	3,163	
Provision for other Pay Awards and prices	1,666	4,829
Revenue contribution to capital increase	(1)	
Less reserve contribution	1,510	
Inescapable Commitments	1,696	
New investment	325	
Section 31 grant	(1,333)	
Budget Reductions	(1,658)	539
2024/2025 Net Revenue Budget Requirement	check	90,781

ESTIMATED FINANCIAL COMMITMENTS INTO 2025/26 and 2026/27

The figures below have been extracted from the Medium Term Financial Strategy, and provide an indication of the estimated commitments into the next two financial years, flowing from the approval of the OPTION A - 0% draft revenue commitment budget. Any revision to these figures, e.g. Budget reductions arising from the implementation of the Change and Improvement programme or further investment in the Service will be included in the revised Medium Term Financial Plan and reported to the Authority during the course of the financial year.

	(Cumulative effect above 2024/2025)	
	2025/26	2026/27
	£000	£000
Net Revenue Budget Requirement 2024/2025	90,781	90,781
(i) Estimated Costs of pay awards and prices increases	1,801	3,637
Capital Financing charges and revenue contribution to the capital programme	627	969
(iii) <u>Other Changes</u>		
Provision for Pay & pension changes	100	200
Reserve funding	1,840	1,840
Other spending commitments	227	477
Section 31 grant removed	148	296
NFSP Control Future project	750	1,124
Replacement Structural PPE	1,750	1,750
Increase to pension charges for FFPS rate increase - McCloud/Sargent	0	1,500
Increase over 2024/2025	7,243	11,794
INDICATIVE CORE BUDGET REQUIREMENT	98,024	102,575

Devon and Somerset FRA - Analysis of Spending 2024/25



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DEVON & SOMERSET FIRE & RESCUE AUTHORITY

PROPOSED REVENUE BUDGET 2024/2025 OPTION B - 2.99%



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REVENUE BUDGET 2024/2025

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Summary of Budget Changes and Commitments in Future Years	6
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DEVON & SOMERSET FIRE & RESCUE AUTHORITY

COUNCIL TAX INFORMATION & PRECEPTS

TOTAL SPENDING TO BE MET FROM COUNCIL TAX			
Devon & Somerset Fire & Rescue Authority budget funded by District Councils' collection funds			£ 64,348,745
Net deficit/(surplus) on Council Tax collection in previous year			(855,991)
Total spending to be met from Council Tax precepts in 2024/2025			<u>63,492,754</u>
EQUIVALENT NUMBERS OF BAND "D" PROPERTIES			
Billing Authority	Tax Base Used for Collection		
East Devon	62,447.00		
Exeter	39,045.00		
Mid Devon	30,222.10		
North Devon	35,433.43		
Plymouth City	75,389.00		
Somerset Council	208,797.71		
South Hams	40,528.94		
Teignbridge	50,939.00		
Torbay	47,374.08		
Torrige	25,277.34		
West Devon	21,512.23		
	<u>636,965.83</u>		
DEVON & SOMERSET FIRE AUTHORITY COUNCIL TAX DUE FOR EACH PROPERTY VALUATION BAND			
Valuation Band	Ratio	Government Multiplier %	Council Tax £ p
A	6/9	0.667	66.45
B	7/9	0.778	77.53
C	8/9	0.889	88.60
D	1	1.000	99.68
E	11/9	1.222	121.83
F	13/9	1.444	143.98
G	15/9	1.667	166.13
H	18/9	2.000	199.36
Billing Authority	Surplus/(Deficit) for 2023/2024	Precepts Due 2024/2025	Total due in 2024/2025
	£	£	£
East Devon	38,036	6,224,717	6,262,753
Exeter	70,197	3,892,006	3,962,203
Mid Devon	(15,304)	3,012,539	2,997,235
North Devon	75,380	3,532,004	3,607,384
Plymouth City	106,000	7,514,775	7,620,775
Somerset Council	343,962	20,812,956	21,156,918
South Hams	21,000	4,039,925	4,060,925
Teignbridge	84,930	5,077,600	5,162,530
Torbay	59,029	4,722,248	4,781,277
Torrige	31,761	2,519,645	2,551,406
West Devon	41,000	2,144,339	2,185,339
	<u>855,991</u>	<u>63,492,754</u>	<u>64,348,745</u>

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

2024/2025 Revenue Budget

Line No	lookup Line No	2023/2024 Budget £000 (1)		2024/2025 Budget £000 (2)
SPENDING				
EMPLOYEE COSTS				
1	1	63,339	Service Delivery staff	67,331
2	1b	13,188	Professional and technical support staff	14,317
3	5	753	Training investment	957
4	6	2,480	Fire Service Pension costs	2,638
		79,760		85,242
PREMISES RELATED COSTS				
5	7	1,133	Repair and maintenance	1,281
6	8	1,104	Energy costs	1,143
7	9	626	Cleaning costs	677
8	10	2,082	Rent and rates	2,066
		4,945		5,167
TRANSPORT RELATED COSTS				
9	11	713	Repair and maintenance	709
10	12	1,597	Running costs and vehicle insurance	1,285
11	13	1,526	Travel and subsistence	901
		3,836		2,894
SUPPLIES AND SERVICES				
12	14	3,694	Equipment and furniture	4,399
13	15	196	Hydrants-installation and maintenance	246
14	16	2,718	Communications technology	2,851
15	17	605	Protective Clothing	564
16	18	128	External Fees and Services	119
17	19	310	Partnership & Regional collaborative projects	274
18	20	24	Catering	23
		7,675		8,475
ESTABLISHMENT COSTS				
19	21	247	Printing, stationery and office expenses	274
20	22	31	Advertising including Community Safety	31
21	23	504	Insurances	548
		781		853
PAYMENTS TO OTHER AUTHORITIES				
22	24	1,091	Support service contracts	1,119
		1,091		1,119
CAPITAL FINANCING COSTS				
23	25	3,140	Loan Charges & Lease rentals	3,807
24	26	50	Revenue Contribution to Capital Spending	719
		3,190		4,526
25	32	(2,937)	Transfer to/(from) Earmarked Reserves	(255)
26		98,339	TOTAL SPENDING	108,020

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

2024/2025 Revenue Budget

<i>Line No</i>	2023/2024 Budget £000 (1)		2024/2025 Budget £000 (2)
		INCOME	
27	(525)	Treasury management income	(1,200)
28	(11,671)	Grants and reimbursements	(13,363)
29	(731)	Other income	(835)
30	-	Internal Recharges	-
31	<u>(12,927)</u>	TOTAL INCOME	<u>(15,398)</u>
32	<u>85,413</u>	NET REVENUE BUDGET REQUIREMENT	<u>92,622</u>
		FINANCED BY:	
33	7,293	Formula Funding Grant	11,680
34	16,259	Share of Non Domestic Business Rates	16,594
35	61,861	District Councils Collection Funds	64,349
36	<u>85,413</u>	TOTAL FINANCING	<u>92,622</u>

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

Analysis of Budget Changes

2024/2025 Revenue Budget

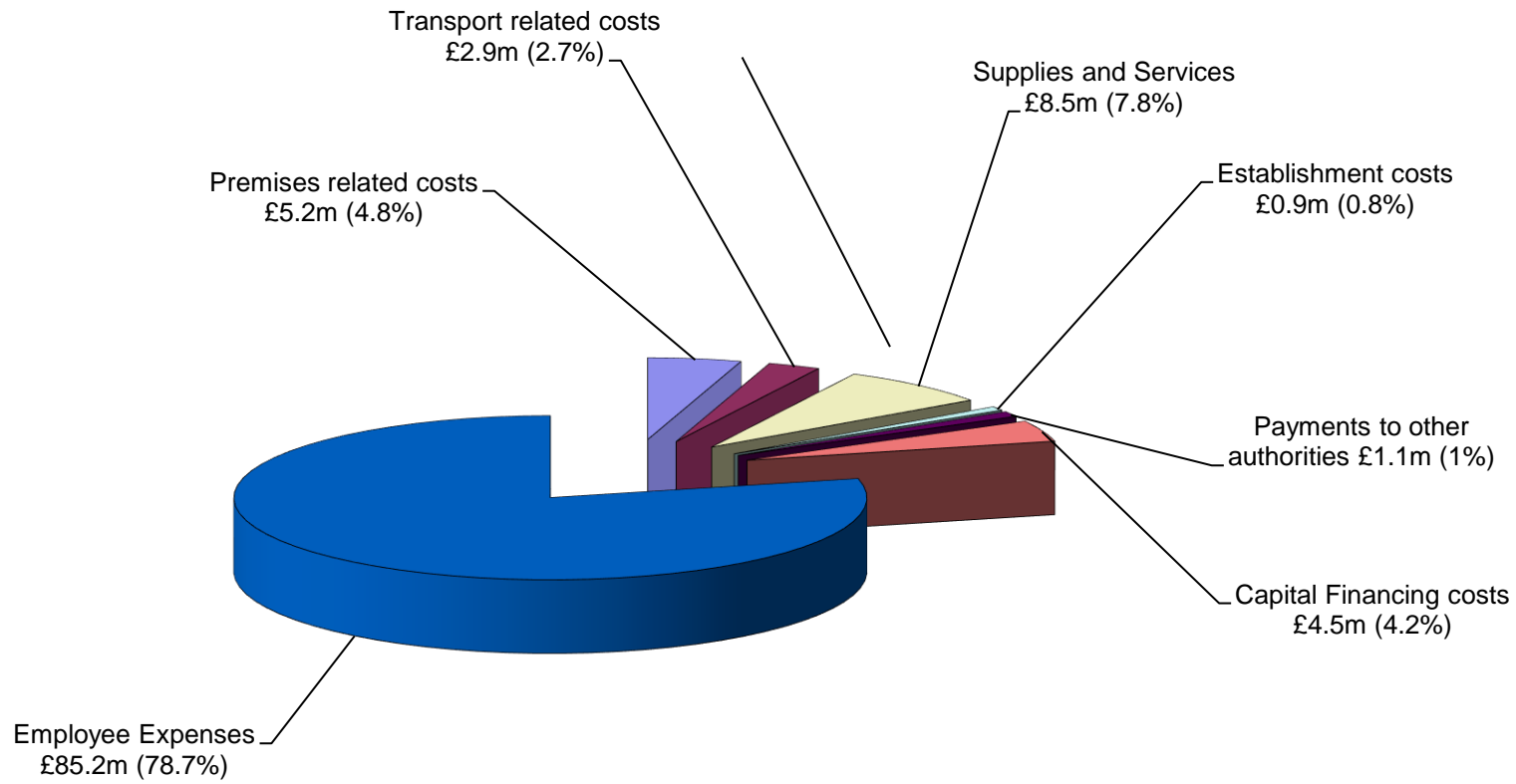
	£000	£000
2023/2024 Revenue Budget		85,413
Provision for Pay Awards and Prices Increases		
Provision for Cost of Pay Settlement for Uniformed Staff	3,163	
Provision for other Pay Awards and prices	1,666	4,829
Revenue contribution to capital increase	668	
Less reserve contribution	2,681	
Inescapable Commitments	1,696	
New investment	325	
Section 31 grant	(1,333)	
Budget Reductions	(1,658)	2,379
2024/2025 Net Revenue Budget Requirement		92,622

ESTIMATED FINANCIAL COMMITMENTS INTO 2025/26 and 2026/27

The figures below have been extracted from the Medium Term Financial Strategy, and provide an indication of the estimated commitments into the next two financial years, flowing from the approval of the OPTION B - 2.99% draft revenue commitment budget. Any revision to these figures, e.g. Budget reductions arising from the implementation of the Change and Improvement programme or further investment in the Service will be included in the revised Medium Term Financial Plan and reported to the Authority during the course of the financial year.

	(Cumulative effect above 2024/2025)	
	2025/26	2026/27
	£000	£000
Net Revenue Budget Requirement 2024/2025	92,622	92,622
(i) Estimated Costs of pay awards and prices increases	1,801	3,637
Capital Financing charges and revenue contribution to the capital programme	627	969
(iii) <u>Other Changes</u>		
Provision for Pay & pension changes	100	200
Reserve funding	0	0
Other spending commitments	227	477
Section 31 grant removed	148	296
NFSP Control Future project	750	1,124
Replacement Structural PPE	1,750	1,750
Increase to pension charges for FFPS rate increase - McCloud/Sargent	0	1,500
Increase over 2024/2025	5,403	9,954
INDICATIVE CORE BUDGET REQUIREMENT	98,025	102,576

Devon & Somerset Fire & Rescue Authority - Analysis of Spending 2024/25



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REPORT REFERENCE NO.	DSFRA/24/4
MEETING	DEVON & SOMERSET FIRE & RESCUE Authority (Budget meeting)
DATE OF MEETING	16 FEBRUARY 2024
SUBJECT OF REPORT	DRAFT CAPITAL PROGRAMME 2024-25 TO 2026-27.
LEAD OFFICER	Director of Finance and Corporate Services (Treasurer)
RECOMMENDATIONS	<p><i>That the Authority at its budget meeting on 16 February 2024 be recommended to approve:</i></p> <p style="padding-left: 40px;"><i>(a) That, as recommended by the Resources Committee at its budget meeting on 6 February 2023, the Authority approves the draft Capital Programme 2023-24 to 2025-26 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively, be approved; and</i></p> <p style="padding-left: 40px;"><i>(b) subject to (a) above, the forecast impact of the proposed Capital Programme (from 2027-28 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report be noted.</i></p>
EXECUTIVE SUMMARY	<p>This report sets out the proposals for a three-year Capital Programme covering the years 2024-25 to 2026-27 and also outlines the difficulties in meeting the full capital expenditure requirement for the Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced.</p> <p>The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget. The Committee has supported the Treasurer’s recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment.</p> <p>It should be noted that the capital programme for 2027/28 onwards has been built on knowledge to date. There are potential decisions around stations and vehicles that could impact the programme considerably.</p> <p>To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2026-27 based upon indicative capital programme levels, noting the comment about decisions around stations and vehicles above, for the years 2027-28 to 2028-29.</p>

	This report was previously considered by the Resources Committee at its budget meeting on 5 February. The Committee resolved to recommend that the Authority approved the Capital Programme 2024-25 to 2026-27, and associated Prudential Indicators, as set out in Appendices A and B respectively.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	<p>A. Summary of Proposed Capital Programme 2024-25 to 2026-27 (and indicative Capital Programme 2027-28 to 2028-29).</p> <p>B. Prudential Indicators 2024-25 to 2026-27 (and indicative Prudential Indicators 2027-28 to 2028-29).</p>
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

- 1.1. Each year, the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. In constructing the programme, considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously agreed by the Devon and Somerset Fire and Rescue Authority (hereinafter referred to as “the Authority”).
- 1.2. The Authority has in previous years used revenue contributions and capital reserve to finance the capital programme, ensuring the Authority stays within the 5% ratio. The Authority has faced increasing revenue budget pressures making the revenue contribution unaffordable in the last two financial years, which in turn speeds up the use of the capital reserve. This will impact on the 5% ratio. However in the medium term the modelled increases in net revenue budget indicate the ratio will remain well within the Prudential indicator.
- 1.3. Due to the age of current fleet there are still plans to introduce further new Medium Rescue Pumps (MRPs) including, all-wheel drive, Aerial Ladder Platforms (ALP), and Water Carriers into the fleet. The fleet replacement programme, when combined with a station rebuild and other works, will see a significant draw on the capital reserve which is now expected to be used up by 2026-27.
- 1.4. The Authority has set a strategy to reduce reliance on external borrowing. The proposed Capital Programme 2024-25 to 2026-27 and indicative Capital Programme 2027-28 to 2028-29 show that, despite the reduced number of assets, the Authority may need to borrow up to £9.8m. When further decisions are made around stations and vehicles this figure is likely to increase significantly. Alternatively, there may be a need to restrict the amount of funding available to the Capital Programme and task the Service with further rationalising its assets.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

- 2.1. The tests of affordability of future capital spending are measured by compliance with the Chartered Institute of Public Financial Accountants (CIPFA) Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.
- 2.2. The proposed programme and funding, as contained in this report, increases the external borrowing requirement to £28m by 2026-27 from the current external borrowing of £23.8m as at 31 March 2024. The debt ratio remains below the 5% maximum limit throughout the planning period.

