

RESOURCES COMMITTEE (Budget Meeting)

(Devon & Somerset Fire & Rescue Authority)

6 February 2023

Present:

Councillors Peart (Chair), Aspinall, Coles, Drean (Vice-Chair), Long and Power.

Also in attendance:

Councillors Sellis (Committee Member – attending virtually but not voting)

Councillors Cook-Woodman, Kendall, Radford and Randall Johnson (attending in accordance with Standing Order 39).

* **RC/22/13** Minutes

RESOLVED that the Minutes of the meeting held on 23 November 2022 be signed as a correct record.

RC/22/14 2023-24 Revenue Budget and Council Tax Level

The Committee considered a joint report of the Director of Finance, People & Estates (Treasurer) and the Chief Fire Officer (RC/23/1) on the draft 2023-24 revenue budget and associated Council Tax levels.

Two options were presented in the report circulated, namely:

- Option A: that the level of council tax in 2023-24 for a Band D property be set at £91.79, as outlined in Option A, representing no increase over 2022-23 and representing a Net Revenue Budget Requirement for 2023-24 of £82,538,300 (£82.538m); or
- Option B: that the level of council tax in 2023-24 for a Band D property be set at £96.79, as outlined in Option B, representing a £5 increase over 2022-23 and representing a Net Revenue Budget Requirement for 2023-24 of £85,678,970 (£85.679m).

A one-year Local Government Finance Settlement had been announced on 19 December 2022. This indicated a Settlement Funding Assessment for the Authority of £23.819m for 2023-24, a 1.268% increase on the settlement for 2022-23 but representing a 19.67% decrease on the settlement for 2015-16.

On 19 December 2022, the Department for Levelling Up, Housing and Communities (DLUCH) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2023-24. For the first time, the fire sector has been given the option to increase Council Tax, for 2023-24 only, by up to £5 to assist with the pressures seen from inflation and pay awards. The Authority had also received a £0.445m share of the Rural Services Delivery Grant for 2023-24 together with £0.7m Section 31 grant funding to reduce the impact of the increase in social costs. These sums were included as income in the proposed revenue budget.

The Treasurer gave an update at the meeting on the Net Budget Requirement given that the Authority had now received the final returns on the National Non-Domestic Rates (NNDR) and details of the share of the Council Tax Collection Funds from billing authorities. This had resulted in a change to the Net Budget Requirement set out above of £82.272m for Option A; and £85.413m for Option B.

The Committee was advised that, should budget option A be selected, then the net spending requirement exceeded available funding by £3.141m. This shortfall could be met by a transfer from reserves in the short-term while a plan to implement spending reductions across all Service areas was developed. Option B, however, would not require any contribution from reserves.

The Medium-Term Financial Plan identified a requirement for further savings beyond 2023-24 to ensure that balanced budgets could be set in each year of the Spending Review period.

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

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

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

- 67% of businesses agreed that it was reasonable for the Authority to consider increasing its Council Tax charge for 2023-24, while 15% disagreed that it is reasonable for them to do so, resulting in a net agreement of +52%.
- 78% of residents agreed that it was reasonable for the Authority to consider increasing its Council Tax charge for 2023-24, while 11% disagreed, giving a net agreement of +67%.

Of those respondents who agreed that a Council Tax increase would be reasonable. 38% of businesses and 47% residents indicated they would support an increase of £5.

Additionally, the consultation results indicated that:

- 64% of businesses and 66% of residents considered the Service provided good value for money; and
- 80% of businesses and 81% of residents were either very or fairly satisfied with the service provided.

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

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

RESOLVED that the Authority be recommended:

- (a). to set the level of Council Tax in 2023-24 for a Band D property at £96.79, as outlined above, representing a £5 increase over 2022-23 and that accordingly, a Net Revenue Budget Requirement for 2022-23 of £85,412,600 be approved;
- (b). that, as a consequence of this:
 - (i). the tax base for payment purposes and the precept required from each billing authority for payment of a total precept of £60,798,019, as set out in the revised figures above (Option B) be approved;
 - (ii). the council tax for each of the property bands A to H associated with the total precept as detailed in the budget booklet be approved; and
- (c). that the Treasurer's Statement on the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances, as set out in Appendix B to the report, be endorsed.

