EAST SUSSEX FIRE AUTHORITY

Thursday, 15 February 2018 at 10:30 Hours

Members

East Sussex County Council (12)

Councillors Barnes, Dowling, Earl, Elford, Galley, Lambert, Osborne, Scott, Sheppard, Smith, Taylor and Tutt.

Brighton & Hove City Council (6)

Councillors Deane, Morris, O'Quinn, Peltzer Dunn, Penn and Theobald.

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You are required to attend this meeting to be held at County Hall, St Annes Crescent, Lewes, BN7 1UE at 10:30 hours.

AGENDA

Item No.	Page No.	
22	1	In relation to matters on the agenda, seek declarations of interest from Members, in accordance with the provisions of the Fire Authority's Code of Conduct for Members
23	1	Apologies for Absence.
24	1	Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items. (Any Members wishing to raise urgent items are asked, wherever possible, to notify the Chairman before the start of the meeting. In so doing they must state the special circumstances which they consider justify the matter being considered urgently).
25	1	To consider any public questions.
26	1	To receive any petitions.
27	3	Non-confidential minutes of the meeting held on 7 December 2017 (*copy attached*)

Item No.	Page No.	
28	2	Callover. The Chairman will call the item numbers of the remaining items on the open agenda. Each item which is called by any Member shall be reserved for debate. The Chairman will then ask the Fire Authority to adopt without debate the recommendations and resolutions contained in the relevant reports for those items which have not been called
29	11	Treasury Management Strategy for 2018/19 – Report of the Assistant Director Resources/Treasurer (*copy attached*)
30	43	Future Collaboration Arrangements between the Fire & Rescue Services of East Sussex, Surrey and West Sussex – Report of the Chief Fire Officer (*copy attached*)
31	59	Fire Authority Service Planning processes for 2018/19 and beyond – Report of the Chief Fire Officer and Assistant Director Resources/Treasurer (*copy attached*)
32	119	Pay Policy Statement for 2018/19 – Report of the Assistant Director Human Resources & Organisational Development (*copy attached*)

ABRAHAM GHEBRE-GHIORGHIS
Monitoring Officer
East Sussex Fire Authority
c/o Brighton & Hove City Council

Agenda Item No. 27

EAST SUSSEX FIRE AUTHORITY

Minutes of the meeting of the East Sussex Fire Authority held at County Hall, St Anne's Crescent, Lewes BN7 1UE at 10:30 hours on Thursday, 7 December 2017.

Present: Councillors Barnes (Chairman), Deane, Dowling, Earl, Elford, Galley, Lambert, Morris, O'Quinn, Osborne, Penn, Scott, Sheppard, Smith, Taylor, Theobald (Vice-Chairman) and Tutt.

Also present:
Mrs D Whittaker (Chief Fire Officer), Mr M Andrews (Interim Deputy Chief Fire Officer), Mr M O'Brien (Interim Assistant Chief Fire Officer), Mr A Ghebre-Ghiorghis (Monitoring Officer), Mr D Savage (Treasurer/Assistant Director Resources), Mrs L Ridley (Assistant Director Planning & Improvement), V Boundy (Payroll & Pensions Manager), J Morris (FireWatch Project Manager), C Fry (IRM Co-ordinator), A Blanshard (Clerk to the Fire Authority).

6 <u>INTERESTS</u>

6.1 It was noted that, in relation to matters on the agenda, no participating Member had any disclosable interest under the Fire Authority's Code of Conduct for Members.

7 <u>APOLOGIES FOR ABSENCE</u>

7.1 Apologies were received from Councillor Peltzer Dunn.

8 <u>URGENT ITEMS AND CHAIRMAN'S BUSINESS</u>

8.1 At the request of the Chief Fire Officer/Chief Executive Officer (CFO/CEO), the Chairman permitted Principal Officers to make oral updates to the Fire Authority.

8.2 Sussex Control Centre Update

9 <u>TO CONSIDER PUBLIC QUESTIONS, IF ANY</u>

9.1 There were none.

10 <u>TO CONSIDER PUBLIC PETITIONS, IF ANY</u>

10.1 There were none.

11 <u>NON-CONFIDENTIAL MINUTES OF THE MEETING HELD ON 7 SEPTEMBER 2017</u>

11.1 **RESOLVED** – That the non-confidential minutes of the meeting held on 7 September 2017 be approved and signed by the Chairman. (Copy in Minute Book).

12 <u>CALLOVER</u>

12.1 Members reserved the following items for debate:

13 Governance Review Proposal

15 Temporary Promotions and Pensionable Pay

17 FireWatch Project

18 Review of Attendance Standards Consultation

19 Grenfell Tower Incident Response and Impact

12.2 **RESOLVED** – That all other reports be approved according to the recommendations set out in the reports.

13 <u>GOVERNANCE REVIEW PROPOSAL</u>

13.1 The Fire Authority received the report of the Interim Assistant Chief Fire Officer (IACFO) on the options and outline scope for an independent review of the governance arrangements of the East Sussex Fire Authority. (*Copy in Minute Book*).

13.2 East Sussex Fire Authority had requested that a review be undertaken into the political and organisational governance arrangements in place across the Authority and in relation to East Sussex Fire and Rescue Service.

13.3 The overarching purpose of the review would be to explore the application and effectiveness of the Authority's current governance practice, structures and procedures. It would also provide an opportunity to assess if the existing Authority and Panel structures remained fit for purpose and whether the governance arrangements were well designed and properly executed.

13.4 It was proposed that the review be conducted by a 3rd party external organisation in order to provide capacity, expertise and more importantly independence. The suggested key lines of enquiry for the review, which had been considered and refined by the Member Reference Group and the Scrutiny & Audit Panel, were included in the Report. The IACFO informed Members that if they were agreed by the Fire Authority then it would be in accordance with these that the review would be conducted.

13.5 The Member Reference Group would be consulted on the final tender document and on the selection of the contracted provider. Members requested that they also receive sight of the proposed tender documents in advance of publication.

13.6 If the Authority agreed to the appointment of a 3rd party external organisation to conduct the review, then there would be an unfunded cost associated with this appointment. Initial indications were that the likely cost would be circa £20/25K. It was recommended that this be drawn from the Improvement & Efficiency Reserve.

13.7 Members asked if the cost estimate was the top end cost. He was informed that the cost was hard to pinpoint exactly, but that it was a reasonable estimate based on the work required.

13.8 Members asked for confirmation of the timescale and the anticipated start date. They were advised that if agreed work would commence immediately to turn the scope into a tender document, this would be circulated to Members with final approval given by the Scrutiny and Audit Panel. The Tender document would then be published. It was anticipated that the appointment of an external partner would be quick and that the initial report could be presented to the Scrutiny and Audit Panel in May 2018. The report would then be presented to the Fire Authority at its AGM in June 2018.

13.9 As outlined in the Report, delivery of any action plan resulting from the review would then be monitored by the Scrutiny & Audit Panel, with a formal follow up review to be conducted by the provider at an agreed point in time.

13.10 A concern was expressed that there appeared to be an imbalance between the representation of Brighton & Hove City Council and East Sussex County Council on the Member Reference Group. Members agreed that it was more important that geographic representation be balanced than the political representation as this review was apolitical in its nature. Members agreed that they would aim to remain apolitical in matters such as this.

13.12 **RESOLVED** – That the Fire Authority:

i) noted the content of the Report;

ii) agreed the broad scope of the proposed review; and

iii) directed officers to progress on the basis of the proposed way forward outlined in the Report.

14 FIRE REFORM AND INSPECTION OF FIRE & RESCUE SERVICES

14.1 The Fire Authority received the Report of the Interim Assistant Chief Fire Officer which provided an update on the Government's reform agenda for Fire and Rescue Services, specifically in relation to the Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) inspection regime and to outline the progress made by ESFRS. (*Copy in Minute Book*).

14.2 The report outlined the emerging developments following the announcement by the Home Office that Her Majesty's Inspectorate of Constabulary was to be expanded to take on the role of Inspectorate of Fire and Rescue Services in England.

14.3 The inspections, anticipated to be based on those used for Police Forces, would consider how efficient and effective Fire & Rescue Services (FRS) were, highlighting good practice and identifying areas for improvement.

14.4 The methodology would be piloted in three FRS between January and April 2018. Inspections of remaining FRS would then take place before the end of 2019.

14.5 East Sussex Fire & Rescue Service was undertaking preparations in advance of inspection. Including liaising with West Sussex and Surrey to identify potential areas of collaboration.

14.6 **RESOLVED** – That the Fire Authority noted the Report.

15 TEMPORARY PROMOTIONS AND PENSIONABLE PAY

15.1 The Fire Authority considered the Report of the Assistant Director Human Resources & Organisational Development which sought Member approval for the continued application of scheme rules relating to temporary promotions and pensionable pay. (Copy in Minute Book).

15.2 The Authority was advised by the CFO that there was an amendment to the recommendation of this Report. The recommendation should have requested that Members endorse that the Fire Authority continues to treat temporary and acting up as pensionable pay.

15.3 Members queried the financial implications that might arise following a legal challenge to Cheshire FRA regarding the payment of pensionable pay. The Treasurer gave Members some context and background to the complexities of the Firefighter Pension Schemes, a national scheme that is administered locally. The HO (formerly DCLG) Fire Pensions Team no longer give guidance on the application of the Scheme, and this was the case following the Norman v. Cheshire judgement.

15.4 However, a sector group was established and suggested actions that FRAs should take. The Authority also took its own legal advice. An approach was then agreed through the Authority and financial provision made to cover both the ongoing revenue cost (£95,000) of additional employer's contributions, but also the retrospective cost going back six years for those allowances now determined to be pensionable (£540,000). These figures have since been revised down as better information has been received. As part of the arrangement, affected firefighters were also required to pay their employee's contributions.

15.5 Members asked whether temporary promotions were being used instead of permanent career progression. It was agreed that the matter of temporary promotions did need to be addressed. The two current interim Principal Officers in post meant that there was a pyramid effect of back-filling substantive posts. The process of appointing permanent staff to Principal Officer roles was underway and once complete this would see some reduction to acting-up staff.

15.6 The CFO then added that the other contributory factor adding to the number of temporary posts in the service was the levels of sickness. The CFO agreed to ask HR Officers to provide more detail on both these matters, including all staff from Chief Fire Officer to Firefighters and Support Staff, and produce a report which would be presented to the Scrutiny and Audit Panel.

15.7 **RESOLVED** – That the Fire Authority:

i) endorsed that East Sussex Fire and Rescue Service continue to treat temporary and acting up as pensionable pay; and

ii) that a report detailing the number of temporary and acting-up positions in East Sussex Fire and Rescue Service be produced by Human Resources and presented to a future Scrutiny and Audit Panel.

16 AUTUMN BUDGET STATEMENT UPDATE

16.1 The Fire Authority received the Report of the Assistant Director Resources / Treasurer summarising the main items of interest to the Authority within the Chancellor's Autumn Budget Statement. At this stage there was limited direct impact upon the Fire Authority.

16.2 **RESOLVED** – That the Fire Authority noted the contents of the Report.

17 FIREWATCH PROJECT

17.1 The Fire Authority considered the Report of the Assistant Director Human Resources & Organisational Development detailing the progress of the FireWatch Project and seeking Members approval for the provision of additional funding required to complete its implementation.

17.2 Members were given a brief overview and progress update of the FireWatch project by the FireWatch Project Manager. Members were informed that the project was progressing well and meeting requirements of both our HR and IT Strategies. The introduction of FireWatch was essential for enabling the Authority's People Strategy and would introduce further options for systems integration.

17.3 Members were informed that FireWatch, which is used by a third of fire services nationally, was an Integrated Management System, bespoke to our requirements as a fire service. As the system is modular, based on business requirements, it can be installed to suit the service's needs. It was currently used for Learning and Development management, real time crewing, Sussex Control Centre, on call Officers, station based training and most recently HQ support staff. The modular system means that the benefits grow the more we use it.

17.4 The FireWatch Project Manager used the systems function regarding Retained Availability as an example. This was a central requirement for the service and was a big change. It allowed retained availability to be managed using one procedure. It could be accessed online and from mobile phones and could be viewed on display screens at all Fire Stations as well as at the Sussex Control Centre. As FireWatch was used by both East and West Sussex it would be integrated with 4i when the new system at the SCC was live and would allow officers to see live availability across both services.

17.5 **RESOLVED** – That the Fire Authority:

i) noted the progress of the FireWatch project to date and the benefits that have been delivered;

ii) approved additional funding of £456,600 from the Improvement and Efficiency Reserve necessary to complete FireWatch implementation;

iii) noted that the release of funding for the Self Service and Retained Duty System Pay modules is dependent on the delivery of a clearer benefits Realisation Plan that identifies cashable and non-cashable efficiencies; and

iv) noted that periodic reports on project delivery will be made to the Scrutiny & Audit Panel.

18 <u>REVIEW OF ATTENDANCE STANDARDS CONSULTATION</u>

18.1 The Fire Authority considered the Report of the Interim Assistant Chief Fire Officer seeking Members approval for the proposed Attendance Standards Review consultation process.

18.2 The Interim Assistant Chief Fire Officer outlined the consultation proposals and clarified to Members that they were being asked to agree to public consultation on the monitoring and reporting of response figures, not to changes in response times.

18.3 The Fire Authority were reminded that since departing from the National Standards of Fire Cover, ESFRS had locally set its own attendance standards. Since 2004 there had been several different standards. Following a number of operational policy changes, these standards were no longer fit for purpose. Since 2015, ESFRS had been reporting against the Home Office's average response times, these had been adopted to allow the public to benchmark performance against national data.

18.4 The draft consultation had been presented to Members at their Seminar on 17 November 2017, following suggestions made by Members on this first reading changes had been made to the consultation document, Appendix C to the Report, and these were reflected in the paper before the Fire Authority.

18.5 The ADP&I briefed Members on the consultation methods that would be used including online forums, online surveys, stakeholder panels, community roadshows and paper questionnaires. All Members would be sent a complete consultation pack and would be sent extras as required. She explained to Members that the response rates to ESFRS consultations were usually high, but that officers were increasing the consultation to ensure the best response possible.

18.6 Members sought reassurance that ESFRS was doing its utmost to ensure that all the hard to reach groups across the County would be reached. The ADP&I confirmed that the consultation database contains over 500 local organisations, including contacts for hard to reach groups in our area.

18.7 The CFO suggested that if Members knew of any particular groups please could they let the ADP&I know so that they might be added to the consultation database.

18.8 A discussion followed regarding the final option for the target times to be consulted on, outlined in paragraphs 5.1 and 5.2 of the Report. Members felt it important that any targets proposed were achievable and voiced some concerns about "stretch" targets and whether these inadvertently my lead to misunderstandings by the public of ESFRS achievements.

18.9 **RESOLVED** – That the Fire Authority:

i) agreed that the consultation be conducted on the targets detailed at paragraph 5.1 of the report, subject to review by the Scrutiny & Audit Panel if the target is regularly exceeded;

ii) approved the draft plan for consultation;

iii) approved the proposed 8 week consultation period; and

iv) approved the consultation and communications plan.

19 GRENFELL TOWER INCIDENT RESPONSE AND IMPACT

19.1 The Fire Authority considered the Report of the Interim Deputy Chief Fire Officer (IDCFO) which summarised the ESFRS response to the tragic fire at Grenfell Tower in London and the longer term impact and proposed plan to manage any risk associated with the potential outcome of the inquiries associated with the fire.

19.2 The IDCFO informed the Fire Authority in the days immediately following the fire, ESFRS acted quickly to provide public reassurance, conducting joint inspections on blocks of high rise flats and NHS premises. These inspections found that whilst a number had been renovated, including the application of cladding, none were identified has having Aluminium Composite Material (ACM) in the panels.