- 2.3. The focus of this Authority over many years has been to control spending within the 5% limit. To achieve this, the Service has utilised revenue funding wherever possible through allocation of budget or revenue underspends. This approach has been successful because neither the 5% prudential indicator has been breached nor has external borrowing increased.
- 2.4. Despite increasing pressure on revenue budgets, the revised programme has been prepared on the basis that Revenue Contributions to Capital will resume for 2024-25, albeit at a reduced rate of £0.669m in comparison to the strategic intent, which remains to increase this gradually to historical levels over the forthcoming years, however, significant pressures remain.
- 2.5. Due to current interest rates and the potential need to borrow in the future, it is not currently recommended that the Authority repay loans early. This means that existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed to maximise economy of funding sources.

3. **REVISED CAPITAL PROGRAMME FOR 2024-25 to 2026-27**

- 3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2024-25 to 2026-27 as contained in this report. This programme represents a net increase in overall spending of £6m (before application of optimism bias) over the previously agreed indicative programme as illustrated in Figure 1:

Figure 1

	Estates £m	Fleet & Equipment £m	Total £m
Existing Programme			
2023-24	6.9	7.4	14.3
2024-25	3.8	1.8	5.6
2025-26 (provisional)	0.1	4.5	4.6
2026-27 (provisional)	0.1	3.3	3.4
Total 2023-24 to 2026-27	10.9	17.0	27.9
Proposed Programme			
2023-24 (forecast spending)	1.0	5.3	6.3
2024-25	4.8	3.4	8.2
2025-26 (provisional)	6.0	2.6	8.6
2026-27 (provisional)	8.6	2.2	10.8
Total 2023-24 to 2026-27	20.4	13.5	33.9
Proposed change	9.5	-3.5	6.0

Estates

- 3.1. The Service continues to progress with rationalising the Estate as part of the new ways of working along with the disposal of surplus non-operational buildings whilst also incorporating the Authority's Green DSFRS environmental strategy. The Estates Department will also continue to work in close partnership with the Service Delivery and Academy Training Teams to support a sustainable training infrastructure model which fully considers the closure of Severn Park in March 2028.
- 3.2. With consideration of the strategic output from the Community Risk Management Plan (CRMP), a Fire Cover Review and the Target Operating Model (TOM) the programme for 2024-25 maintains the focus on existing projects; particularly the new build project for Camels Head, Dignity at Work covering welfare and rest accommodation for the remaining Wholetime Fire Stations, alongside works to ensure compliance such as Muster Bay Separation works and associated PPE at On Call Stations as well as the major refurbishment and extension of Bere Alston Fire Station.
- 3.3. Within the programme is investment in a replacement hot villa and scrubbers based at the airport. There is also a potential investment in carbon reduction at 2 Stations which is incumbent on a grant application from the Public Sector Decarbonisation Scheme.

Operational Assets

- 3.4. The contract for Medium Rescue Pumps (MRPs) was awarded in January 2020 and has renewed a considerable number of vehicles. The last 5 MRPs will be received into Service in early 2024-25, as will All-Wheel-Drive MRPs (1-4), ALPs 1-3 and water carriers. Moving forward, the Service is preparing for the development of the MRP2 (previously known as Light Rescue Pumps {LRPs}) requirements and replacements as part of the long-term fleet replacement plan. A review of numbers and locations of specialist vehicles is being considered alongside the CRMP.
- 3.5. A 10 year vehicle replacement programme has been developed along with an equipment replacement programme (which is funded from revenue due to the low value of each individual asset). The Asset Management Project will enable the Service to better assess the whole life costs of our assets in the future.
- 3.6. The benefits of the Fleet Replacement Programme are:
 - Economic benefits of new fleet
 - Standardisation of vehicles leading to reduced maintenance and training costs
 - Environmental benefits from reduced emissions and savings on fuel consumption
- 3.7. The Fleet Replacement plan has replaced some of our oldest appliances with new MRPs and cascade existing vehicles to the reserve and training fleet. Currently we have:

- 3.8. MRP – 56 front-line appliances of which 25 are overdue replacement (more than 15 years old –44%).
- 3.9. MRP Reserves – 11 MRP reserve appliances of which 9 are overdue replacement (more than 15 years old – 82%).
- 3.10. LRP – 38 front-line LRP appliances of which 6 become due replacement in 2025/26 based on 12 years expected life-cycle.
- 3.11. LRP Reserves – 4 LRP Reserve appliances which are 9 years old.
- 3.12. RIV – 18 front-line RIV appliances of which none will be due replacement until 2028/29 based on a ten-year life-cycle. (Note: these vehicles have not been in service long enough to accurately predict life-cycle so will rely on condition reporting)
- 3.13. RIV Reserves – 2 RIV reserve appliances which are both 6 years old.
- 3.14. Training Appliances – 6 MRP training appliances of which 5 are over 15 years old.
- 3.15. Driver Training Appliances – 2 x MRP driver training specific appliances which are 13 years old. 2 x new MRP appliances (not driver training specific). 1 is new and the other 15 years old.

4. FORECAST DEBT CHARGES

- 4.1. Appendix A also provides indicative capital requirements beyond 2026-27 to 2028-29. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2 overleaf.

Figure 2 - Summary of Estimated Capital Financing Costs and future borrowing

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Forecast Debt outstanding at year end	23.313	23.219	27.985	30.893	30.780
Base budget for capital financing costs and debt charges	3.807	4.127	4.124	4.472	4.201
Change over previous year		0.321	(0.003)	0.348	(0.076)
Debt ratio	3.03%	3.28%	3.17%	3.42%	3.06 %

- 4.2. The forecast figures for external debt and debt charges beyond 2026-27 are based upon the indicative programmes as included in Appendix A for the years 2027-28 to 2028-29. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

5. PRUDENTIAL INDICATORS

- 5.1. Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £27.4m to £30.7m (including impact of proposed revenue contributions) by 2028-29.
- 5.2. The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority and the ability to baseline revenue contribution. Whilst the programme now presented maintains borrowing within 5% to 2028-29, this will only be possible with appropriate annual revenue contributions to the capital programme to maintain an affordable and sustainable Capital Programme.

6. CONCLUSION

- 6.1. This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire appliances required to be maintained and eventually replaced, and also keeping debt charges within the 5% limit.
- 6.2. The capital programme has been constructed on the basis that the revenue budget contribution to capital will be maintained in future years and highlights that unless capital assets are further rationalised, there will be a need to borrow in 2026-27. The programme proposed in this report does not commit any spending beyond 2026-27. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The programme is therefore recommended for approval and a future affordability review will be undertaken.

SHAYNE SCOTT

Director of Finance and Corporate Services (Treasurer)

APPENDIX A TO REPORT DSFRA/24/4

Capital Programme 2024/25 to 2028/29									
2023/24 £000 Budget	2023/24 £000 Forecast Outturn	Item	PROJECT	2024/25 £000 Budget	2025/26 £000 Budget	2026/27 £000 Budget	2027/28 £000 Indicative Budget	2028/29 £000 Indicative Budget	
1,919	15	1	Estate Development						
5,009	955	2	Site re/new build	520	3,884	500	0	0	
			Improvements & structural maintenance	4,293	2,075	8,122	3,430	855	
6,928	970		Estates Sub Total	4,813	5,959	8,622	3,430	855	
			Fleet & Equipment						
4,522	3,150	3	Appliance replacement	1,489	2,119	2,180	1,430	1,460	
2,266	1,913	4	Specialist Operational Vehicles	1,944	455	0	920	505	
570	235	5	ICT Department	0	0	0	0	0	
7,358	5,298		Fleet & Equipment Sub Total	3,433	2,574	2,180	2,350	1,965	
(1,200)	0	6	Optimism bias Sub Total	(1,000)	(200)	(500)	1,000	700	
13,086	6,268		Overall Capital Totals	7,246	8,333	10,302	6,780	3,520	
			Programme funding						
11,753	4,563	7	Earmarked Reserves:	4,716	4,480	1,918	0	0	
50	22	8	Revenue funds:	719	2,050	2,050	2,050	2,050	
0	400	9	Capital receipts:	0	0	0	0	0	
1,283	1,283	10	Borrowing - internal	1,382	1,803	0	1,229	1,470	
0	0	11	Borrowing - external	0	0	6,334	3,501	0	
		12	Contributions:	429	0	0	0	0	
13,086	6,268		Total Funding	7,246	8,333	10,302	6,780	3,520	

The “Optimism Bias” incorporates learning that these figures will change throughout the year, the reasons for any such changes will be outlined in subsequent papers.

APPENDIX B TO REPORT DSFRA/24/4

PRUDENTIAL INDICATORS	INDICATIVE INDICATORS				
	2024/25	2025/26	2026/27	2027/28	2028/29
	£m Estimate	£m Estimate	£m Estimate	£m Estimate	£m Estimate
Capital Expenditure					
Non - HRA	7.246	8.333	10.302	6.780	3.520
HRA (applies only to housing authorities)					
Total	7.246	8.333	10.302	6.780	3.520
Ratio of financing costs to net revenue stream					
Non - HRA	3.03%	3.28%	3.17%	3.42%	3.06%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000 ▲	£000
Non - HRA	23,312	23,220	27,985	30,893	30,339
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	4,120	3,150	2,163	1,137	362
Total	27,432	26,370	30,148	32,030	30,701
Annual change in Capital Financing Requirement	£000	£000	£000	£000 ▲	£000
Non - HRA	3,005	(1,062)	3,778	1,882	(1,329)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	3,005	(1,062)	3,778	1,882	(1,329)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000 ▲	£000
Borrowing	26,037	25,574	33,078	34,131	33,510
Other long term liabilities	4,825	4,777	3,758	2,719	1,655
Total	30,862	30,351	36,836	36,850	35,165
Operational Boundary for external debt	£000	£000	£000	£000 ▲	£000
Borrowing	24,871	24,413	31,678	32,586	31,993
Other long term liabilities	4,620	4,620	3,650	2,663	1,637
Total	29,490	29,032	35,328	35,249	33,630
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.	DSFRAC/24/5
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting).
DATE OF MEETING	16 FEBRUARY 2024
SUBJECT OF REPORT	TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2024-25 TO 2026-27)
LEAD OFFICER	Director of Finance and Corporate Services (Treasurer)
RECOMMENDATIONS	<p><i>That, as recommended by the Resources Committee as its budget meeting on 5 February 2024, the Authority approves:</i></p> <ul style="list-style-type: none"> <i>(a). the Treasury Management Strategy and the Annual Investment Strategy;</i> <i>(b). the CFR projections below as included in Appendix A of this report</i> <i>(c). the Minimum Revenue Provision statement for 2024-25, as contained as Appendix B.</i>
EXECUTIVE SUMMARY	<p>This report sets out a treasury management strategy and investment strategy for 2024-25, including the Prudential Indicators associated with the capital programme for 2024-25 to 2026-27 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2024-25 is also included for approval. The 2021-22 revised Prudential Code also requires the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily held for yield.</p> <p>This report was initially considered by the Resources Committee at its budget meeting on 5 February 2024. The Committee resolved to recommend that the Authority approve the identified Treasury Management and Annual Investment Strategy together with the Minimum Revenue Provision statement as appended.</p>
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	<ul style="list-style-type: none"> A. Prudential and Treasury Management Indicators 2024-25 to 2026-27 B. Minimum Revenue Provision Statement 2024-25.

	C. Link Treasury Solutions economic report
BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice

1. **INTRODUCTION**

Background

- 1.1. The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2. The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.
- 1.3. The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4. CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.5. The Authority has not engaged in any commercial investments and has no non-treasury investments.

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

- 1.7. The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 8 of this report); this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.8. The Department for Levelling Up, Housing and Communities (DLUHC) issued revised investment guidance which came into force from 1 April 2018. This guidance was captured within the revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code 2017.

CIPFA requirements

- 1.9. The CIPFA 2021/22 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability
 - declare that the capital spends do not include the acquisition of assets primarily for yield.
- 1.10. The aim of this capital strategy is to ensure that all elected members on the full Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management reporting

- 1.11. The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
- a. Prudential and Treasury Indicators and Treasury Strategy** (this report): The first, and most important report is forward looking and covers:
- the capital plans, (including prudential indicators);
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an investment strategy, (the parameters on how investments are to be managed).

- b. A Mid-year Treasury Management Report:** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.
- c. An Annual Treasury Report:** This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

- 1.12. The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Resources Committee.
- 1.13. In addition to the Treasury management reports identified in 1.11 of this report, quarterly treasury management reports will be prepared as part of the budget monitoring reporting cycle. These will update on the approved indicators as required by the CIPFA Prudential Code 2021.
- 1.14. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
 - Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a mid-year review report and an annual report (stewardship report) covering activities during the previous year.
 - Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices - for the Authority the delegated body is Resources Committee - and for the execution and administration of treasury management decisions - for the Authority the responsible officer is the Treasurer.
 - Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a named body - for the Authority the delegated body is Resources Committee.

Treasury Management Strategy for 2024-25

- 1.15. The suggested strategy for 2024-25 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, Link Group (Link).

