DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

S.J. Sharman
CLERK TO THE AUTHORITY

To: The Chair and Members of the Resources Committee

(see below)

SERVICE HEADQUARTERS
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CLYST ST GEORGE
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Your ref :
Our ref : DSFRA/SJS/SB
Website : www.dsfire.gov.uk

Date : 28 January 2025
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday, 5th February, 2025

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

S.J. Sharman
Clerk to the Authority

A G E N D A

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

1 Apologies

2 Minutes (Pages 1 - 4)

of the previous meeting held on 22nd November 2024 attached.

3 Items Requiring Urgent Attention

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

PART 1 - OPEN COMMITTEE

4 **2025-26 Revenue Budget and Council Tax Levels (Pages 5 - 20)**

Joint report of the Head of Finance (Treasurer) and the Chief Fire Officer (RC/25/1) attached.

5 **Capital Strategy 2025-26 (Pages 21 - 30)**

Report of the Head of Finance (Treasurer) (RC/25/2) attached.

6 **Capital Programme 2025-26 to 2027-28 (Pages 31 - 40)**

Report of the Head of Finance (Treasurer) (RC/25/3) attached.

7 **Treasury Management Strategy (Including Prudential Indicators and Treasury Indicators report 2025-26 to 2027-28) (Pages 41 - 66)**

Report of the Head of Finance (Treasurer) (RC/25/4) attached.

8 **Treasury Management Performance 2024-25: Quarter 3 (Pages 67 - 76)**

Report of the Head of Finance (Treasurer) (RC/25/5) attached.

9 **Financial Performance Report 2024-25: Quarter 3 (Pages 77 - 92)**

Report of the Head of Finance (Treasurer) (RC/25/6) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

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

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

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

RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

22 November 2024

Present:

Councillors Best (Vice-Chair - in the Chair), Coles (vice Carter) Gilmour and Sully

In attendance (via Teams, non-voting):

Councillors Lugger, Peart and Power

* **RC/24/5** **Minutes**

RESOLVED that the Minutes of the meeting held on 30 September 2024 be signed as a correct record.

* **RC/24/6** **Treasury Management Performance 2024-25: Quarter 2**

NB. Adam Burleton, the Service's Treasury Management adviser (Link Group) was in attendance for this item.

The Committee received for information a report of the Head of Finance (Treasurer) (RC/24/17) on the Treasury Management activities of the Authority for 2024-25 (to the end of September 2024) in accordance with The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice.

The report provided an economics update, setting the scene for the reporting period, highlighting the following points:

- The Bank of England had initiated an interest rate cut to 5% in August 2024. This had since been reduced to 4.75% in November 2024;
- The Government's cost of borrowing had been falling during this reporting period but had since risen due to the Government's Budget announcement of 30 October 2024;
- Inflation was anticipated to increase from current rates, 2.3% in October 2024, due to government increases in spending. Consequently, interest rate cuts were now expected to slow and possibly settle around 3.5%; and
- The effect of significant election outcomes in the United States of America, and unknowns around its new government's policy decisions, were yet to be observed.

Regarding Investments and Borrowing, the following was highlighted:

- The Authority's investment strategy remained unchanged with priority given to security of capital, liquidity and yield

- The Service had achieved slightly under the Sterling Overnight Index Average (SONIA) benchmark by 0.01bp. with investment interest of £0.028m in quarter 2. The Service was on track to achieve its investment strategy and target investment return of £1.2m by the end of the 2024/25 financial year;
- Reflecting on the Public Work Loans Board rates, it was recommended that any additional borrowing be undertaken on a short-term basis, should this be required; and
- During Quarter 2, the Prudential Indicators had not been breached and the Service had not undertaken any borrowing in advance of need.

The Committee welcomed the positive report understanding that the Authority was in a relatively good position with regards to external borrowing, and that the Service was making effective use of its existing revenue budgets to meet planned expenditure.

*** RC/24/7 <u>Financial Performance Report 2024-25: Quarter 2</u>**

The Committee considered a report of the Head of Finance (Treasurer) (RC/24/18) setting out the second quarter performance against agreed financial targets for the current financial year. The report provided a forecast of spending against the 2024-25 revenue and capital budget along with explanations for any major variations.

The following was highlighted to the Committee:

- There was a current forecast underspend of £2.251m against the 2024/25 financial year (net of the £1m proposed transfer to reserves set out in table 3 of this report) representing 2.4% of total budget;
- Pay Awards: Since the report had been published pay awards for 2024/25 had been confirmed at less than anticipated resulting in a £0.8m saving against the Revenue budget. The Committee expressed concern for colleagues whose existing government funded In-Work benefits could be detrimentally impacted by receipt of a lump sum pay award and was pleased that the Service was investigating possibilities for mitigating against this;
- Equipment and furniture underspend: A contract between three Fire Service partners had been agreed against the Network Fire Services Project resulting in a saving of £0.5m;
- Hot Villa Development: A £0.5m saving had been redirected towards developing the Hot Villa to a high standard without the need to use reserves. Plans were also progressing towards creation of a new state of the art training facility, for specialist training, and hub training sites where training could be delivered locally; and
- Investment income: Early receipt of a £20m government grant to cover anticipated cash flow issues associated with the On-Call Firefighters Pension Scheme remedy had been invested until needed resulting in an over-recovery of £0.273m.

The Treasurer referred to the proposed budget transfers set out at Table 3 of the report, and resulting from the underspend highlighted above, which he commended to the Authority for approval.

The report further highlighted:

- there had been no breaches of prudential indicators for this reporting period; and
- The Service was comfortable with the current level of outstanding debt of £0.017m.

The Treasurer provided an update on the Medium Term Financial Plan (MTFP) which had been adjusted since publication of this report due to National Insurance (NI) increases announced in the Government's Autumn Budget. Budget meetings with all Service Departments had taken place to review future spending needs which, combined with the increases in NI, had resulted in a forecast budget deficit of £4.4m for 2025-26. As a result, the Service Leadership Team had agreed the following;

- A vacancy margin of £1.7m for Whole time colleagues, £0.500m for On Call Colleagues (increase from £0.250), and £1.0m for Professional and Technical staff (increase from £0.295m); and
- An increase in the target for Treasury Management interest returns by £0.200m to £1.2m.

The revised forecast deficit for 2025-26 was £2.0m. The grant settlement announcement by Government was not expected until 19 December 2024 at which point further assessment of any budgetary deficit could be undertaken.

RESOLVED:

(a). That the Devon & Somerset Fire & Rescue Authority be recommended to approve the budget transfers shown in Table 3 of report RC/24/18 and reproduced overleaf for ease of reference;

Line Ref	Description	Debit £m	Credit £m
	Movement of the ESMCP reserve into the Change & Improvement Reserve. The delay in the project for the replacement radio network has meant this reserve is better allocated to the Invest to Improve reserve.		
	Increase Change & Improvement Reserve	0.480	
	Decrease ESMCP Reserve		(0.480)
	Transfer some of the reported underspend into the Capital Reserve to ensure borrowing is delayed further in the future.		
32	Transfer to Earmarked Reserve	1.000	
4	Professional & Technical		(0.500)
28	Investment income		(0.500)
		1.480	**(1.480)**

(b). That the monitoring position in relation to projected spending against the 2024-25 revenue and capital budgets be noted;

(c). That the performance against the 2024-25 financial targets be noted.

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

The Meeting started at 10.00 am and finished at 11.05 am

REPORT REFERENCE NO.	**RC/25/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2025**
SUBJECT OF REPORT	**2025-26 REVENUE BUDGET AND COUNCIL TAX LEVELS**
LEAD OFFICER	**Head of Finance (Treasurer) and Chief Fire Officer**
RECOMMENDATIONS	***(a).*** ***That the Committee consider the contents of this report in order to make a recommendation to theAuthority's budget meeting that either:*** ***(i)*** ***that the level of council tax in 2025-26 for a Band D property be set at £102.66, as outlined in Option A in this report, representing an increase of 2.99% over 2024-25, and that accordingly a Net Revenue Budget Requirement for 2025-26 of £97,368,700 be approved;*** ***OR*** ***(ii)*** ***that the level of council tax in 2025-26 for a Band D property be set at £104.68, as outlined in Option B in this report, representing a £5 (5%) increase over 2024-25, and that accordingly a Net Revenue Budget Requirement for 2025-26 of £98,694,100 be approved;*** ***(b).*** ***that, as a consequence of the decisions at (a) above:*** ***(i)*** ***the tax base for payment purposes and the precept required from each billing authority for payment of total precept of £68,555,173 (Option A) OR £69,880,540 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;*** ***(ii)*** ***the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and*** ***(iii)*** ***that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances', as set out at Appendix B to this report, be endorsed.***

EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 11 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2025-26 that would trigger a requirement to hold a Council Tax referendum is to be £5 (5%). This report considers potential options A and B below for Council Tax in 2025-26: OPTION A – Increase Council Tax by 2.99% above 2024-25 **(£102.66 for a Band D Property);** and OPTION B – Increase Council Tax by maximum permitted of £5 (5%) above 2024-25 **(£104.68 for Band D Property).** The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 17 February 2025. Please note that, at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2025-26 and therefore, the figures will be subject to change. The impact of any changes will be reported at the meeting.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2025-26. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
LIST OF BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

1.1. The draft budget for 2025-26 provides an opportunity to support reform of Devon and Somerset Fire and Rescue Service (the Service) now and in the future. During December 2024 a number of significant changes to the Service Delivery operating model have been worked on so that the Service can reduce costs by amending how it delivers the core functions. Some of these will be introduced in this year, one will be during 2026.

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 2025-26. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels of precept for the Authority.

1.3. The Localism Act 2011 includes provisions which require a local authority to hold a Council Tax referendum where an authority's Council Tax increase exceeds the Council Tax "excessiveness principles" applied for that year.

1.4. On 18 December 2024, the Ministry of Housing, Communities and Local Government (MHCLG) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2025-26. For 2025-26, this limit has been set at £5 which is what the Sector had lobbied central government for. 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 2025-26

2.1. The provisional Local Government Finance Settlement for 2025-26 was announced on 18 December 2024, which provided local authorities with individual settlement funding assessment figures for one year only.

2.2. Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which indicates an increase in 2025-26 of 1.29 % over 2024-25 with an overall decrease of 0.68% since 2015-16. However, since 2019-20, the Service have received a separate grant of £3.9m to cover the increase in the employer's pension contributions following an actuarial review by the Government Actuarial Department (GAD). For 2024-25, this grant was *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%
2025-26	29.214	0.371	1.29%
Reduction over 2015-16		**-0.199**	**-0.68%**

2.3. In addition to the settlement figures reported in Table 1 above, during 2024-25, the Authority was awarded a share of a Rural Services Delivery Grant of £0.575m. This has been removed for 2025-26.

2.4. There were other Section 31 grant funds allocated for 2024-25. an example being an amount allocated to reduce the impact of the increase in social costs of £0.100m. This has also been removed for 2025-26.

2.5. Finally, the Funding Guarantee Grant, provided to ensure the Settlement Funding Assessment is increased by 4% before any Council Tax rises, was awarded in 2024-25 of £1.751m. This has also been removed for 2025-26.

3. COUNCIL TAX AND BUDGET REQUIREMENT 2025-26

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 2025-26, this report considers two options A and B as below:

- **OPTION A** – Increase Council Tax by 2.99% (£102.66 for a Band D Property);
- **OPTION B** – Increase Council Tax by £5 (5%) above 2024-25 - an increase of just over 41p a month, to £104.68 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 £1 a year increase for a Band D property, and is equivalent to a £0.662m 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 £5 (5%) threshold.