19.3 The IDCFO explained that it was anticipated that the requirements of fire safety might change and that it was essential ESFRS took a proactive approach to managing the risks with existing resources and that we look to shape the way we deliver services in the future. With current resources, ESFRS can respond effectively.

19.4 Members were reminded of the sprinkler match funding project that the Service was involved in and informed of its progress to date. Sprinklers were the most effective way to ensure that fires are suppressed or even extinguished before fire crews can arrive. An investigation by the National Fire Chiefs Council (NFCC) into the effectiveness and reliability of sprinkler systems indicated that they operate on 94% of occasions and that they then extinguish or contain the fire on 99% of occasions.

19.5 The IDCFO explained that following Grenfell the importance of this project had been emphasised. Members had already agreed to commit £400,000 to match fund sprinkler initiatives and officers were seeking an additional £200,000. The Fire Authority were urged to agree to the requested additional funding reinforcing the Authority's commitment to ensuring the safety of residents and reducing the risk to our Firefighters.

19.6 Members thanked ESFRS for the hardwork and the quick response that was detailed in the Report. It was generally felt that the tragedy at Grenfell Tower would hopefully lead to change in how high rise premises were built and refurbished in the future.

19.7 **RESOLVED** – That the Fire Authority:

i) noted the report;

ii) approved the review of Business Fire Safety and alignment with Safer Communities subject to final costs;

iii) approved the evaluation of a new risk based inspection tool to better identify premises of high risk where the vulnerability of residents is considered;

iv) approved an additional £200,000 funding from reserves to support the Sprinkler Match Funding project; and

v) requested that a letter be sent to central government urging a legislative change requiring that the installation of sprinklers be made mandatory for both new build and re-furbished high-rise premises.

20 EXCLUSION OF PRESS AND PUBLIC

20.1 **RESOLVED** – That item no. 21 be exempt under paragraphs 3 and 4 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006 and accordingly is not open for public inspection on the following grounds: it contains information relating to the financial or business affairs of any particular person (including the authority holding that information), and any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority and employees of the authority.

21 CONFIDENTIAL MINUTES OF THE LAST MEETING HELD ON 7 SEPTEMBER 2017

RESOLVED – That the confidential minutes of the meeting held on 7 September 2017 be approved and signed by the Chairman. (Copy in Minute Book).

The meeting concluded at 12:57 hours.

Signed

Chairman

Dated this day of 2018

Agenda Item No. 29

EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	15 February 2018
Title of Report	Treasury Management Strategy for 2018/19
By	Duncan Savage, Assistant Director Resources / Treasurer
Lead Officer	Richard Carcas – Principal Finance Officer (Treasury Management) ESCC

Background Papers

Fire Authority:
14 February 2017 - Treasury Management Strategy for 2017/18
15 June 2017 - Treasury Management Stewardship Report 2016/17
Policy & Resources Panel:
2 November 2017 - Half Year Review for 2017/18
CIPFA Prudential Code
CIPFA Treasury Management in the Public Services - Code of Practice
Local Government Act 2003 Local Government Investments - Guidance from the The Ministry of Housing, Communities and Local Government

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Appendices

1: Treasury Management Scheme of Delegation
2: The Prudential & Treasury Indicators
3: Minimum Revenue Provision (MRP) Policy Statement
4: Approved countries for investment
5: Comment from Link Asset Services on the outlook for 2018/19
6: Counterparty list

Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	

PURPOSE OF REPORT	To approve the treasury management strategy, policy statement and the Minimum Revenue Provision (MRP) Statement 2018/19

EXECUTIVE SUMMARY

This report contains recommendations about the borrowing limits, the prudential indicators and limits, the investment strategy and policy as required by Section 3 (1) of the Local Government Act 2003 and the Prudential Code for Capital Finance 2004.

The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The strategy and limits are consistent with the proposed capital programme and revenue budget dealt with elsewhere on the agenda. As will be clear from the global events, it is impossible in practical terms to eliminate all credit risk. The Fire Authority seeks to be prudent.

The Authority is recommended to approve borrowing limits to give flexibility for any future consideration in undertaking new external long-term / replacement borrowing should the need arise or market conditions prove favourable.

The 2018/19 counterparty list for specified and non-specified investment is set out in the Appendices 4 and 6.

The Fire Authority has always adopted a prudent approach on its investment strategy and, in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. This list is regularly reviewed to ensure that the Authority is able to invest at the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained. The 2018/19 strategy continues the prudent approach and ensures that all investments were only to the highest quality rated banks and financial institutions.

The Fire Authority is recommended to approve the 2018/19 investment strategy which includes the addition of Mixed Asset Funds and Pooled Property Funds. These funds are to be invested in the medium to long term, due consideration will be given with regard to the planned reduction in reserves and balances of the Fire Authority in the next five years before investments are made. This update will provide opportunities to diversify the investment portfolio and improve investment returns by taking a very marginal increase in risk.

The background information and the calculation of the Authorised Limit for borrowing for 2018/19 of £13.630m are set out in the attached Appendix 2 (Table 8).

Self-imposed Prudential and Treasury Management indicators that are set on an annual basis are shown in Appendix 2.

Following consultation, CIPFA is about to publish its updated Prudential Code for Capital Finance and Treasury Management Code of Practice. In addition the DCLG is consulting on its amended investment guidance and minimum revenue provision guidance. The updates are mainly to address the implications of local authorities acting more commercially, their approaches to risk and ensuring financial sustainability.

The Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP) statement is set out in Appendix 2 and 3 to comply with best practice.

The Treasury Management policy statement for 2018/19 is set out in Section 5

RECOMMENDATION

The Fire Authority is recommended to:

(i) approve the treasury management strategy and policy statement for 2018/19 (and adopt for the remainder of 2017/18);

(ii) determine that for 2018/19 the Authorised Limit for borrowing shall be £13.630m;

(iii) adopt the prudential indicators as set out in the attached Appendix 2; and

(iv) approve the Minimum Revenue Provision (MRP) Statement for 2018/19 as set out in the attached Appendix 3.

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1 Introduction

1.1 The CIPFA Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”) requires authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing and to prepare an Investment Strategy each financial year. CIPFA has defined Treasury Management as:

“the management of the organisation’s 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."

1.2 This strategy takes into account the impact of the Authority's Revenue Budget, Medium Term Capital Programme and the Balance Sheet position. The Prudential Indicators and the outlook for interest rates are also considered within the strategy.

1.3 The Treasury Management Strategy for 2018-19 covers the following areas:

- economic overview (section 2);
- the treasury position (section 3);
- the borrowing strategy to finance the capital plans (section 4);
- the investment strategy(section 5);
- the Minimum Revenue Provision (MRP) strategy (section 6); and
- policy on use of external service provider (section 7);

1.4 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is shown in Appendix 1.

2 Economic Overview

2.1 The Authority uses Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 1 below gives the Link Asset Services central view for short term (Bank Rate) and longer fixed interest rates.

Table 1

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2018	0.50	1.60	2.90	2.60
Jun 2018	0.50	1.60	3.00	2.70
Sep 2018	0.50	1.70	3.00	2.80
Dec 2018	0.50	1.80	3.10	2.90
Mar 2019	0.75	1.80	3.10	2.90
Jun 2019	0.75	1.90	3.20	3.00
Sep 2019	0.75	1.90	3.20	3.00
Dec 2019	1.00	2.00	3.30	3.10
Mar 2020	1.00	2.10	3.40	3.20
Jun 2020	1.00	2.10	3.50	3.30

2.2 The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in March 2019 and December 2019.

2.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

2.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain relatively low during 2018/19 and beyond;

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new borrowing unless immediately spent as it will cause an increase in investments and this will incur a revenue loss between borrowing costs and investment returns as well as increased counterparty risks.

3 Treasury Management Position

3.1 The Authority's projected treasury portfolio position at 31 March 2018, with forward estimates is summarised in Table 2 below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2

	2017/18	2018/19	2019/20	2020/21
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**
External Borrowing				
Borrowing at 1 April	10,973	10,773	10,773	10,773
New Borrowing	-	-	-	-
Loan Redemption	-	-	-	(75)
Actual borrowing at 31 March	**10,773**	**10,773**	**10,773**	**10,698**

***CFR – the borrowing need**	**10,773**	**10,773**	**10,773**	**10,698**
Under/(over) borrowing	**-**	**-**	**-**	**-**

**The Authority's Capital Financing Requirement (CFR) is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Authority's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.*

3.2 Within the set of prudential indicators there are a number of key tests to ensure that the Authority operates its activities within well defined limits. One of these is that the Authority needs to ensure that its total borrowing, 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 current and next two financial years.

3.3 The CFR forecast at the end of 2017/18 is £10.773m and remains in line with actual borrowing, after the repayment of debt and longer-term loan redemptions. The Authority is required to repay an element of the CFR each year through a revenue charge called the minimum revenue provision (MRP).

3.4 The Authority has a number of long-term loans and could aim to reschedule these loans if interest rates increase and the premature repayment rates become favourable.

3.5 Any future loans will be arranged giving consideration to the various debt repayment options, including an Equal Instalments of Principal (EIP) arrangement, where each payment includes an equal amount in respect of loan principal. Therefore the interest due with each payment reduces as the principal is eroded, and the total amount reduces with each instalment.

4 Borrowing Strategy

4.1 This strategy is prudent as investment returns are low and counterparty risk is high, however as interest rates are low the Authority may wish to take advantage of this by securing fixed rate funding and increase the over borrowed position.

4.2 The net borrowing requirement within Table 2 above shows that, based on current estimates, the Authority does not currently need to take out a significant amount of new borrowing, to support the capital programme. However any future new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts set out above. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Policy on Borrowing in Advance of Need

4.3 The Authority will not borrow purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

4.4 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the reporting mechanism.

Prudential & Treasury Indicators

4.5 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the CIPFA Prudential Code) when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008 with a fully revised version being published in 2009 to incorporate changes towards implementing IFRS.

4.6 A full set of Prudential Indicators and borrowing limits is shown in Appendix 2.

Debt Rescheduling

4.7 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.8 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.9 Consideration will also be given to identifying if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.10 All debt rescheduling will be agreed by the Treasurer.

Sensitivity of the Forecast and Risk Analysis

4.11 Treasury management risks are identified in the Authority's approved Treasury Management Practices, the main risks to the Authority's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);

- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (non-compliance with statutory and regulatory requirements, risk of fraud).

4.12 Officers, in conjunction with the treasury advisers, will monitor these risks closely. Particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate;

- counterparty risk – the Authority follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone: and

- the EU Parliament has been striving to reform MMF's that operate within the EU, the key proposal will require funds to move from Constant net asset value (CNAV) to Low Volatility net asset value (LVNAV). The reform will take affect from July 2018 and is referenced within the 2018/19 strategy.

5 Investment Strategy

5.1 The Authority's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance), the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Link Asset Services Guidance Notes (including CIPFA TM Code). The Authority's investment priorities will be security first, liquidity second, and then return.

5.2 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

5.3 Investment instruments identified for use in the financial year are listed in section 5.19 and 5.22 under the 'Non-Specified and Specified' Investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices – Schedules.

Local Authorities

5.4 Should a suitable opportunity in the market occur to lend to other Local Authorities up to the period of a two year duration, at a reasonable level of return the Fire Authority will consider such an opportunity, the deal would be classed as a low risk Non-Specified Investment.

Pooled Property Funds

5.5 Local authorities have for many years invested in non-liquid assets or property by directly purchasing properties, but a simpler and more efficient route would be to invest in an appropriate property unit trust. This is a more diversified form of investment than an individual purchase of property and would give greater geographic spread and access to assets that the Fire Authority could not afford to own through use of its own resources. Property investment should be considered as a long term investment and should only be committed to if the Fire Auhtority is prepared to accept that in some years capital values may decline, but in the longer run capital growth should be possible. If a fund achieves its objectives then the Fire Authority will achieve capital growth and reasonable returns. Property Funds offer all the advantages of a professionally managed property portfolio, with broadly diversified exposure to high quality properties in the strongest areas of the market. By investing in the Fund, the Fire Autority avoid the potential problems, costs and administrative difficulties of investing in properties directly. Officers in conjunction with the Fire Authority's treasury advisors will be reviewing investment options within the area of Property Funds and may make use of them as and when sufficient due diligence has been undertaken.

Mixed Asset Fund(s)

5.6 Rather than focus on a particular asset class, these funds will look to invest across a broader range of classes in an effort to provide investors with a smoother performance on a year-to-year basis. Primarily, the asset classes will be equities and fixed income, but the latter will include both corporate and government-level investments. As with pooled property funds the Fire Authority could undergo a selection process to select a suitable fund. It is important to have a full understanding of the particular investment fundamentals are understood from the outset.

Credit Worthiness Policy

5.7 Officers regularly review the investment portfolio, counterparty risk and construction, market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets

5.8 Additionally, the Authority will make use of the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes

in credit ratings; and

- sovereign ratings to select counterparties from only the most creditworthy countries.

5.9 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative credit worthiness of counterparties. These colour codes are used by the Authority to determine the duration for investments. The strategy provides scope to invest in AAA rated foreign banks. However the Authority proposes to only use counterparties (Appendix 6) within the following durational bands that are domiciled in the UK.

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour, not to be used

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

5.10 The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

5.11 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. 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.

5.12 All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Asset Services credit worthiness service.

- if a downgrade results in the counterparty or 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.

5.13 The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified investment sections; and
- It has sufficient liquidity in its investments.

5.14 The Link Asset Services methodology was revised in October 2014 and determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

5.15 The Link Asset Services colours and the maximum time periods are shown para 5.9 above. In the Link Asset Services methodology if counterparty has no colour then they are not recommended for investment and this would remove these counterparties from the Authority's counterparty list.

5.16 Whilst the Link Asset Services methodology categorises counterparty time limits up to two years, the Authority's policy remains only to make investments up to a maximum of one year.

Country Limits

5.17 The Authority has determined that it will only use approved counterparties based in the UK.

5.18 The UK currently holds an AA sovereign rating. However the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years. The impact of the EU referendum and the path chosen with regard to 'hard' or 'soft' Brexit could have a bearing on sovereign ratings in the months ahead.

Specified Investments

5.19 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
    - High credit quality is defined as a minimum credit rating as outlined in section 5.15 of this strategy.

5.20 **The use of Specified Investments** - Investment instruments identified for use in the financial year are as follows:

- Table 3 below sets out the types of investments that fall into each category, counterparties available to the Authority, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;

5.21 Criteria for Specified Investments:

Table 3

Counterparty	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Counterparties in UK				
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	unlimited	1 yr
Government Treasury bills	UK	Term Deposits	unlimited	1 yr
Local Authorities	UK	Term Deposits	unlimited	1 yr

RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK	Term Deposits (including callable deposits), Certificate of Deposits	£4m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£4m	1 yr
Barclays	UK		£4m	1 yr
Santander UK	UK		£4m	1 yr
HSBC	UK		£4m	1 yr
Goldman Sachs IB	UK	Term Deposits	£4m	1 yr
Standard Chartered Bank	UK	Term Deposits	£4m	1 yr
Individual Money Market Funds	UK/Ireland/ domiciled	AAA rated Money Market Funds	£4m	Liquidity/instant access
Enhanced Money Market / Cash Funds (EMMFs)	UK/Ireland/ EU domiciled	AAA Bond Fund Rating	£4m	Liquidity

Non Specified Investments

5.22 Non Specified Investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments are set out in Table 4 below:

Table 4	**Minimum credit criteria**	**Period**
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	Appropriate rating	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

The maximum amount that can be invested will be monitored in relation to the Authority's surplus monies and the level of reserves, the limit will be £2.5m across all non specified investments. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Authority will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Treasurer. A detailed list of specified and non-specified investments that form the counterparty list is shown in section 10.