1.16. The strategy for 2024-25 covers two main areas:

Capital Issues

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

Treasury Management Issues

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

Training

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

Treasury Management Advisors

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

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

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

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

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

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

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

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

Capital Financing	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
	£m	£m	£m	£m
Capital receipts/ contributions	0.400	0.429	0.000	0.000
Capital grants	0.000	0.000	0.000	0.000
Capital reserves	4.563	4.716	4.480	1.918
Revenue	0.022	0.719	2.050	2.050
Existing borrowing	1.283	1.382	1.803	0.000
New borrowing	0.000	0.000	0.000	6.334
Total	6.268	7.246	8.333	10.302

The Authority's Borrowing Need (Capital Financing Requirement)

- 2.4. The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 2.5. The CFR does not increase indefinitely, as the Minimum Revenue Provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
- 2.6. The CFR includes any other long-term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases). Whilst these increase the CFR, and therefore, the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI via a public-private partnership lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £4.120m of such schemes within the CFR.
- 2.7. Please note the large increase in the other long-term liabilities from 2024-25 onwards is as a result of the implementation of a new International Finance Reporting Standard (16) which has changed the way we are required to treat and record leases.
- 2.8. The Committee is asked to recommend approval to the Authority of the CFR projections below as included in Appendix A of this report:

Capital Financing Requirement (CFR)	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
	£m	£m	£m	£m
Non-HRA expenditure	23.771	23.312	23.220	27.985
Other Long Term Liabilities	0.656	4.120	3.150	2.163
Total CFR	24.426	27.432	26.370	30.148
Movement in CFR	1.283	5.530	1.803	6.334
Less MRP	(1.911)	(2.525)	(2.865)	(2.556)
Net movement in CFR	(0.628)	3.005	(1.062)	3.778

Core funds and expected investment balances

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

Estimated Year end Resources	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Reserve Balances	15.400	6.700	4.480	1.918
Capital receipts/ contributions	0.000	0.000	0.000	0.000
Other	17.104	18.486	20.288	26.623
Total core funds	32.504	25.186	24.768	28.541
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	33.504	26.186	25.768	29.541

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

Minimum Revenue Provision Strategy

- 2.10. The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision).
- 2.11. The Department for Levelling-Up, Housing and Communities (DLUHC) regulations have been issued which require the Authority to approve a **Minimum Revenue Provision Statement** in advance of each year. A variety of options are provided under which Minimum Revenue Provision could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. At the time of drafting the 2024/25 TMSS report, DLUHC had issued consultation on proposed changes to the current MRP regulations and Secretary of State MRP Guidance. The implementation date is planned for 1st April 2024, but the MRP Policy for the Authority is not expected to change significantly when it is introduced.
- 2.12. Department for Levelling-Up, Communities and Housing (DLUCH) regulations have been issued which require the Authority to approve a **Minimum Revenue Provision Statement** in advance of each year. A variety of options are provided under which Minimum Revenue Provision could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.
- 2.13. The Authority does not plan to make any Voluntary Revenue Provisions within the next three years.
- 2.14. Although four main options are provided under the guidance, the Authority has adopted:

The Asset Life Method

- 2.15 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, Minimum Revenue Provision is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when Minimum Revenue Provision commences and not changed after that.
- 2.16 Minimum Revenue Provision should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the Authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make Minimum Revenue Provision until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.
- 2.17 As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
- 2.18 A draft Minimum Revenue Provision statement for 2024-25 is attached as Appendix B for recommendation to the Authority for approval.
- 2.19 The financing of the approved 2024-25 capital programme and the resultant prudential indicators have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

- 2.20 The previous sections of the report cover the overall limits for capital expenditure and borrowing, but within the overall framework indicators are also included to demonstrate the affordability of capital investment plans.
- 2.21 A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2024-25 to 2026-27 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2023-24 (forecast spending)	2024-25	2025-26 (provisional)	2026-27 (provisional)
Annual cost	1.61%	3.03%	3.28%	3.17%

3. **BORROWING**

3.1. The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current borrowing position

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

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

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

External Debt	2023-24 (forecast spending)	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Debt at 1 April	24.264	23.771	23.313	23.219
Expected change in Debt	(0.493)	(0.458)	(0.093)	4.766
Other long-term liabilities (OLTL)	0.791	0.656	4.120	3.150
Expected change in OLTL	(0.135)	3.464	(0.969)	(0.988)
Actual gross debt at 31 March	24.427	27.432	26.369	30.148
CFR	24.426	27.432	26.370	30.148
Under/ Over borrowing	0.000	0.000	(0.000)	(0.000)

3.4. Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024-25 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

Limits to Borrowing Activity

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

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

Estimated Operational Boundary	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Non-HRA expenditure	24,364	24,871	24,413	31,678
Other Long Term Liabilities	791	4,620	4,620	3,650
Total	25,155	29,490	29,032	35,328

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

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

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

Estimated Authorised Limit	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Non-HRA expenditure	25,553	26,037	25,574	33,078
Other Long Term Liabilities	823	4,825	4,777	3,758
Total	26,376	30,862	30,351	36,836

Prospects for interest rates

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

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

Borrowing strategy

- 3.9. As reported in the separate report on this agenda “Capital Programme 2024-25 to 2026-27”, there is a possibility that the Authority may need to increase its exposure to external borrowing during the next three years. However, despite pressures within the revenue budget, it is pleasing to note that the ability to contribute a modest amount for revenue contribution to capital investment has been recommenced for 2024-25.
- 3.10. This being the case there is no intention to take out any new borrowing during 2024-25 as the Authority can rely on its prudent Capital Reserve. Should this position change then the Treasury Management Strategy will need to be reviewed to reflect any change to the borrowing strategy and would be subject to a further report to the Authority.

Policy on borrowing in advance of need

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

Debt rescheduling

- 3.12. Officers regularly engage with Link to review the PWLB loan portfolio and consider opportunities for early repayment, this is not currently economically viable due to the penalties applied.
- 3.13. Rescheduling of current borrowing in our debt portfolio is unlikely to occur in the short-term but a watchful eye is kept on the viability of early repayment without incurring a penalty in doing so.
- 3.14. If rescheduling was done, it will be reported to this Committee, at the earliest meeting following its action.

Liability Benchmark

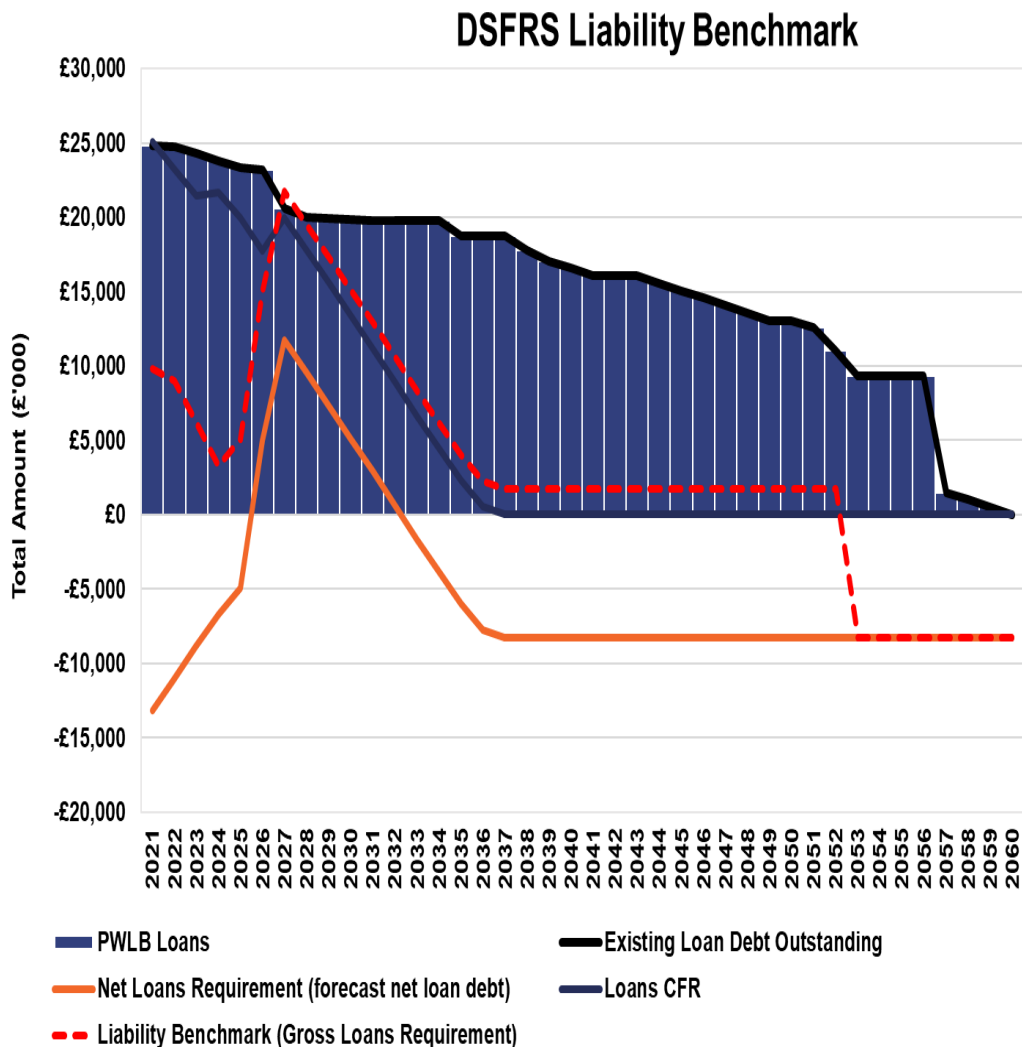
- 3.15. CIPFA has issued revised codes of practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. One of the changes to the Treasury Management code is the introduction of a liability benchmark that can be compared to the local authority’s borrowing strategy and can be calculated to show the lowest risk level of borrowing.
- 3.16. The chart overleaf shows the liability benchmark that has been calculated from 2021 and future years: The following explanations are provided to assist with understanding the chart:

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

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

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

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



4. **ANNUAL INVESTMENT STRATEGY**

Investment Policy

- 4.1. The Authority's investment policy has regard to the DLUCH's Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code") and the CIPFA Treasury Management Guidance Notes 2018. The Authority's investment priorities will be security first, portfolio liquidity second, then yield.
- 4.2. In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
- 4.3. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 4.4. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

- 4.5. The Authority applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's.
- 4.6. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - credit defaults swap spreads to give early warning of likely changes in credit ratings;
 - Sovereign ratings to select counterparties from only the most creditworthy countries.

- 4.7. This modelling approach combines credit ratings, credit watches, credit outlooks and Credit Default Swap spreads in a weighted scoring system which is then combined with an overlay of Credit Default Swap spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.
- 4.8. The Link Group creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.
- 4.9. Typically the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 4.10. All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.
- 4.11. Sole reliance will not be placed on the use of this external service. In addition, the Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Approved Instruments for Investments

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

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

Non-specified Investments

- 4.15. Non specified investments are those which do not meet the Specified Investment Criteria and covers those counterparties where there is either no recognised credit rating and/or an anticipation that an investment will be for greater than one year in duration.
- 4.16. The Authority had not previously placed non-specified investments as a result of its prudent approach to place security and liquidity over yield. However, from April 2015 it was agreed that the strategy be amended to include investments with maturity of longer than 364 days. The maximum duration limit on any non-specified deposit will be determined by the colour assigned to the Counterparty on the Link Group credit list on the date the investment is placed, but typically will be for no longer than 24 months. Where such investments are placed via the Secondary Market i.e. buying the remaining term of an existing instrument, then the term will be for 24 months.
- 4.17. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in Table 13 overleaf.
- 4.18. The maturity limits recommended will not be exceeded. Under the delegated powers the Section 112 Officer (Treasurer) can set limits that are based on the latest economic conditions and credit ratings.
- 4.19. The table overleaf shows those bodies with which the Authority will invest.

Specified Investments	Non-Specified Investments
	Subsidiary entities
Deposits with the Debt Management Agency Deposit Facility	
Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals)	Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals) Non-credit rated building societies. <i>The total amount of non-specified investments will not be greater than £5m in value.</i>
Banks nationalised/part nationalised or supported by the UK government	Banks nationalised/part nationalised or supported by the UK government
Money Market Funds	
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

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

Investment Strategy

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

4.22. Investment returns: Bank Rates has seen much upward activity during the last 12 months rising from 4.0% in March 2023 to the current 5.25% however, the projection is for reductions in the rate during the later part of 2024. We have assumed that investment earnings from money market-related instruments will be in the region of 3.50%-4.00% for the next 12 months.

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

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

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

Maximum principal sums invested > 365 days			
£m	2024-25	2025-26	2026-27
Principal sums invested > 365 days	£5m	£5m	£5m

End of year investment report

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

Treasury Management Scheme of Delegation

The Authority:

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

Resources Committee;

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

Role of the Section 151 officer (Director of Finance and Corporate Services/Treasurer):

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit and liaising with external audit; and
- Recommending the appointment of external service providers.

5. SUMMARY AND RECOMMENDATIONS

- 5.1. The Authority is required to consider and approve the treasury management strategy to be adopted prior to the start of the financial year. This strategy must also include proposed prudential indicators and a Minimum Revenue Provision statement. Approval of the strategy for 2024-25 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

SHAYNE SCOTT
Director of Finance and Corporate Services (Treasurer)

APPENDIX A TO REPORT RC/24/5

PRUDENTIAL INDICATORS	INDICATIVE INDICATORS				
	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure					
Non - HRA	7.246	8.333	10.302	6.780	3.520
HRA (applies only to housing authorities)					
Total	7.246	8.333	10.302	6.780	3.520
Ratio of financing costs to net revenue stream					
Non - HRA	3.03%	3.28%	3.17%	3.42%	3.06%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000
Non - HRA	23,312	23,220	27,985	30,893	30,339
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	4,120	3,150	2,163	1,137	362
Total	27,432	26,370	30,148	32,030	30,701
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	3,005	(1,062)	3,778	1,882	(1,329)
HRA (applies only to housing authorities)	0	0	0	0	0
Total	3,005	(1,062)	3,778	1,882	(1,329)
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	26,037	25,574	33,078	34,131	33,510
Other long term liabilities	4,825	4,777	3,758	2,719	1,655
Total	30,862	30,351	36,836	36,850	35,165
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,871	24,413	31,678	32,586	31,993
Other long term liabilities	4,620	4,620	3,650	2,663	1,637
Total	29,490	29,032	35,328	35,249	33,630
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	5,000	5,000	5,000	5,000	5,000

MINIMUM REVENUE STATEMENT 2024-25

Supported Borrowing

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

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

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

Finance Lease and PFI

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

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

Minimum Revenue Provision Overpayments

A change introduced by the revised DLUHC Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory Minimum Revenue Provision, Voluntary Revenue Provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2023 the total Voluntary Revenue Provision overpayments were £nil.

LINK TREASURY SOLUTIONS ECONOMIC REPORT

ECONOMICS UPDATE

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

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

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

- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”. And it stuck to the familiar script, saying that policy will be “sufficiently restrictive for sufficiently long” and that “monetary policy is likely to need to be restrictive for an extended period of time”. In other words, the message is that the MPC is not yet willing to endorse investors’ expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains the view that the Bank of England won’t feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.
- Investors’ growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index’s high concentration of energy companies.