3.3. Please note that at the time of writing this report, the Service is awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2025-26 and therefore, the figures in Table 2 will be subject to change. The materiality of this outstanding data is estimated within the region of +/- £0.100m. The impact of any changes will be reported at the meeting.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2025-26

	OPTION A Council Tax Increase by 2.99% to 102.66	**OPTION B Council Tax Increase of £5 (5%)to £104.68**
	£m	**£m**
TOTAL FUNDING 2024-25	**92.622**	**92.622**
Increase in Formula Funding	0.296	0.296
Increase in Retained Business Rates from Business Rate Retention System*	0.244	0.244
Changes in Council Tax Precept		
- Increase in Council Tax Base	1.910	1.910
- resulting from an increase in Council Tax	1.956	3.281
- Increase (reduction) in Share of Billing Authorities Council Tax Collection Funds	0.342	0.342
TOTAL FUNDING AVAILABLE 2025-26	**97.367**	**98.692**
NET CHANGE IN FUNDING	**4.746**	**6.071**

*at time of producing the paper not all information is available from local authorities

Council Tax Base

3.4 The total increase in government funding through the revenue support grant of £0.296m is a little disappointing with the increase being just 1.29% above the 2024-25 amount. The Service has seen an increase in the Council Tax base of just over 3.01% increased mainly as a result of the double-charge for second-homes. The Authority's share of Council Tax collection fund surplus has increased from £0.856m in 2024-25 to £1.198m for the new year – an increase of £0.342m

Retained Business Rates

3.5 The Service estimates the funding available from business rates will be in-line with previous years now that the amount received from this funding stream has stabilised following Covid. (recollecting times when Business Rates were suspended whilst businesses were forced to close). At the time of writing the report, the returns from the District/Unitary Councils were outstanding.

Net Budget Requirement

3.6 Table 3 below provides a summary of the Core Budget Requirement for 2025-26. 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 2025-26

	£m	£m
Net Revenue Budget 2024-25		**92.622**
PLUS Provision for pay and price increases (Pay award assumed 2%)	2.323	
PLUS Inescapable Commitments	1.399	
PLUS Fudning Adjustments (e.g increae in RCCO)	1.033	
PLUS New Investment	1.169	
Plus redduction in income (Government grants)	1.539	
LESS increase in income and budget savings	(1.390)	
INCREASE in budget requirement over 2023-24		**6.073**
Core spending requirement 2025-26		**98.694**

3.7. 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

3.8. As is indicated in Table 3, the Revenue Budget Requirement for 2025-26 has been assessed as £98.694m 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 2025-26

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A £m	OPTION B £m
Funding Available	97.367	98.694
LESS Net spending requirement 2025-26	99.695	99.695
Shortfall	(2.327)	**(1.000)**
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	1.326	0.000
Transfer from Reserves – in order to balance the budget.	1.000	1.000
Total	**(0.000)**	**(0.000)**

3.9. 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 £1.326m in the coming year if it is set at 2.99%. Should Council Tax be frozen, the Authority would reduce the contribution to capital expenditure by £1.326m.

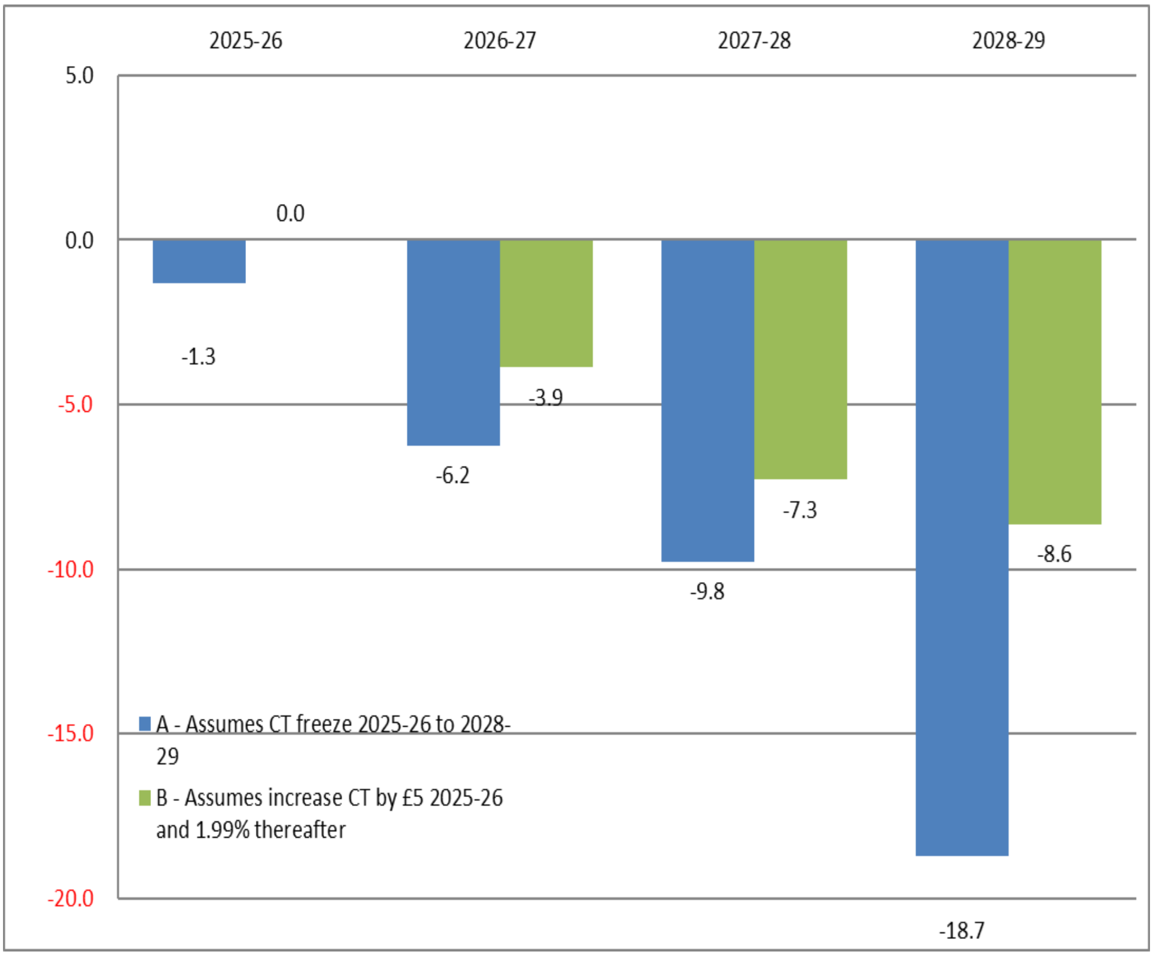
3.10. There is significant risk attached to Option A, as this proposal will draw down against the capital funding reserve, meaning it will not be available to meet the future capital programme and the scale of efficiencies required would see reductions made to front line services.

4. MEDIUM TERM FINANCIAL PLAN

4.1. Given that the 2025-26 provisional Local Government Settlement is a one-year settlement, the future funding position is less certain. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document, which is elsewhere on the agenda.

4.2. The MTFP financial modelling tool has assessed a likely ‘base case’ scenario in terms of savings required over the period 2025-26 to 2028-29. Chart 1 overleaf provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2025 TO 2029 (BASE CASE) - £MILLIONS



4.3. Chart 1 illustrates that further savings will be required beyond 2025-26 to plan for a balanced budget over the next three years to 2028-29. Should the Authority decide to increase Council Tax by 2.99% in 2025-26 (Option A) and then freeze for the following three years, then the MTFP forecasts that total savings of up to £18.7m 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.

4.5. For the Devon authorities, this amounted to 8,272 homes, for Somerset it will be just over 3,000 homes.

Authority Plan 2025 onwards

4.6. This budget report proposes a balanced budget for the next financial year 2025-26, including proposals as to how budget savings can be achieved.

4.7. Looking beyond 2025-26 it is clear that the Authority needs to plan for the delivery of further recurring savings to ensure that balanced budgets can be set in each year of the Spending Review period.

4.8. The strategic approach to deliver the required savings is being developed following and an efficiency review has been initiated and will focus on the following priority areas:

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

5. PRECEPT CONSULTATION 2025-26

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 2024 and involved:

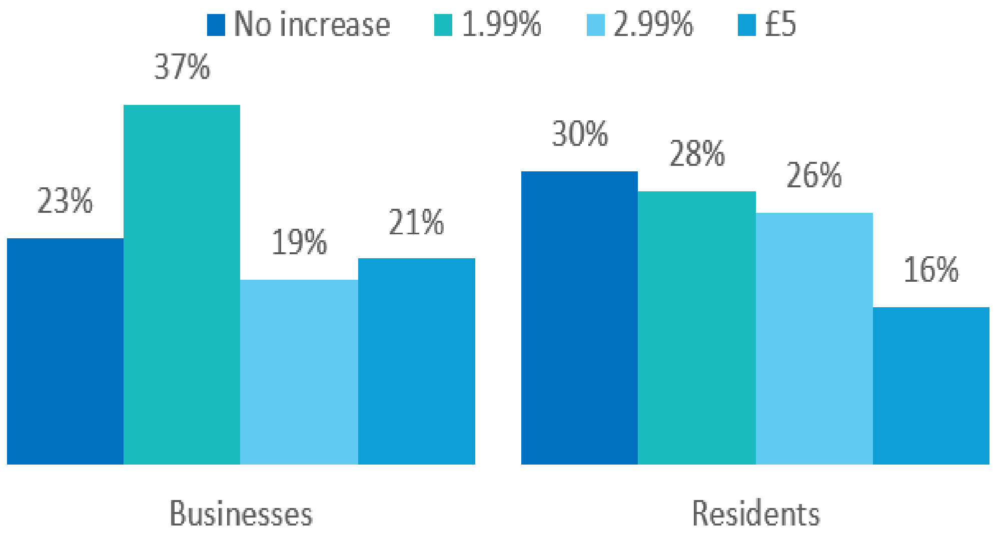
A telephone survey of 400 business was concluded coupled with 639 responses from residents using our internal on-line survey.

Results from the Telephone and on-line survey

5.4. 64% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2025-26, while 12% disagreed that it is reasonable for them to do so, resulting in a net agreement of +52%.

5.5. 74% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2025-26, 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 the Service to consider increasing its Council Tax charge for 2025-26)

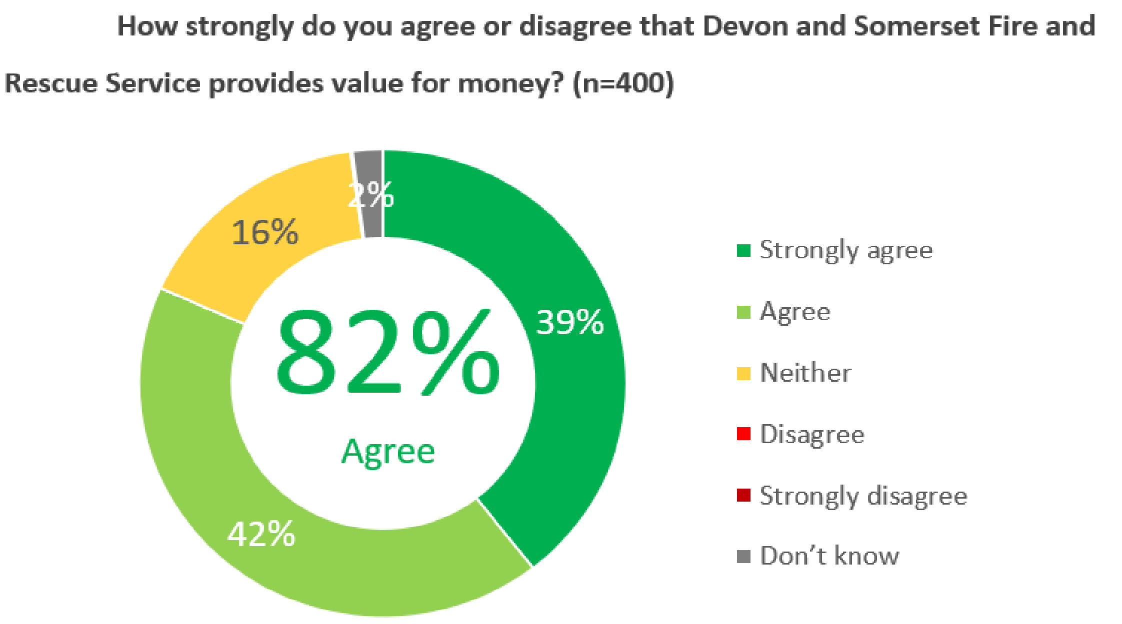


5.6. Of those respondents who agreed that a Council Tax increase would be reasonable, 40% of businesses and 42% of residents would support an increase of 2.99% or above.