Investment Position and Use of Authority's Resources

5.23 Bank Rate is forecast to stay flat at 0.50% until quarter 1 2019 and not to rise above 1.00% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%

5.24 The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace

5.25 The Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%
- 2021/22 1.50%

5.26 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 on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

5.27 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months).

5.28 For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

6 Minimum Revenue Provision

6.1 The Authority is required to repay an element of the CFR through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required.

6.2 CLG Regulations have been issued which require the Authority to approve an MRP Statement in advance of each year. A variety of options is provided to authorities, so long as there is a prudent provision. The Authority is recommended to approve the MRP Policy in Appendix 3.

6.3 The Authority, in conjunction with its Treasury Management advisors, has considered the MRP policy to be prudent.

7 Policy on the use of External Service Providers

7.1 The Authority uses Link Asset Services as its external treasury management advisors.

7.2 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 our external service providers.

7.3 It 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 and documented, and subjected to regular review.

8 Update to Treasury Management & Prudential Code, CLG guidance on investments & MRP and the introduction of IFRS 9

8.1 *Proposals to amend the CIPFA Treasury Management and Prudential Codes*

CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review will particularly focus on non-treasury investments and especially on the purchase of property with a view to generating income. The Authority has been part of the consultation process and will await CIPFA's guidance, amending where necessary for future strategies.

8.2 *CLG Local Investment Code and MRP Provision Guidance*

Over the past years the regulatory and economic environment has changed significantly and led some Authorities to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating MRP. CLG have also launched a consultation into the reporting and monitoring more innovative investment options and a review of MRP. The Authority has been part of the consultation process and will await CLG's guidance, amending where necessary for future strategies.

8.3 *IFRS 9 - 2018/19 Accounting Code of Practice proposals for financial assets*

The potential introduction of this accounting standard for Local Authorities could have an impact on how the Authority discloses certain financial assets within its final accounts. The full impact is yet to be known as many Local Authorities are requesting CLG for a statutory override for specific investments such as pooled property funds and VNAV money market funds.

Appendix 1

Treasury Management Scheme of Delegation

1 Fire Authority

1.1 In line with best practice, The Fire Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

a) Prudential and Treasury Indicators and Treasury Strategy (This report)
The first and most important report covers:
- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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 will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision.

c) An Annual Treasury Management Stewardship Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2 The Treasury Management Role of the Section 112 Officer

2.1 The Section 112 (responsible) Officer (the fire service equivalent to the S151 Officer in local government):

- 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.

3 Training **-** Treasury Management training for Authority members will be delivered as required to facilitate more informed decision making and challenge processes.

Appendix 2

1 The Prudential and Treasury Indicators

1.1 The Fire Authority’s capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

1.2 **Capital Expenditure**. This prudential Indicator shows the Authority’s capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. Capital expenditure excludes spend on PFI and leasing arrangements, which are now shown on the balance sheet.

1.3 The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Table 5

Description	2017/18 Projected	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Capital Expenditure	3.903	3.305	6.702	2.581
Financed by:				
Capital receipts	(2.254)	(1.844)	(5.689)	(0.650)
Capital grants & Contributions	(0.123)	(0.050)	-	-
Revenue Financing	(0.537)	(0.980)	(0.582)	(0.424)
Capital Reserves	(0.750)	-	-	(1.151)
Net financing need for the year	**0.239**	**0.431**	**0.431**	**0.356**

1.4 The Authority’s borrowing need (the Capital Financing Requirement) - 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

1.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset’s life.

1.6 Following accounting changes, the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought on the balance sheet. Whilst these increase the CFR, and therefore the Authority’s borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes. The Authority has no finance leases or PFI Schemes.

Table 6

	2017/18 Projected	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement				
	£m	**£m**	**£m**	**£m**
Opening CFR	10.973	10.773	10.773	10.773
Net Financing (as above)	0.239	0.431	0.431	0.356
MRP	(0.439)	(0.431)	(0.431)	(0.431)
Closing CFR	**10.773**	**10.773**	**10.773**	**10.698**

1.7 **The Operational Boundary.** This is the limit beyond which external borrowing 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 borrowing.

Table 7

Description	2017/18 Projected	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Borrowing	11.241	11.241	11.241	11.166
PFI/Leases	-	-	-	-
Total	**11.241**	**11.241**	**11.241**	**11.166**

1.8 **The Authorised Limit for external borrowing**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external borrowing 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; and
- The Authority is asked to approve the following Authorised Limit:

Table 8

Description	2017/18 Projected	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Borrowing	13.630	13.630	13.630	13.555
PFI/Leases	-	-	-	-
Total	**13.630**	**13.630**	**13.630**	**13.555**

2 Treasury Management Limits on Activity

2.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 9

Maturity structure of fixed interest rate borrowing 2018/19 All Fire Authority borrowing is at a Fixed Rate			
	Lower	**Upper**	**Actual**
Under 12 months	0%	25%	0%
12 months to 2 years	0%	40%	0%
2 years to 5 years	0%	60%	5%
5 years to 10 years	0%	80%	22%
10 years to 20 years	0%	80%	38%
20 years to 30 years	0%	80%	3%
30 years to 40 years	0%	80%	32%
40 years to 50 years	0%	80%	0%

Table 10

Principle sums invested for periods longer than 365 days			
	2018/19 **£m**	**2019/20** **£m**	**2020/21** **£m**
Limit	2.50	2.50	2.50

The above limits are deemed prudent and will be reviewed in future years.

2.2 **Affordability Prudential Indicators -** The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

2.3 **Actual and estimates of the ratio of financing costs to net revenue stream**. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 11

Description	2017/18 Projected	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%	%
Ratio	2.32	2.45	2.40	2.37

2.4 **Estimates of the incremental impact of capital investment decisions on council tax**. This indicator identifies the revenue costs associated with proposed changes to the four year capital programme recommended in this budget report compared to the Authority's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a four year period.

3 Treasury Management Budget

Table 12

Description	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Interest Payable	0.504	0.496	0.496	0.496
Interest Receipts	(0.075)	(0.075)	(0.075)	(0.075)
Minimum Revenue Provision	0.439	0.431	0.431	0.431
TOTAL	**0.868**	**0.852**	**0.852**	**0.852**

Appendix 3

Minimum Revenue Provision Policy Statement

1 Policy Statement

1.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment has been replaced with a more flexible statutory guidance. A variety of options is provided to authorities to replace the existing Regulations, so long as there is a prudent provision.

1.2 The statutory duty is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Authority’s Capital Financing Requirement (CFR).

1.3 To support the statutory duty the Government also issued a guidance, which requires that a Statement on the Authority’s policy for its annual MRP should be submitted to The Fire Authority for approval before the start the financial year to which the provision will relate. The Authority is therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance on Investments.

1.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that The Fire Authority should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

1.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

1.6 The move to International Financial Reporting Standards (IFRS) involves Private Finance Initiative (PFI) contracts and potentially some leases (being reclassified as finance leases instead of operating leases) coming onto the Balance Sheet as long term liabilities. The accounting treatment would impact on the Capital Financing Requirement with the result that an annual MRP provision would be required.

1.7 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their “Statutory MRP Guidance” which allows MRP to be equivalent to the existing lease rental payments and “capital repayment element” of annual payments to PFI Operators. There are no implications for the Authority’s MRP policy.

The policy for 2018/19 is therefore as follows:-

1.8 For capital expenditure incurred before 1 April 2008 or which in the future will be Government Supported Capital Expenditure, the MRP policy will be:

- Based on based on the non-housing CFR, i.e., The Authority currently set aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR.

1.9 From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).

- Asset Life Method (annuity method) The Authority will also be adopting the annuity method, - MRP calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. The policy is being adopted as a result of any PFI's assets coming on the balance sheet and any related MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for finance leases, MRP will also be equivalent to the "capital repayment (principal) element" of the annual rental payable under the lease agreement. It should be noted that the Authority do not currently have any PFI assets or finance leases.

Under both methods, the Authority has the option to charge more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

1.10 This approach also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy. Half-yearly review of the Authority's MRP Policy will be undertaken and reported to Members as part of the Half-yearly Treasury Management Strategy review.

Appendix 4

Illustrative list of Approved Countries for Investments

The list below shows the countries that would currently meet these criteria:

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland

AA

- U.K.

Note: There are other three countries with AA, but the Authority will only be using UK because of the best understanding of the UK market.

Appendix 5

Link Assets Services (our Treasury advisors) on the Economic Background outlook for 2018/19

1 The Global Economy

1.1 **The Eurozone** - Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y), 0.6% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

1.2 **USA -**Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.2%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

1.3 **Asia -** In China economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Whilst Japan has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2 The UK Economy

2.1 After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.2% (+2.0% y/y), quarter 2 was +0.3% (+1.7% y/y) and quarter 3 was +0.4% (+1.6%

y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure.

2.2 However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

2.3 While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting MPC. (Inflation actually came in at 3.0% in September and is expected to rise slightly in the coming months.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.

2.4 In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

2.5 At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

2.6 However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

3 Link Asset Services forward view

3.1 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.2 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

3.3 Downside risks currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak Capitalisation of European banks.
- Rising protectionism under President Trump.
- Monetary policy A sharp Chinese downturn and its impact on emerging market countries.

3.4 The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

3.6 **Brexit timetable and process:**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50.
- March 2019: Initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Appendix 6

Appendix 6 - Counterparty list Banks	Country	Fitch Ratings				Moody's Ratings		S & P Ratings		CDS Price	Fire Authority Duration	Capita Duration Limit	Money Limit
		L Term	S Term	Viab.	Supp.	L Term	S Term	L Term	S Term		(Months)	(Months)	(£m)
Lloyds Banking Group:													
Lloyds Bank Plc	UK	A+	F1	a	5	Aa3	P-1	A	A-1	35.72	6	6	4
Bank of Scotland	UK	A+	F1	a	5	Aa3	P-1	A	A-1	37.98	6	6	
RBS/NatWest Group:													
NatWest Bank	UK	BBB+	F2	bbb+	5	A2	P-1	BBB+	A-2	-	12	12	4
Royal Bank of Scotland	UK	BBB+	F2	bbb+	5	A2	P-2	BBB+	A-2	50.16	12	12	
Other UK Banks:													
HSBC Bank	UK	AA-	F1+	a+	1	Aa3	P-1	AA-	A-1+	20.19	12	12	4
Barclays Bank	UK	A	F1	a	5	A1	P-1	A	A-1	43.43	6	6	4
Santander UK	UK	A	F1	a	2	Aa3	P-1	A	A-1	-	6	6	4
Goldman Sachs IB	UK	A	F1	-	-	A1	P-1	A+	A-1	50.87	6	6	4
Standard Charted Bank	UK	A+	F1	a	5	A1	P-1	A	A-1	39.73	6	6	4

For colour codings refer to Para. 5.9

Agenda Item No. 30

EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	15 February 2018
Title of Report	Future collaboration arrangements between the Fire & Rescue Services of East Sussex, Surrey, and West Sussex
By	Chief Fire Officer
Lead Officer	Deputy Chief Fire Officer
Background Papers	None
Appendices	Appendix A - Collaboration Agreement of the Fire and Rescue Authorities and Services of Surrey, East and West Sussex

Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	✓
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	

PURPOSE OF REPORT: To inform Members of the Fire Authority on the proposed new collaboration arrangements between this Authority and those of Surrey and West Sussex; and to seek agreement to delegate authority to the Chief Fire Officer, after consultation with the Chairman, to sign the formal agreement on behalf of the Authority.

RECOMMENDATION: The Fire Authority is asked to:

1) Consider the report in relation to the ongoing and future collaboration with West Sussex Fire & Rescue Service and Surrey Fire & Rescue Service under a new collaboration model; and

2) Delegate authority to the Chief Fire Officer, after consultation with the Chairman, to sign the formal agreement on behalf of the Authority.

1 EXECUTIVE SUMMARY

1.1 Collaboration amongst emergency services in Surrey and Sussex is a key strategic priority, supported at a political and officer level. Developing effective collaborative arrangements has long-term strategic significance supported by a number of drivers, namely:

- Duty to collaborate (Policing and Crime Act, 2017)
- HMICFRS inspection regime
- Financial challenges
- Public expectation

1.2 Following a review of resourcing options of the existing 'Emergency Service Collaboration Programme' (ESCP – a partnership made up of ESFRS, West Sussex FRS, Surrey FRS, Sussex Police, Surrey Police and SECAmb) for beyond March 2018, a mixed level of support was identified across the partners, leading to a request for an impact and options assessment of the ESCP moving forward.

1.3 The outcome of that analysis was a recommendation to pursue closer and more focused collaboration across the three fire services in Sussex and Surrey, and to develop a suitable 'collaborative vehicle' to support that strategic intent. It was agreed that such an approach would support all partners to deliver their statutory duty, as well as their strategic objectives to increase the level of collaboration and partnership working beyond April 2018.

1.4 The resulting collaboration agreement (see appendix A) lays out an organisational commitment to work more closely together in order to improve the efficiency and effectiveness of our respective Fire and Rescue Services.

1.5 It recognises that our organisations operate in a complex environment of changing demand where the public rightly expects continued delivery of professional and value for money emergency services. Collectively we have acknowledged that increased collaboration between our organisations is one of the ways we can achieve the continuous improvement we strive for.

1.6 This collaboration agreement outlines how we will structure and coordinate this activity within a framework we are calling the '3F' (3 Fire Services) approach. This is supported by specific project level agreements which define where we will collaborate, why, how and the benefits we expect to achieve.

1.7 It is the intention that under the auspices of this 3F collaboration programme, where common sense opportunities to work closer together are identified, they will be fully explored and implemented when it is in the best interests of our residents to do so.

1.8 This agreement forms an addition to our existing and ongoing commitment to deliver and develop further ambitious ways of working with other emergency and non–emergency service partners. It provides a clear strategic direction of travel and sets a firm base for delivery within the 3F collaboration programme.

1.9 A small number of discrete areas for immediate collaboration have already been agreed and these are now well underway:

- Fleet & Engineering - to seek to put in place a single strategic fleet and engineering lead for all three FRS (over and above the ongoing work on maintenance hubs, fuel and telematics)
- Operational Training - new recruits training, shared training facilities
- Occupational Health – collaborative provision
- Health and Safety – alignment and reduction of duplication
- Fire Investigation – shared model for delivery

1.10 These opportunities may expand in due course, but the intention is to stay focused on delivering a small number of tangible and beneficial projects. The governance arrangements articulated in the Collaboration Agreement will support this intent.

1.11 Given our duty to collaborate, it is important that formal and visible governance structures and practical arrangements exit. Whilst this overarching Collaboration Agreement has no "legal" status and does not create any specific new burdens for the Authority, it does cement a structure and demonstrates the strategic commitment of the Authority to the 3F Collaboration Programme

1.12 The document has already been through the ESCP Strategic Board once and now a final version (as per attached appendix A) will be presented for sign off at the next Strategic Board on the 28th February. The Authority is asked to approve delegating authority to the Chief Fire Officer, in consultation with the Chairman, to sign the agreement on behalf of the Authority at that meeting.

1.13 Members will note in 4.3 of the Agreement that there is a small resource implication (contribution towards central programme management resources – likely to be circa £20K per annum) which can be funded from existing operating budgets.