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England’s Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about “sticky” inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

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

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REPORT REFERENCE NO.	DSFRA/24/6
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
DATE OF MEETING	16 FEBRUARY 2024 (Budget Meeting)
SUBJECT OF REPORT	EXTRAORDINARY AUTHORITY MEETING – 25 MARCH 2024
LEAD OFFICER	Clerk to the Authority & Monitoring Officer
RECOMMENDATIONS	<i>That an Extraordinary Meeting of the Authority be scheduled for Monday 25 March 2024 at 14:00hours.</i>
EXECUTIVE SUMMARY	It is proposed to hold an Extraordinary meeting of the Authority on Monday 25 March 2024 at 14:00hours. This date has been checked against constituent authority calendars and no clashes have been identified.
RESOURCE IMPLICATIONS	Nil.
EQUALITY RISKS AND BENEFITS ANALYSIS	N/A
APPENDICES	Nil.
BACKGROUND PAPERS	Nil.

1. INTRODUCTION

- 1.1. The Authority has been apprised on many occasions during the 2023-24 financial year of the challenges facing Devon & Somerset Fire & Rescue Service in 2024-25 and future years. These challenges include those driven by the acute financial pressure faced together with the need to modernise and reflect the changes within society today. Such challenges are reflected elsewhere on the agenda for this meeting in the proposals within the Medium-Term Financial Plan, the level of Council Tax and associated Revenue Budget in 2024-25 and the Capital Programme for 2024-25 to 2026-27.
- 1.2. The agenda for the budget meeting on 16 February 2024 is already full. Since the Authority's meeting on 11 December 2023, the Treasurer has submitted his resignation having secured a new post with his departure taking effect from 5 April 2024. This appointment is reserved to the Authority and, as a statutory Officer, this has to be undertaken seamlessly, thus a report will need to be considered before the departure of the existing Treasurer.
- 1.3. Additionally, work is ongoing on the Red One Governance Review and, whilst some aspects of this are addressed elsewhere on the agenda for this meeting, there will be matters which officers will not have had time to give due consideration to and thus, will need to be considered at the Extraordinary meeting.
- 1.4. Taking account of these issues and having consulted with the Chair of the Authority, it is proposed that an Extraordinary Meeting of the Authority be set up to consider these specific issues and other matters that may arise in the interim. Consideration is being given to increasing the number of Authority meetings from four to five each year to take account of the increasing amount of business that needs Authority approval.
- 1.5. It is proposed to hold the Extraordinary Meeting of the Authority on Monday 25 March 2024 at 14:00hours. This date has been checked against constituent authority calendars and no clashes have been identified.

SAMANTHA SHARMAN

Clerk to the Authority & Monitoring Officer

REPORT REFERENCE NO.	DSFRA/24/7
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
DATE OF MEETING	16 FEBRUARY 2024 (Budget Meeting)
SUBJECT OF REPORT	RED ONE LIMITED – REVIEW OF GOVERNANCE
LEAD OFFICER	DIRECTOR OF FINANCE & CORPORATE SERVICES (TREASURER) AND MONITORING OFFICER
RECOMMENDATIONS	<p>(a). <i>That the contents of this report be considered and the Authority approves, with effect from 1 April 2024:</i></p> <ul style="list-style-type: none"> (i). <i>the establishment a Shareholders Committee comprising seven Members (to include the Authority Chair and Chair of Resources Committee)</i> (ii). <i>the draft Terms of Reference for the Shareholder Committee, subject to any amendments as may be proposed at the meeting, as set out within Appendix B of this report;</i> (iii). <i>the amendments to the Terms of Reference for the Audit & Governance Committee as set out at paragraph 8.6 of this report (and reflected at Appendix C);</i> (iv). <i>the consequential amendments to the Resources Committee’s Terms of Reference to remove responsibility for monitoring the performance of Red One Ltd; and</i> (v). <i>Authorise the Clerk to the Authority to implement the amendments to the Terms of Reference for Committees as indicated and other constitutional documents as may be appropriate</i> <p>(b) <i>That a further report on:</i></p> <ul style="list-style-type: none"> (i). <i>the appointment of Chair and Members to the Shareholder Committee (subject to (a) (i) being approved;</i> (ii). <i>The revised Articles of Association and Written, Special resolution thereon of the Board of ROL</i> (ii). <i>the re-appointment of an Independent Chair of the Board of Red One Ltd.</i>

	<i>be submitted to the Authority at its meeting on 25 March 2024.</i>
EXECUTIVE SUMMARY	This paper sets out some areas for consideration regarding the governance arrangements of Red One Ltd. (“the company”), the Authority’s commercial trading arm.
RESOURCE IMPLICATIONS	As indicated in the paper.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	<ul style="list-style-type: none"> A. Articles of Association for Red One Ltd. (approved 30 July 2018). B. Draft Terms of Reference – Shareholders Committee C. Proposed Terms of Reference – Audit & Governance Committee
BACKGROUND PAPERS	<p>The UK Corporate Governance Code</p> <p>The importance of good governance, effective oversight and accountability of council-owned companies (cipfa.org)</p>

1. **GENERAL BACKGROUND**

- 1.1. The *Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009* bestowed powers on the Authority to undertake, for a commercial purpose anything which it is authorised to do in relation to its ordinary functions i.e., to trade, and make a profit from, such activities. The Local Government Act 2003 requires this power must be exercised through a separate company of a type as defined by Part 5 of the Local Government and Housing Act 1989 (companies in which local authorities have interests). The Regulations also require the Authority to recover the costs of any accommodation, goods, services, staff or any other thing supplied to such a company.
- 1.2. This ability under the Regulations coupled with the impact on the Service of reductions in government grants prompted the Devon & Somerset Fire & Rescue Service (DSFRS) to instigate a project exploring the scope for commercial activity, the rationale being to seek to generate income to off-set grant reductions and thereby safeguard front-line service delivery.
- 1.3. At its meeting on 16 September 2010, the Authority received an interim report (DSFRA/10/22) on the progress of this project. The Authority approved an outline plan as set out in that report as the method for implementing, developing and maximising charging and trading opportunities for the Authority (Minute DSFRA/32 refers). Associated with this, the Chief Fire Officer – in accordance with paragraph 2.2 of the Authority’s existing approved Scheme of Delegations (to exercise the powers of the Authority under the Local Government Act 2003 and any Regulations/Orders made thereunder (powers to trade)) – registered a company limited by shares (Red One Ltd. - ROL) to serve as the delivery mechanism for the Authority’s commercial trading activities.
- 1.4. Red One Ltd. (“the company”) is the Authority’s commercial trading arm, established in compliance with legislation set out at paragraph 1.1 above.
- 1.5. The governance arrangements for the company were reviewed by the Authority on 30 December 2017 (Minute DSFRA/xx refers). A governance framework, with appropriate documentation (including revised Articles of Association – Appendix A of this report refers) and processes compliant with existing best practice, was put in place.
- 1.6. The current company Board Chair was appointed by the Authority as an independent non-executive director for an initial twelve-month term with effect from 2 January 2018 (Minute *AP/6 of the [then] Red One Ltd. Non-Executive Directors Appointments Panel refers).
- 1.7. At the company’s Annual Meeting held on 30 July 2018, to which the Authority (as sole shareholder in the company) was invited, revised Articles of Association for the company were formally adopted (Minute DSFRA/24 refers). The revised Articles provide for a normal period of office of three years, with existing post-holders being eligible for subsequent re-appointment. The revised Articles also provide for the appointment of the independent non-executive director Board Chair to be a reserved matter for the Authority.

- 1.8. At its budget meeting on 19 February 2021, the Authority resolved to re-appoint the independent non-executive director Board Chair for a further period until the Authority's Annual Meeting in 2022 (Minute DSFRA/74 refers). This appointment was subsequently extended to June 2024 to allow time for the governance considerations outlined within this paper.

2. **GOVERNANCE CONSIDERATIONS**

- 2.1. The Authority, as the sole shareholder, holds the power to direct the board of Red One Ltd. (ROL) but has largely permitted the Company to operate at arm's length, leaving the strategic management and scrutiny of the company's affairs to that of the Board of Directors. The Authority appoints two of its own Members to serve as Non-Executive Directors and to work with the independent non-executive chair and other Directors. This represents three of the eight director appointments to the Board.
- 2.2. Further oversight by the Authority is discharged through ROL directors reporting financial and operational performance monthly to the Treasurer, quarterly to the Authority's Resources Committee and annually to the full Authority, via the company's Annual General Meeting.
- 2.3. The Service, on the other hand, does not have any direct control over the operations of the company. Its ability to influence the strategic direction of the company is limited to the appointment of two Non-Executive Directors to the company's board. Notwithstanding this, the company utilises Service resources (on commercial terms); continues to owe historical debt to the Service (which is set to be cleared later this year) and who's strategic objective is to eventually off-set some of the financial pressures placed on the taxpayer in funding the Service through the return of dividends. Furthermore, should the company fail (e.g. financially, operationally etc.) the Authority would likely have to direct Officers from the Service to intervene. As such, the Service has a direct and legitimate interest in how the company operates and its future success.
- 2.4. These governance arrangements have broadly served the Authority, the Service and ROL well. That said, over the course of the last two years there have been notable circumstances whereby divergence of opinion between that of the company's board of directors, Service executive board and the Authority's Statutory Officers (i.e. Treasurer and Monitoring Officer) have emerged, leading to protracted negotiations and no clear route of or forum for resolution. Similarly, over the same period, Members of the Authority have expressed concern to the Treasurer that they do not feel sufficiently sighted on the affairs of ROL and have made clear that there is a need for greater transparency given that the company is wholly owned by the taxpayer and that they hold overall responsibility.
- 2.5. In response to these concerns the then Head of Paid Service (i.e. Chief Fire Officer now on secondment) along with the Treasurer and the then Monitoring Officer sought the approval from the Authority on 10 June 2022 (Minute DSFRA/22/13 refers) to undertake a governance review which would establish our current compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) good-practice guide for local authority owned companies.

- 2.6. In August 2022, in line with the resolution of the Authority, the Treasurer commissioned the Devon Audit Partnership (DAP) to undertake an independent governance review of Red One Limited.
- 2.7. An overview of the key findings of the review governance review and proposed next steps are included within this paper.

3. OVERVIEW OF FINDINGS AND PROGRESS TO DATE

- 3.1. DAP made recommendations in line with the following key themes.
- Relationships;
 - Documentation;
 - Behaviours; and
 - Senior Leadership.
- 3.2. Each of these recommendations was rated on the basis of a Red, Amber and green (RAG) approach, with three of the four areas rated as Red and one (Behaviours) rated as Amber. This would suggest that work is needed to address the areas rated as red and each of these areas is addressed in more depth in this report.

4. RELATIONSHIPS

- 4.1. The recommendations made in this area are:
- The overall partnership would benefit from clearly defined and documented regular conversations with regular topic points. This document should outline when and how the conversations should happen, who should be present at those meetings and, crucially, who will manage the relationship. Accountability is fundamental to improving this relationship and those deemed responsible for its management should have this documented as part of their role to ensure its success.
 - The relationship would also benefit from agile conversations, whilst this is difficult to define it could be documented how this may look in principle, for example if ROL require a fast decision from DSFRS and the Chief Fire officer is not available for a decision, this could then go to Assistant Chief Fire Officer or another relevant deputy that could decide instead. There should also be a route for agile conversations from DSFRS to ROL, along with deputies, should this be required at any point.
- 4.2. In terms of the above two recommendations, the Service's Executive Board (EB) has now designated the role of ACFO Service Delivery Support, who holds responsibility for strategic areas of mutual benefit (i.e. Estates, Academy, Fleet) and is a member of the Service EB. Additionally, the postholder has been appointed to the Board of Directors of ROL.

4.3. The following recommendation has been accepted by EB but development work has yet to commence:

- The partnership could also benefit from a 'continuity plan' should there be an emergency or an event that may impact the continuation of services of either DSFRS or ROL. This plan should be subject to regular review to keep abreast of staffing changes, and it should also be evaluated periodically to check its effectiveness.

5. **DOCUMENTATION**

5.1. The recommendation made in this area is:

- The overall partnership between DSFRS and ROL would significantly benefit from updating key documents that outline key roles, responsibilities, expectations, and governance. DAP recommends a refresh of the 'articles of association' document. We also recommend a complete refresh of the 'Trading Contract' with a new agreement that both The Fire Authority, DSFRS and ROL should write, agree, and publish.

5.2. The Treasurer met with representatives from the Board of ROL on 30 January 2024 to discuss his and the Monitoring Officer's proposed recommendations to the Authority in response to these findings. A subsequent meeting was held with the addition of the Monitoring Officer on 05 February 2024 which achieved consensus amongst all parties.

5.3. This report contains a recommendation to amend the Authority's constitution and ROL Articles of Association to reflect the proposed amendments to the Shareholders' reserved matters. The refresh of the Trading Agreement between the Service and ROL requires further discussion with the Board of ROL and the Service Executive Board, however, a further report on this matter will be submitted to the Authority in due course.

6. **BEHAVIOURS**

6.1. The recommendations made in this area are:

- The partnership would improve if DSFRS are involved and aligned with the behaviours and values set by ROL, this could be accomplished by regular reviews of how these values and behaviours are being met, creating accountability in this area.
- The 'Nolan Principles' should be built into accountability of members across the board, the partnership could benefit and provide reassurance and confidence to the public if regular training is conducted in this area, DSFRS should also ensure they are satisfied these principles are being adhered to and an annual review is recommended to ensure accountability is being shown.

- ROL could benefit from regular training providing awareness of 'Conflicts of Interests' to ensure that all relevant members, leaders, and officers are aware of the definition of the term and the impacts of non-adherence to the CIPFA guidance on this area, DSFRS should ensure accountability is taken in this area.

6.2. This recommendation is accepted but yet to be implemented.

7. SENIOR LEADERSHIP

7.1. The recommendations made in this area are:

- The overall partnership would benefit from the right representation supported by the right structure allowing the correct level of oversight and governance. Therefore, DAP recommends the creation of a Fire Authority Shareholder Committee, in line with CIPFA guidance. This could be in addition to the appointment of Members and Service Directors to the board of ROL or instead of.
- This committee could consist of at least seven members (in line with current Committee practice) with the addition of three statutory officers with delegation from.

7.2. The Treasurer and Monitoring Officer have agreed jointly to recommend to the Authority the implementation of this recommendation in full. The Authority has been briefed separately on the envisaged role of this Committee and section 8 of this report (below) details the proposed way forward. Changes to the Authority's constitutional documents are proposed along with changes to ROLs Articles of Association. The intention is to bring the Shareholder Committee into effect on 1 April 2024.

8. RECOMMENDATIONS

8.1. A key recommendation following the DAP review which requires constitutional changes is the establishment of a Shareholder Committee.