Providing Value for Money

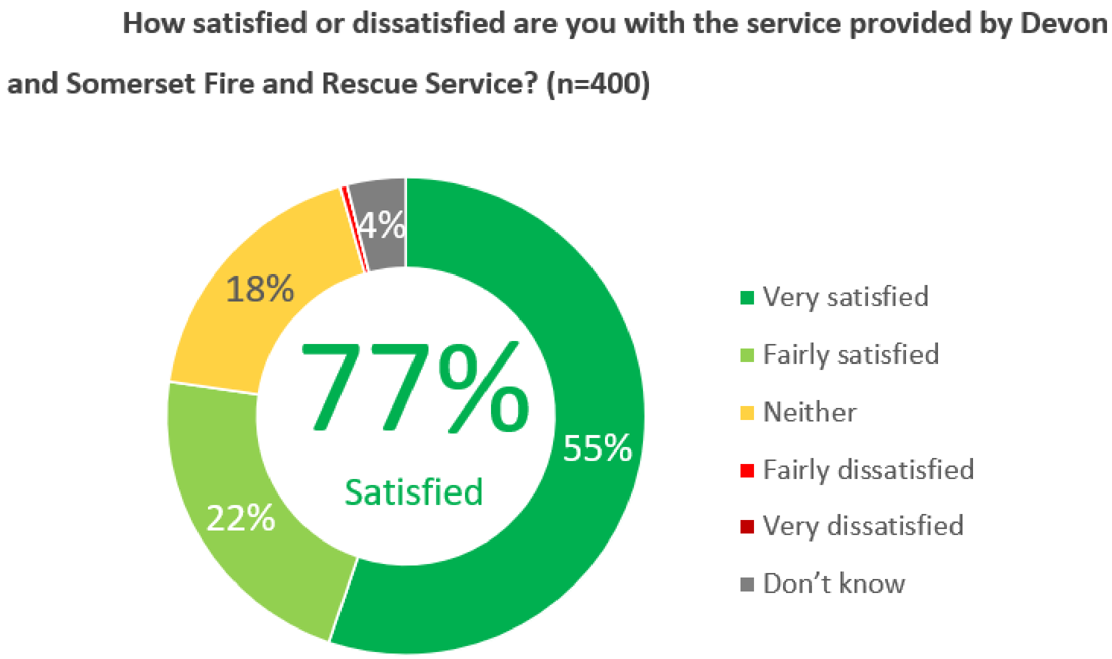
5.7. The consultation asked the responder if they felt the Fire Service provided value for money. The results in Chart 3 indicate 82% of respondents agree of which, 39% strongly agreed.

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.

<u>Chart 4: Satisfaction with the service provided by DSFRS</u>



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 2025-26. Of those who agreed, 52% were content to increase Council Tax by 2.99% or more.

5.10. Both businesses and residents agree that the Service provides value for money and were satisfied with the service provided.

6. <u>STATEMENT ON ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE LEVELS OF RESERVES AND BALANCES</u>

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 2025-26 by 11 March so that it can meet its statutory obligation to advise each of the eleven billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.

7.2. The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the Authority, to be held on the 16 February 2024.

ANDREW FURBEAR
Head of Finance (Treasurer)

APPENDIX A TO REPORT RC/25/1

Core Net Revenue Budget Requirement 2025-26.

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY
SUMMARY MEDIUM TERM FINANCIAL STRATEGY PROJECTIONS 2025

	Row Number	£'000	2025/26 £000	%
Approved Budget 2024-25			**92,622**	
Provision for pay and prices increase				
Grey Book Pay Award (assume 2% from July 2025)	1,2,3	1,665		
Green Book Pay Award (Assume 2% April 25)	4	287		
Prices increases (assumed 2.0% CPI from April 2025)	All non-pay	318		
Pensions inflationary increase (tracks CPI - 2%)	6	53		
			2,323	2.5%
Funding Adjustments				
Revenue Contribution to Capital	26	1,389		
Revenue Contribution to Capital - Red One	26	400		
Increase in transfers from Reserves	32	-756		
			1,033	
Inescapable Commitments				
Increase in ER NI Contributions	1,2,3	1,128		
Increase in minumum revenue provision	25	47		
Apprenticeship levy reducing	1,2,3	85		
Pensions - anticipate reduced Ill Health/ Injury leavers	6	139		
			1,399	
New Investment				
Professional Staff establishment	1,2,3	313		
Vehicle equipment linked to capital programme	14	381		
LVM running costs - predominately leases	12	220		
Estates maintenance works	7	205		
Upgrade bulk fuel software as 3G is switched off	12	50		
			1,169	
Income				
Reduction in Firelink grant	29	103		
Section 31 grants - assumes Funding Guarantee Grant is removed for 2025/26.	29	1,835		
Increase in investment interest	28	0		
Red One Income	30	-399		
			1,539	
Anticipated savings				
NFSP Control Future project	16	-762		
EV Charging Infrastructure	7	-98		
On Call Pay for availability - increase in vacancy margin	2	-250		
On Call Pay for availability	2	-232		
Operational staff including control	1 & 3	-1,015		
Cumulative budget savings	Various	967		
			-1,390	
CORE BUDGET REQUIREMENT			**98,695.0**	

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

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

THE ROBUSTNESS OF THE 2025-26 BUDGET

The net revenue budget requirement for 2025-26 has been assessed as £92.908m (Option B in report). In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Community Risk Management Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2025, in which time external factors, which are outside of the control of the Authority, may arise which will cause additional expenditure to be incurred. The most significant example of this is the potential pay awards for colleagues which are yet to be agreed. The majority of On-Call pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. Other budgets, such as fuel and energy are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

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

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a five year period covering the years 2025-26 to 2029-30. 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 2025-26 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2024-25 £m	*RISK AND IMPACT*	MITIGATION
Service Delivery staff costs	68.4	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 £0.660m of additional pressure on the revenue budget.	Funding decisions for this model will need to be considered for future years.
Fire-fighter's Pensions	2.8	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 is subject to market forces so does fulctuate. The Service is investing in new ways of working associated with the environmental strategy so introduced electric vehicles during 2023-24 with more on order.	General Reserve
Treasury Management Income	(1.6)	As a result of the uncertainty, bank base rates have increased to the highest levels since 2008. This has resualted in an increase in investment returns. This has resulted in an increase in the budget of £0.400m. The markets are anticiparing a interest rarte reduction during 2025 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	(0.7)	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 2024 was £26.0m made up of Earmarked Reserves (committed) of £21.5m, and General Reserve (uncommitted) of £4.6m. 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 £4.6m is equivalent to 5.0% of the total revenue budget for 2024-25 or 18 days of Authority spending, the figure is subject to a risk assessment annually.

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

The Authority used an element of the general reserve during 2021-22 however, the pleasing note is there is no requirement to call on them for 2025-26 to fund emergency spending. The plan being to increase the general reserve to ensure the 5% level is maintained as a minimum. The importance of holding adequate levels of general reserves has been highlighted on a number of occasions in recent times, the impact of the pandemic and the problems experienced by the global financial markets are just two examples of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

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

CONCLUSION

It is considered that the budget proposed for 2025-26 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.

ANDREW FURBEAR
Head of Finance (Treasurer)

REPORT REFERENCE NO.	**RC/25/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2025**
SUBJECT OF REPORT	**CAPITAL STRATEGY 2025-26**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATION	***That the Authority be recommended to endorse the Capital Strategy as set out in this report.***
EXECUTIVE SUMMARY	The 2017 Prudential Code included the requirement for all Local Authorities to produce an Annual Capital Strategy that is agreed by the Authority. 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, the implications for future financial sustainability and sets out the governance process for approval and monitoring of capital expenditure. The 2021/22 revised Prudential Code also required the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily for yield.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY 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, 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 its 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, as have 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 spread across the two counties of Devon and Somerset.

4.3. At the commencement of the 2025-26 year, the Service will have 112 front-line fire engines, of which 30 have surpassed their recommended economic life, and 22 Special Appliances. Of the 22 Special Appliances, 3 Aerial Ladder Platforms were replaced during 2024-25. The remaining 4 range from 16 years old to 24 years old. Ensuring prioritisation over where capital resources are used to best utilise the Service's 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; and
- 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 the larger capital investment projects the Service uses the “Five Case” model to develop the business case as recommended by His Majesty’s 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
- The management case (that the requirement is achievable).

6. <u>THE SERVICE CAPITAL PROGRAMME 2025-26 – 2029-30</u>

6.1. The Service Capital Programme for 2025-26 – 2029-30 is considered annually and is set out in Table 1 below.

Table 1: Service Capital Programme 2025-26 to 2029-30

Capital Programme 2025/26 to 2029/30								
2024/25 £000 Budget	**2024/25 £000 Forecast Outturn**	**Item**	**PROJECT**	**2025/26 £000 Budget**	**2026/27 £000 Budget**	**2027/28 £000 Budget**	**2028/29 £000 Indicative Budget**	**2029/30 £000 Indicative Budget**
			Estate Development					
531	(22)	1	Site re/new build	100	3,600	7,250	3,800	0
4,338	923	2	Improvements & structural maintenance	4,696	4,059	4,392	2,498	930
4,869	**901**		**Estates Sub Total**	**4,796**	**7,659**	**11,642**	**6,298**	**930**
			Fleet & Equipment					
2,236	2,254	3	Appliance replacement	3,574	3,355	3,214	3,326	3,450
1,543	1,545	4	Specialist Operational Vehicles	1,131	565	1,611	800	1,692
3,779	**3,799**		**Fleet & Equipment Sub Total**	**4,705**	**3,920**	**4,825**	**4,376**	**5,142**
(1,000)	**0**	6	**Optimism bias Sub Total**	**(1,000)**	**(500)**	**(800)**	**1,000**	**1,300**
7,648	**4,700**		**Overall Capital Totals**	**8,501**	**11,079**	**15,667**	**11,674**	**7,372**
			Programme funding - Option A - revenue funding at £2m					
5,167	2,369	7	Earmarked Reserves:	3,993	8,472	(70)	0	0
661	861	8	Revenue funds:	2,450	2,450	2,500	2,550	2,550
0	0	9	Capital receipts:	0	0	0	0	0
1,391	1,391	10	Borrowing - internal	1,812			2,086	1,046
		11	Borrowing - external	0	27	13,167	5,638	3,776
0	0	12	Contributions:	246	130	0	1,400	0
7,648	**4,700**		**Total Funding**	**8,501**	**11,079**	**15,597**	**11,674**	**7,372**

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 below.

8. REVENUE FUNDING

8.1. The Authority agreed, on 24th February 2014, that an element within the Revenue budget for each year would 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 above 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 Local Authorities in England and Wales keep under review the amount of money that 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, the Treasurer certifies 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 in Table 1 of the previous page. 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 and the level of increases to Council Tax, 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, the Authority 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 Community Risk Management Plan and, utilise the results from the recently commissioned Fire Cover review, to ensure that the Service is replacing the right assets, at the right location to address the risk and at the same time reducing its 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, fraudulence 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 risk relates to changes in laws and/or regulations making a capital project more expensive or time consuming to complete, making it no longer cost effective or making 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 the Service's 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.

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; and
- 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 2025-26, subject to this Authority increasing the Council Tax by the maximum permitted, the amount has been set at £2.0m to support the revenue budget. It is planned that the £2m target will be maintained 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 the Service has the right balance between large, traditional, fire engines and smaller, lighter, fire engines, the Service has been able to reduce the capital costs without compromising public safety. Not only is this a more efficient use of the financial resources that the Service has available, but it is also better for the environment.

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

The Authority's strategy is to reduce borrowing

18.7. As of 31 March 2025, external debt will be £23.3m, down from £25.9m ten years ago.

18.8. Due to the introduction of a baselined revenue contribution to capital, coupled with in year savings, a healthy capital reserve had been built up. However, with the savings anticipated to be made as a result of the changes to the wholetime rostering project, it will be possible to contribute some funding from the Revenue budget towards funding some of the Capital programme for 2025-26.

18.9. There are a large number of assets needing replacement or enhancement with the proposed programme totalling £54.2m 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.