1.14 As directed by Members, it is the intention to increase reporting on collaboration projects and reports will be brought forward through Scrutiny and Audit Panel in due course. This will include further updates on progress of the 3F Collaboration Programme.

Appendix A

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Collaboration agreement of the Fire and Rescue Authorities and Services of Surrey, East and West Sussex

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Foreword

This collaboration agreement makes clear our organisational commitment to work more closely together in order to improve the efficiency and effectiveness of our respective Fire and Rescue Services.

Our organisations operate in a complex environment of changing demand and where the public rightly expects continued delivery of professional and value for money emergency services. In order for us to continue to meet these expectations we must relentlessly seek to improve our ways of working. Collectively we acknowledge that increased collaboration between our organisations is one of the ways we can achieve the continuous improvement we strive for.

Where common sense opportunities to work closer together are identified they will be fully explored and implemented when it is in the best interests of our residents to do so. We already have a number of examples of where we work, train and support each other and we intend to build on these successes.

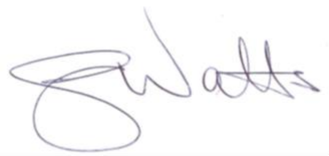
This collaboration agreement outlines how we will structure and coordinate this activity within a framework we are calling the '3F' approach. This is supported by specific project level agreements which define; where we will collaborate, why, how and the benefits we expect to achieve.

This agreement forms an addition to our existing and ongoing commitment to deliver and develop further ambitious ways of working with other emergency and non–emergency service partners.

We believe this agreement provides a clear strategic direction of travel and sets a firm base for delivery within the 3F programme.

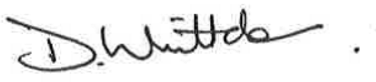
CFO Russell Pearson

Surrey Fire and Rescue Service



CFO Gavin Watts

West Sussex Fire and Rescue Service



CFO Dawn Whittaker

East Sussex Fire and Rescue Service

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Contents

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This Agreement is made on the **28th February 2018.**

The agreement is between:

(1) **EAST SUSSEX FIRE AND RESCUE SERVICE** of Church Lane, Lewes, East Sussex, BN7 2DZ (**ESFRS**);

(2) **SURREY FIRE AND RESCUE SERVICE** of 70 Wray Park Rd, Croydon Rd, Reigate RH2 0EJ (**SFRS**);

(3) **WEST SUSSEX FIRE AND RESCUE SERVICE** of Northgate, Chichester PO19 1BD (**WSFRS**).

together the **Parties** to this Agreement and each a **Party**.

The Parties wish to collaborate in programmes of work in relation to the transformation and integration of fire and rescue services in the area subject to and in accordance with the terms and conditions of this agreement.

1. Vision, Aim and Objectives

1.1. The parties intend to co-operate in the transformation and integration of fire and rescue services through strategic collaboration and the development and delivery of projects that support integration, as appropriate. Through this co-operation, the vision is to work together to improve the way we deliver fire and rescue services for the people of Surrey and Sussex, transforming how the services can operate more efficiently, effectively and safely together.

1.2. The objectives of this work are:

a) sustainably improving services to the public;

b) increasing resilience;

c) reducing overlap in service provision;

d) responding to changes in demand.

Each of the p**arties** undertakes that, under the terms of this agreement, it will:

a) co-operate fully and in good faith with the other parties as required for the purposes of the agreement and any projects;

b) continue to seek opportunities for collaboration and joint working, within the '3F' framework.

2. Governance

2.1. This agreement will mandate the following elements of governance, central to the delivery of the '3F' programme:

a) The convening of a Strategic Board (see Section 3).

b) The nomination of lead personnel for the purposes of acting as a collaboration leads (see Section 3.2).

c) The establishment and operation of an appropriately resourced central programme management office and associated common processes for project control (see Section 3.7).

d) The establishment and resourcing of joint project boards, working groups and other necessary mechanisms designed to ensure effective project delivery.

These elements will not supersede any local governance required by each of the parties. A summary of the 3F governance structure is provided in the figure 1.

Constitution of the Strategic Board

2.2. The Strategic Board shall operate in accordance with its terms of reference set out below. Proposed membership is indicated in Schedule 1.

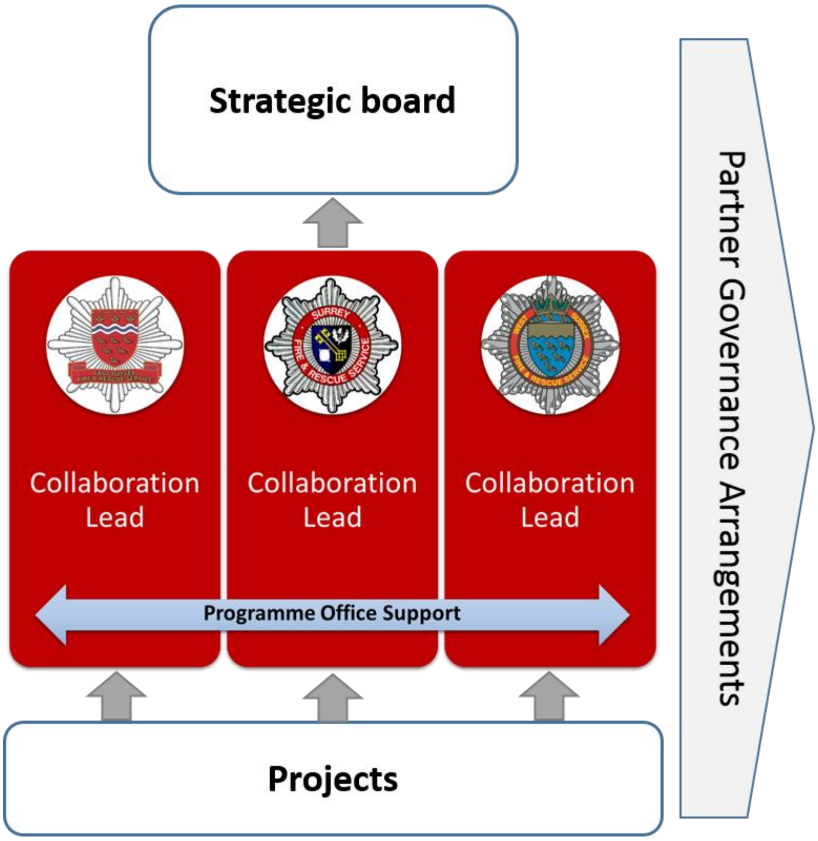

FIGURE 1: 3F GOVERNANCE STRUCTURE

3. Roles and responsibilities

Role of the Strategic Board

3.1. The Strategic Board will perform, among other things, the following functions:

a) To monitor the operation of this agreement;

b) Provide effective direction to the 3F Programme including identifying and agreeing new areas or opportunities for collaboration;

c) Agree the priority of collaboration projects and activity and align resources appropriately;

d) Provide challenge to each other to ensure they consider collaboration first, ahead of other possible options;

e) Ensure that delivery of the programme is aligned and integrated into the strategic and business plans for the parties;

f) Champion the programme and its projects to enable the programme to succeed;

g) Ensure there is sufficient capacity and capability to deliver the agreed Projects by committing appropriate resources from within the organisations to the programme or supporting bids for additional resources;

h) Monitor and support the delivery of the programme communications strategy.

i) Identify and discuss any matters that impact positively or negatively on the programme;

j) Receive matters for decision and final authorisation where necessary from collaboration leads, including escalated risks, issues and change requests;

k) Receive and approve reports from the collaboration leads as a correct record of the current situation;

l) Appoint and maintain a collaboration lead to represent each organisation;

m) Receive and resolve disputes between parties.

Role of Collaboration Leads

3.2. Each Service will have a Collaboration Lead who has overall accountability for the delivery of projects as specified by the Strategic Board and reflected in individual project agreements.

3.3. The Collaboration Leads will perform, amongst other things, the following functions:

a) Ensure the ongoing viability of the 3F projects within their remit;

b) Monitor, review and report progress to the Strategic Board as required;

c) Provide effective direction and support to the project leads;

d) Collaboration leads will ensure that diversity and inclusion are central to the development of projects;

e) Sign off project documents including bids, progress/highlight and financial reports as part of programme assurance. Approve these for progressing to the Strategic Board;

f) Ensure that delivery of the projects is aligned with the strategic goals of the 3F partnership;

g) Resolve project risks/issues identified by project leads and, if necessary, escalate to Strategic Board;

h) Support and champion the projects within the partner organisations to enable the project's success;

i) Oversee the efficient use of resources to meet the needs of the projects within an appropriate structure;

j) The collaboration leads will seek to work to a consensus. If agreement cannot be reached the matter shall be referred to the Strategic Board for determination;

k) The Collaboration Lead has the responsibility to make decisions at a project level, and is accountable to the Strategic Board for the delivery of projects within their ambit.

Role of the Project Leads

3.4. Each project initiated as part of the 3F agreement will have an identified project lead.

3.5. Specific details of the project lead role will be included in the relevant project agreement. The project agreement will be attached as an appendix to this agreement.

3.6. Principle aspects of the role include:

a) Responsible for the delivery of their project;

b) Develop and maintain a clear project plan, identifying milestones and delivery milestones;

c) Secure and ensure efficient and effective use of resources to deliver their project;

d) Maintain focus and provide effective direction and support to both team members and external influencers;

e) Champion their project;

f) Resolve conflict that arises from the project;

g) Monitor, review and report benefits, risks and issues relating to their project to the Collaboration Lead;

h) Work with the Project Management Office to ensure consistent project management standards are adopted;

i) Communicate with team and stakeholders regarding key developments, decisions, issues and changes to the project plan, and;

j) Provide timely reports to Collaboration Lead as required.

Role of the Programme Management Office

3.7. The Programme Management Office will perform, among other things, the following functions:

a) Support those involved in the programme by providing objective guidance from a position of neutrality;

b) Define and maintain the standards and processes related to project management within the 3F partnership;

c) Development and maintenance of programme governance, controls, tools and processes;

d) Record, monitor and report key performance information to include risks, issues and benefits

e) Co-ordinate information for the Strategic Board and Collaboration Leads as required;

f) Development and management of programme-level documentation;

g) Administer record keeping and version control of key programme documents, including the management of a shared space for programme and project documents.

h) Support development and dissemination of materials in relation to communications strategy

i) Support and co-ordinate development of bids for funding and award applications

4. Resources and financial commitments

4.1. Each party will make appropriate strategic level representation at strategic boards by personnel who are empowered to make organisational level decisions, where available this should be the Chief Fire Officer.

4.2. Each party will identify and make available a Collaboration Lead with appropriate decision making authority to expedite the delivery of the 3F programme.

4.3. Each party will make provision for an appropriate level of resource to facilitate the Programme Management Office. This is expected to be an annual financial contribution towards a minimum of one Project Manager role and appropriate administrative support. Details of this requirement are provided as an appendix to this document and will be reviewed annually.

4.4. Project level resource will be agreed as part of individual project level agreements.

5. Evaluation

5.1. Review and evaluation must be enshrined in the project management cycle and will uphold the following principles:

a) Evaluation will measure outturn against expectation and will be designed to ensure lessons learned are fed back into the decision making process;

b) Evaluation will consider the effectiveness, efficiency, impact and sustainability of projects;

c) Evaluation will be objective and transparent;

d) All concerned parties to the project will participate in the evaluation process;

e) Evaluations will be fed back to the Strategic Board for scrutiny;

f) Evaluation will be conducted using appropriate performance measures and supported by the Project Management Office.

6. Term, termination and withdrawal

6.1. This Agreement shall come into effect on the date hereof and shall continue in effect until it is terminated by the mutual consensus of the Parties.

6.2. A Party to this Agreement may withdraw from the Programme by serving not less than 3 months written notice on the other Parties.

7. Consequences of termination

7.1. Withdrawal of a Party to this Agreement or termination of this Agreement shall not affect the continuing validity of the Agreement or any Project Agreements. Where governance arrangements included within this Agreement are necessary for the continued operation of a Project Agreement the Parties involved shall make alternative arrangements for the remainder of the Project Agreement.

7.2. Upon the withdrawal of a Party to this Agreement or termination of this Agreement for any reason the Projects ongoing at that time shall be reviewed forthwith and the Parties shall co-operate in good faith to consider whether to wind down the Projects or to continue them.

8. Disputes

8.1. All matters in dispute between the Parties in relation to a Project shall be referred to the strategic leads of each organisation (Chief Fire Officer).

8.2. If the strategic leads are unable to resolve the dispute, the dispute is to be escalated to the relevant Strategic Board members for resolution.

9. Relationship

9.1. Nothing in this agreement shall constitute or be deemed to constitute:

a) A partnership between the parties; nor

b) Except as expressly provided in a project agreement, any party as the agent of another party for any purpose

10. New Parties

10.1. Affiliates may be invited to become a Party to this Agreement by consensus of the Strategic Board. In order to become a Party to this Agreement the Affiliate must sign the form set out in Schedule 2.

DRAFT

This Agreement has been entered into on the date stated at the beginning of it.

SIGNED by CFO Dawn Whittaker	)	
for and on behalf of	)	……………………………………………….
EAST SUSSEX FIRE AND RESCUE SERVICE:	)	Authorised Signatory

SIGNED by CFO Russell Pearson	)	
for and on behalf of	)	……………………………………………….
SURREY FIRE AND RESCUE SERVICE	)	Authorised Signatory

SIGNED by CFO Gavin Watts	)	
for and on behalf of	)	……………………………………………….
WEST SUSSEX FIRE AND RESCUE SERVICE	)	Authorised Signatory

DRAFT

SCHEDULE 1
STRATEGIC BOARD TERMS OF REFERENCE

3F Strategic Board Membership (April 2018)		
Position		
Strategic Leads and fire authority members	**Name**	**Organisation**
Fire Authority Chair	John Barnes	**East Sussex FRA**
Cabinet Member for Safer, Stronger Communities	Debbie Kennard	**West Sussex FRA**
Chief Fire Officer	Russell Pearson	**Surrey FRS**
Cabinet Member for Communities	Denise Turner - Stewart	**Surrey FRA**
Chief Fire Officer	Gavin Watts	**West Sussex FRS**
Chief Fire Officer	Dawn Whittaker	**East Sussex FRS**
Collaboration Leads		
Area Commander	Mark Arkwell	**Surrey FRS**
Area Commander	Adrian Murphy	**West Sussex FRS**
Assistant Director	Hannah Scott - Youldon	**East Sussex FRS**
In Attendance		
Administrator	To be appointed	**3F programme support**
On invitation/ as required: (Not restricted to) Strategic Lead, Project Lead, Finance Lead, Subject Matter Expert		

SCHEDULE 2
NEW PARTY AGREEMENT

This Agreement is dated [year]

PARTIES

(1) [**Name of prospective party**] of [principal address or registered office] ("the New Party")

BACKGROUND

A The New Party has been invited by the Strategic Board to become a formal party to the collaboration agreement dated [day and month] 2017 and made between:

(1) East Sussex Fire and Rescue Service;

(2) Surrey County Council as the fire authority;

(3) West Sussex County Council, as the fire authority;

and any other parties that have formally joined the collaboration agreement since that date ("the Collaboration Agreement").

B In order to become a formal party to the Collaboration Agreement the New Party is required to sign and return this Agreement.

AGREED TERMS

1 Accession

In consideration of the rights contained within the Collaboration Agreement, the New Party hereby confirms its agreement to be bound by the obligations and other terms of the Collaboration Agreement as if it was an original party.

Accession as a New Party shall take place on the date stated at the top of this Agreement.

2 Applicable law and Jurisdiction

This Agreement shall be governed by and construed in accordance with the laws in force in England and Wales from time to time.