8.2. The Shareholder Committee will provide the necessary oversight from a shareholder perspective and affords a formal route for the Authority and, where appropriate, Statutory Officers to have an active, strategic role in the direction of the company and provide proportionate oversight and scrutiny of its affairs. The aim is to ensure that the objectives and policies that the Authority, as the sole shareholder, has established for the company are being adhered to. This is in addition to the Annual General Meeting which ROL hold with the Authority as its sole shareholder.

8.3. It is recommended that the Shareholder Committee be given the following terms of reference and, where appropriate, delegation to:

a. Strategic engagement:

- i. review annual objectives and measures for evaluating performance proposed by ROL Board and provide feedback for ROL Board's consideration before final approval of annual objectives (Advisory)

- b. Scrutiny of ROL performance:
 - i. financial and performance monitoring on a quarterly basis– (to be transferred from Resources Committee) (Delegated)
 - ii. review the annual performance review of the Chair of ROL undertaken by the Board of ROL and provide feedback to the Chair and/ or Board of ROL (Delegated)
- c. Engagement on executive and non-executive remuneration to include performance related pay:
 - i. provide feedback annually to the Board of ROL on their proposed executive and non-executive remuneration (including performance related pay and taxable benefits) (Advisory)
 - ii. provide feedback on the rules for evaluating performance-related pay and make comments for consideration by the Board of Red One, before final approval of the annual objectives (Advisory)
- d. Consultation with Authority appointed ROL directors (i.e. Members):
 - i. Quarterly engagement by Authority Members appointed as Directors to the Board of ROL (Delegated)
- e. Arbiter on matters pertaining to ROL/ DSFRS divergence:
 - i. Final recourse on matters with delegation to recommend a specified way forward pertaining to the ROL/DSFRS relationship which cannot be resolved through Officer engagement. (Advisory)
- f. Shareholder reserved matters/ powers to:
 - i. Recommend to the Authority any proposed change to the ROL Articles of Association (AoA). (Advisory)
 - ii. Consider and approve ROL independent non-executive Chair remuneration following a recommendation from the ROL Board and their Remuneration Committee (Advisory)
 - iii. Ability to request ROL to consider and submit a dividend distribution proposal to the Shareholder. (Advisory)
 - iv. Ability to recommend to the Authority to direct the Board of Directors of ROL to take a desired course of action. (Advisory)
 - v. To make recommendations to the Authority on all other matters reserved to the Shareholder (where not specified within the remit of another Committee) as detailed within ROL's AoA (Advisory).

- 8.4. It is recommended that the Committee should consist of seven Members of the Authority, to include the Authority Chair and the Chair of Resources Committee together with seven Members to be drawn from membership of the Authority, with the exception of Audit and Governance Committee which recognises their scrutiny and assurance role. Member appointed should ideally hold experience in a commercial environment either now or previously or who have an interest in developing such skills. Proposed Terms of Reference for the Shareholders Committee are set out at Appendix A of this report.
- 8.5. No proposed change to the composition of the ROL Board of Directors is recommended. As such, it is anticipated that the existing Authority Appointed Non-Executive Directors (i.e. Members) should continue in their role but with the added expectation of undertaking quarterly engagement with the Shareholder Committee as detailed above.
- 8.6. The Authority is also asked to agree to the below amendments to the Terms of Reference of the Audit and Governance Committee to make explicit its responsibility to provide assurance over the effective governance of the Authority in its entirety, including that of its trading company. Proposed amendments to the Terms of Reference for the Audit and Governance Committee are set out below and reflected at Appendix B of this report.
- a. Recommendation to the Authority on the appointment of Statutory Auditors:
- i. This is already a reserved matter for the Shareholder as outlined within the ROL AoA but it is the intention to make it explicit that the Audit and Governance Committee would consider this appointment and make a recommendation to the Authority. (Advisory)
- b. Provide oversight of statutory audit findings and make clear the role of the Authority's Internal Audit function as it pertains to ROL.
- i. To have ROL's Statutory Auditor present the findings of their annual audit to the Audit and Governance and, where necessary, have Officers of ROL attend to respond to Member questions and provide assurance on the way forward; (Delegated) and
 - ii. Make explicit the Audit and Governance Committee's powers, as a last resort, to commission the Authority's Internal Auditors (Devon Audit Partnership), to undertake a review into any area of ROL to which they hold concerns pertaining to governance and report back to the Committee their findings. (Delegated)

9. **NEXT STEPS**

- 9.1. The Authority is requested to delegate authority to the Clerk to the Authority (Monitoring Officer) to implement all necessary amendments to the Authority's constitutional documents arising from the changes set out above.
- 9.2. The proposed changes to the Articles of Association will deal mainly with the areas as highlighted in the current Articles and as shown at Appendix A of this report.

- 9.3. Advice has been sought on the most appropriate mechanism to effect the required changes to the Articles in a manner compliant with the Companies Act 2006 and the Authority's constitution. This has indicated the following approach:
1. the Company initially proposes a Written, Special resolution at a Board meeting for the Authority, as sole shareholder, to adopt in its entirety the new Articles of Association. We expect this to take place during the ROL Board meeting scheduled for 27 February 2024;
 2. The Board then circulates the proposed Written, Special Resolution to the Clerk to the Authority who will facilitate consideration by the Authority (as sole shareholder) during the Extraordinary meeting of the Authority on 25 March 2024;
 3. The Authority (as sole shareholder) duly signifies its consent to the proposed Written Special Resolution;
 4. The Authority (as sole shareholder) authorises the Clerk to sign the Written Special Resolution on its behalf (signifying consent) and return this to the Company for forwarding on to Companies House together with the revised Articles.
- 9.4. Other matters still outstanding relating to the governance is the re-appointment of the Independent Chair of the Board of Red One Ltd. Dr George has indicated that she is willing to be re-appointed and, having served six years to 20 June 2024, this re-appointment falls within the length of term recommended by the CIPFA Good Practice guide which recommends a maximum of nine years. A report thereon will be submitted to the next meeting of the Authority on 25 March 2024.

SHAYNE SCOTT
Treasurer

SAMANTHA SHARMAN
Clerk & Monitoring Officer

THE COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

RED ONE LTD (the 'Company')

THIRD EDITION

1. Interpretation

1.1. The following definitions and rules of interpretation shall apply in these Articles:

Act means the Companies Act 2006.

Articles mean the Company's Articles of association for the time being in force.

Authority Member NED means a Director of the Company who is a Member and who has been appointed as a Director by the Sole Shareholder.

Bankruptcy includes individual insolvency proceedings in a jurisdiction other than England and Wales or Northern Ireland which have an effect similar to that of bankruptcy.

Board means the board of Directors for the time being or the Directors present at a duly convened meeting of the Directors at which a quorum is present.

Business Day means a day other than a Saturday, Sunday or a public holiday in England on which banks in London are open for business.

Chairman has the meaning given in Article 12.

Companies Acts means the Companies Acts (as defined in section 2 of the Act), in so far as they apply to the Company.

Conflict means a situation in which a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

Director means a Director of the Company, and includes any person occupying the position of Director, by whatever name called.

Document includes, unless otherwise specified, any Document sent or supplied in Electronic Form.

Electronic Form has the meaning given in section 1168 of the Act.

Eligible Director means a Director who would be entitled to vote on the matter had it been proposed as a resolution at the Director's meeting.

Executive Director: A Director who is a full or part-time employee of the Company or the holder of an executive office.

Fire Service Executive Board means the Devon and Somerset Fire and Rescue Service Executive Board.

Fully Paid in relation to a share, means that the nominal value and any premium to be paid to the company in respect of that share have been paid to the Company.

General Meeting Chairman has the meaning given in Article 40.

Hard Copy Form has the meaning given in section 1168 of the Act.

Independent NED means a Director who is not currently and has not been for the preceding four years a Member or employee of the Sole Shareholder or its constituent authorities.

Instrument means a Document in Hard Copy Form.

Interested Director means any Director who would, if not authorised to act in accordance with Article, be in breach of the duty imposed by Section 175 of the Act to avoid Conflicts of Interest.

Member means any councillor elected to the constituent authorities of the Sole Shareholder and appointed to the Sole Shareholder.

Model Articles means the model Articles for private companies limited by shares contained in Schedule 1 of the Companies (Model Articles) Regulations 2008 (SI 2008/3229), as amended prior to the date of adoption of these Articles.

Non-Executive Director (or “NED”) means a Director who is not a full or part-time employee of the Company or holder of an executive office and who is either an Independent NED or an Authority Member NED.

Ordinary Resolution has the meaning given in section 282 of the Act.

Proxy Notice has the meaning given in Article 47.

Service Officer NED means a Director of the Company who is an employee of the Sole Shareholder and who has been appointed as a Director by the Fire Service Executive Board.

Shares: means Shares in the Company.

Sole Shareholder means the sole registered holder for the entire share capital of the Company from time to time being the Devon & Somerset Fire & Rescue Authority.

Special Resolution has the meaning given in section 283 of the Act.

Stakeholder Groups means the Service Officer NEDs, the Authority Member NEDs, the Independent NEDs and the Executive Directors (each a “**Stakeholder Group**”).

Subsidiary has the meaning given in section 1159 of the Act.

- 1.2. The Model Articles shall not apply to the Company.
- 1.3. Unless the context otherwise requires, other words or expressions contained in these Articles bear the same meaning as in the Act as in force on the date when these Articles become binding on the Company.
- 1.4. Headings in these Articles are used for convenience only and shall not affect the construction or interpretation of these Articles.
- 1.5. A reference in these Articles to a numbered Article is a reference to the relevant Article of these Articles unless expressly provided otherwise.
- 1.6. Unless expressly provided otherwise in these Articles, a reference to a statute, statutory provision or subordinate legislation is a reference to it as it is in force from time to time, taking account of:
 - (a) any subordinate legislation made under it, whether before or after the date of adoption of these Articles; and
 - (b) any amendment or re-enactment, whether before or after the date of adoption of these Articles and includes any statute, statutory provision or subordinate legislation which it amends or re-enacts.
- 1.7. Any words following the terms including, include, in particular or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms.

- 1.8. Where the context permits, other and otherwise are illustrative and shall not limit the sense of the words preceding them.

LIABILITY OF THE SOLE SHAREHOLDER

- 2.1. The liability of the Sole Shareholder is limited to the amount, if any, unpaid on the Shares held by it.

DIRECTORS

3. Directors' general authority

- 3.1. Subject to these Articles and to any prescription that may, from time to time, be given to the Company by notice in writing from the Sole Shareholder, the directors are responsible for the management of the Company's business for which purpose they may exercise all the powers of the Company.

4. Sole Shareholder reserve power

- 4.1. The Sole Shareholder may, by notice in writing, direct the directors to take, or refrain from taking, specified action.
- 4.2. No such notice invalidates anything which the directors have done before the date of the notice.

5. Directors may delegate

- 5.1. Subject to the Articles, the Directors may delegate any of the powers which are conferred on them under the Articles:

- (a) to such person or committee;
 - (b) by such means (including by power of attorney);
 - (c) to such an extent;
 - (d) in relation to such matters or territories; and
 - (e) on such terms of reference and other terms and conditions;
- as they think fit.

- 5.2. If the Directors so specify, any such delegation may authorise further delegation of the Directors' powers by any person to whom they are delegated.

- 5.3. The Directors may revoke any delegation in whole or part, or alter its terms and conditions.

6. Committees

- 6.1. Committees to which the Directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of the Articles which govern the taking of decisions by Directors.

7. Directors to take decisions collectively

- 7.1. Subject to Articles 7.2 and 7.3, the general rule about decision-making by Directors is that any decision of the Directors must be either a majority decision at a meeting or a decision taken in accordance with Article 8.
- 7.2. At least one Eligible Director from at least three of the four Stakeholder Groups must have voted in favour of any resolution of the Directors in order for such resolution to be validly passed.
- 7.3. Where there is a requirement in these Articles for at least one Eligible Director from a Stakeholder Group:
 - (a) to vote in favour of a resolution in order for it to be valid; or
 - (b) to be present in order for a meeting to be quorate,

if there are no Eligible Directors of that Stakeholder Group for the time being, such requirement for an Eligible Director from that Stakeholder Group to so vote or to be so present shall not apply and the relevant article shall be construed accordingly.

8. Unanimous decisions

- 8.1. A decision of the Directors is taken in accordance with this Article when all Eligible Directors indicate to each other by any means that they share a common view on a matter.
- 8.2. Such a decision may take the form of a resolution in writing, of which each Eligible Director has signed one or more copies or to which each Eligible Director has otherwise indicated agreement in writing.
- 8.3. A decision may not be taken in accordance with this Article if the Eligible Directors would not have formed a quorum at such a meeting.

9. Calling a Directors' meeting

- 9.1. Any Director may call a Directors' meeting by giving notice of the meeting to the Directors or by authorising the company secretary (if any) to give such notice.
- 9.2. Notice of any Directors' meeting must indicate:
 - (a) its proposed date and time;
 - (b) where it is to take place; and
 - (c) if it is anticipated that Directors participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.
- 9.3. Notice of a Directors' meeting must be given to each Director, but need not be in writing.
- 9.4. Notice of a Directors' meeting need not be given to Directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the Company not more than 7 days after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.

10. Participation in Directors' meetings

- 10.1. Subject to the Articles, Directors participate in a Directors' meeting, or part of a Directors' meeting, when:
- (a) the meeting has been called and takes place in accordance with the Articles, and
 - (b) they can each communicate to the others any information or opinions they have on any particular item of the business of the meeting.
- 10.2. In determining whether Directors are participating in a Directors' meeting, it is irrelevant where any Director is or how they communicate with each other.
- 10.3. If all the Directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

11. Quorum for Directors' meetings

- 11.1. Subject to Article 11.2, the quorum for the transaction of business at a meeting of the Board of Directors shall be more than 50% of the Eligible Directors, including at least one Eligible Director from at least three of the four Stakeholder Groups.
- 11.2. For the purposes of authorising a Conflict pursuant to Article 15, the quorum will be two Eligible Directors (excluding the Interested Director), regardless of status.

12. Chairing of Directors' meetings

- 12.1. The post of chair of the Board of Directors (the "**Chairman**") shall be held by an Independent NED, who shall be appointed as Chairman by the Sole Shareholder following a recruitment process facilitated by an independent and reputable NED recruitment company.
- 12.2. If the Chairman is not participating in a Directors' meeting within ten minutes of the time at which it was to start, the participating Directors must appoint one of themselves to chair it.

13. Casting vote

- 13.1. If the numbers of votes for and against a proposal are equal, the Chairman or other Director chairing the meeting has a casting vote.
- 13.2. But this does not apply if, in accordance with the Articles, the Chairman or other Director is not to be counted as participating in the decision-making process for quorum or voting purposes.