ANDREW FURBEAR
Head of Finance (Treasurer)

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REPORT REFERENCE NO.	**RC/25/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2025**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2025-26 TO 2027-28**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***(a). That the Authority, at its budget meeting on 17 February 2025, be recommended to approve the draft Capital Programme 2025-26 to 2027-28 and associated Prudential Indicators, as detailed in this report and summarised at Appendices A and B respectively; and*** ***(b). subject to (a). above, the forecast impact of the proposed Capital Programme (from 2028-29 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report be noted.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three-year Capital Programme covering the years 2025-26 to 2027-28 and also outlines the difficulties in meeting the full capital expenditure requirement for the Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget. The Committee has supported the Treasurer's recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. It should be noted that the capital programme for 2028/29 onwards has been built on knowledge to date. There are potential decisions resulting from the Fire Cover Review that could impact the programme considerably. To inform longer term planning, the Prudential Indicator has been profiled for a further two years beyond 2027-28 based upon indicative capital programme levels, noting the comment about decisions above, for the years 2028-29 to 2029-30.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.

APPENDICES	A. Summary of Proposed Capital Programme 2025-26 to 2027-28 (and indicative Capital Programme 2028-29 to 2029-30). B. Prudential Indicators 2025-26 to 2027-28 (and indicative Prudential Indicators 2028-29 to 2029-30).
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 two previous financial years, which in turn, speeds up the use of the capital reserve. This will impact on the 5% ratio. In the medium term, however, the modelled increases in net revenue budget indicate the ratio will remain well within the Prudential indicator.

1.3. The fleet replacement cycle continues, with 10 new "light" Medium Rescue Pumps (MRPs) and 4 all-wheel drive MRPs to be introduced during 2025/26, along with numerous support vehicles. 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 2025-26 to 2027-28 and indicative Capital Programme 2028-29 to 2029-30 show that, despite the reduced number of assets, the Authority may need to borrow up to £23.7m (this is with £2m Revenue Contribution to Capital Outlay – (RCCO), with none it is £34m). When further decisions are made around the Fire Cover Review, 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 of 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 £33.3m (£39.2m with no RCCO) by 2027-28 from the current external borrowing of £23.3m as at 31 March 2025. 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 increase for 2025-26, at the target rate of £2.0m which is in line with the strategic intent.

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. <u>REVISED CAPITAL PROGRAMME FOR 2025-26 to 2027-28</u>

3.1. Appendix A to this report provides an analysis of the proposed programme for the three years 2025-26 to 2027-28 as detailed in this report. This programme represents a net increase in overall spending of £8.6m (before application of optimism bias) over the previously agreed indicative programme as illustrated in Figure 1 below:

Figure 1

	Estates	Fleet & Equipment	Total
	£m	£m	£m
Existing Programme			
2024-25	4.9	3.8	8.7
2025-26	6.0	2.9	8.9
2026-27 (provisional)	8.6	1.6	10.2
2027-28 (provisional)	3.4	2.4	5.8
Total 2024-25 to 2027-28	22.9	10.7	33.6
Proposed Programme			
2024-25 (forecast spending)	0.9	3.8	4.7
2025-26	4.8	4.7	9.5
2026-27 (provisional)	7.7	3.9	11.6
2027-28 (provisional)	11.6	4.8	16.4
Total 2024-25 to 2027-28	25.0	17.2	42.2
Proposed change	2.1	6.5	8.6

Estates

3.2. The Service continues to progress with rationalising the Estate as part of the new ways of working, along with the disposal of surplus non-operational buildings, whilst also incorporating the Authority's Green Service Environmental Strategy. The Estates Department continues to work in close partnership with the Service Delivery and Academy Training Teams to support a sustainable training infrastructure model for the future.

3.3. With consideration of the strategic output from the Community Risk Management Plan (CRMP), a Fire Cover Review and the Target Operating Model (TOM), the programme for 2025-26 maintains the focus on existing projects; particularly the new build project for Camels Head Fire Station, 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 Personal Protective Equipment (PPE) at On Call Stations as well as the major refurbishment and extension of Bere Alston Fire Station.

3.4. Within the programme is investment in a replacement Hot Villa and scrubbers based at the airport. There is also investment in carbon reduction at two Stations which is part funded by a grant from the Public Sector Decarbonisation Scheme.

Operational Assets

3.5. The Service is preparing for the development of the Medium Rescue Pumps 2 (MRP2) (previously known as Light Rescue Pumps (LRP)) requirements and replacements as part of the long-term fleet replacement plan. A review of numbers and locations of specialist vehicles is being considered alongside the Community Risk Management Plan.

3.6. A 10-year vehicle replacement programme has been developed along with an equipment replacement programme (which is funded from revenue due to the low value of each individual asset). The Asset Management Project will enable the Service to better assess the whole life costs of the Service's assets in the future.

3.7. The benefits of the Fleet Replacement Programme are:

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

3.8. The Fleet Replacement plan has replaced some of the Service's oldest appliances with new MRPs and cascaded existing vehicles to the reserve and training fleet. Currently the Service has:

- MRP – 56 front-line appliances of which 16 are overdue replacement (more than 15 years old – 29%);
- MRP Reserves – 10 MRP reserve appliances of which 8 are overdue replacement (more than 15 years old – 80%);
- LRP – 38 front-line LRP appliances of which 6 become due replacement in 2025/26 based on 12 years expected life-cycle;
- LRP Reserves – 4 LRP Reserve appliances which are 10 years old;
- Rapid Intervention Vehicle (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;
- RIV Reserves – 2 RIV reserve appliances which are both 6 years old;
- Training Appliances – 7 MRP training appliances of which 6 are over 15 years old; and
- Driver Training Appliances – 2 x MRP driver training specific appliances which are 14 years old. 1 x new MRP (driver training specific) and 1 x MRP appliance (not driver training specific) which is 16 years old. 1 x LRP driver training specific which is 7 years old.

4. <u>FORECAST DEBT CHARGES</u>

4.1. Appendix A also provides indicative capital requirements beyond 2027-28 to 2029-30. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2.

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

	2025/26	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	**£m**	**£m**	**£m**	**£m**
Forecast Debt outstanding at year end	26.369	23.900	34.459	39.198	41.190
Base budget for capital financing costs and debt charges	4.137	3.830	4.426	4.856	4.817
Change over previous year		(0.307)	0.596)	0 430	0.042
Debt ratio	**2.98%**	**2.58%**	**3.08%**	**3.38%**	**3.24 %**

4.2. The forecast figures for external debt and debt charges beyond 2027-28 are based upon the indicative programmes as included in Appendix A for the years 2028-29 to 2029-30. 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 the level of spending over this period. It is forecast that the Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £26.4m to £41.1m (including impact of proposed revenue contributions) by 2029-30.

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 2029-30, 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 and the number of fire stations and fire appliances required to be maintained (and eventually replaced) whilst 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 2027-28. 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.

ANDREW FURBEAR
Head of Finance (Treasurer)

APPENDIX A TO REPORT RC/25/3

SUMMARY OF PROPOSED CAPITAL PROGRAMME 2025-26 TO 2027-28 (AND INDICATIVE CAPITAL PROGRAMME 2028-29 TO 2029-30).

Capital Programme 2025/26 to 2029/30								
2024/25 £000 Budget	2024/25 £000 Forecast Outturn	Item	PROJECT	2025/26 £000 Budget	2026/27 £000 Budget	2027/28 £000 Budget	2028/29 £000 Indicative Budget	2029/30 £000 Indicative Budget
			Estate Development					
531	(22)	1	Site re/new build	100	3,600	7,250	3,800	0
4,338	923	2	Improvements & structural maintenance	4,696	4,059	4,392	2,498	930
4,869	**901**		**Estates Sub Total**	**4,796**	**7,659**	**11,642**	**6,298**	**930**
			Fleet & Equipment					
2,236	2,254	3	Appliance replacement	3,574	3,355	3,214	3,326	3,450
1,543	1,545	4	Specialist Operational Vehicles	1,131	565	1,611	800	1,692
0	0	5	ICT Department	0	0	0	250	0
3,779	**3,799**		**Fleet & Equipment Sub Total**	**4,705**	**3,920**	**4,825**	**4,376**	**5,142**
(1,000)	**0**	6	**Optimism bias Sub Total**	**(1,000)**	**(500)**	**(800)**	**1,000**	**1,300**
7,648	**4,700**		**Overall Capital Totals**	**8,501**	**11,079**	**15,667**	**11,674**	**7,372**
			Programme funding - Option A - revenue funding at £2m					
5,167	2,369	7	Earmarked Reserves:	3,993	8,402	0	0	0
661	861	8	Revenue funds:	2,450	2,450	2,500	2,550	2,550
0	0	9	Capital receipts:	0	0	0	0	0
1,391	1,391	10	Borrowing - internal	1,812			2,091	2,387
		11	Borrowing - external	0	97	13,167	5,633	2,435
429	79	16	Grants	0	0	0	0	0
0	0	12	Contributions:	246	130	0	1,400	0
7,648	**4,700**		**Total Funding**	**8,501**	**11,079**	**15,667**	**11,674**	**7,372**

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

PRUDENTIAL INDICATORS 2025-26 TO 2027-28 (And Indicative Prudential Indicators 2028-29 To 2029-30).

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate	2029/30 £m Estimate
Capital Expenditure					
Non - HRA	8.501	11.079	15.667	11.674	7.372
HRA (applies only to housing authorities)					
Total	8.501	11.079	15.667	11.674	7.372
Ratio of financing costs to net revenue stream					
Non - HRA	2.98%	2.59%	3.08%	3.38%	3.24%
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	23,219	21,738	33,322	38,836	41,190
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	3,150	2,163	1,137	362	0
Total	26,369	23,900	34,459	39,198	41,190
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(1,063)	(2,469)	10,559	4,739	1,993
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(1,063)	(2,469)	10,559	4,739	1,993
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	25,574	25,503	36,656	41,972	44,431
Other long term liabilities	4,777	3,758	2,719	1,655	862
Total	30,351	29,261	39,376	43,626	45,293
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,413	24,416	34,990	40,030	42,372
Other long term liabilities	4,620	3,650	2,663	1,637	862
Total	29,032	28,066	37,653	41,667	43,233
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	7,000	7,000	7,000	7,000	7,000

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 2025/26		
Under 12 months	30%	0%
12 months and within 24 months	30%	14%
24 months and within 5 years	50%	1%
5 years and within 10 years	75%	4%
10 years and above	100%	80%

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REPORT REFERENCE NO.	**RC/25/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2025**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2025-26 TO 2027-28)**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve:*** ***(a). the Treasury Management Strategy and the Annual Investment Strategy; and*** ***(b). the Minimum Revenue Provision statement for 2025-26, as contained at Appendix B;***
EXECUTIVE SUMMARY	As agreed at the Authority meeting of 18 December 2017, item DSFRA/49a refers, there is a requirement for the Resources Committee to review the Treasury Management Strategy for recommendation to the Authority. This report sets out a treasury management strategy and investment strategy for 2025-26, including the Prudential Indicators associated with the capital programme for 2025-26 to 2027-28 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2025-26 is also included for approval. The 2021-22 revised Prudential Code also requires the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily held for yield.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2025-26 to 2027-28 B. Minimum Revenue Provision Statement 2025-26. C. MUFG Corporate Markets Treasury Ltd (Formally Link Treasury Solutions) economic report
BACKGROUND PAPERS	Local Government Act 2003. Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice

1. INTRODUCTION

Background

1.1. The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2. The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

1.3. The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4. CIPFA defines treasury management as:

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

1.5. The Authority has not engaged in any commercial investments and has no non-treasury investments.

Statutory requirements

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

1.7. The Act therefore requires the Authority to set outs its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act); 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 Ministry of Housing, Communities and Local Government (MHCLG) 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; and
- 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 Authority fully understand the overall long-term policy objectives, the resulting capital strategy requirements, governance procedures and the 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 the Authority 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; and
- Delegation by the Authority of the role of scrutiny of treasury management strategy and polices to a named body - for the Authority the delegated body is Resources Committee.

Treasury Management Strategy for 2025-26

1.15. The suggested strategy for 2025-26 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, MUFG Corporate Markets Treasury (formally Link Treasury Solutions).

1.16. The strategy for 2025-26 covers two main areas:

Capital Issues

- capital plans and prudential indicators; and
- 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; and
- 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 MUFG Corporate Markets Treasury Ltd 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 2025-26 TO 2026-27

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 recommend approval of the capital expenditure forecasts as proposed in the Capital Programme report considered elsewhere on this meeting's agenda. Other long-term liabilities such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments are excluded.