This Agreement has been entered into on the date stated at the beginning of it.

SIGNED by [NAME OF SIGNATORY]	)	
for and on behalf of	)	……………………………………………….
[NAME OF PROSPECTIVE PARTY]:	)	Authorised Signatory

SIGNED by	)	
for and on behalf of	)	……………………………………………….
EAST SUSSEX FIRE AND RESCUE SERVICE:	)	Authorised Signatory

SIGNED by	)	
for and on behalf of	)	……………………………………………….
SURREY FIRE AND RESCUE SERVICE	)	Authorised Signatory

SIGNED by	)	
for and on behalf of	)	……………………………………………….
WEST SUSSEX FIRE AND RESCUE SERVICE	)	Authorised Signatory

Agenda Item No. 31

EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	15 February 2018
Title of Report	Fire Authority Service Planning processes for 2018/19 and beyond – Revenue Budget 2018/19 and Capital Strategy 2018/19 to 2022/23
By	Chief Fire Officer and Assistant Director Resources / Treasurer
Lead Officer	Warren Tricker, Finance Manager

Background Papers

Fire Authority Service Planning processes for 2017/18 and beyond, Revenue Budget 2017/18 and Capital Strategy 2017/18 to 2021/22: Fire Authority 14 February 2017.
2018/19 Strategic Service Planning and Medium Term Financial Plan: Fire Authority 7 September 2017.
Economic and Fiscal Outlook November 2017; Office of Budget Responsibility.

Appendices

A – Medium Term Finance Plan 2018/19 – 2022/23
B – Revenue Budget Summary 2018/19
C – Fees and Charges
D – Medium Term Capital Strategy 2018/19 – 2022/23
E – Reserves and Balances Policy
F – Precept for 2018/19
G – Establishment 2018/19
H – Local Government Financial Settlement (provisional) Core Spending Power of Combined Fire Authorities
I – Policy and Resources summary of discussion on draft budget proposals

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Implications

CORPORATE RISK	✓	**LEGAL**	✓
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT - attached			

PURPOSE OF REPORT To consider and approve the Fire Authority's Revenue Budget 2018/19, Capital Strategy 2018/19 – 2022/23 and Medium Term Finance Plan for 2018/19 – 2022/23.

EXECUTIVE SUMMARY

The Authority's budget proposals for 2018/19 were considered by the Policy & Resources Panel on 18 January 2018. Since that meeting the report has been updated to reflect final council tax and business rates information, collection fund positions and revised information from central government on business rates funding. The Local Government Finance Settlement (LGFS) will not be finalised until the Local Government Finance Report (England) 2018/19 has been approved by Parliament on 7 February 2018.

The Authority has continued to make good progress in identifying and agreeing savings proposals over the last 12 months. The latest version of the MTFP shows that the Authority has already identified £0.686m of savings in 2018/19 and a total of £0.721m savings in total over the life of the MTFP.

There remains significant uncertainty for fire funding beyond the current multi-year funding offer that ends in 2019/20. For 2020/21 and beyond there are potentially significant risks as a result of proposals to change the Business Rates Retention regime, the Fairer Funding Review and a Comprehensive Spending Review covering the last three years of this Parliament.

The report outlines proposals for setting a balanced revenue budget for 2018/19, including commitments, growth bids and new savings. The Government's announcement of an increase in the level of increase in Council Tax that can be made without the need for a local referendum in 2018/19 and 2019/20 from 2% to 3% provides the Authority with some welcome flexibility. Two options are set out in the report:

- The Authority's existing strategy of increases of 1.94% each year in Council Tax between 2018/19 and 2022/23.

- Increases of 2.94% in 2018/19 and 2019/20 and 1.94% thereafter.

If the Authority chooses to approve the 2.94% option then this will provide flexibility in the short term to invest in existing priorities and it is proposed that additional funding of £200,000 in 2018/19 and £300,000 in 2019/20 is committed to support further investment in the Authority's existing policy of match-funding the retrofitting of sprinklers in high rise / high risk premises. In the medium term the additional funding will assist the Authority in managing the uncertainty and risk it faces in its funding after 2019/20, and reduce the level of savings currently forecast to be required to balance the budget by 2022/23.

A balanced budget for 2018/19 can be set under either option. The revised MTFP under the 1.94% option shows a need to deliver further savings of £0.930m by 2022/23. In addition given the uncertainty surrounding Business Rates Retention after 2019/20 it is recommended that the Authority plan for additional savings of £0.311m by 2022/23 (the equivalent to losing inflationary growth in business rates and switching to a government grant). This gives a total additional savings target of £1.241m by 2022/23.

Under the 2.94% option shows a need to deliver further savings of £0.408m by 2022/23. With the additional savings of £0.311m by 2022/23 gives a total additional savings target of £0.719m by 2022/23.

Officers will continue to explore the potential for further savings to meet the identified target by 2022/23 through the activities set out in the Efficiency Strategy approved by the Authority in September 2017.

The Capital Asset Strategy (CAS) reflects the Authority's identified capital investment requirements for the next five years which can be financed from existing resources without the need to incur additional borrowing. A more fundamental review of both the CAS and our arrangements for the future funding of its delivery will be undertaken during 2018/19 to reflect the investment proposals in the new strategies for Estates and Fleet which are currently being developed. The budget also proposes measures to fully fund the IT Strategy agreed in June 2017.

The Authority has acted prudently in establishing reserves and balances to meet its assessed risks and to provide one off funding for specific priorities. The level of reserves held will reduce significantly over the life of the MTFP as the Authority continues to invest in its transformation programme and its capital assets. This use of reserves is essential in the absence of central government grant funding for either capital investment or fire transformation / reform at a local level.

At its meeting on the 18 January 2018 the Policy & Resources Panel discussed the Revenue Budget and Capital Programme. On balance the view of the Panel was that the Fire Authority should agree a Council Tax increase of 2.94% in 2018/19 and plan on the basis of a similar rise in 2019/20. However, the Panel was anxious that this decision did not send out the wrong signals and stressed that Officers should continue to focus on improving productivity, efficiency and effectiveness across the Service and that the savings target within the Medium Term Finance Plan (MTFP), either £0.7m or £1.2m (depending on the level of Council Tax increase agreed), should be regarded as a minimum threshold to be identified over the period. Members of the Panel saw particular opportunities arising from closer collaboration with other fire authorities and from partnership working. The full summary of the Panel's discussion is attached at Appendix I.

RECOMMENDATION The Authority is recommended to approve:

1.
   (a) an increase in council tax of 1.94% and thus approve:

      (i) the budget proposals set out in this Report and the net budget requirement of £37.884m for 2018/19;
      (ii) the council tax requirement of £25.917m; and

(iii) the council tax and precepts as set out in Appendix F(i)

Or

(b) an increase in council tax of 2.94% and thus approves:

(i) the budget proposals set out in this Report and the net budget requirement of £38.140m for 2018/19;
(ii) the council tax requirement of £26.173m; and
(ii) the council tax and precepts as set out in Appendix F(ii)

2.

(c) the capital programme for the next five years and the capital budget of £3.903m for 2018/19 and the plans to use capital grant, capital receipts and revenue contributions to finance capital expenditure;

(d) that the policy aim of maintaining the General Reserve at 8% of the net revenue budget is continued;

(e) that a further £2.077mm is transferred from the Capital Programme Reserve to the IT Strategy Reserve to ensure that the IT Strategy is fully funded

(f) the fees and charges set out in Appendix C; and

(g) that the Chief Fire Officer, after consultation with the Chairman and Treasurer, be authorised to make any adjustments to the presentation of the budget to reflect the final Local Government Finance Settlement.

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1 INTRODUCTION

1.1 The report sets out the proposed Revenue Budget for 2018/19, a revised MTFP for 2018/19 to 2022/23 as well as the proposed Capital Asset Strategy (CAS) and Capital Programme for the Authority for the period 2018/19 to 2022/23 for the Authority to consider. The report is based on the latest information available, but Members should note that government funding as described in the 2018/19 Local Government Finance Settlement may still be subject to change.

1.2 The Local Government Finance Settlement announced an increase in council tax referendum threshold from 2% to 3% for both 2018/19 and 2019/20. This Report sets out two options for the Authority to consider, an increase of 1.94% in line with the Authority's existing Strategy (this would involve setting a net budget requirement of £37.884m, a council tax requirement of £25.917m and increasing band D council tax to £90.11 for 2018/19), or an increase of 2.94% in 2018/19 and an assumption that a similar increase would be applied in the following year (this would involve setting a net budget requirement of £38.140m, a council tax requirement of £26.173m and increasing band D council tax to £91.00 for 2018/19).

1.3 The Authority had its four year efficiency plan approved by the Home Office and this has provided certainty in central Government funding for the period to 2019/20. Beyond that a number of assumptions have been made as to the level of funding in the Medium Term Financial Plan (MTFP).

1.4 The Authority has continued to make good progress in identifying and delivering savings proposals over the last 12 months. The latest version of the MTFP considers the roll-forward of the existing Plan to include 2022/23, savings from the change to appliance ridership proposals, the senior management restructure and other changes to spending plans, the multi-year local government finance settlement and latest information on council tax and business rates. Taken together these show that the Authority has already identified £0.721m of savings for delivery which would meet its funding gap up to 2020/21 and can continue its policy of using budget flexibility to make additional revenue contributions to fund the cost of the capital programme.

1.5 The level of savings required post 2019/20 will depend partly on the approach adopted by the Authority in relation to council tax increases. If the option of maintaining the 1.94% increase is taken then further savings will be required from 2020/21. If the 2.94% increase is taken then further savings are not needed until 2021/22 and the overall savings target is reduced.

1.6 There remain several uncertainties for funding in 2020/21 and beyond and the Authority will need to remain flexible in its approach to financial planning. The acknowledgement of the Authority's four year efficiency plan and the multi-year funding figures for the period to 2019/20 have provided a welcome level of certainty and have supported our strategic and financial planning for the next two years. However, there remains uncertainty after this end of this period. The Government has now committed that by the end of the Parliament local government will retain 75% of business rates revenues to fund local services in return for the loss of a number of existing grants such as Revenue Support Grant. It remains unclear however, whether the fire service will remain part of the Business Rates Retention regime beyond 2019/20 or move to receive funding via a Home Office grant. In addition there is a national Fairer Funding Review which could change the basis for the distribution of resources across the fire service and a Comprehensive Spending Review which will determine the total funding available for the fire service for the last two years of this parliament, both of these are due for implementation in 2020/21.

2 ECONOMIC OUTLOOK

2.1 The general state of the economy is an important factor in setting the Authority's revenue budget and MTFP over the next five years. The UK economy has slowed this year as inflation has decreased households' real incomes. The Office of Budget

Responsibility (OBR) has reflected low productivity growth and better than expected level of national deficit in their revised forecasts. Growth is forecast to average 1.4 per cent a year over the next five years, slowing a little over the next two (as public spending cuts and Brexit-related uncertainty weigh on the economy) and picking up modestly thereafter as productivity growth quickens. Levels of employment have grown more quickly than was generally expected with average hours worked per person remaining consistent.

2.2 The Government's stated fiscal mandate is to maintain the structural deficit as less than 2% of GDP. The OBR expect this will be achieved in 2018/19 when they forecast it to be 1.8%, falling to 1.5%, 1.3%, 1.2% and 1.1% in the following financial years. However it has It has achieved this largely by announcing fresh sales of RBS shares and by passing regulations that ease local and central government control over housing associations in England. In response, the Office for National Statistics has announced that it will treat them as private sector entities from the point at which the regulations take effect but whatever its statistical classification it seems equally likely that the Government of the day would choose to stand behind it.

2.3 The official UK bank interest rate increased from 0.25% to 0.5% in November 2017 and the Authority's advisors currently forecast a further rise to 0.75% during the second half of 2018/19.

2.4 The Government continue to set the target for CPI at 2%. The November figure was 2.8% (the same as the previous month) and the OBR expect it to fall to 2.4% in 2018 and 1.9% in 2019 before stabilising at 2%.

3 NATIONAL FUNDING

3.1 The provisional Local Government Finance Settlement was announced on the 19 December 2017. As expected it reflected the accepted four year settlement. The timing of policy decisions on the funding of local government and fire services have been affected by Government focus on the Brexit negotiations and there is a high degree of uncertainty on funding beyond the end of the four year settlement. The assumptions used to predict funding have drawn on various models and announcements from bodies such as the Local Government Association, and Local Government Futures along with other professional and sector groups.

3.2 As part of the 2011 Localism Act, council tax capping in England has been abolished and has been replaced by powers for residents to approve or veto excessive council tax increases through a local referendum. Any decision to trigger a referendum would incur a significant cost in actually carrying out the vote, and thereby acts as a disincentive to break the referendum ceiling. The Local Government Finance Settlement (provisional) has increased the referendum threshold to 3% for 2018/19 and 2019/20. The Authority had confirmed its planning assumption of a council tax increase of 1.94% each year until 2022/23 however this report considers the impact of a larger increase in terms of additional funding for key policy investment and protection of funding base in future years.

3.3 The Local Government Finance Report (England) 2018/19 is due to be debated in mid-February when, if approved, the LGFS will become final. It is recommended that power is delegated to the Chief Fire Officer, in consultation with the Chairman and the Treasurer, to make any presentational changes to the budget that may be required as a result. This will not impact on the agreed precept or level of council tax.

3.4 The multi-year settlement does not address the remaining three years of the Authority's MTFP and there is a significant degree of uncertainty given that there will be changes to the business rates system and potentially a change of Government. At this stage we have modelled on the basis that overall government funding will continue to decrease at the same rate to the end of this MTFP.

3.5 The Government has extended reliefs on business rates for small and rural businesses and brought forward the switch from RPI to CPI for business rates annual uplift. The provisional settlement indicates that losses will be compensated for by a section 31 grant. The provisional settlement relies on government core spending figures, whereas the actual amounts shown in the MTFP are based on billing authorities NNDR1 returns at the end of January.

3.6 There has been no announcement on specific grants for the fire and rescue service to date. Our current assumption is that both FireLink and New Dimensions grants will be reduced by 10% p.a. for the duration of the MTFP.

4 MEDIUM TERM FINANCIAL PLAN

4.1 The MTFP (Appendix A) reflects the provisional Local Government Finance Settlement (LGFS) and offers two options for council tax increases. It includes the final information on business rates and council tax. The risks set out in paragraph 4.9 below and the potential for further reductions in public spending makes forecasting the position for the last three years of the rolled forward MTFP very difficult (i.e. beyond the current multi-year funding agreement). For that reason the forecast within the MTFP for 2020/21 to 2022/23 should be regarded only as indicative at this stage.

4.2 The MTFP reflects our initial modelling of these factors and includes the following key assumptions:

- From 2020/21 it is assumed that in line with continued austerity the overall level of government funding will continue to decrease at the same rate as the remainder of the current settlement (c.13% pa)
- any changes to the distribution of business rates under the Government's localisation proposals for business rates will have a net nil impact on the Authority
- section 31 grant to compensate authorities for the loss of income as a result of the capping of the multiplier and various reliefs is assumed to end after 2019/20.
- Growth in Council Tax base of 1.55% for 2018/19, 1.0% in 2019/20 and 0.6% thereafter;
- Increases of 1.94% in Council Tax each year from 2018/19 onwards, or alternatively 2.94% in 2018/19 and 2019/20 and 1.94% thereafter;
- Net provision for pay increases of 1.5% for operational staff and 2.0% for all other staff in 2018/19 and 2.0% for all staff in subsequent years;

- Provision for price increases of 2.5% for the duration of the MTFP;
- Delivery of savings in line with agreed plans and identification of further savings through the Efficiency Strategy

4.3 The East Sussex Business Rates Pool was dissolved for 2017/18 as partners wished to mitigate the risk posed by the 2017 Revaluation. A bid has successfully been made to re-establish the Pool for 2018/19. It is estimated that the Pool will generate an extra £150,000 in Retained Business Rates to the Authority in 2018/19 which will be added to the business safety training budget for 2018/19.