14. Conflicts of interest – transactions or arrangements with the Company

- 14.1. Subject to section 177(5) and (6) and section 182(5) and (6) of the Act, a Director who is in any way, whether directly or indirectly, interested in an existing or proposed transaction or arrangement with the Company shall declare the nature and extent of his interest in accordance with the requirements of the Act and shall not without prior approval by the non-interested Directors:
- (a) be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;

- (b) be treated as an Eligible Director for the purposes of any proposed decision of the Directors (or committee of Directors) in respect of such existing or proposed transaction or arrangement in which he is interested;
- (c) be entitled to vote at a meeting of Directors (or of a committee of the Directors) or participate in any unanimous decision, in respect of such existing or proposed transaction or arrangement in which he is interested;
- (d) act by himself or his firm in a professional capacity for the Company; and
- (e) be a director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, anybody corporate, except the Sole Shareholder, in which the Company is otherwise (directly or indirectly) interested.

14.2. The provisions of Article 14.1(a) to Article 14.1(e) (inclusive) are subject, where applicable, to any terms and conditions imposed by the Directors in accordance with Article 15.3.

15. Conflicts of interest requiring board authorisation

15.1. The Directors may, subject to the quorum and voting requirements set out in the Articles, authorise any matter which would otherwise involve a Director breaching his duty under the Companies Acts to avoid conflicts of interest (a "**Conflict**").

15.2. Any authorisation under this Article 15 will be effective only if:

- (a) the matter in question shall have been proposed by any Director for consideration in the same way that any other matter may be proposed to the Directors under the provisions of these Articles or in such other manner as the Directors may determine; and
- (b) the matter was agreed to without the Interested Director voting or would have been agreed to if the Interested Director's vote had not been counted.

15.3. The Directors may revoke or vary such authorisation at any time, but this will not affect anything done by the Interested Director, before such revocation or variation, in accordance with the terms of such authorisation.

15.4. The terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded).

15.5. A Director, notwithstanding his office, may be a director or other officer of, employed by, or otherwise interested (including by the holding of Shares) in the Sole Shareholder and no further authorisation under Article 15.1 shall be necessary in respect of any such interest.

15.6. Where under this Article 15 the Directors otherwise give authority in relation to a Conflict:

- (a) the Directors may (whether at the relevant time or subsequently) (i) require that the relevant Director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the Directors or otherwise) related to the Conflict; and (ii) impose upon the relevant Director such other terms for the purpose of dealing with the Conflict as they may determine;
- (b) the relevant Director will be obliged to conduct himself in accordance with any terms imposed by the board in relation to the Conflict; and

- (c) the Directors may provide that where the relevant Director obtains (otherwise than through his position as a Director of the Company) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence.

15.7. A Director is not required, by reason of being a Director (or because of the fiduciary relationship established by reason of being a Director), to account to the Company for any remuneration, profit or other benefit that he derives from or in connection with a relationship involving a Conflict which has been authorised by the Company or in accordance with these Articles (subject in each case to any terms, limits or conditions attaching to that authorisation) and no contract shall be liable to be avoided on such grounds.

16. Directors may vote when interested

- 16.1. Subject, where applicable, to disclosure in accordance with the Companies Acts or the Articles and subject to any terms imposed by the Directors in relation to any Conflict, a Director shall be entitled to vote in respect of any matter in which he is interested directly or indirectly and if he shall do so his vote shall be counted and, whether or not he does, his presence at the meeting shall be taken into account in ascertaining whether a quorum is present.
- 16.2. Subject to Article 16.3 below, if a question arises at a meeting of Directors or of a committee of Directors as to the right of a Director to participate in the meeting (or part of the meeting) for voting or quorum purposes, the question may, before the conclusion of the meeting, be referred to the Chairman whose ruling in relation to any Director other than the Chairman is to be final and conclusive.
- 16.3. If any question as to the right to participate in the meeting (or part of the meeting) should arise in respect of the Chairman, the question is to be decided by a decision of the Directors at that meeting, for which purpose the Chairman is not to be counted as participating in the meeting (or that part of the meeting) for voting or quorum purposes.

17. Records of decisions to be kept

- 17.1. Where decisions of the Directors are taken by electronic means, such decisions shall be recorded by the Directors in a form that enables the board to retain a copy of such decisions in the Company's records.
- 17.2. Company records should be kept for minimum of 10 years from the date of creation subject to any legal requirements.

18. Directors' discretion to make further rules

- 18.1. Subject to the Articles, the Directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to Directors.

19. Number of Directors

- 19.1. Unless otherwise determined by Ordinary Resolution, the number of Directors shall not be subject to any maximum but shall not be less than four Directors.

20. Composition of the board

- 20.1. Without prejudice to the rights set out in Article 21, the Board shall comprise of at least the following persons:
- (a) one Executive Director; and
 - (b) three Non-Executive Directors as follows:
 - (i) a Service Officer NED;
 - (ii) an Authority Member NED; and
 - (iii) an Independent NED.

21. Appointment and removal of Directors

- 21.1. The Sole Shareholder may at any time and from time to time by notice in writing to the Company appoint up to two Authority Member NEDs to be Directors of the Company and remove any such Director or Directors from office.
- 21.2. The Fire Service Executive Board may at any time and from time to time by notice in writing to the Company appoint up to two Service Officer NEDs to be Directors of the Company and remove any such Director or Directors from office.
- 21.3. The Board of Directors may at any time and from time to time by notice in writing to the Company appoint Executive Directors and Independent NEDs (other than the Independent NED who will act as Chairman) to be Directors of the Company and remove any such Director or Directors from office.
- 21.4. The Sole Shareholder may at any time and from time to time by notice in writing to the Company appoint an Independent NED who will be the Chairman to be a Director of the Company and remove any such Director from office.
- 21.5. A person ceases to be a Director as soon as:
- (a) that person ceases to be a Director by virtue of any provision of the Act or is prohibited from being a Director by law;
 - (b) a Bankruptcy order is made against that person;
 - (c) a composition is made with that person's creditors generally in satisfaction of that person's debts;
 - (d) a registered medical practitioner who is treating that person gives a written opinion to the Company stating that that person has become physically or mentally incapable of acting as a Director and may remain so for more than three months;
 - (e) notification is received by the Company from the Director that the Director is resigning from office, and such resignation has taken effect in accordance with its terms;

- (f) notification of the Director's removal is received by the Company pursuant to Articles 21.1, 21.2, 21.3 or 21.4;
- (g) that person in the case of an Executive Director ceases to be a full or part-time employee of the Company or the holder of an executive office with the Company;
- (h) that person in the case of a Service Officer NED ceases to be an employee of the Sole Shareholder;
- (i) that person in the case of an Authority Member NED ceases to be a Member of the Sole Shareholder;
- (j) that person in the case of an Independent NED becomes a Member or an employee of the Sole Shareholder or its constituent authorities;
- (k) that person is requested to resign in writing by no less than three quarters of the other Directors; or
- (l) that person is absent from meetings of the Directors for more than three consecutive board meetings without authorisation from the Directors.

21.6. At each annual general meeting of the Company any Non-Executive Director then in office, for whom it is the third annual general meeting following the date on which that person was appointed or if later, the date of the annual general meeting at which that person was re-appointed, shall retire from office but shall be eligible for re-appointment. A Non-Executive Director that is so reappointed will be treated as continuing in office without a break.

21.7. Any removal of a Director pursuant to Article 21.1 shall be without prejudice to any claim for breach of contract under any employment agreement between the Company and the Director so removed.

22. Directors' remuneration and expenses

22.1. Directors may undertake any services for the Company approved by the Board of Directors.

22.2. The remuneration of the Executive Directors is set by the Non-Executive Directors.

22.3. The remuneration of the Independent Non-Executive Directors, with the exception of the Chairman, is set by the Board of Directors.

22.4. The remuneration of the Chairman is set by the Sole Shareholder following a recommendation from the Board.

22.5. Service Officer NEDs will not receive any remuneration from the Company other than reimbursement of authorised expenses.

22.6. Authority Member NEDs will not receive any remuneration from the Company other than reimbursement of authorised expenses.

22.7. The Company may pay any reasonable expenses which the Directors properly incur in connection with their attendance at:

- (a) meetings of Directors or committees of Directors,
- (b) general meetings, or

(c) separate meetings of the holders of any class of Shares or of debentures of the Company, or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the Company.

SHARES AND DISTRIBUTIONS

23. All Shares to be Fully Paid up

- 23.1. No share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the Company in consideration for its issue.
- 23.2. This does not apply to Shares taken on the formation of the Company by the subscribers to the Company's memorandum.

24. Issue of new Shares

- 24.1. The Directors shall not exercise any power of the Company to allot Shares or other securities in, or to grant rights to subscribe for, or convert into, Shares or other securities of, the Company without the prior written consent of the Sole Shareholder. Without limitation, the powers of the Directors under section 550 of the Act are limited accordingly.

25. Company not bound by less than absolute interests

- 25.1. Except as required by law, no person is to be recognised by the Company as holding any share upon any trust, and except as otherwise required by law or the Articles, the Company is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.

26. Share certificates

- 26.1. The Company must issue each Shareholder, free of charge, with one or more certificates in respect of the Shares which that Shareholder holds.
- 26.2. Every certificate must specify:
- (a) in respect of how many Shares, of what class, it is issued;
 - (b) the nominal value of those Shares;
 - (c) that the Shares are Fully Paid; and
 - (d) any distinguishing numbers assigned to them.
- 26.3. No certificate may be issued in respect of Shares of more than one class.
- 26.4. If more than one person holds a share, only one certificate may be issued in respect of it.
- 26.5. Certificates must:
- (a) have affixed to them the Company's common seal, or
 - (b) be otherwise executed in accordance with the Companies Acts.

27. Replacement share certificates

- 27.1. If a certificate issued in respect of a Shareholder's Shares is:
- (a) damaged or defaced, or
 - (b) said to be lost, stolen or destroyed, that Shareholder is entitled to be issued with a replacement certificate in respect of the same Shares.
- 27.2. A Shareholder exercising the right to be issued with such a replacement certificate:
- (a) may at the same time exercise the right to be issued with a single certificate or separate certificates;
 - (b) must return the certificate which is to be replaced to the Company if it is damaged or defaced; and
 - (c) must comply with such conditions as to evidence, indemnity and the payment of a reasonable fee as the Directors decide.

28. Share transfers

- 28.1. Shares may be transferred by means of an Instrument of transfer in any usual form or any other form approved by the Directors, which is executed by or on behalf of the transferor.
- 28.2. No fee may be charged for registering any Instrument of transfer or other Document relating to or affecting the title to any share.
- 28.3. The Company may retain any Instrument of transfer which is registered.
- 28.4. The transferor remains the holder of a share until the transferee's name is entered in the register of members as holder of it.
- 28.5. The Directors may refuse to register the transfer of a share, and if they do so, the Instrument of transfer must be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.

29. Transmission of Shares

- 29.1. If title to a share passes to a Transferee, the Company may only recognise the Transferee as having any title to that share.
- 29.2. A Transferee who produces such evidence of entitlement to Shares as the Directors may properly require:
- (a) may, subject to the Articles, choose either to become the holder of those Shares or to have them transferred to another person, and
 - (b) subject to the Articles, and pending any transfer of the Shares to another person, has the same rights as the holder had.
- 29.3. But Transferees do not have the right to attend or vote at a general meeting, or agree to a proposed written resolution, in respect of Shares to which they are entitled, by reason of the holder's death or Bankruptcy or otherwise, unless they become the holders of those Shares.

30. Exercise of Transmittees' rights

- 30.1. Transmittees who wish to become the holders of Shares to which they have become entitled must notify the Company in writing of that wish.
- 30.2. If the Transmitttee wishes to have a share transferred to another person, the Transmitttee must execute an Instrument of transfer in respect of it.
- 30.3. Any transfer made or executed under this Article is to be treated as if it were made or executed by the person from whom the Transmitttee has derived rights in respect of the share, and as if the event which gave rise to the transmission had not occurred.

31. Transmitttees bound by prior notices

- 31.1. If a notice is given to a Shareholder in respect of Shares and a transmitttee is entitled to those Shares, the transmitttee is bound by the notice if it was given to the Shareholder before the transmitttee's name has been entered in the register of members.

DIVIDENDS AND OTHER DISTRIBUTIONS

32. Procedure for declaring dividends

- 32.1. The Company may by Ordinary Resolution declare dividends, and the Directors may decide to pay interim dividends.
- 32.2. A dividend must not be declared unless the Directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the Directors.
- 32.3. No dividend may be declared or paid unless it is in accordance with Shareholders' respective rights.
- 32.4. Unless the Shareholders' resolution to declare or Directors' decision to pay a dividend, or the terms on which Shares are issued, specify otherwise, it must be paid by reference to each Shareholder's holding of Shares on the date of the resolution or decision to declare or pay it.
- 32.5. If the Company's share capital is divided into different classes, no interim dividend may be paid on Shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.
- 32.6. The Directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.
- 32.7. If the Directors act in good faith, they do not incur any liability to the holders of Shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on Shares with deferred or non-preferred rights.

33. Payment of dividends and other distributions

- 33.1. Where a dividend or other sum which is a distribution is payable in respect of a share, it must be paid by one or more of the following means:

- (a) transfer to a bank or building society account specified by the Sole Shareholder either in writing or as the Directors may otherwise decide;
- (b) sending a cheque made payable to the Sole Shareholder by post to the Sole Shareholder at the Sole Shareholder's registered address; or
- (c) any other means of payment as the Directors agree with the Sole Shareholder either in writing or by such other means as the Directors decide.

34. No interest on distributions

- 34.1. The Company may not pay interest on any dividend or other sum payable in respect of a share unless otherwise provided by:
- (a) the terms on which the share was issued, or
 - (b) the provisions of another agreement between the holder of that share and the Company.

35. Unclaimed distributions

- 35.1. All dividends or other sums which are:

- (a) payable in respect of Shares, and
- (b) unclaimed after having been declared or become payable,

may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.

- 35.2. The payment of any such dividend or other sum into a separate account does not make the Company a trustee in respect of it.

- 35.3. If:

- (a) twelve years have passed from the date on which a dividend or other sum became due for payment, and
- (b) the Sole Shareholder has not claimed it,

the Sole Shareholder is no longer entitled to that dividend or other sum and it ceases to remain owing by the Company.

36. Non-cash distributions

- 36.1. Subject to the terms of issue of the share in question, the Company may, by Ordinary Resolution on the recommendation of the Directors, decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including, without limitation, Shares or other securities in any company).

- 36.2. For the purposes of paying a non-cash distribution, the Directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:

- (a) fixing the value of any assets;
- (b) paying cash to the Sole Shareholder on the basis of that value in order to adjust the rights of recipients; and

- (c) vesting any assets in trustees.

37. Waiver of distributions

- 37.1. The Sole Shareholder may waive its entitlement to a dividend or other distribution payable in respect of a share by giving the Company notice in writing to that effect.