RC/22/15 Capital Strategy

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (RC/23/2) setting out a proposed capital strategy for the Authority, as required by the Chartered Institute of Public Finance and Accountancy Prudential Code.

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

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

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

(See also Minutes RC/22/14 above and RC22/16 below)

RC/22/16 Capital Programme 2023-24 to 2025-26

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (RC/23/3) on the proposed Authority Capital Programme 2023-24 to 2025-26 and associated Prudential Indicators.

While the proposed programme and funding would increase the external borrowing requirement from the current level of £24.3million to £25.8million by 2025-26, the debt ratio of financing costs to the net revenue scheme, a key Prudential Indicator, would remain below the 5% maximum limit previously approved by the Authority throughout the period of the programme.

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

There remained considerable difficulties in meeting the full capital expenditure needs for the Service and in maintaining the 5% debt ratio limit. The proposed capital programme had been constructed on the basis that revenue budget contribution to capital would be maintained in future years but this may not be possible. Unless capital assets were further rationalised, however, there would be a need for external borrowing in 2024-25. Decisions on further spending would be subject to annual review based on the financial position of the Authority.

RESOLVED

- (a). that the Authority be recommended to approve the draft Capital Programme 2022-23 to 2025-26 and associated Prudential Indicators as detailed in report RC/22/3; and
- (b). that, subject to (a) above, the forecast impact on the 5% debt ratio Prudential Indicator of the proposed Capital Programme from 2026-27 onwards, as indicated in the report, be noted.

(See also Minutes RC/22/15 above and RC/22/17 below)

RC/22/17 Treasury Management Strategy (Including Prudential and Treasury Indicators 2023-24 to 2025-26)

The Committee considered a report of the Director of Finance, People & Estates (Treasurer) (RC/23/4) detailing:

- the proposed Treasury Management Strategy (including Prudential Indicators) and investment strategy for 2023-24;
- Prudential Indicators associated with the proposed Capital Programme 2023-24 to 2025-26;
- a Minimum Revenue Provision Statement 2023-24; and
- certification that none of the Authority's spending plans would include the acquisition of assets primarily for yield.

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

RESOLVED that the Authority be recommended to approve:

- (a). the Treasury Management Strategy and Annual Investment Strategy 2023-24 as set out in report RC/23/4; and
- (b). the Minimum Revenue Provision Statement 2023-24 as appended to the report.

(See also Minute RC/22/16 above)

* **RC/22/18** **Treasury Management Performance 2022-23: Quarter 3**

NB. Adam Burleton, representing Link Asset Services - the Authority's treasury management adviser – was present for this item of business.

The Committee received for information a report of the Director of Finance, People & Estates (Treasurer) (RC/23/4) that set out the Authority's performance relating to the third quarter of 2022-23 (to December 2022) in accordance with the Treasury Management in Public Service Code of Practice (published by the Chartered Institute of Public Finance and Accountancy {CIPFA}) and the CIPFA Prudential Code. The report set out how this Authority was demonstrating best practice in accordance with these Codes.

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

- There had been a further rise in inflation since quarter 2 of 2022-23 which was squeezing economic growth. Inflation was at 11.1% in quarter 2 of 2022-23 but fell to 10.7% in quarter 3;
- The UK bank base rate rose in quarter 3 to 3.50%, rising again in early February 2023 to 4%. Interest was expected to peak now at around 4.5% in June 2023 due to the monetary policy instigated. All of the world economies were tightening interest rates in a bid to control spending;
- The squeeze on income as a result of the high level of inflation was slowing the economy into recession in 2023 which was likely to last for four quarters;
- Unemployment had been pushed up to 3.7% in October 2022 due to a small loosening in the labour market.
- the annual treasury management strategy had continued on a prudent approach, underpinned by investment priorities based on security of capital, liquidity and yield.