Proposed Capital Expenditure	**2024/25** (forecast spending) £m	**2025 /26** £m	**2026/27** (provisional) £m	**2027/28** (provisional) £m	**2026 /27** £m	**2027 /28** £m
Estates	0.901	3.796	7.159	10.842	7.298	2.230
Fleet & Equipment	3.799	4.705	3.920	4.825	4.376	5.142
Total	4.700	8.501	11.079	15.667	11.674	7.372

2.3. The table below 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	**2024-25 (forecast spending)** £m	**2025-26** £m	**2026-27 (provisional)** £m	**2027-28 (provisional)** £m	**2026/27** £m	**2027/28** £m
Capital receipts/ contributions	0.000	0.246	0.130	0.000	1.400	0.000
Capital grants	0.079	0.000	0.000	0.000	0.000	0.000
Capital reserves	2.369	3.993	8.472	-0.070	0.000	0.000
Revenue	0.861	2.450	2.450	2.500	2.550	2.550
Existing borrowing	1.391	1.812	0.000	0.000	2.086	1.046
New borrowing	0.000	0.000	0.027	13.167	5.638	3.776
Total	4.700	8.501	11.079	15.597	11.674	7.372

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 £3.150m of such schemes within the CFR.

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

Capital Financing Requirement:

Capital Financing Requirement (CFR)	**2024-25 (forecast spending)** £m	**2025-26** £m	**2026-27 (provisional)** £m	**2027-28 (provisional)** £m
Non-HRA expenditure	23.312	23.219	21.738	33.322
Other Long Term Liabilities	4.120	3.150	2.163	1.137
Total CFR	27.432	26.369	23.900	34.459
Movement in CFR	5.539	1.812	0.097	13.167
Less MRP	(2.534)	(2.875)	(2.566)	(2.608)
Net movement in CFR	3.005	(1.063)	(2.469)	10.559

Core funds and expected investment balances

2.8. 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, within the table overleaf, are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Estimates of year-end balances for each resource and anticipated day-to-day cash flow balances:

Estimated Year end Resources	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Reserve Balances	15.400	6.700	4.480	1.918
Capital receipts/ contributions	0.000	0.000	0.000	0.000
Provisions	0.000	0.000	0.000	0.000
Other	17.104	18.495	20.307	19.292
Total core funds	32.504	25.195	24.787	21.210
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	26.195	25.787	22.210

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

Minimum Revenue Provision Strategy

2.9. 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).

2.10. The Ministry of Housing, Communities and Local Government (MHCLG) 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.

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

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

The Asset Life Method

2.13. 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.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.

2.14. 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.

2.15. A draft Minimum Revenue Provision statement for 2025-26 is attached at Appendix B for Authority approval.

2.16. The financing of the approved 2025-26 Capital Programme, and the resultant prudential indicators, have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

2.17. The previous sections of this 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.

2.18. 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 2025-26 to 2027-28 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2024-25 (forecast spending)	2025-26	2026-27 (provisional)	2027-28 (provisional)
Annual cost	1.99%	2.98%	2.58%	3.07%

3. BORROWING

3.1. The capital expenditure plans set out in Section 2 of this report 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 2024 and the current position are summarised overleaf.

TREASURY PORTFOLIO				
	actual **31.3.24**	actual **31.3.24**	current **31.12.24**	current **31.12.24**
Treasury investments	£000	%	£000	%
banks	14,150	63%	33,150	61%
building societies - unrated		0%		0%
building societies - rated		0%		0%
local authorities	5,000	22%	12,000	22%
DMADF (H.M.Treasury)		0%		0%
money market funds	3,320	15%	8,960	17%
certificates of deposit		0%		0%
Total managed in house	**22,470**	**100%**	**54,110**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**22,470**	**100%**	**54,110**	**100%**
Treasury external borrowing				
local authorities		0%		0%
PWLB	23,862	100%	23,724	100%
LOBOs		0%		0%
Total external borrowing	**23,862**	**100%**	**23,724**	**100%**
Net treasury investments / (borrowing)	**-1,392**	**0**	**30,386**	**0**

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.Actual external debt against the underlying capital borrowing need:

External Debt	2024-25 (forecast spending) £m	2025-26 £m	2026-27 £m	2027-28 £m
Debt at 1 April	23.313	23.219	20.653	33.227
Expected change in Debt	(0.458)	(0.093)	(2.566)	12.574
Other long-term liabilities (OLTL)	4.120	3.150	2.163	1.137
Expected change in OLTL	(0.969)	(0.988)	(1.026)	1.026
Actual gross debt at 31 March	26.004	25.289	19.224	47.963
CFR	27.432	26.369	23.830	34.392
Under/ Over borrowing	(1.427)	(1.080)	(4.606)	13.571

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 2025-26 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 – see overleaf.

Estimated Operational Boundary	2024-25	2025-26	2026-27	2027-28
	£m	£m	£m	£m
Non-HRA expenditure	24,871	24,413	24,346	34,920
Other Long Term Liabilities	4,620	4,620	3,650	2,663
Total	29,490	29,032	27,996	37,583

- **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 Committee is asked to recommend approval to the Authority of the following authorised limit:

Estimated Authorised Limit	2024-25	2025-26	2026-27	2027-28
	£m	£m	£m	£m
Non-HRA expenditure	26,037	25,574	25,430	36,583
Other Long Term Liabilities	4,825	4,777	3,758	2,719
Total	30,862	30,351	29,188	39,302

Prospects for interest rates

3.8. The Authority has appointed MUFG Corporate Markets Treasury 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 - paragraphs C28 and C33, gives their view.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Borrowing strategy

3.9. As reported within the “Capital Programme 2025-26 to 2027-28” at agenda item 6 of this meeting’s agenda, it is the strategic intent of the Authority not to increase its exposure to external borrowing during the next three years. Subject to permitted increases to Council Tax, the revenue contribution to capital investment has been increased to the target of £2.0m for 2025-26.

3.10. This being the case there is no intention to take out any new borrowing during 2025-26 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 MUFG Corporate Markets Treasury to review the Public Works Loan Board (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 to occur, it would 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.

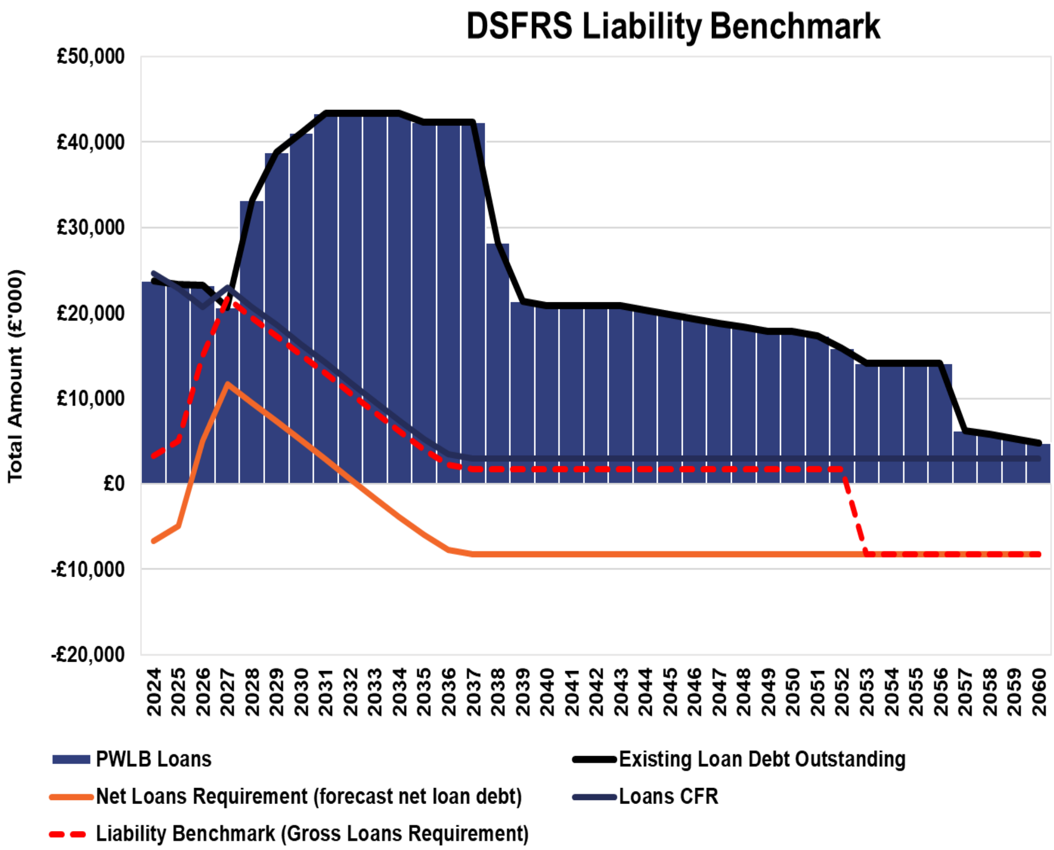
3.16. The chart below shows the liability benchmark that has been calculated from 2024 and future years: The following explanations are provided to assist with understanding the chart:

i. 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.

ii. 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.

iii. 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 MHCLG's Guidance on Local Government Investments ("the Guidance"), CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code") and the CIPFA Treasury Management Guidance Notes 2018. The Authority's investment priorities will be security first, portfolio liquidity second, then yield.

4.2. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

4.3. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings

4.4. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

4.5. The Authority applies the creditworthiness service provided by MUFG Corporate Markets Treasury. 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; and
- 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 MUFG Corporate Markets Treasury 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 uses 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 MUFG Corporate Markets Treasury 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 (UK) for any UK based counterparty. At the time of writing this report,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 there is 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 the 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. **IFRS16 Lease Accounting.** As a result of the introduction of a new accounting standard associated with leasing, the cost of a lease now needs to be shown on the face of the balance sheet as an asset with the cost of financing the lease shown as a cost of financing. This change took effect from April 2024.

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 MUFG Corporate Markets Treasury 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 the below table.

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. The Table below shows those bodies with which the Authority will invest.

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

Specified Investments	**Non Specified Investments**
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

4.19. 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

4.20. 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.

4.21. Investment returns: Bank Rates has seen some activity during the last 12 months reducing from 5.25% in March 2024 to the current 4.75% however, the projection is for reductions in the rate during 2025. The Service has assumed that investment earnings from money market-related instruments will be in the region of 3.50%-4.00% for the next 12 months.

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

2025-26	4.00%
2026-27	3.50%
2027-28	3.50%
2028-29	3.00%
Later years	3.00%

4.23. **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	**2025-26**	**2026-27**	**2027-28**
Principal sums invested > 365 days	£7m	£7m	£7m

End of year investment report

4.24. 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; and
- Review of annual strategy prior to recommendation to full authority.

Role of the Section 112 officer (Head of Finance (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 2025-26 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

ANDREW FURBEAR
Head of Finance (Treasurer)

APPENDIX A TO REPORT RC/25/4

Prudential and Treasury Management Indicators 2025-26 to 2027-28

PRUDENTIAL INDICATORS					
				INDICATIVE INDICATORS	
	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate	2029/30 £m Estimate
Capital Expenditure					
Non - HRA	8.501	11.079	15.667	11.674	7.372
HRA (applies only to housing authorities)					
Total	8.501	11.079	15.667	11.674	7.372
Ratio of financing costs to net revenue stream					
Non - HRA	2.98%	2.58%	3.07%	3.38%	3.24%
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	23,219	21,668	33,255	38,772	41,129
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	3,150	2,163	1,137	362	0
Total	26,369	23,830	34,392	39,134	41,129
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(1,063)	(2,539)	10,562	4,742	1,995
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(1,063)	(2,539)	10,562	4,742	1,995
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	25,574	25,430	36,583	41,903	44,366
Other long term liabilities	4,777	3,758	2,719	1,655	862
Total	30,351	29,188	39,302	43,558	45,228
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,413	24,346	34,920	39,965	42,310
Other long term liabilities	4,620	3,650	2,663	1,637	862
Total	29,032	27,996	37,583	41,602	43,171
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	7,000	7,000	7,000	7,000	7,000

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2024/25		
Under 12 months	30%	2%
12 months and within 24 months	30%	11%
24 months and within 5 years	50%	3%
5 years and within 10 years	75%	5%
10 years and above	100%	79%

MINIMUM REVENUE STATEMENT 2025-26

Supported Borrowing

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

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

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

Finance Lease and PFI

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

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

Minimum Revenue Provision Overpayments

A change introduced by the revised MHCLG Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory Minimum Revenue Provision, Voluntary Revenue Provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2024 the total Voluntary Revenue Provision overpayments were £nil.