CAPITALISATION OF PROFITS

38. Authority to capitalise and appropriation of capitalised sums

- 38.1. Subject to the Articles, the Directors may, if they are so authorised by an Ordinary Resolution:
- (a) decide to capitalise any profits of the Company (whether or not they are available for distribution) which are not required for paying a preferential dividend, or any sum standing to the credit of the Company's share premium account or capital redemption reserve; and
 - (b) appropriate any sum which they so decide to capitalise (a "**capitalised sum**") to the persons who would have been entitled to it if it were distributed by way of dividend (the "**persons entitled**") and in the same proportions.
- 38.2. Capitalised sums must be applied:
- (a) on behalf of the persons entitled, and
 - (b) in the same proportions as a dividend would have been distributed to them.
- 38.3. Any capitalised sum may be applied in paying up new Shares of a nominal amount equal to the capitalised sum which are then allotted credited as Fully Paid to the persons entitled or as they may direct.
- 38.4. A capitalised sum which was appropriated from profits available for distribution may be applied in paying up new debentures of the Company which are then allotted credited as Fully Paid to the persons entitled or as they may direct.
- 38.5. Subject to the Articles the Directors may:
- (a) apply capitalised sums in accordance with paragraphs (3) and (4) partly in one way and partly in another;
 - (b) make such arrangements as they think fit to deal with Shares or debentures becoming distributable in fractions under this Article (including the issuing of fractional certificates or the making of cash payments); and
 - (c) authorise any person to enter into an agreement with the Company on behalf of all the persons entitled which is binding on them in respect of the allotment of Shares and debentures to them under this Article.

DECISION-MAKING BY SHAREHOLDERS

39. Reserved Matters

39.1. The following matters shall require the prior consent in writing of the Sole Shareholder:

- (a) Matters pertaining to the Share capital of the Company e.g. increase or reduction of the amount of its issued share capital, grant of any options or other interest over its share capital etc.;
- (b) Changes relating to the Company's capital structure including reduction of capital, share issues (except under employee share plans), share buy backs.
- (c) Major changes to the Company's corporate structure, including, but not limited to acquisitions and disposals of Shares;
- (d) Altering any rights attaching to the Shares in its issued share capital;
- (e) ratifying Directors' breaches of their duties or conflicts;
- (f) Varying the Articles of the Company;
- (g) Permitting the registration (upon subscription or transfer) of any person as a Shareholder of the Company;
- (h) Altering the Company's name or registered office;
- (i) Changing the nature of the Company's business;
- (j) Approve the appointment of the Chairman;
- (k) Approving the remuneration of the Chairman;
- (l) Approving of loans or quasi loans to Directors or connected people;
- (m) Appointing of external auditors;
- (n) Disapplying pre-emption rights;
- (o) Entering into any arrangement, contract or transaction not provided for in its business plan with a value exceeding £50,000 or 10% of the Company's annual budget (whichever is the smaller) and which:
 - is outside the normal course of business;
 - or is otherwise than on arm's length terms.
- (p) Creating or granting any encumbrance over the whole or any part of the business of the Company;
- (q) Incurring any borrowings in excess of £25,000 or 5% of the Company's annual budget, whichever is the smaller in aggregate from time to time, or issue any loan capital;
- (r) Making any loan, grant any credit not granted in the ordinary course of business or give any guarantee;
- (t) Amalgamating or merging with any other Company or business undertaking, form or acquire any Subsidiary, directly or indirectly acquire Shares in any other Company or directly or indirectly participate in any partnership or joint venture; and

- (u) Passing any resolution for its winding up or present any petition for its administration (unless it has become insolvent).

40. Attendance and speaking at general meetings

- 40.1. A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting.
- 40.2. 40.2 A person is able to exercise the right to vote at a general meeting when:
 - (a) that person is able to vote, during the meeting, on resolutions put to the vote at the meeting, and
 - (b) that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.
- 40.3. The Directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.
- 40.4. In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.
- 40.5. Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

41. Quorum for general meetings

- 41.1. No business other than the appointment of the Chairman of the meeting is to be transacted at a general meeting unless a quorum is present at the commencement of the meeting and also when that business is voted on.
- 41.2. Where the Company has only one Shareholder for the time being, one qualifying person (as defined in section 318 of the Act) present at the meeting shall be a quorum.

42. Chairing general meetings

- 42.1. The Chairman shall chair general meetings if present and willing to do so.
- 42.2. If the Chairman is unwilling to chair the meeting or is not present within ten minutes of the time at which a meeting was due to start:
 - (a) the Directors present, or
 - (b) (if no Directors are present), the meeting,must appoint an appropriate person to chair the meeting, and the appointment of the Chairman of the meeting must be the first business of the meeting.
- 42.3. The person chairing a meeting in accordance with this Article is referred to as "**General Meeting Chairman**".

43. Attendance and speaking by Directors and non-Shareholders

- 43.1. Directors may attend and speak at general meetings, whether or not they are Shareholders.
- 43.2. The General Meeting Chairman may permit other persons who are not:
- (a) Shareholders of the Company, or
 - (b) otherwise entitled to exercise the rights of Shareholders in relation to general meetings, to attend and speak at a general meeting.

44. Adjournment

- 44.1. If the persons attending a general meeting within half an hour of the time at which the meeting was due to start do not constitute a quorum, or if during a meeting a quorum ceases to be present, the General Meeting Chairman must adjourn it.
- 44.2. The General Meeting Chairman may adjourn a general meeting at which a quorum is present if:
- (a) the meeting consents to an adjournment, or
 - (b) it appears to the chairman of the meeting that an adjournment is necessary to protect the safety of any person attending the meeting or ensure that the business of the meeting is conducted in an orderly manner.
- 44.3. The General Meeting Chairman must adjourn a general meeting if directed to do so by the meeting.
- 44.4. When adjourning a general meeting, the General Meeting Chairman must:
- (a) either specify the time and place to which it is adjourned or state that it is to continue at a time and place to be fixed by the Directors, and
 - (b) have regard to any directions as to the time and place of any adjournment which have been given by the meeting.
- 44.5. If the continuation of an adjourned meeting is to take place more than 14 days after it was adjourned, the Company must give at least 7 clear days' notice of it (that is, excluding the day of the adjourned meeting and the day on which the notice is given):
- (a) to the same persons to whom notice of the Company's general meetings is required to be given, and
 - (b) containing the same information which such notice is required to contain.
- 44.6. No business may be transacted at an adjourned general meeting which could not properly have been transacted at the meeting if the adjournment had not taken place.

VOTING AT GENERAL MEETINGS

45. Voting: general

- 45.1. A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the Articles.

46. Errors and disputes

- 46.1. No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.
- 46.2. Any such objection must be referred to the General Meeting Chairman, whose decision is final.

47. Poll votes

- 47.1. A poll on a resolution may be demanded:
- (a) in advance of the general meeting where it is to be put to the vote, or
 - (b) at a general meeting, either before a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared.
- 47.2. 47.2 A poll may be demanded by:
- (a) the General Meeting Chairman;
 - (b) the Directors;
 - (c) two or more persons having the right to vote on the resolution; or
 - (d) a person or persons representing not less than one tenth of the total voting rights of all the Shareholders having the right to vote on the resolution.
- 47.3. 47.3 A demand for a poll may be withdrawn if:
- (a) the poll has not yet been taken, and
 - (b) the General Meeting Chairman consents to the withdrawal.

A demand so withdrawn shall not invalidate the result of a show of hands declared before the demand was made

- 47.4. Polls must be taken immediately and in such manner as the General Meeting Chairman directs.

48. Content of Proxy Notices

- 48.1. Proxies may only validly be appointed by a notice in writing (a "**Proxy Notice**") which:
- (a) states the name and address of the Shareholder appointing the proxy;
 - (b) identifies the person appointed to be that Shareholder's proxy and the general meeting in relation to which that person is appointed;
 - (c) is signed by or on behalf of the Shareholder appointing the proxy, or is authenticated in such manner as the Directors may determine; and
 - (d) is delivered to the Company in accordance with the Articles not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised and in accordance with any instructions contained in the notice of the general meeting (or adjourned meeting) to which they relate;

- (e) and a Proxy Notice which is not delivered in such manner shall be invalid, unless the Directors, in their discretion, accept the notice at any time before the meeting.

48.2. The Company may require Proxy Notices to be delivered in a particular form, and may specify different forms for different purposes.

48.3. Proxy Notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.

48.4. Unless a Proxy Notice indicates otherwise, it must be treated as:

- (a) allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting, and
- (b) appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

49. Delivery of Proxy Notices

49.1. A person who is entitled to attend, speak or vote (either on a show of hands or on a poll) at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid Proxy Notice has been delivered to the Company by or on behalf of that person.

49.2. An appointment under a Proxy Notice may be revoked by delivering to the Company a notice in writing given by or on behalf of the person by whom or on whose behalf the Proxy Notice was given.

49.3. A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.

49.4. If a Proxy Notice is not executed by the person appointing the proxy, it must be accompanied by written evidence of the authority of the person who executed it to execute it on the appointor's behalf.

50. Amendments to resolutions

50.1. An Ordinary Resolution to be proposed at a general meeting may be amended by Ordinary Resolution if:

- (a) notice of the proposed amendment is given to the Company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the General Meeting Chairman may determine), and
- (b) the proposed amendment does not, in the reasonable opinion of the General Meeting Chairman, materially alter the scope of the resolution.

50.2. A Special Resolution to be proposed at a general meeting may be amended by Ordinary Resolution, if:

- (a) the General Meeting Chairman proposes the amendment at the general meeting at which the resolution is to be proposed, and
- (b) the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.

- 50.3. If the General Meeting Chairman, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chairman's error does not invalidate the vote on that resolution.

ADMINISTRATIVE ARRANGEMENTS

51. Means of communication to be used

- 51.1. Subject to Article 51.2, any notice, Document or other information shall be deemed served on, or delivered to, the intended recipient:
- (a) if delivered by hand, on signature of a delivery receipt or at the time the notice, Document or other information is left at the address; or
 - (b) if sent by fax, at the time of transmission; or
 - (c) if sent by pre-paid United Kingdom first class post, recorded delivery or special delivery to an address in the United Kingdom, at 9.00 am on the second Business Day after posting; or
 - (d) if sent or supplied by e-mail, one hour after the notice, Document or information was sent or supplied; or
 - (e) if sent or supplied by means of a website, when the material is first made available on the website or (if later) when the recipient receives (or is deemed to have received) notice of the fact that the material is available on the website; and
 - (f) if deemed receipt under the previous paragraphs of this Article 51.1 would occur outside business hours (meaning 9.00 am to 5.30 pm Monday to Friday on a day that is not a public holiday in the place of deemed receipt), at 9.00 am on the day when business next starts in the place of deemed receipt. For the purposes of this Article, all references to time are to local time in the place of deemed receipt.
- 51.2. To prove service, it is sufficient to prove that:
- (a) if delivered by hand the notice was delivered to the correct address; or
 - (b) if sent by fax, a transmission report was received confirming that the notice was successfully transmitted to the correct fax number; or
 - (c) if sent by post the envelope containing the notice was properly addressed, paid for and posted; or
 - (d) if sent by e-mail, the notice was properly addressed and sent to the e-mail address of the recipient.

52. Company seals

- 52.1. Any common seal may only be used by the authority of the Directors.
- 52.2. The Directors may decide by what means and in what form any common seal is to be used.
- 52.3. Unless otherwise decided by the Directors, if the Company has a common seal and it is affixed to a Document, the Document must also be signed by at least one authorised person in the presence of a witness who attests the signature.
- 52.4. For the purposes of this Article, an authorised person is:

- (a) any Director of the Company;
- (b) the company secretary (if any); or
- (c) any person authorised by the Directors for the purpose of signing Documents to which the common seal is applied.

53. No right to inspect accounts and other records

- 53.1. Except as provided by law or authorised by the Directors or an Ordinary Resolution of the Company, no person is entitled to inspect any of the Company's accounting or other records or Documents merely by virtue of being a Shareholder.

54. Provision for employees on cessation of business

- 54.1. 54.1 The Directors may decide to make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries (other than a Director or former Director or shadow Director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company or that Subsidiary.

DIRECTORS' INDEMNITY AND INSURANCE

55. Indemnity and Insurance

- 55.1. Subject to Article 55.2, but without prejudice to any indemnity to which a relevant officer is otherwise entitled:
- (a) each relevant officer shall be indemnified out of the Company's assets against all costs, charges, losses, expenses and liabilities incurred by him as a relevant officer in the actual or purported execution and/or discharge of his duties, or in relation to them, including (in each case) any liability incurred by him in defending any civil or criminal proceedings, or regulatory investigation or action, in which judgment is given in his favour or in which he is acquitted or the proceedings are, or the investigation or action is, otherwise disposed of without any finding or admission of any material breach of duty on his part or in connection with any application in which the court grants him, in his capacity as a relevant officer, relief from liability for negligence, default, breach of duty or breach of trust in relation to the Company's affairs; and
 - (b) the Company may provide any relevant officer with funds to meet expenditure incurred or to be incurred by him in connection with any proceedings, investigation, action or application referred to in Article 54.1(a) and otherwise may take any action to enable any such relevant officer to avoid incurring such expenditure.
- 55.2. This Article 55 does not authorise any indemnity to the extent that such indemnity would be prohibited or rendered void by any provision of the Companies Acts or by any other provision of law and any such indemnity is limited accordingly.
- 55.3. The Directors may decide to purchase and maintain insurance, at the expense of the Company, for the benefit of any relevant officer in respect of any relevant loss.
- 55.4. In this Article 55:

- (a) a **relevant loss** means any loss or liability which has been or may be incurred by a relevant officer in connection with that relevant officer's duties or powers in relation to the Company, any associated company or any pension fund or employees' share scheme of the Company or associated company; and
- (b) a **relevant officer** means any current or former Director or other officer of the Company, but excluding in each case any person engaged by the Company (or associated company) as auditor.

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SHAREHOLDERS COMMITTEE (7 Members)

Advisory ONLY:

1. review annual objectives and measures for evaluating performance proposed by ROL Board and provide feedback for ROL Board's consideration before final approval of annual objectives
2. provide feedback annually to the Board of ROL on their proposed executive and non-executive remuneration (including performance related pay and taxable benefits)
3. provide feedback on the rules for evaluating performance-related pay and make comments for consideration by the Board of Red One, before final approval of the annual objectives
4. consider and recommend the remuneration of the ROL independent non-executive Chair, following a recommendation from the ROL Board and their Remuneration Committee
5. to recommend a specified way forward pertaining to the ROL/DSFRS relationship which cannot be resolved through Officer engagement.
6. To recommend any proposed change to Red One Ltd. Articles of Association
7. to consider and submit a dividend distribution proposal to the Authority (as Shareholder).
8. to direct the Board of Directors of Red One Ltd. to take a desired course of action.
9. To consider all other matters reserved to the Shareholder (where not specified within the remit of another Committee) as detailed within Red One Ltd. Articles of Association and make a recommendation thereon to the Authority (as Shareholder); and

Matters with Delegated Power to Act:

10. Undertake financial and performance monitoring on a quarterly basis– (to be transferred from Resources Committee);
11. Review the annual performance review of the Chair of ROL undertaken by the Board of ROL and provide feedback to the Chair and/ or Board of ROL
12. Undertake quarterly engagement with Authority Members appointed as Directors to the Board of Red One Ltd.