4.4 Overall, current forecasts for Collection Funds indicate an expected deficit on the business rates collection fund of £73,400 and a surplus on the council tax collection fund of £374,100, meaning an overall estimated net surplus of £300,700.

4.5 For 2018/19 pay inflation for all terms and conditions is 2.0% which equates to £526,000 and included in the savings there is a reduction of £125,000 which equates to 0.5% of the total pay bill bringing the net provision to 1.5% for all terms and conditions. The support staff pay award for 2018/19 has already been agreed at 2.0% which makes that element of the saving, £27,000, unachievable and reduces the saving to £98,000.

4.6 There remains a degree of uncertainty on the pay settlement for grey book staff for both 2017/18 and 2018/19. For the former, negotiations continue albeit an interim payment of 1% has been agreed. For 2018/19 onwards the Autumn Statement signalled a potential relaxation of the 1% pay cap for those services with an independent pay review body and where recruitment and retention challenges or delivery of efficiencies were demonstrated. The cost of additional pay awards to Police in 2017/18 was expected by Government to be met from existing resources (i.e. Police reserves). On this basis our view is that the assumptions in the MTFP are appropriate.

4.7 The assumption for price inflation in the 2018/19 revenue budget and the remainder of the MTFP is 2.5%. Forecasts of CPI broadly match this in 2018/19 and 2019/20 however fall to circa 2.0% thereafter. However the RPI forecasts remain at 3.0% throughout this period which indicate 2.5% assumption to be appropriate.

4.8 The MTFP now forecasts for the 1.94% council tax increase option net expenditure increase of 1.3% in 2018/19, a decrease of 0.1% in 2019/20, and increases of 0.7%, 2.5% and 1.9% in subsequent years. In the 2.94% council tax increase option the net expenditure increases are 2.0% in 2018/19 and 0.7%, no increase0.1%, 1.9% and 1.9% increases in subsequent years. Considering all of the underlying assumptions set out above in paragraph 4.2 and the Authority's savings plans, this indicates that the Authority can achieve a balanced budget for 2018/19.

4.9 There is a range of risks that have the potential to impact on the Authority's ability to deliver its budget plans over the medium term to which Members must give consideration, primarily:

- Our ability to deliver the savings set out in the MTFP through the Efficiency Strategy
- Higher than planned for pay awards as a result of the relaxation of the Government's 1% pay cap
- Any delay to the go-live of the Authority's new mobilising system beyond 31 March 2018
- The impact of the Emergency Services Communication project
- Uncertainty about future governance and funding including:
    - Proposals for the further (75%) localisation of business rates from 2020/21
    - The potential for fire service funding from the Business Rate Retention regime to be replaced with a Home Office grant from 2020/21
    - The impact of the Fairer Funding Review beyond the current multi-year settlement
    - A Comprehensive Spending Review covering 2020/21 and 2021/22
    - The impact of economic growth on income from both business rates and council tax (including the impact on the cost of the local council tax reduction scheme)
    - The potential impact of the UK's decision to leave the EU
    - The impact of local growth development plans and additional housing, road and commercial risks
    - Development of local devolution proposals

The Authority has made provision to manage financial risks and in year pressures through both the Reserves and Balances Policy and a contingency within the Revenue Budget, £513,000 for the 1.94% council tax increase option decreasing to £300,000 over the life of the MTFP and £569,300 for the 2.94% increase decreasing to £350,000 by 2022/23. The figure for 2018/19 is higher than originally planned by almost £200,000 as a result of higher than forecast funding from S31 grant, greater growth in council taxbase and a better collection fund position. This will assist the Senior Leadership Team in managing in year risks including those around the pay settlement and emerging pressures within Human Resources and Sussex Control Centre.

4.10 In overall terms the assumptions set out in the report mean that the revised MTFP with the 1.94% council tax increase option shows a balanced budget in 2018/19 and 2019/20 and then a need to deliver further savings of £0.930m by 2022/23. In addition, given the uncertainty surrounding Business Rates Retention after 2019/20, it is recommended that the Authority plan for additional savings of £0.311m by 2022/23 (the equivalent to losing inflationary growth in business rates and switching to a government grant). This gives a total savings target of £1.241m by 2022/23.

4.11 In the case of the 2.94% council tax increase option the MTFP shows a balanced budget in 2018/19, 2019/20 and 2020/21 and then a need to deliver further savings of £0.408m by 2022/23 and with recommended plan for additional savings of £0.311m by 2022/23 (the equivalent to losing inflationary growth in business rates and switching to a government grant) a total savings target of £0.719m by 2022/23.

5 PROJECTED REVENUE POSITION 2017/18

5.1 The Service Revenue Budget for 2017/18 is £37.403m. Based on figures to the end of November 2017 the revenue budget is forecast to underspend by £454,000.

5.2 No decision on the use of the underspend is required at this point, but it is likely that Officers will recommend it is transferred to the Improvement and Efficiency Reserve to support the investment that will be needed to realise the Efficiency Strategy.

6 REVENUE BUDGET 2018/19

6.1 Impact of national funding changes on local position

6.1.1 The Revenue Budget Summary for 2018/19 and the MTFP have been updated to reflect the Local Government Finance Settlement (provisional) and the final information advised by the billing authorities on council tax base, business rates base and Collection Fund surpluses and deficits. The position is summarised below in Table 1.

Table 1: Summary of Impact of Local Government Finance Settlement

	2018/19 £'000
Locally Retained Business Rates	2,617
Top Up Grant	4,977
Business Rates Baseline	7,594
Revenue Support Grant	3,660
Settlement Funding Assessment	**11,254**
Estimated value of Business Rates Pool included above	150
Transition Grant	**0**
S31 Grant - Business Rates Adjustment	**412**
Total for comparative purposes	**11,816**
As reported to Fire Authority 7 September 2017	11,378
Increase/(decrease) in funding	**438**

6.1.2 The application to reform the East Sussex Business Rates Pool has been approved At this stage, we have included £150,000 income from the Pool within the 2018/19 budget, a change from the September update to the Authority.

6.1.3 The Authority's council tax base for 2018/19 is calculated as 287,611.38, an increase of 1.55% on 2017/18. If the Authority were to increase its council tax as currently modelled by 1.94% this would provide income of £25.917m. An increase of 2.94% yields additional income of £0.256m using the 2018/19 council tax base.

6.1.4 The billing authorities have confirmed that there will be a surplus of £0.374m on the Council Tax Collection Fund and a deficit on the Business Rates Collection Fund of £0.073m for distribution in 2018/19. Members should note that any net collection fund surplus is a one-off benefit only.

6.1.5 The latest available figures from the Local Government Finance Settlement (provisional) indicate that the Autumn Budget announcement regarding the bringing forward of the change in indexation for the uplift of business rates from RPI to CPI has decreased income from locally retained business rates however this is compensated for within the increase in the section 31 grant. The position is summarised below in Table 2.

Table 2: Movement in Resources

	2018/19 Latest position £'000	**2018/19 Fire Authority September 2017 £'000**	**Increase / (Decrease) £'000**
Locally Retained Business Rates	2,617	2,476	141
Business Rates Top up	4,977	4,976	1
Business Rates Baseline	7,594	7,452	142
Revenue Support Grant	3,660	3,660	0
Settlement funding assessment	**11,254**	**11,112**	**142**
Council Tax Collection Fund Surplus / (Deficit)	374	210	164
Business Rates Collection Fund Surplus / (Deficit)	(73)	(100)	27
Section 31 grant Business Rates adjustment	412	266	146
Transition Grant	0	0	0
Total Funding	**11,967**	**11,488**	**479**
Council Tax			
Council Tax Requirement (1.94% option)	25,917	25,776	141
Total Resources	**37,884**	**37,264**	**620**

Council Tax Requirement (2.94% option)	26,173	25,776	397
Total Resources	**38,140**	**37,264**	**876**

6.2 **Comparative position**

6.2.1 As part of the provisional Local Government Finance Settlement the Government publishes an assessment of all authorities' core spending power. For 2018/19 this Authority's increase in core spending power is assessed as 1.3% which matches the average for all combined fire authorities (see Appendix H). The Government's calculation of core spending power assumes that all authorities set a council tax increase at the referendum threshold. In terms of spend per 1,000 population this Authority ranks fifth out of 18 combined fire authorities based on actual expenditure for 2016/17 (source CIPFA Stats – five authorities did not submit returns).

6.2.2 A comparison of Band D council tax for 2017/18 shows that this Authority ranks fourth highest out of 23 combined fire authorities. This position would remain unchanged for 2018/19 if this Authority were to increase its Council Tax by 2.94% and the three authorities above it in the rankings made no increase.

6.3 **Overview of current budget proposals**

6.3.1 The Budget Strategy of the Fire Authority is to support the following policy priorities:

(i) to fulfil the Fire Authority's statutory duties as a legally separate authority

(ii) to ensure the Fire Authority has sufficient resources to meet its statutory responsibilities, not only for the current year, but also for the investment required primarily for the replacement of assets to ensure long-term service sustainability

(iii) to discharge its duties, as established under the Combination Order, with regard to determining an annual budget and consulting with stakeholders of its budget proposals, as appropriate

(iv) to further develop and implement an Integrated Risk Management approach to our Strategic Plans and services to local communities

(v) to identify sufficient savings over the medium term to ensure it has a balanced budget and sustainable medium term finance plan in the light of expected reductions in public sector funding

6.3.2 The Authority identified that it had a funding gap of £7.1m in July 2013 and subsequently embarked on a phased programme called 'Changing the Service, Shaping our Future' to identify and evaluate savings proposals. Through this Programme the Authority has since approved a range of operational and non-operational savings proposals which have, in combination with pre-existing savings initiatives, so far delivered revenue budget savings totalling £5.914m with a further £0.721m identified for delivery by 2022/23.

6.3.3 The Authority reviewed its strategy and IRMP during 2016/17, and following public consultation has agreed a new purpose and commitments, and set a range of IRMP priorities. We have aligned the budget setting process to this review and will continue to do so as the IRMP priorities are developed further. This will ensure that the Authority can match service priorities to available resources and achieve financial sustainability over the medium term. At this stage the only direct financial implications from the IRMP are for the Immediate Emergency Care Responding (IECR) pilot for which funding was agreed from a combination of earmarked reserves and existing revenue budgets.

6.3.4 Precepting status means that the Revenue Budget has to be balanced within the context of the impact upon council taxpayers and demands and pressures faced by the Fire Authority in meeting its statutory obligations, commitments and requirement to maintain an effective level of Reserves & Balances. The 2018/19 Revenue Budget has been prepared against a background of continued reductions in funding for public services as part of the Government's continuing deficit reduction strategy.

Table 3a: Summary of Net Budget Requirement 1.94% council tax increase option

	£'000	Change %
Original Estimate 2017/18	**37,403**	
Pay inflation	526	1.41%
Non pay inflation	221	0.59%
Changes in capital financing	(16)	(0.04%)
Commitments: see Table 4	436	1.17%
Savings: see Table 5	(686)	(1.83%)
Original Estimate 2018/19	**37,884**	**1.29%**

Table 3b: Summary of Net Budget Requirement 2.94% council tax increase option

	£'000	Change %
Original Estimate 2017/18	**37,403**	
Pay inflation	526	1.41%
Non pay inflation	221	0.59%
Changes in capital financing	(16)	(0.04%)
Commitments: see Table 5	692	1.85%
Savings: see Table 6	(686)	(1.83%)
Original Estimate 2018/19	**38,140**	**1.97%**

6.4 Consultation

6.4.1 The Authority carried out an eight week public consultation on its Integrated Risk Management Plan 2017-2020. The full results of the consultation were reported to the Fire Authority at its meeting on 8 December 2016 (Item 959). It had a broader reach than in previous years as a result of an extensive communication strategy and concentrated engagement from Fire Authority members. The quantitative on-line survey received 528 responses and qualitative feedback was gathered at three consultation fora.

6.4.2 The questionnaire included some questions related to the Authority's financial plans and the responses are summarised as follows:

- the majority (79%) of respondents agreed that their local fire and rescue service offers value for money; only 6% disagreed

- around four fifths (81%) of respondents said they would be willing to pay more, through council tax, for their local fire and rescue service next year, with just under half (49%) saying that they would be willing to pay a small amount more through their council tax (up to a 2% increase) and around a third (32%) said that they would be willing to accept a larger increase in council tax (more than a 2% increase)

Just under a fifth of respondents (19%) said that they didn't want an increase in council tax that year (2017/18).

6.4.3 The budget proposals have been shared with key business representative groups, partners and employee representative bodies with an invitation to comment. No responses had been received by the end of January deadline.

6.5 **Fees and Charges**

6.5.1 The existing policy is for fees and charges to be reviewed not less than once a year and that increases should take into account the cost of providing the service, including the effects of inflation.

6.5.2 Appendix B gives details of increases in fees and charges for Fire and Rescue Service activities. The Revenue Budget assumes that the current policy will be followed, i.e. that income will rise to ensure that net expenditure will increase by no more than the rate of inflation. The main impact on the costs of providing these services is pay related. Therefore to reflect nationally agreed increases in pay and the overall level of budget provision for pay awards, it is proposed to increase fees and charges by 1.5% in 2018/19 except in some cases where other factors determine the increase.

6.5.3 Officers have investigated the opportunities to make charges and have reviewed potential income that might be derived from a change in policy for the charging for special services incidents that have hitherto not been charged. Of these, animal rescue and lift rescue have been considered but have had the impact of demand management rather than income generation.

6.6 **Main Variations**

6.6.1 In setting the 2018/19 Revenue Budget a number of commitments have already been agreed. These add to or reduce the revenue budget as pressures and cyclical items and one-off projects come and recede. Some are fixed sum and others are driven by assumptions and the movement between the previous update in the summer and now is illustrated in the following table:

Table 4: 2018/19 Budget Commitments

Removal of temporary increases	**£'000**
Removal of funding for additional pension advice.	(14)
Removal of local funding for ESMCP.	(53)
Removal of budget for the transfer of the Transition grant to Improvement & Efficiency reserve.	(122)
Removal of temporary funding for legacy mobilising system.	(272)
Removal of accumulated funding for sprinklers in high risk / high rise residential areas (2 years).	(105)
Removal of additional funding for staffing pressures at SCC.	(120)
Cessation of Estates Project Support Officer (SHQ relocation).	(15)
Cessation of Senior Estates Surveyor (strategy and development of project proposals).	(40)
Cessation of the Procurement Officer post.	(37)
Removal of IRMP Consultation.	(30)
Removal of pressure on RPE maintenance contracts.	(35)
Other adjustments	
Adjustment to align SCC income	10
Business Rates Pool income to the Safer Business Training budget	150
Increase in the level of capital expenditure funded from the revenue account.	663
Reduction in the Corporate Contingency.	(45)
TOTAL	**(66)**

6.6.2 Should the option to increase council tax by 2.94% in 2018/19 and 2019/20 be approved there would be an additional commitment of £200,000 of a budgeted transfer to the Sprinkler earmarked reserve and the adjustment to the Corporate Contingency will become a £11,000 increase bringing the table total to a £190,000 increase.