MUFG CORPORATE MARKETS TREASURY ECONOMIC REPORT

ECONOMICS UPDATE

- The third quarter of 2024/25 (October to December) saw:
  - GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
  - The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
  - CPI inflation increase to 2.6% in November;
  - Core CPI inflation increase from 3.3% in October to 3.5% in November;
  - The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
  - 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

- The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)

- This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

- After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

- The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

- December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

- The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

- CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

- Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

- The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

MPC meetings: 7th November & 18th December 2024

- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.

- The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".

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REPORT REFERENCE NO.	**RC/25/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2025**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2024-25: QUARTER 3**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***(a) That the performance in relation to the treasury management activities of the Authority for 2024-25 (to December 2024) be noted; and*** ***(b) That it be noted that, due to a recent take-over, the treasury management advisors used by the Authority will change from Link Group and will be trading as MUFG Corporate Markets.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Investments held as at 31st December 2024.
BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 16 February 2024 (Minute DSFRA/23/34c refers).

1. INTRODUCTION

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

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities;
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives;
- The receipt, by the Authority, of an annual TMSS including the Annual Investment Strategy and Minimum Revenue Provision Policy, for the year ahead, along with a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year; and
- The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.2. Treasury management in this context is defined as:

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

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

1.4. On the 16th May 2024, Link Treasury Services, the Treasury Management Advisors used by the Authority, were acquired by MUFG (Mitsubishi United Financial Group of Japan). The new entity rebranded from Link Group to MUFG Corporate Markets from the 20th January 2025.

2. ECONOMICS UPDATE

2.1. The third quarter of 2024/25 (October to December) saw:

- Gross Domestic Product (GDP) growth contracting by 0.1% m/m in October 2024 following no growth in the second quarter ending September 2024;
- The 3myy rate of average earnings growth increasing from 4.4% in September 2024 to 5.2% in October 2024;
- Consumer Price Index (CPI) inflation increased to 2.6% in November 2024;
- Core CPI inflation increasing from 3.3% in October 2024 to 3.5% in November 2024;
- The Bank of England cut interest rates from 5.0% to 4.75% in November 2024 and held them steady in December 2024; and
- 10-year gilt yields started October 2024 at 3.94% before finishing the Quarter at 4.57% as of December 2024, peaking at 4.64%.

2.2. Quarter 3 saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December 2024's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real Gross Domestic Product (GDP) in Quarter 3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors.

2.3. The manufacturing PMI fell for its fourth consecutive month in December 2024, from 48.0 in November 2024 to 47.3. This is consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November 2024 to 51.4 in December 2024, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October – December 2024. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November 2024 to 56.9, showing signs that price pressures are reaccelerating

2.4. After rising by 1.4% q/q in July – September 2024, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October 2024 (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October 2024 contributed to weaker retail spending at the start of the Quarter. The monthly decline in retail sales volumes in October 2024 was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October 2024's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024.

2.5. The Government's October 2024 budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' National Insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1.¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

2.6. December 2024's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October 2024 (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October 2024 and the 3myy rate fell from 4.7% to 4.3%.

2.7. The number of job vacancies also fell again from 828,000 in the three months to October, to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

2.8. CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October 2024, before rising further to 2.6% in November 2024. Although services CPI inflation stayed at 5.0% in November 2024, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November 2024.

2.9. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December 2024, CPI inflation would rise further in January 2025, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

2.10. Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October 2024 to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 2024, 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October 2024, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

2.11. The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November 2024, partly due to the UK stock market being less exposed to Artificial Intelligence (AI) hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

3. MONETARY POLICY COMMITTEE (MPC) MEETINGS: 7TH NOVEMBER & 18TH DECEMBER 2024

3.1. On 7 November 2024, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

3.2. At the 18 December 2024 meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.

3.3. The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".

4. INTEREST RATE FORECASTS

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

4.2. The latest forecast on 11th November 2024 sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

5. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

5.1. The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 16 February 2024, Minute DSFRA/23/34c refers. It outlines the Authority's investment priorities as follows:

- Security of Capital;
- Liquidity; and
- Yield

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

5.3. As shown by the charts later in this section, and in the interest rate forecasts in Section 4, investment rates remained elevated during the second quarter of 2024-25, but are expected to fall back through the second half of 2025 as inflation reduces, the MPC will start to loosen monetary policy.

Creditworthiness

5.4. There have been few changes to credit ratings over the Quarter under review. Officers continue to closely monitor these, however, and other measures of creditworthiness, to ensure that only appropriate counterparties are considered for investment purposes.

Benchmark	Benchmark Return	Authority Performance	Investment interest to Quarter 3
3 Month SONIA	4.81%	4.78%	£0.698m.

5.5. As illustrated above, the Authority slightly underperformed the 3-month Sterling Overnight Index Average (SONIA) benchmark by 0.03bp. SONIA replaced the London Interbank Bid Rate (LIBID) at the end of December 2022 and has traded at a higher average rate than the previous LIBID benchmarks. Based on current market deposit rates on offer, it is currently anticipated that the actual investment return for the whole of 2024-25 will exceed the Authority's budgeted investment target of £1.7m by £0.502m. However, there is much volatility with interest rates at the moment, so this forecast is likely to be revised.

Borrowing Strategy

Prudential Indicators:

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

5.7. A full list of the approved limits (as amended) are included in the Financial Performance Report 2024-25, considered elsewhere on this agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2024 and that there are no concerns that these will be breached during the financial year.

Current external borrowing:

5.8. The Authority has not taken any external loans since June 2012 and has been using cash resources to meet any capital expenditure. The amount of outstanding external borrowing, as at 31st December 2024, was £23,724m, forecast to remain like this to the end of the financial year as a result of contractual loan repayments. All of these existing loans are at fixed rate with the remaining principal having an average rate of 4.25% and average life of 22.2 years.

Loan Rescheduling

5.9. No debt rescheduling was undertaken during the quarter. The Authority will continue to work closely with its treasury advisors to explore any opportunities to repay existing loans, however the differential between current Public Works Loan Board (PWLB) early repayment rates and new loan rates, mean there is no financial benefit in undertaking premature loan repayment at this time. A number of options were run during Quarter 1 of 2022 and will be kept under review.

New Borrowing

5.10. Medium and longer-dated gilt yields, and therein PWLB rates, have moved significantly higher over the course of the financial year, culminating in long-term rates approaching levels last seen in 1998. The rise in medium to long-term yields has arisen because of several factors. Namely, the inflation outlook has become stickier than the market anticipated earlier in the year, with wages remaining somewhat elevated (currently increases are c5% y/y) and the labour market tight (unemployment a little above 4% and job vacancies more than 800,000).

5.11. Moreover, the Government has not fully convinced the markets that the UK economy is about to undergo a material increase in productivity and growth. The quarter ending 30th September saw UK GDP stagnate and the prospects for 2025 are somewhat opaque at present. With the UK public finances seemingly under pressure too (as of 7th January 2025, it is estimated that the Chancellor's October 2024 Budget contingency is less than £1bn following the recent rise in gilt yields), and historic buyers of longer-dated gilts – pension funds and insurance companies – targeting shorter-dated maturities of late, it is not that great a surprise that yields have risen in the longer dates even as the Debt Management Office has sought to issue debt with shorter durations than might normally have been the case.

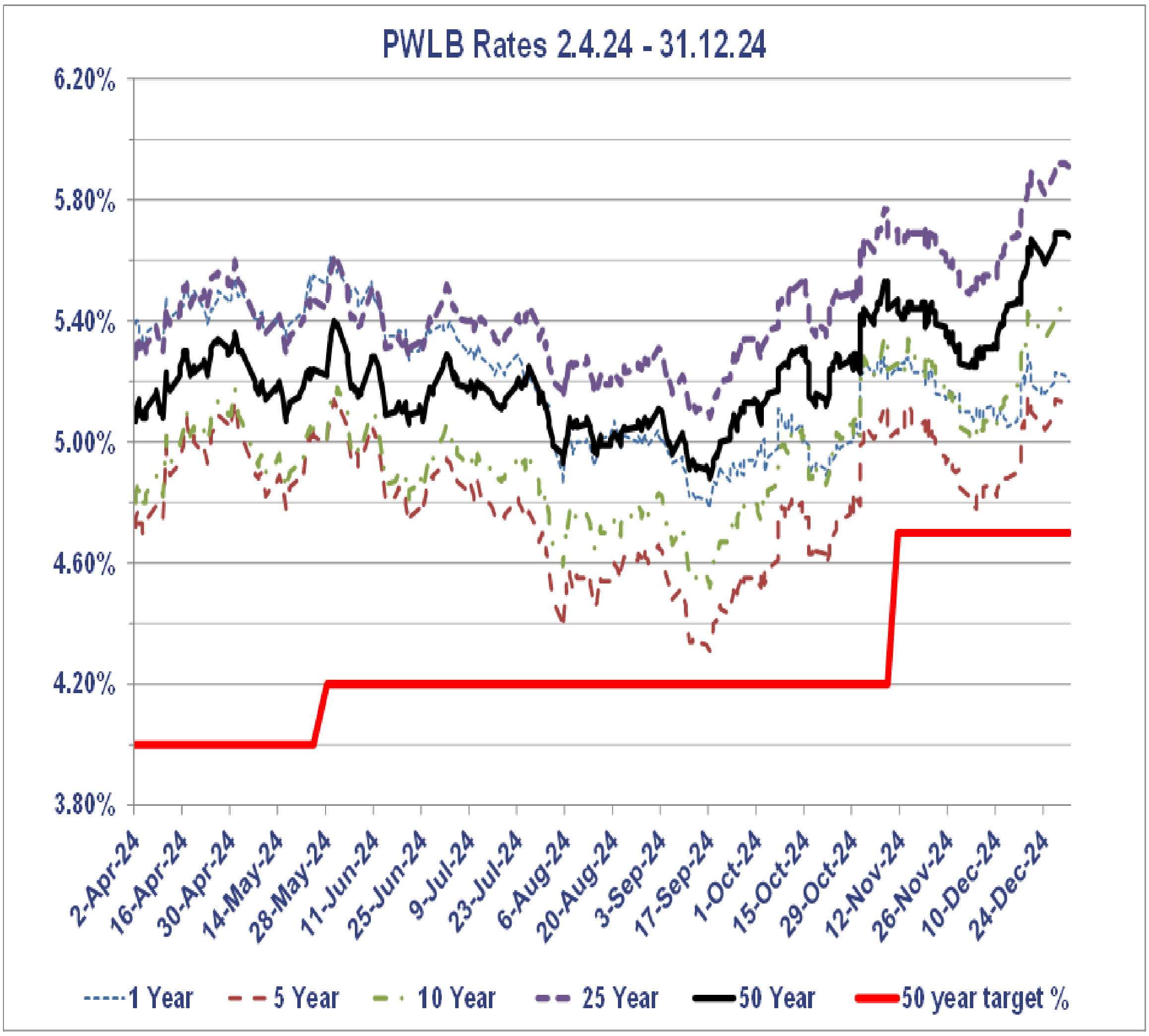
5.12. There is also anecdotal evidence that hedge funds, who are not long-term holders of long-dated debt issuance, as a rule, may be more active in this part of the market than has normally been the case. Their presence, arguably, adds volatility to the equation. Consequently, and pulling all these factors together, it is clear that any signs of public finance weakness could lead to elevated yields from time to time.

5.13. No new borrowing was undertaken during the Quarter, and none is planned during 2024-25 as a result of the Authority's adopted financial strategy to utilise revenue funds (revenue budget and reserves) to finance capital investment needs for the medium term.

5.14. Public Works Loan Board (PWLB) rates quarter ended 31st December 2024

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

5.15. Borrowing rates for this quarter are shown below.



Borrowing in Advance of Need

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

6. SUMMARY AND RECOMMENDATION

6.1. In compliance with the requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice of Treasury Management, this report provides the Committee with the third quarter report on treasury management activities for 2024-25 to December 2024. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are high as a result of the increase in interest rates, the Authority is still anticipating that investment returns will meet the budgeted target, as rates were forecast to rise when the budget was set.

ANDREW FURBEAR
Head of Finance (Treasurer)

INVESTMENTS HELD AS AT 31ST DECEMBER 2024.