- Investment income had improved due to the interest rate rises with an increase to £0.232m (4.05%) generated in quarter 3 of 2022-23, outperforming the new 3 month SONIA (Sterling Overnight Index) benchmark of 2.74% by 1.31bp. SONIA had replaced LIBID at the end of December 2022 and tended to trade at a higher average so it was anticipated that investment returns would outperform the investment target at the year-end;
- None of the Prudential Indicators (affordability limits) had been breached in quarter 1 with external borrowing at 31 December 2022 being £24.711m, forecast to reduce to £24.264m by the end of the financial year with no new borrowing undertaken.

It was noted that the Treasurer had looked at opportunities to review the Authority's early repayment of external borrowing with the Public Works Loans Board (PWLB), however, the early repayment rates and new rates meant there was no financial benefit to be achieved currently. The Treasurer, in response to a question, confirmed that the Service would be bringing forward an investment strategy to the Committee which may have a more ethical outlook for consideration in due course.

* **RC/22/19** **Financial Performance Report 2023-24: Quarter 3**

The Committee received for information a report of the Director of Finance, People & Estates (Treasurer) (RC/23/5) that provided the Committee with details of the third quarter performance (to December 2022) against the agreed financial targets for 2022-23.

The Director of Finance, People & Estates (Treasurer) advised that, at this stage in the financial year, it was projected that spending would be £1.568m more than the budget of £77.289m at £78.857m, representing an overspend of 2.03% of total budget. He added that this overspend was lower than anticipated due to the measures implemented by the Executive Board already which included tightening spending against the agreed budget and seeking savings wherever possible.

The Treasurer drew attention to a slight change in the reporting of variances to add a percentage change column based on a practice within central government to report on salaries +2% and on other non salary lines of +-5%. Commenting that this highlighted those areas where the position was materially different from previous reported.

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

- Wholtime pay - as a result of the anticipated pay award for Grey Book staff from 1 July 2022 with 2% budgeted and 5% expected - £0.707m;
- On Call Pay – budget assumptions regarding pension costs, national insurance and holiday pay were understated combined with the impact of a pay award at 5% - £2.113m;
- Fire Service Pension Costs – unexpected ill health retirements moved this budget line into a forecasted overspend position - £0.217m.
- Energy costs – overspend of £0.306m; and

- Investment income – an over recovery of £0.715m.

This was offset by underspends in the following areas (amongst others):

- Training - £0.252m;
- Transport, repair and maintenance costs - £0.302m;
- Running costs and insurance - £0.255m;
- Equipment and furniture - £0.524m.

The Committee noted that it would be asked to consider how it was going to bridge the gap to ensure a balanced budget at the end of the 2022-23 financial year. This was likely to include a recommendation to use the budget smoothing reserve (£0.674m) and pausing the in-year contribution to capital (£1.040m), together with the repurposing of other ring-fenced reserves (£0.525m) if the gap was not closed further in the meantime.

The Treasurer advised that the Authority was within its prudential limits for external borrowing with the outstanding debt at £24.711m forecast to reduce to £24.264m as at 31 March 2023. The capital programme was progressing well although there was a forecast underspend of £0.107m largely due to the rebuild of Plymstock station. The total debtor invoices outstanding at quarter 3 totalled £0.699m of which £0.342m related to Red One Ltd.

* **RC/22/20** **Exclusion of the Press and Public**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public (with the exception of representatives of Red One Ltd. and Councillor Radford) be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A (as amended) to the Act, namely information relating to the financial and business affairs of any particular person – including the authority holding that information.

* **RC/22/21** **Red One Ltd. Financial Performance 2022-23: Quarter 3**

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

The Committee received for information a report of the Co-Chief Executives and the Finance Director of Red One Ltd. (RC/23/6) on the financial performance of the company during quarter three of the 2022-23 financial year.

The Committee also received for information a supplementary, associated report of the Chief Fire Officer and Director of Finance, People & Estates (Treasurer) (RC/23/7) which provided a response to points raised within the Financial Performance report for quarter 3 of 2022-23.

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

The Meeting started at 10.00 am and finished at 12.55 pm