6.6.3 The Business Planning and Budget Setting process has identified in-service savings opportunities, pressures on service budgets and bids to increase budgets. Corporate Management Team considered these items at their meetings in November and in December 2017 and agreed to their inclusion in the 2018/19 Revenue Budget and MTFP. Table 5 below shows the items and accompanying narrative and value.

Where savings have been identified, they are included in the Savings Table (Table 6).

Table 5: New Budget Commitments

Service pressures	
Effects of Support Staff Pay and Grading Review	135
ITG Strategy adjustment	(54)
Anticipated reduction in FireLink Grant by 10%.	14
Increase in LGPS employer's contribution rate of 0.5 percentage points (21.4% to 21.9%).	23
Anticipated reduction in New Dimensions Grant by 10%.	5
Adjustments to the Engineering budget for cyclical replacement.	10
Service Growth	
Senior Estates Surveyor for 12 months to support Estates Strategy (slipped from 17/18)	42
Increase in Business Rates following national revaluations in 2017	100
PPE/Workwear increase until new contract on 29 November 2019 plus £44,000 non achievable saving.	80
Temporary Procurement Officer post made permanent to resource existing procurement workloads	41
HQ Shuttle bus for 2018/19, half cost share with Police	20
Service fitness Instructor increase 0.4 to 1.0 fte to support Health, Safety & Wellbeing Strategy	28
Cost of Health & Safety restructure	38
Cost of Planning and Improvement restructure	20
TOTAL	**502**

6.7 Savings Plan

6.7.1 Since 2010/11 the Authority has made, and has planned to make, savings totalling £8.779m of which £8.058m will have been delivered by the end of 2017/18. The expenditure plans also reflect the delivery of the savings agreed as part of the 2016/17 budget. The estimated savings starting from 2018/19 include various operational and non-operational savings, savings from the Management Restructure, the Riding at Standard proposals, the SHQ Relocation Project and a number of newly identified savings from this budget setting process.

6.7.2 Officers will continue to explore the potential for further savings to meet the identified target by 2022/23 through the activities set out in the Efficiency Strategy approved by the Authority in September 2017. The Authority builds on its existing initiatives to develop a more strategic approach to delivering efficiency and this will include the following:

- Closer alignment of the budget setting and business planning process;
- The modelling of a range of savings / efficiency scenarios beyond that required to balance the budget as set out in the MTFP
- Planned reviews of Governance and Collaboration, the latter to include clearer criteria for assessing collaborative opportunities to ensure the Authority can prioritise / focus its effort in this area;
- Reviews of all existing programmes, projects and collaborative initiatives to evaluate the potential financial impact including the potential to deliver efficiency savings;
- Evaluation of the potential financial and performance impact of the 10 focus areas of the IRMP;
- Standard template for strategies to include requirement to set out opportunities for delivering efficiencies or improving outcomes for communities;
- Development of more robust standard approaches to evaluating new projects through feasibility and business case stages, with a clear focus on identifying investment requirements and benefits identification / realisation including efficiencies (as part of the development of the Programme Management Office);
- A clearer focus on the identification and delivery of efficiency savings through the Procurement Strategy and its supporting category management plans;
- The recommencement of the Support Service Review;
- Review with telent of opportunities for delivering further efficiencies through IT;
- Learning from the outcomes of the planned external review of HR processes and determine whether the approach has wider benefits across the organisation;
- Re-assessment of the use of the Improvement & Efficiency Reserve with a focus on supporting invest to save initiatives;
- Considering the potential of investment through the Capital Asset Strategy to deliver ongoing efficiencies;
- A review of opportunities for potential commissioning of services (Yr 2);
- The assessment of opportunities for further development of benchmarking (with a focus on efficiency and effectiveness) across the fire service (Yr 2);
- A review of the opportunities for income generation through fees and charges, trading and other commercial opportunities (Yr 2).

Table 6: Savings

CUMULATIVE CURRENT SAVINGS		**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Category	**Description**	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**
Non Operational	Various reductions in Health and Safety budget to reflect changes in working practices	(4)	(4)	(4)	(4)	(4)

Non Operational	Uniform – based on proposals to reduce operational posts (was £44,000)	0	0	0	0	0
Non Operational	Reduce provision for pay increases from 2% to 1.5% from 2016/17 to 2018/19 (was £125,000)	(97)	(97)	(97)	(97)	(97)
Phase 2	Riding at Standard	(280)	(280)	(280)	(280)	(280)
Further additional	Management Restructure	(29)	(59)	(64)	(64)	(64)
Further additional	HQ relocation	(70)	(70)	(70)	(70)	(70)
New	Saving on ITG contracts following renegotiation.	(80)	(80)	(80)	(80)	(80)
New	Saving on Financial Services contract with ESCC	(41)	(41)	(41)	(41)	(41)
New	Saving on External Audit fee; PSAA 2018/19 scale of fees	(10)	(10)	(10)	(10)	(10)
New	Employers contributions for Firefighters pensions	(75)	(75)	(75)	(75)	(75)
TOTAL		**(686)**	**(716)**	**(721)**	**(721)**	**(721)**

7 CAPITAL PROGRAMME

7.1 The Medium Term Capital Strategy has been developed in line with the Authority's purpose and commitments and its Integrated Risk Management Plan. It aims to provide a sustainable and affordable level of investment to support our service provision to the communities of East Sussex and the City of Brighton and Hove. The CAS has been updated to reflect the roll forward and continue the themes of cyclical replacement and improvement of the assets of the Authority. There will be a more fundamental review of the CAS and our funding strategy once the review of the Estates Strategy and Fleet Strategy are completed during 2018/19. By early 2018/19 the Authority should also have clarity on the costs and funding for two Integrated Transport Function Projects (Fuel Tanks and South East Workshop). The main additions are revisions to the existing Fleet Strategy including £0.840m for the replacement of New Dimensions assets whose original purchase was funded by central government.

7.2 With no requirement to borrow over the five year term of the existing Strategy, the only revenue impact is the changes to the assumptions on levels of interest used on balances. At 31 March 2019 the Authority's debt will be £10.773m and will fall to £9.817m by the end of 2022/23.

Table 7: Revenue Impact of Capital Programme 2017/18 to 2022/23

Revenue Impact of Capital Programme 2017/18 to 2022/23							
	Total resource	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	***2022/23***

	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fleet	12,791	2,962	2,060	2,850	1,704	1,823	*1,393*
Property	7,647	818	1,195	3,852	878	577	*328*
IMD	173	123	50	0	0	0	*0*
Total Gross Cost	**20,611**	**3,903**	**3,305**	**6,702**	**2,581**	**2,400**	***1,721***
Cost of 2017/18 Strategy	**19,574**	4,677	5,937	2,553	1,731	4,677	
Increase (decrease)	**1,037**	**(774)**	**(2,632)**	**4,149**	**850**	**(2,277)**	***1,721***
Revenue implication	5,528	944	930	930	929	911	*884*
Previously forecast revenue implication	4,644	944	930	930	929	911	*0*
Total Revenue Cost (Saving)	**0**	**0**	**0**	**0**	**0**	**0**	

7.3 The Estates element of the CAS is based on the existing Estates Strategy and condition survey. The approach to the Authority's built environment and Facilities Management is subject to a review and future CAS will reflect the outcomes of this.

7.4 Reserves and balances are held in accordance with the Authority's agreed policy, and the table below summarises their current values and planned use over the period. The position is based on the latest forecasts for the Capital Programme. The level of reserves held is expected to reduce over the next five years and by 2022/23 will comprise primarily an unallocated risk provision of a General Balance of 57% of total reserves and resources to fund the Capital Asset Strategy without recourse to borrowing of 38% of total reserves.

8 RESERVES & BALANCES

8.1 Reserves are an essential part of good financial management. They help authorities cope with unpredictable financial pressures and plan for their future spending commitments.

8.2 The Authority's Reserves Policy is set out in Appendix E and states that, in considering the general level of reserves, the Treasurer will have regard to:

- the strategic, legislative, operational and financial risk contexts within which the Authority will be operating through the medium-term;
- the overall effectiveness of governance arrangements and the system of internal control;
- the robustness of the financial planning and budget-setting process;
- the effectiveness of the budget monitoring and management process

8.3 Specifically, the Authority is required to maintain general reserves sufficient to cover the key financial risks that it faces. The level of reserves and their forecast use will depend on the council tax increase option taken. A summary of the forecast year end reserves and balances position is set out in Table 8 below.

TABLE 8a: Summary of Forecast Reserves and Balances 1.94% council tax increase

	31/03/2018 £'000	31/03/2019 £'000	31/03/2020 £'000	31/03/2021 £'000	31/03/2022 £'000	31/03/2023 £'000
Capital Programme Reserve	5,812	4,235	4,735	4,357	2,937	2,099
Other Earmarked Reserves	4,284	3,889	1,982	1,103	468	249
Total Earmarked Reserves	10,096	8,123	6,717	5,460	3,405	2,348
General Fund	3,142	3,142	3,142	3,142	3,142	3,142
Capital Reserves	7,668	6,559	895	0	0	0
Total Useable Reserves	**20,906**	**17,824**	**10,754**	**8,602**	**6,547**	**5,490**

TABLE 8b: Summary of Forecast Reserves and Balances 2.94% council tax increase

	31/03/2018 £'000	31/03/2019 £'000	31/03/2020 £'000	31/03/2021 £'000	31/03/2022 £'000	31/03/2023 £'000
Capital Programme Reserve	5,812	4,235	4,735	4,357	2,937	2,099
Other Earmarked Reserves	4,284	4,089	2,232	1,103	468	249
Total Earmarked Reserves	10,096	8,323	6,967	5,460	3,405	2,348
General Fund	3,142	3,142	3,142	3,142	3,142	3,142
Capital Reserves	7,668	6,559	895	0	0	0
Total Useable Reserves	**20,906**	**18,024**	**11,004**	**8,602**	**6,547**	**5,490**

8.4 A review of Reserves and Balances concludes that it is reasonable to continue with a policy aim of maintaining a General Fund balance of 8% of the net Revenue Budget. This equates to either £3.031m (1.94% CT increase) or £3.051m (2.94% CT increase) depending on the council tax option chosen which is marginally below the current level held.

9. <u>CHIEF FINANCE OFFICER STATEMENT</u>

9.1 In the view of the Treasurer in line with the requirements set out in Section 25 of the Local Government Act 2003, the estimates used for the purposes of calculating the budget, revenue and capital, have been produced in a robust and transparent way and the proposed financial reserves are consistent with Fire Authority policy and are prudent and necessary. Given the continuing reductions in funding for public services to 2020, the uncertainty around funding after 2020 and the nature of its business as an emergency service, the Authority needs to recognise that risks, financial and otherwise, and their consequent impact on the budget and reserves, may change during the year and will need to be continually monitored and reviewed in line with the Authority's policies.

10. EQUALITY IMPACT ASSESSMENT

10.1 Following the introduction of the Equality Act 2010 the Authority must, in the exercise of its functions, including the setting of its Revenue Budget and the taking of decisions on savings proposals, have due regard to its duties under the Act and in relation to certain protected characteristics. This means that Members must understand the consequences of the decisions they take for those with the relevant protected characteristics and consider these proportionately alongside other relevant factors. The majority of savings included in the 2018/19 Revenue Budget were approved by the Fire Authority prior to the setting of the 2016/17 budget and Equality Impact Assessments were prepared at the time. All the new savings identified in the 2018/19 budget are non-operational and a high level assessment has been completed and is available from Democratic Services should Members wish to review it prior to approving the revenue budget. The Equality Impact Assessment for any new savings proposals will be developed and reported as approval for each proposal is sought.

Appendix A (i)

MEDIUM TERM FINANCIAL PLAN 2018/19 - 2022/23
INCREASE COUNCIL TAX BY 1.94% EACH YEAR

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross Revenue Service Budget	**36,615**	**37,183**	**37,554**	**38,546**	**39,309**
Less					
Specific grants	(260)	(257)	(255)	(252)	(250)
Other income	(1,471)	(1,508)	(1,545)	(1,584)	(1,623)
Total income	**(1,731)**	**(1,765)**	**(1,800)**	**(1,836)**	**(1,873)**
Net Service Budget	**34,884**	**35,418**	**35,754**	**36,710**	**37,436**
Capital financing costs less interest receivable	852	852	852	828	818
Capital expenditure from the Revenue Account	1,200	607	452	452	452
Transferred to Balances	948	983	1,049	1,065	1,092
Total Net Expenditure	**37,884**	**37,860**	**38,107**	**39,055**	**39,798**

Net Budget brought forward	**37,403**	**37,884**	**37,860**	**38,107**	**39,055**
Unavoidable cost pressures					
Pay inflation	526	528	542	549	561
Price inflation	221	203	199	198	208
Total inflation	**747**	**731**	**741**	**747**	**769**
Changes in Capital Financing	(16)	0	0	(24)	(10)
Budget commitments	436	(725)	(489)	225	(16)
Savings approved	(686)	(30)	(5)	0	0
Total Net Expenditure	**37,884**	**37,860**	**38,107**	**39,055**	**39,798**

Appendix A 1.94% council tax option continued

Sources of Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Locally Retained Business Rates	2,617	2,517	2,567	2,618	2,671
Business Rate Top Up	4,977	5,082	5,183	5,287	5,393
Business Rates Baseline	**7,594**	**7,599**	**7,750**	**7,905**	**8,064**
Revenue Support Grant	3,660	3,157	2,722	2,348	2,025
Settlement Funding assessment	**11,254**	**10,756**	**10,472**	**10,253**	**10,089**
Section 31 Grant Business Rates adjustment	412	420	0	0	0
Council Tax Collection Fund (Deficit) / Surplus	374	0	0	0	0
Business Rates Collection Fund (Deficit) / Surplus	(73)	0	0	0	0
Transition Grant					
Council Tax Requirement	25,917	26,684	27,365	28,064	28,779
Total Resources Available	**37,884**	**37,860**	**37,837**	**38,317**	**38,868**
Additional Savings Required / (surplus)	**0**	**0**	**270**	**738**	**930**

Appendix A (ii)

MEDIUM TERM FINANCIAL PLAN 2018/19 - 2022/23
INCREASE COUNCIL TAX BY 2.94% IN 2018/19 AND 2019/20 AND 1.94% EACH YEAR THEREAFTER

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Gross Revenue Service Budget	**36,671**	**37,412**	**37,827**	**38,595**	**39,358**
Less					
Specific grants	(260)	(257)	(255)	(252)	(250)
Other income	(1,471)	(1,508)	(1,545)	(1,584)	(1,623)
Total income	**(1,731)**	**(1,765)**	**(1,800)**	**(1,836)**	**(1,873)**
Net Service Budget	**34,940**	**35,647**	**36,027**	**36,759**	**37,485**
Capital financing costs less interest receivable	852	852	852	828	818
Capital expenditure from the Revenue Account	1,200	607	452	452	452
Transferred to Balances	1,148	1,283	1,049	1,065	1,092
Total Net Expenditure	**38,140**	**38,389**	**38,380**	**39,104**	**39,847**

Net Budget brought forward	**37,403**	**38,140**	**38,389**	**38,380**	**39,104**
Unavoidable cost pressures					
Pay inflation	526	529	541	549	561
Price inflation	221	204	205	204	209
Total inflation	**747**	**733**	**746**	**753**	**770**
Changes in Capital Financing	(16)	0	0	(24)	(10)
Budget commitments	692	(454)	(750)	(5)	(17)
Savings approved	(686)	(30)	(5)	0	0
Total Net Expenditure	**38,140**	**38,389**	**38,380**	**39,104**	**39,847**