Proposed Terms of Reference

AUDIT & GOVERNANCE COMMITTEE:

COMMITTEE MAIN OBJECTIVES:

1. To scrutinise and monitor the internal and external audit performance of the Authority in its entirety, to include that of its trading companies;
2. To scrutinise and monitor the management of corporate risks on behalf of the Authority its entirety, to include that of its trading companies;
3. To consider and approve the Annual Statement of Accounts and Annual Statement of Assurance; and
4. To discharge the Authority's statutory requirements for the promotion and maintenance of high standards of conduct by Authority Members.

Advisory ONLY

5. In accordance with the provisions of the Localism Act 2011, to develop, keep under review and make recommendations to the Authority on a Code of Conduct expected of Members and Co-opted Members of the Authority when acting in that capacity.
6. To keep under review the Authority's governance structure, recommending changes to the full Authority as required.
7. To recommend to the Authority the appointment of Statutory Auditors for the Authority and that of its trading company, Red One Ltd.

Matters with Delegated Power to Act

(a). Audit

8. To approve internal and external audit plans;
9. Direct the Authority's internal auditors to undertake a review into any area of the Authority (i.e. Service and Trading Company) where there are concerns pertaining to governance
10. Where requested, meet independently without the presence of Officers, with the Authority's and Trading Company Statutory Auditors and/ or Internal Auditors
11. To receive the reports of internal and external audit and external assessments of the organisation, including that of its trading company, ensuring (through appropriate scrutiny arrangements) that any recommendations and findings are appropriately addressed, implemented and monitored.
12. To consider and approve the Authority's Statement of Accounts and Annual Governance Statement for the previous financial year.

(b). Corporate Risk

13. To receive regular corporate risk management reports on the Service and, where appropriate the Authority's trading company, and agree actions to ensure that corporate risks are effectively managed.

(c). Standards Issues

14. To oversee any actions considered necessary to discharge the statutory duty to promote and maintain high standards of conduct by Members and Co-opted Members of the Authority.
15. To oversee the arrangements for the assessment, investigation and determination (as appropriate) of allegations of any breach of the Code of Conduct.
16. To consider, in accordance with the Authority's approved procedure, any request for a dispensation either to talk or to talk and vote in relation to either a disclosable pecuniary interest or a personal interest.
17. In the event of "sensitive"/potentially compromised allegations of Code breach, to appoint from amongst its Membership a small Sub-Committee to determine, following consultation with the independent person, whether or not an allegation should be investigated.
18. To provide for membership of a Hearings Panel comprising three Members of the Committee (selected by the Monitoring Officer in consultation with the Committee Chair) to consider the findings of any investigation which has concluded a breach of the Code and indicative sanctions and, in accordance with the Authority's approved procedures, determine the matter.

(d). Other

19. To monitor, as required, operation of the Authority's policies for the prevention and detection of fraud and corruption and "whistleblowing" (confidential reporting).
20. To receive an annual report on use of the Authority's powers under the Regulation of Investigatory Powers (RIPA) legislation and make any amendments as required to the Authority's policies and procedures in relation to these powers.
21. To receive an Annual Report from the Local Pensions Board.
22. To approve responses to external consultation documents on issues within the remit of the Committee and as referred by officers.

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REPORT REFERENCE NO.	DSFRA/24/8
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
DATE OF MEETING	16 FEBRUARY 2024 (Budget Meeting)
SUBJECT OF REPORT	APPOINTMENTS TO COMMITTEES
LEAD OFFICER	Clerk to the Authority & Monitoring Officer
RECOMMENDATIONS	<p><i>That the following appointments to Committees be made until the Authority's Annual General Meeting on 10 June 2024:</i></p> <p><i>(a). Audit & Governance Committee – Councillor Biederman to replace Councillor Cook-Woodman;</i></p> <p><i>(b). Community Safety Committee – a Liberal Democrat nominee (Somerset) to replace Councillor Power/Radford;</i></p> <p><i>(c). People Committee – Councillor Carter to be appointed to the vacancy left by Councillor Tolchard with Councillor Coles to be appointed to replace Councillor Biederman; and</i></p> <p><i>(d). Resources Committee – Councillor Carter to be appointed to replace Councillor Fellows.</i></p>
EXECUTIVE SUMMARY	<p>At the Authority meeting on 11 December 2023, the Clerk to the Authority & Monitoring Officer advised of a change in appointment to the Authority by Torbay Council to reflect a change in their political balance (Minute DSFRA/23/25 refers). Effectively this meant that Torbay Council appointed a Liberal Democrat representative (Councillor Christine Carter) to replace the Conservative appointment (Councillor Anna Tolchard). Councillor Fellows (Con) continues as the second Torbay Council appointment.</p> <p>This changed the political balance on the Authority (now 48% Con, 32% LibDem., 16% Lab., 4% Ind.) and the Monitoring Officer has undertaken a review of the allocation of places on committees to reflect this change as there is now no overall majority for any Group.</p> <p>The proposals have been discussed at Members' Forum on 12 January 2024 and also with key Group representatives and individuals impacted by the changes. There is agreement to move forward on the basis of the recommendation set out within this report, subject to Authority approval, until the annual review which will be undertaken at the Annual General Meeting on 10 June 2024.</p>
RESOURCE IMPLICATIONS	Nil.

EQUALITY RISKS AND BENEFITS ANALYSIS	Not applicable
APPENDICES	Nil.
BACKGROUND PAPERS	Report DSFRA/23/11 to the Authority's annual meeting on 12 June 2023 (and the Minutes of that meeting).

SAMANTHA SHARMAN
Clerk to the Authority & Monitoring Officer

REPORT REFERENCE NO.	DSFRA/24/9
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
DATE OF MEETING	16 FEBRUARY 2024 (Budget Meeting)
SUBJECT OF REPORT	APPOINTMENT OF CHIEF FIRE OFFICER
LEAD OFFICER	Clerk to the Authority & Monitoring Officer
RECOMMENDATIONS	<i>That the Appointments & Disciplinary Committee be authorised to shortlist and interview candidates for the post of Chief Fire Officer in accordance with Standing Order 46 and to make a recommendation to the Authority on the appointment.</i>
EXECUTIVE SUMMARY	<p>The Chief Fire Officer, Lee Howell, announced his intention to retire from the Service in April 2023 alongside his secondment to the National Fire Chiefs Council (NFCC). His retirement will take effect from 13 September 2024, having reached 55 years of age and having accrued the required 30 years' service under the pension scheme.</p> <p>It is necessary, therefore, for the Authority to commence a process to appoint a new Chief Fire Officer and this report therefore addresses the process to be adopted in carrying this out.</p>
RESOURCE IMPLICATIONS	Nil.
EQUALITY RISKS AND BENEFITS ANALYSIS	Nil
APPENDICES	A. Proposed Timetable for the Appointment Process
BACKGROUND PAPERS	Nil

1. **INTRODUCTION**

- 1.1 Under the rules of the firefighters' pension scheme, and in accordance with the contractual conditions attached to the post of Chief Fire Officer, the postholder is able to retire with full pension rights on reaching the age of 55. The substantive Chief Fire Officer has decided to exercise this right and has announced his retirement with effect from 13 September 2024. This report therefore advises the Authority on the process surrounding the recruitment of his successor.

2. **APPOINTMENT PROCESS**

- 2.1. The Authority's Standing Orders (S.O. 46) sets out the appointment process for a new Chief Fire Officer. This states:

(1) Where it is necessary to appoint a Chief Fire Officer and it is not proposed that this appointment be made exclusively from among existing officers, the Appointments and Disciplinary Committee will arrange:

(a) for a statement to be drawn up specifying the duties of the Chief Fire Officer and any qualifications or qualities to be sought in the person to be appointed;

(b) for the position to be advertised in such a way as is likely to bring it to the attention of persons qualified to apply for it;

(c) for a copy of the statement referred to at (a) above to be sent to any person on request.

(2) Where the post has been advertised in accordance with (b) above the Appointments and Disciplinary Committee will **either** interview all qualified applicants for the post **or** interview those qualified applicants included on the shortlist for the post with a view to determining an appointment to the post.

(3) Where no qualified person has applied for a post, the Authority will make further arrangements for advertisement in accordance with paragraph (1)(b) above.

- 2.2. The appointment of Chief Fire Officer is a matter reserved to the Authority as set out within the approved Scheme of Delegations.

- 2.3. A proposed timetable to effect the appointment of a new Chief Fire Officer is attached to this report at Appendix A.

SAMANTHA SHARMAN
Clerk to the Authority & Monitoring Officer

DRAFT TIMETABLE FOR CFO RECRUITMENT PROCESS 2024

DATE	ACTION:	WHO BY:	ADDITIONAL INFORMATION:
16 February 2024	Authority to approve the process for appointment of CFO	Sam Sharman	Approval to delegate authority for the process to be undertaken by Appointments & Disciplinary Committee with recommendation to the Authority on the appointment
Straight after Authority approval of the process	Amendment of Job description & <i>circulation to Members for approval</i>	Chris Howes	<i>SS to check on approval of the JD</i>
w/c 26 February 2024	Preparation of advertisement	Chris Howes	
w/c 11 March 2024	Appointments & Disciplinary Committee Panel meeting – discuss & agree process	Appointments & Disciplinary Committee – advised by CFO	
w/c 18 March 2024	Advertisement	Chris Howes	
w/c 8 April 2024	Closing date for applications	Chris Howes	
w/c 22 April 2024	Shortlisting candidates	Appointments Panel – advised by CFO	
w/c 6 or 13 May 2024	Interviewing and testing of candidates	Appointments Panel – advised by CFO	
10 June 2024 (ordinary meeting)	Report appointment to Authority		31 May 2024

Process allows for a 3 month notice period should an external appointment be made
CFO retirement date is 18 September 2024

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REPORT REFERENCE NO.	DSFRA/24/10
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY
DATE OF MEETING	16 FEBRUARY 2024
SUBJECT OF REPORT	REAPPOINTMENT OF INDEPENDENT MEMBER OF THE LOCAL PENSION BOARD
LEAD OFFICER	Clerk to the Authority (& Monitoring Officer)
RECOMMENDATIONS	<i>That Satnam Singh Rai be reappointed as the Independent Member of the Devon & Somerset Fire & Rescue Authority's Local Pension Board for a further term of four years effective from 19 December 2023.</i>
EXECUTIVE SUMMARY	This report advises upon the proposal to reappoint the existing Independent Member of the Local Penions Board for a further term of four years from 19 December 2023.
RESOURCE IMPLICATIONS	The Independent member is paid an allowance in accordance with the Authority's approved Scheme of Members' Allowances and provision is included within the Revenue Budget.
EQUALITY RISKS AND BENEFITS ANALYSIS	None
APPENDICES	None
BACKGROUND PAPERS	Report DSFRA/19/14 and Minute DSFRA/9

1. **INTRODUCTION**

- 1.1. The Authority's Local Pensions Board (dealing only with Firefighters' Pensions Schemes) was established at the Authority meeting on 20 February 2015 (Minute DSFRA/46 refers) in compliance with the Firefighters' Pension Scheme (Amendment)(Governance) Regulations 2015 ("the Regulations"). The Board is responsible for assisting the Authority (as Scheme Manager):
 - (a). to secure compliance with:
 - (i) the Regulations;
 - (ii) any other legislation relating to the governance and administration of Firefighters' Pension Schemes; and
 - (iii) any requirements imposed by the Pensions Regulator in relation to Firefighters' Pension Schemes; and
 - (b). to ensure the effective and efficient governance and administration of Firefighters Pension Schemes.
- 1.2. The Regulations provide that it is the responsibility of the Scheme Manager to determine membership of the Local Pensions Board and the manner in which members of it are to be appointed and removed. The Regulations also provide that there must be a minimum of 4 on the Board and that there must be an equal number of employer (i.e. Scheme Manager) representatives and member (i.e. Scheme beneficiary) representatives.
- 1.3. In establishing the Board, the Authority reserved the power to appoint employer representatives and delegated responsibility for undertaking a process for and appointing employer representatives to the Head of Human Resources (or equivalent post-holder). At the outset, the Board comprised total of four members (two employer and two member representatives). The Authority resolved that the employer representatives should be the Clerk (and Monitoring Officer) and the Treasurer (as proper financial officer).
- 1.4. At its meeting on 15 February 2019, the Local Pensions Board agreed to ask the Authority to approve an increase in overall size of the Board from 6 to 8 members (comprising four employer and four member representatives) i.e. one additional employer representative and one additional member representative. The main reason for this was that, given Board's quorum requirements (currently four, to comprise two employer and two scheme member representatives), it had been necessary to cancel Board meetings owing to unavailability of the required attendees. The Board had discussed reducing the quorum requirement to three but had been unable to reach consensus on this. The Board had agreed, though, that a potential solution might be to increase the overall size of the Board and, subject to this being approved, the quorum requirement moving forwards would be 50% of the membership i.e. four attendees, to comprise at least one employer and one member representative.
- 1.5. The Authority agreed to increase the size of the Authority from 6 to 8 at its meeting held on 7 June 2019 – Minute DSFRA/9 refers – as per the resolution below:

- (a). that the Authority Clerk and Monitoring Officer be re-appointed as a Scheme Manager representative on the Local Pensions Board for a further four-year term of office (to expire in 2023);
 - (b). that the overall size of the Board be increased from 6 to 8 (one additional Scheme Manager and one additional Scheme Member representative) and in this respect:
 - (i) the Clerk to the Authority be delegated authority to undertake a process to identify and appoint a relevant external person with the requisite subject matter knowledge and experience to serve as a Scheme Manager representative;
 - (ii) the external post be remunerated at a level of £500 per annum plus travel and subsistence expenses;
 - (iii) that it be noted that the Head of Human Resources has delegated authority to undertake a process to identify and appoint Scheme Member representatives to the Board;
 - (c). that the revised quorum arrangements for the Board (50% of the membership, to comprise at least one Scheme Manager and Scheme Member representative) be approved.
- 1.6. Satnam Singh Rai was appointed as an Independent Employer Representative on the Devon & Somerset Fire & Rescue Authority's Local Pension Board with effect from 19 December 2019 for a term of four years. The term expired on 18 December 2023. There is provision for Satnam to be reappointed for a further term of up to four years subject to him being willing to be re-appointed.
- 1.7. Satnam has been contacted and has indicated his willingness to be reappointed for a further term of four years.
- 1.8. The Authority is asked to reappoint Satnam Singh Rai as the Independent member of the Devon & Somerset Fire & Rescue Authority's Local Pension Board for a further term of four years effective from 19 December 2023.

SAMANTHA SHARMAN
Clerk to the Authority (& Monitoring Officer)