Investments as at 31st December 2024						
Counterparty	**Maximum to be invested**	**Amount Invested**	**Maturity Date**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	£m				
SMBC	7.000	-2.000	17/01/2025	T	6 mths	5.07%
SMBC	7.000	-5.000	24/01/2025	T	6 mths	5.04%
Natwest	7.000	-5.000	24/01/2025	T	6 mths	5.03%
Heleba	7.000	-1.000	25/02/2025	T	7 mths	5.05%
National Bank of Canada	7.000	-2.000	28/02/2025	T	6 mths	4.74%
National Bank of Canada	7.000	-1.000	25/03/2025	T	6 mth	4.70%
Heleba	7.000	-3.000	31/03/2025	T	5 mth	4.56%
Standered Chartered Sustainable	7.000	-7.000	28/04/2025	T	6 mth	4.59%
Blackpool Council	7.000	-7.000	12/05/2025	T	8 mth	4.75%
Aberdeen City Council	7.000	-5.000	22/05/2025	T	6 mth	5.25%
National Bank of Canada	7.000	-4.000	17/06/2025	T	6 mth	4.62%
Heleba	7.000	-3.000	25/07/2025	T	12 mth	5.01%
Barclays Bank	8.000	-0.150		C	Instant Access	Variable
Aberdeen Standard	8.000	-4.660		C	Instant Access	Variable
Total Amount Invested		**-49.810**				

REPORT REFERENCE NO.	**RC/25/6**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**5 FEBRUARY 2025**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2024-25 – QUARTER 3**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***(a). That the monitoring position in relation to projected spending against the 2024-25 revenue and capital budgets be noted;*** ***(b). That the performance against the 2024-25 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2024-25 revenue budget with explanations of the major variations. At this stage in the financial year, it is forecast that spending will be £2.996m less than budget, an underspend of 3.2% of total budget, which includes the proposed transfer to the Earmarked Reserve.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Prudential Indicators 2024-25 B. Reserves Position by Reserve C. Reserves Position by Expense Code
BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1. This report provides the third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 2024. As well as providing projections of spending against the 2024-25 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

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

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2024-25

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 2	Previous Quarter	Quarter 2%	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£92.622m	£89.626 m	£90.372m	3.20%	2.40%
2	General Reserve Balance as % of total budget (minimum)	5.00%	5.01%	5.01%	(0.01)bp *	(0.01)bp*
	Capital Targets					
3	Spending within agreed capital budget	£7.648m	£4.700m	£5.914m	(38.54%)	(22.67%)
4	External Borrowing within Prudential Indicator limit	£29.490m	£27.432 m	£27,432m	(6.98%)	(6.98%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	1.99%	3.08%	(3.01)bp *	(1.92)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2024-25.
- **SECTION B** – Capital Budget and Prudential Indicators 2024-25.
- **SECTION C** – Other Financial Indicators.
- **SECTION D** – Medium-Term Financial Plan.

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

2. SECTION A - REVENUE BUDGET 2024-25

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

TABLE 2 – REVENUE MONITORING STATEMENT 2024-25

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2024/25

		2024/25 Budget £'000	Year To Date Budget £'000	Spending to Month 9 £'000	Projected Outturn £'000	Projected Variance over/ (under) £'000	Projected Variance over/ (under) %
	Employee Costs						
1	Wholetime	38,292	28,692	27,307	37,142	(1,150)	-3.0%
2	On-Call	23,179	17,028	14,730	22,438	(741)	-3.2%
3	Fire Control	1,911	1,426	1,307	1,782	(129)	-6.8%
4	Professional & Technical	17,765	13,692	12,529	17,115	(649)	-3.7%
5	Training	952	714	831	828	(124)	-13.0%
6	Fire Service Pension costs	2,638	2,168	1,912	2,701	63	2.4%
		84,737	**63,720**	**58,615**	**82,007**	**(2,730)**	
	Premises						
7	Repair and maintenance	1,281	961	1,556	1,750	469	36.6%
8	Energy costs	1,143	765	605	1,049	(93)	-8.2%
9	Cleaning costs	683	512	570	687	4	0.6%
10	Rent and rates	2,066	1,832	2,123	2,069	3	0.2%
		5,172	**4,069**	**4,854**	**5,555**	**383**	
	Transport						
11	Repair and maintenance	709	532	471	768	60	8.4%
12	Running costs and insurances	1,285	1,016	1,119	1,135	(149)	-11.6%
13	Travel and subsistence	901	629	1,049	871	(30)	-3.3%
		2,894	**2,177**	**2,640**	**2,775**	**(120)**	
	Supplies & Services						
14	Equipment and furniture	4,406	3,305	3,044	4,491	85	1.9%
15	Hydrants-installation and maintenance	246	185	225	339	93	37.6%
16	Communications Equipment	2,851	2,138	2,325	2,647	(203)	-7.1%
17	Protective Clothing	564	423	406	587	23	4.2%
18	External Fees and Services	178	133	133	195	17	9.8%
19	Partnerships & regional collaborative projects	266	199	203	306	40	15.0%
20	Catering	23	17	10	15	(8)	-34.1%
		8,533	**6,400**	**6,346**	**8,580**	**47**	
	Establishment Costs						
21	Printing, stationery and office expenses	274	224	178	245	(29)	-10.4%
22	Advertising including Community Safety	31	23	41	49	18	60.4%
23	Insurances	548	411	821	539	(9)	-1.6%
		852	**658**	**1,040**	**834**	**(19)**	
	Payments to Other Authorities						
24	Support service contracts	1,119	804	579	1,065	(54)	-4.8%
		1,119	**804**	**579**	**1,065**	**(54)**	
	Capital Financing						
25	Loan Charges & Lease rentals	3,807	543	614	3,816	9	0.2%
26	Revenue Contribution to Capital Spending	661	-	-	817	156	23.6%
		4,468	**543**	**614**	**4,633**	**165**	
	Income						
28	Investment Income	(1,700)	(900)	(1,064)	(2,178)	(478)	28.1%
29	Grants and reimbursements	(13,363)	(10,022)	(10,897)	(13,425)	(62)	0.5%
30	Other income	(835)	(626)	(491)	(974)	(140)	16.7%
		(15,898)	**(11,548)**	**(12,452)**	**(16,578)**	**(680)**	
	Reserves						
32	Transfer to/(from) Earmarked Reserves	745	(191)	(245)	755	10	1.4%
		745	**(191)**	**(245)**	**755**	**10**	
	NET SPENDING	**92,622**	**66,632**	**61,991**	**89,626**	**(2,996)**	-3.2%

2.2. Table 2 indicates that spending by the year end (31 March 2025) will be £89.626m, representing a predicted underspend of £2.996m, equivalent to 3.20% of the total budget after the transfer to reserves has been taken into account. It should be noted that 'Spending to month 9' represents actual year to date expenditure and those which have already been committed but not spent as yet. Additionally, the budget profile and actual costs for Service Delivery staff (i.e. Wholetime and On-call) appear low due to the time lag in claiming the hours worked – for instance, time worked in June is paid at the end of July. This naturally catches up at year-end when there are two payroll entries for March relating to claims worked in February and March.

2.3. These forecasts are based on the spending position at the end of December 2024, historical trends and information from budget managers on known commitments. It should be noted that, whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. on-call pay costs which are linked to activity levels. It is inevitable, therefore, that final spending figures for the financial year will differ from those projected in this report.

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

Wholetime: underspend by £1.150m – 3.0% of budget.

2.5. Of this underspend, £0.361m is as a direct result of the agreed pay award being less than budgeted. The balance is in-line with the strategy to keep the crewing levels at the level it is anticipated to be required for the revised shift-patterns.

On-call: underspend by £0.741m – 3.2% of budget.

2.6. Savings resulted from the agreed Grey Book pay award are £0.217m for on-call colleagues. Further savings on availability payments (lower numbers of colleagues being available) contribute towards the difference.

Fire Control pay: underspend of £0.129m – 6.8% of budget.

2.7. Three posts are currently vacant, one of which is within the Networked Fire Services Project (NFSP) partnership and two are internal (these are actively being recruited to). Minor savings (£0.018m) were as a result of the agreed pay award.

Professional & Technical pay: underspend of £0.649m – 3.7% of budget.

2.8. The agreed pay award has resulted in a saving of £0.250m. A number of vacancies across the Service have resulted in this forecasted underspend position which has led to the move of £0.500m from this budget into the capital reserve to assist with future spending plans. Savings, per Directorate, are shown below:

Professional & Technical Variances	
Directorate	£m
Service Delivery Support	(0.260)
Service Delivery	(0.282)
Other	0
Corporate Services Support	(0.240)
Corporate Services	(0.211)
Chief Fire Officer	(0.099)
Total	(0.649)

2.9. The Service is experiencing competition recruiting into some specialist roles, specifically within the Digital, Data and Technology (DDaT) and People Services Departments, which have contributed towards this forecasted underspend.

Fire Service pension costs: overspend of £0.063m – 2.4% of budget.

2.10. Costs associated with injury pensions have risen, greater than the Service had anticipated, by £5k per month. The number of people eligible has increased from 6 at the same time in 2023, to 11 in December 2024.

Premises repair and maintenance: overspend of £0.469m – 36.6% of budget

2.11. Costs associated with addressing the issues experienced at the Exeter Airport Academy site (£0.395m), incurred costs that weren't included within the original budget build. These have moved the line into a forecasted overspend position. However, these repairs were necessary and critical to firefighter safety.

Energy Costs: underspend of 0.093m - 8.2% of budget

2.12. Invoices from October onwards are at the new, lower rates which, is expected to result in an underspend against this line. A colder winter period could increase consumption though.

Hydrants – installation and maintenance: overspend of £0.093m – 37.6% of budget

2.13. Water companies continue to clear backlogs and inspect more hydrants resulting in additional charges. Despite increasing the budget for this year by £0.050m, it is felt, at this stage, that this line will overspend.

Communication Equipment: underspend of £0.203m - 7.2% of budget.

2.14. The increase in Airwave charges is only 4.3% - the Service had assumed a 10% increase; this has resulted in a saving of £0.092m. A saving of £0.060m is anticipated in relation to paging service, £0.112m from savings within the mobilisation and mobile telephony charges and an underspend of £0.036m resulting from delays in the Dynamic Coverage Tool have been realised.

External fees and services: overspend of £0.17m – 9.8% of budget.

2.15. Costs incurred as a result of the recent vacancy selection process (Deputy Chief Fire Officer) of £0.021m have resulted in this area being forecast to overspend.

Partnerships & regional collaborative projects: overspend of £0.040m – 15.0% of budget.

2.16. Fees associated with the recruitment of a senior officer role (Chief Fire Officer) have moved this section into a slight overspend position.

Catering: underspend of £0.008m – 34.1% of budget.

2.17. A minor variation on the provision of meals for courses has resulted in this modest underspend.

Printing, stationery and office expenses: underspend of £0.029m – 10.4% of budget.

2.18. Minor variations across the Service have brought this section into a forecasted underspend position. Call on printing and stationery can fluctuate across the year so this could move in year.

Advertising including community safety: £0.018m overspend – 60.4% of budget.

2.19. An increase in the number of roles being advertised in the year, including for the Deputy Chief Fire Officer post, has moved this line to a forecasted overspend position.

Support service contracts: £0.054m underspend – 4.8% of budget.

2.20. A new contract that offered better value-for-money, coupled with closer management of the provision, has resulted in a forecasted underspend on occupational health costs of £0.107m.

Revenue Contribution to Capital Spending: £0.156m overspend – 23.6%

2.21. The Anticipated Red One Dividend (see row 30 of Table 2) will be used to fund part of the Capital Programme which has resulted in this line being over budget.

Investment income: over-recovery of £0.478m – 28.1% of budget.

2.22. This budget line has been increased to better match the forecasted year-end position by £0.500m. An early receipt of a pensions grant of £20.2m has been invested until it is required. This has resulted in greater returns on investment than was anticipated.

Other Income: over-recovery of 0.140m – 167% of budget.

2.23. It is anticipated that the Authority may receive a Dividend from it's trading company, Red One Ltd., which may be received before the end of this year. This would result in this line being over recovered which has been factored in for budget purposes.

3. RESERVES AND PROVISIONS

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

Reserves

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

- *Earmarked Reserves* – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required, and the amount is greater than the delegated limited allocated to the Treasurer, then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.
- *General Reserve* – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

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

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

3.4. A summary of predicted balances on Reserves and Provisions is shown in Table 4 overleaf.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES

RESERVES AND PROVISIONS						
RESERVES	Balance as at 1 April 2024 £'000	Approved Transfers £'000	Proposed Transfers £'000	Spending to current month £'000	Forecast Outturn 2024-25 £'000	Forecasted Balance as at 31 March 2025 £'000
Earmarked reserves						
Grants unapplied from previous years	(805)	-	-	13	318	(487)
Invest to Improve	(1,824)	(480)	-	303	1,387	(918)
Budget Smoothing Reserve	(666)	-	-	-	-	(666)
Direct Funding to Capital	(13,765)	(1,000)	-	(8)	3,022	(11,743)
Projects, risks, & budget carry forwards	-	-	-	-	-	-
PFI Equalisation	(50)	-	-	-	11	(39)
Emergency Services Mobile Communications Programme	(1,050)	480	-	-	-	(1,050)
Mobile Data Terminals Replacement	(144)	-	-	-	93	(51)
Pension Liability reserve	(1,222)	-	-	-	-	(1,222)
Budget Carry Forwards	(201)	-	-	57	97	(103)
Environmental Strategy	(148)	-	-	16	67	(81)
Control Room Futures Project	(1,125)	-	-	-	-	(1,125)
Finance System Replacement	(459)	-	-	160	280	(179)
Fire Cover Review	(40)	-	-	14	14	(27)
MTA Action Plan	(55)	-	-	-	-	(55)
Total earmarked reserves	**(21,554)**	**(1,000)**	**-**	**555**	**5,288**	**(17,746)**
General reserve						
General Fund (non Earmarked) Balance	**(4,631)**	**-**	**-**	**-**	**-**	**(4,631)**
Percentage of general reserve compared to net budget						
TOTAL RESERVE BALANCES	**(26,185)**	**(1,000)**	**-**	**555**	**5,288**	**(22,377)**
PROVISIONS						
Doubtful Debt	(27)		-	-	-	(27)

4. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2024-25

Monitoring of Capital Spending in 2024-25

4.1 Table 5 overleaf provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

4.2 At the end of Quarter 3, the Service is forecasting an underspend of £0.157m – which includes an optimism bias built in to allow for some timing differences. Timing differences (slippage into next year) are forecast to be £2.791m of which £0.500m relates to the rebuild of Camels Head Fire Station, £0.295m for muster-bay separation, £0.225m for adaptions associated with the Aerial Ladder Platform roll-out and £0.370m for an extension at Bere Alston. £0.200m is associated with drainage works at Service Headquarters (SHQ), £0.100m for replacement drill towers, £0.225m for a replacement roof at Barnstaple, £0.100m for an internal upgrade at Holsworthy with the balance being made of minor projects.

TABLE 5 – FORECAST CAPITAL EXPENDITURE 2024-25

Capital Programme 2024/25					
PROJECT	2024/25 £000 Revised Budget	2024/25 £000 Forecast Outturn	2024/25 £000 Actuals	2024/25 £000 Timing Differences	2024/25 £000 Re-scheduling/ Savings
Estate Development					
Site re/new build	531	(22)	(21)	(531)	(22)
Improvements & structural maintenance	4,338	923	181	(3,260)	(155)
Estates Sub Total	**4,869**	**901**	**160**	**(3,791)**	**(177)**
Fleet & Equipment					
Appliance replacement	2,236	2,254	1,530	0	18
Specialist Operational Vehicles	1,543	1,545	1,251	0	2
ICT Department	0	0	0	0	0
Fleet & Equipment Sub Total	**3,779**	**3,799**	**2,781**	**0**	**20**
Optimism bias Sub Total	**(1,000)**	**0**	**0**	**1,000**	**0**
Overall Capital Totals	**7,648**	**4,700**	**2,941**	**(2,791)**	**(157)**
Programme funding					
Earmarked Reserves:	5,167	2,369	0	(2,545)	(253)
Revenue funds:	661	861	0	0	200
Borrowing - internal	1,391	1,391	0	0	0
Contributions	429	79		(246)	(104)
Total Funding	**7,648**	**4,700**	**0**	**(2,791)**	**(157)**

Prudential Indicators (including Treasury Management)

4.3 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2024 stood at £23.724m and is forecast to reduce to £23.313m as at 31 March 2025. This level of borrowing is well within the Authorised Limit for external debt of £30.862m (the absolute maximum the Authority has agreed as affordable). No new external borrowing is planned during this financial year.

4.4 Investment returns in the quarter yielded an average return of 4.78% which under-performs the Sterling Overnight Index Average (SONIA) 3 Month return (industry benchmark) by 0.03%. It is forecast that investment returns from short-term deposits will exceed the revised budgeted figure of £1.7m at 31 March 2025.

4.5 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2024-25, which illustrates that there is no anticipated breach of any of these indicators.

5. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

5.1 Total debtor invoices outstanding as at Quarter 3 were £0.017m, table 6 below provides a summary of all debt outstanding as at 30 December 2024.

TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	0.0	0.00%
29-56 days	35.667	32.0%
57-84 days	35,074	32.0%
Over 85 days	39,588	43.00%
Total Debt Outstanding as at 31 December 2024	**110.389**	**100.00%**

6. SECTION D – MEDIUM-TERM FINANCIAL PLAN (MTFP)

6.1 The MTFP was presented to the Fire Authority on the 16 February 2024. Minute DSFRA/24/32 refers, where a number of scenarios were included based on the best, base and worse cases in relation to funding and costs.

6.2 The current MTFP identifies the need to reduce the costs for the Service over the next 3 years (2025-26, 2026-27 and 2027-28).

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

TABLE 7 – MTFP SHORTFALL FOR THE FOLLOWING 3 YEAR PERIOD

2. FINANCIAL PLANNING MODELLING	2025/26	2026/27	2027/28
CORE REVENUE BUDGET	£98,694,000	£104,573,000	£106,635,000
REVENUE SUPPORT GRANT	£11,882,055	£12,107,814	£12,337,862
TARRIF TOP-UP	£11,418,038	£11,646,399	£11,879,327
NNDR	£5,513,455	£5,623,724	£5,736,199
COUNCIL TAX BASE	656,122	662,683	669,310
COUNCIL TAX COLLECTION FUND SURPLUS	£1,197,664	£1,209,640	£1,221,737
COUNCIL TAX - BAND 'D' £5	£104.68	£106.76	£108.88
COUNCIL TAX - BAND 'D' 0%	£99.68	£99.68	£99.68
3. SAVINGS REQUIRED TO MEET COUNCIL TAX FIGURE			
REDUCTION REQUIRED TO BASE BUDGET (CUMULATIVE)	-	(3,240,522)	(2,583,538)

6.4 An update was reported to the Authority on 11 December 2023, Minute DSFRA/23/29 refers, where 4 initiatives were presented and discussed:-

- A change to the Whole Time duty System (Annualised Hours) which is estimated would save £1.3m.
- Changes to the operating model for specialist rescue – estimated saving of £0.133m.
- Amendments to the Pay for Availability remuneration agreement which is estimated to save £0.250m, and
- Amendments to the policy and practice for dealing with unwanted fire signals – estimated saving of £0.069m. a 12 week public consultation started mid-January 2025 on these proposals.

6.5 Work on these initiatives is on-going. The emphasis being on the change to the wholetime duty system as this would realise the greater saving.

6.6 The MTFP is a dynamic tool that is amended and updated as and when intelligence is presented to the Service with regards to funding and costs.

ANDREW FURBEAR
Head of Finance (Treasurer)

SUMMARY OF PRUDENTIAL INDICATORS 2024-25

Prudential Indicators and Treasury Management Indicators	**Forecast Outturn £m**	**Target £m**	**Variance (favourable) /adverse £m**
Capital Expenditure	**4.700**	**7.648**	**(2.9487)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**27.432** 23.312 4.120	**27.432** 23.312 4.120	**£0.000**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**27.432** 23.312 4.120	**30.862** 26.037 4.825	**(3.430)**
Debt Ratio (debt charges as a %age of total revenue budget	**1.99%**	**5.00%**	**(3.01)bp**
Cost of Borrowing – Total -Interest on existing debt as at 31-3-2024 -Interest on proposed new debt in 2024-25	**1.282** 1.282 0.000	**1.282** 1.282 0.000	**(0.000)**
Investment Income – full year	**1.332**	**0.525**	**(0.807)**
	Actual (31 December 2024) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**4.78%**	**4.81%**	**0.03bp**

Prudential Indicators and Treasury Management Indicators	**Forecast (31 March 2024) %**	**Target Upper limit %**	**Target Lower limit %**	**Variance (favourable) /adverse %**
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	1.93%	30.00%	2.00%	(28.01%)
12 months to 2 years	11.30%	30.00%	2.00%	(28.15%)
2 years to 5 years	3.23%	50.00%	14.00%	(36.75%)
5 years to 10 years	4.63%	75.00%	1.00%	(73.89%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**78.91%** 15.57% 23.98% 39.37% 0.00%	**100.00%**	**81.00%**	**(20.19%)**

RESERVES POSITION BY RESERVE

DSFRS Reserves in detail	Budget *£'000*	Committed spend *£'000*	Forecast spend *£'000*	Balance remaining *£'000*
Asset Management & Tracking	103	44	113	(10)
Availability Systems	2	-	2	-
Bequest Axminster Gym Equip	-	(8)	(0)	-
BSR Grant Funding	100	6	16	83
Budget Smoothing Reserve	666	-	-	666
Capital Support from 2011/12	13,765	-	3,783	9,982
CLG USAR Grant	36	-	22	14
Command support project	116	-	116	-
Conference Room Fit Out	88	-	88	-
Control Room Futures Project	1,125	-	-	1,125
CT Irrecoverable Deficits	245	-	245	-
Digital Trans Strategy	100	62	100	-
Environmental Strategy	148	7	69	79
ESMCP (reserve funding)	480	-	-	480
ESMCP Home Office Grant	570	-	-	570
Estate Conditional Survey	60	18	51	9
Finance System Replacement	459	150	458	2
Fire Cover Review	40	14	14	27
Grenfell Infrastructure grant	26	-	26	-
Haz Mat Det and ID Equip	17	15	16	2

DSFRS Reserves in detail	Budget	Committed spend	Forecast spend	Balance remaining
ICT Managed Switch Replacement	55	-	-	55
Invest to Improve Reserve	944	81	381	563
Learn 2 Live	48	(3)	20	28
Livery and Blue Light fit out	15	-	15	-
Management of Risk Information	108	26	108	-
MDT Replacement	144	2	144	-
NNDR Additional Reliefs	334	-	-	334
Office 365 Project	27	19	27	-
Pensions Admin Grant c/f	112	10	30	82
Pensions Reserve	1,222	-	-	1,222
People Services System	204	76	213	(10)
Personal Misting Systems	7	1	3	4
PFI equalisation reserve	50	-	11	39
Prev Accred grant c/f	4	0	4	-
SharePoint Intranet	35	12	33	2
Temp accom for capital project	84	2	2	82
Vehicle Telematics	12	12	12	-
Website Comp and Comms Strat	3	-	-	3
	21,554	**546**	**6,122**	**15,433**

RESERVES POSITION BY EXPENSE CODE

DSFRS Reserves in detail	Committed spend £'000	Forecast spend £'000
Fire Protection Training Exter	6	10
External Trainer Hire	-	16
Principal Officers Salary	-	15
Principal Officer Salary NI	-	1
Principal Officer Salary Super	-	4
Admin/Manage Salary	70	300
Admin/Manage Overtime	(1)	-
Agency Staff Admin	27	65
Admin/Manage Salary NI	7	16
Admin/Manage Salary Superan	12	24
Unforseen Other Contractor	5	5
Standard Equipment	56	4,544
ICT Desktop Service	81	381
ICT Application Services (Oth)	197	532
ICT Infrastructure Service	35	35
Operational Equipment	14	14
ICT Sat Nav Serv/Vehicle track	12	12
ICT Mobile Telephony Service	14	14
External Prof Support/Advice	32	134
Other Miscellaneous Income	(8)	-
Non-Uniformed Training	1	1
Agencies/OLA Income	(16)	(16)
Livery	-	15
ICT Datacentre Service	2	-
	546	**6,122**