Appendix A 2.94% council tax option continued

Sources of Funding	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Locally Retained Business Rates	2,617	2,517	2,567	2,618	2,671
Business Rate Top Up	4,977	5,082	5,183	5,287	5,393
Business Rates Baseline	**7,594**	**7,599**	**7,750**	**7,905**	**8,064**
Revenue Support Grant	3,660	3,157	2,722	2,348	2,025
Settlement Funding assessment	**11,254**	**10,756**	**10,472**	**10,253**	**10,089**
Section 31 Grant Business Rates adjustment	412	420	0	0	0
Council Tax Collection Fund (Deficit) / Surplus	374	0	0	0	0
Business Rates Collection Fund (Deficit) / Surplus	(73)	0	0	0	0
Transition Grant					
Council Tax Requirement	26,173	27,213	27,908	28,619	29,350
Total Resources Available	**38,140**	**38,389**	**38,380**	**38,872**	**39,439**
Additional Savings Required / (surplus)	**0**	**0**	**0**	**232**	**408**

Appendix B (i)

Revenue Budget Subjective Summary option of 1.94% council tax increases

	2017/18 Original Estimate £'000	2018/19 Original Estimate £'000
Salaries, Allowances and On-costs	26,322	26,382
Training Expenses	582	597
Other Employees Costs	410	307
Employee Costs	**27,314**	**27,286**
Repair, Maintenance and Other Costs	1,096	1,089
Utility Costs	1,127	1,264
Premises Costs	**2,223**	**2,353**
Vehicle Repairs and Running costs	960	984
Travel Allowances and Expenses	123	145
Transport Costs	**1,083**	**1,129**
Equipment and Supplies	1,609	1,309
Fees and Services	1,486	2,468
Communications and Computing	2,239	931
Other Supplies and Services	1,007	1,139
Supplies and Services	**6,341**	**5,847**
Sums set aside from revenue	976	1,631
Interest Payments	504	496
Capital Financing	**1,480**	**2,127**
Grants and Contributions	(416)	(543)
Interest Received	(75)	(75)
Other Income	(1,169)	(1,188)
Income	**(1,660)**	**(1,806)**
Transfers From reserves		
Transfers To reserves	622	948
Total Net Expenditure	**37,403**	**37,884**
Financed By:		
Council Tax	(25,036)	(25,917)
Business Rates	(7,213)	(7,594)
Revenue Support Grant	(4,524)	(3,660)
Transition Grant	(122)	0
S31 Grants	(258)	(412)
Collection Fund Surplus/Deficit Council Tax	(250)	(301)
Total Funding	**(37,403)**	**(37,884)**

Appendix B continued

Revenue Budget Objective Summary option of 1.94% council tax increases

	2017/18 Original Estimate £'000	2018/19 Original Estimate £'000
Training and Assurance	2,193	2,318
Resources/Treasurer	7,530	6,951
Planning and Improvement	1,049	1,139
Total Deputy Chief Fire Officer	**10,772**	**10,408**
HR and OD	922	911
Safer Communities	18,290	18,271
Operational Support	3,850	3,581
Total Assistant Chief Fire Officer	**23,062**	**22,763**
CFO Staff	675	655
Treasury Management	1,408	2,056
Non delegated costs	474	541
Corporate Contingency	390	513
Transfers to Reserves	622	948
Transfers from Reserves	0	0
Total Corporate	**3,569**	**4,713**
Total Net Expenditure	**37,403**	**37,884**

Appendix B (ii)

Revenue Budget Subjective Summary option of 2.94% council tax increases in 2018/19 and 2019/20 and 1.94% increase thereafter

	2017/18 Original Estimate £'000	2018/19 Original Estimate £'000
Salaries, Allowances and On-costs	26,322	26,382
Training Expenses	582	597
Other Employees Costs	410	307
Employee Costs	**27,314**	**27,286**
Repair, Maintenance and Other Costs	1,096	1,089
Utility Costs	1,127	1,264
Premises Costs	**2,223**	**2,353**
Vehicle Repairs and Running costs	960	984
Travel Allowances and Expenses	123	145
Transport Costs	**1,083**	**1,129**
Equipment and Supplies	1,609	1,309
Fees and Services	1,486	2,468
Communications and Computing	2,239	931
Other Supplies and Services	1,007	1,195
Supplies and Services	**6,341**	**5,903**
Sums set aside from revenue	976	1,631
Interest Payments	504	496
Capital Financing	**1,480**	**2,127**
Grants and Contributions	(416)	(543)
Interest Received	(75)	(75)
Other Income	(1,169)	(1,188)
Income	**(1,660)**	**(1,806)**
Transfers From reserves		
Transfers To reserves	622	1,148
Total Net Expenditure	**37,403**	**38,140**
Financed By:		
Council Tax	(25,036)	(26,173)
Business Rates	(7,213)	(7,594)
Revenue Support Grant	(4,524)	(3,660)
Transition Grant	(122)	0
S31 Grants	(258)	(412)
Collection Fund Surplus/Deficit Council Tax	(250)	(301)
Total Funding	**(37,403)**	**(38,140)**

Appendix B(ii) continued

Revenue Budget Objective Summary option of 2.94% council tax increases in 2018/19 and 2019/20 and 1.94% increase thereafter

	2017/18 Original Estimate £'000	2018/19 Original Estimate £'000
Training and Assurance	2,193	2,318
Resources/Treasurer	7,530	6,951
Planning and Improvement	1,049	1,139
Total Deputy Chief Fire Officer	**10,772**	**10,408**
HR and OD	922	911
Safer Communities	18,290	18,271
Operational Support	3,850	3,581
Total Assistant Chief Fire Officer	**23,062**	**22,763**
CFO Staff	675	655
Treasury Management	1,408	2,056
Non delegated costs	474	541
Corporate Contingency	390	569
Transfers to Reserves	622	1,148
Transfers from Reserves	0	0
Total Corporate	**3,569**	**4,969**
Total Net Expenditure	**37,403**	**38,140**

Appendix C

Fees and Charges
with effect from 1 April 2018

Fee	Existing Fees 2017/18 £	New Fees 2018/19 £
The hiring of a major pumping appliance with crew per hour	287	292
The hiring of other pumping vehicles with crew per hour	231	235
The hire of hydraulic platforms or turntable ladders with crew per hour	310	315
Large animal rescue per hour	287	292
Dry Riser (subsequent test at the owner's request):		
First Dry Riser	214	218
Additional Dry Risers	140	143
Interviews: *		
- Insurance Co Etc	140	143
- After two hours	91	93
Copy of Petroleum Licences *	34	35
Copy plans *	39	40
Standby at Venue	287	292
Fire Investigation Report	308	313
Chemical Protection Suit	160	163
Commercial Training One day course (per person)	179	179
Commercial Training Customers Site (per Session)	599	599
Commercial Training Fire Talk (per session)	369	375
Inspection of Plans for Marriage Act 1994 *	118	120
Environmental search fees *	110	112

All fees and charges will have VAT added except those marked with " * "

Appendix D

MEDIUM TERM CAPITAL STRATEGY 2018/19 to 2022/23

Overview

The Medium Term Capital Strategy has been developed in line with the Authority's purpose and commitments and its Integrated Risk Management Plan. It aims to provide a sustainable and affordable level of investment to support our service provision to the communities of East Sussex and the City of Brighton & Hove. Where decisions have already been taken to change the service, which have capital investment implications, these are reflected in this strategy. It is likely that further changes to this strategy will be needed as further Service reviews are carried out, particularly as a result of the development of new IT, Estates and Fleet Strategies and our IRMP priorities.

The strategy reflects re-profiling of projects planned for delivery in 2017/18 which have been delayed across property and fleet.

The main areas covered within the strategy are summarised below.

Property – Major Schemes

The Authority has had a programme of major property schemes identified through its Property Asset Management Plan which involve either major refurbishment of existing sites or schemes for new build. In the current Strategy these include:

- **Preston Circus –** this station is the Authority's main asset in the City and we have determined that redevelopment of a modern, fit-for-purpose facility on the existing site is our preferred option. An initial feasibility study has been carried out and further work will shortly commence under the aegis of the Greater Brighton One Public Estate (OPE) bid for which funding has been provided by central government. This will include further assessment of options which include redevelopment with public and commercial office accommodation or residential. Before progressing to the next stage we are needing to develop a Service wide Design Guide under the Estates Strategy which will inform the redevelopment of Preston Circus ensuring that it meets future operational requirements. We anticipate being able to take a final decision in 2018/19 with work commencing in the latter part of 2018/19. Provision is made for £2.5m based on the initial feasibility study.

- **Service HQ Relocation** – the remainder of the expected spend on the Service HQ relocation scheme has been reclassified as revenue expenditure (funded by revenue earmarked reserve) and no longer features in the CAS going forward.

- **Integrated Transport Function (ITF) – South Eastern Hub Workshop** – the ITF, part of the wider Emergency Services Collaboration Project (ESCP), has identified the need for a new workshop site in the Bexhill area. The primary users of the site are expected to be this Authority and Sussex Police. The project is at an early stage with initial feasibility studies expected to be complete by the end of 2017/18. Should the project progress, some capital funding would be available from the Fire Transformation Grant awarded in 2015/16 to the fire partners in the ESCP. At this stage, an indicative sum of £1m is included in this CAS, £0.25m in 2018/19 and £0.75m in 2019/20 although this will depend on the project implementation plan.

Property – General Schemes
This Strategy seeks to achieve property maintenance and improvements as identified by the most recent property condition survey undertaken in 2013. This informs us of the overall cost prioritisation of work and ensures that the building stock can be sustained in effective working order on a long term basis. It also reflects the capacity of the Estates Team to deliver the required day-to-day services effectively. This Strategy has identified that significant progress has been achieved with the previously identified investment schemes. Consequently, there have been changes to the current Capital Programme and changes to schemes starting in 2018/19 and beyond.

A fundamental review of the Estates Strategy is planned for 2018/19 and will set out a longer term view of the investment required to ensure that our built environment supports the effective delivery of our services.

The fuel tanks and fuel management scheme, which was identified as a strategic requirement within previous strategies, has been placed on hold as a consequence of ITF. This project has commenced implementation in 2017/18 and funding has been agreed from the Fire Transformation Grant. At this stage, it is not clear whether partner authorities will be expected to contribute towards the capital costs of this project so the previously agreed funding remains in this strategy.

Complementary to the wider Property Condition surveys, there are regular evaluations to assess future operational requirements within the context of the Integrated Risk Management Planning process, the Carbon Trust survey of energy usage, the Local Development Frameworks and Core Strategies for each of the planning authority areas, as well as the legal responsibilities of the Equality Act and other legislation such as the Control of Asbestos Regulations.

Information Management
The completion of the SCC project is currently the only IT capital scheme within this strategy. The IT Strategy has been prepared covering the period 2017-2022 however at this stage none of the Strategy has been identified as Capital Expenditure. As more detail of Strategy item proposals are identified the classification will be kept under review and, if required approval to amend this Strategy will be sought in due course.

Fleet and Equipment
The Authority has a rolling programme of replacing its vehicle fleet in line with its agreed lifing policy. This encompasses fire appliances (approximately three each year), aerial appliances, ancillary vehicles and the light fleet (cars and vans). The current review of the requirements of the Service continues to drive the type of equipment needed on front line appliances. The cost of appliances has made an impact on the CAS. Aerial appliance has been revised from £675,000 to £737,000, an increase of 9.2%. Pumping appliances from £245,000 to £267,450, also an increase of 9.2% although adding foam now costs £68,250 up from £65,000 a 5.0% increase. Overall the number of appliances remains constant although in later years of the CAS more foam appliances are required increasing the overall cost.

The Authority has taken on the national resilience assets and receives a New Burdens grant for their maintenance. These assets will require replacement during 2019/20 and in the absence of funding from Government the cost has been included in the CAS at £840,000. However, a review of local need for these assets will be completed prior to any final decision on replacement being made. The replacement of the Technical Rescue Unit has been brought forward one year to 2021/22 at £382,200.

Most equipment replacement is funded through our revenue budget, however, schemes can be considered for capital funding where they meet certain criteria.

Detailed strategies for Property, IMD and Fleet and Engineering are available as separate documents.

Funding
The Capital Strategy is funded from a number of sources which are described below. In order to ensure the Strategy is sustainable and affordable we aim to maximise external funding, where it is available, so as to reduce the pressure on our own resources. This is becoming increasingly important in the light both of pressures on our revenue budget and the ending of general capital grant from central government.

- **Capital Grant**

General capital grant allocations from central government for fire authorities ended in 2014/15 and grant funding thereafter is on a wholly bid-for basis. The Authority has not submitted any bids for the duration of this Strategy. As noted above there is the potential for grant funding to be accessed through the ITF project. A separate capital grant to support "Responding to New Risks" was received in 2016/17 however the Authority was granted flexibility to treat this as a revenue grant.

Partner Contributions
The Authority is increasingly engaged in collaborative working with other public sector partners, particularly other emergency services. This includes capital projects, and where the Authority is lead body for a scheme this may lead to partners making contributions towards the capital costs.

- **Capital Receipts**

Receipts from the disposal of existing capital assets may only be used to fund expenditure on new capital assets. The Government did offer flexibilities for capital receipts generated between 2016/19, to be used to fund the revenue costs of transformation projects, however, given the Authority's position in terms of both funding of the capital programme (primarily through capital receipts) and the availability of one off revenue finance through its Reserves, the offer was not pursued. The disposal of 20 Upperton Road and the former Newhaven Fire Station in Fort Road (estimated at £0.515m in 2018/19) will be used to fund the Capital Strategy. As at 31 March 2018 it is estimated that there will unapplied capital receipts of £7.668m (Capital Receipts Reserve). It is the Authority's current policy to use capital receipts to fund the capital programme before using the Capital Programme Reserve (which is a revenue reserve).

- **Revenue Contributions**

The Authority can make revenue contributions to the cost of its capital expenditure either direct from its revenue budget or from reserves earmarked for capital schemes. As at 31 March 2018 it is estimated that there will be a balance of £5.612m in the Capital Programme Reserve (CPR). As part of the savings proposals agreed in February 2014 the revenue contribution to the CPR has fallen from £1.0m to £0.5m in 2017/18 and beyond. The Authority has also agreed to set aside additional funding from its revenue budget between 2018/19 and 2021/22 to help fund the costs of the Capital Programme in the absence of Government grant.

- **Prudential Borrowing**

The Authority can use prudential borrowing to fund capital expenditure spreading the cost over the life of the asset. Overall our total borrowing must be sustainable and affordable. Borrowing commits the Authority to a long term cost which has implications for our revenue budget. Broadly speaking, every £1m of additional borrowing would add £85,000 of financing costs to the Authority's revenue budget. The Authority is not currently planning any new external borrowing during the life of this Strategy.

MEDIUM TERM CAPITAL STRATEGY 2018/19-2022/23
SCHEME SUMMARY AND FUNDING

Capital Programme Expenditure	Total Budget	Total Previous Year's Spend	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Remaining Spend
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property – Major Schemes									
Newhaven Fire Station	3,560	3,558	2						**2**
Service HQ Relocation	553	388	165						**165**
Preston Circus	2,550			200	2,350				**2,550**
ITF South East Workshop	1,000			250	750				**1,000**
Total Property major	**7,663**	**3,946**	**167**	**450**	**3,100**				**3,717**
Property – General Schemes									
General Schemes	2,794		254	500	422	713	577	328	**2,794**
BA Chambers	360	13	347						**347**
Replacement Fuel Tanks	220		50	140	30				**220**
Sustainability	441	21		55	200	165			**420**
Security	150			50	100				**150**
Total Property General	**3,965**	**34**	**651**	**745**	**752**	**878**	**577**	**328**	**3,931**
Information Management									
Sussex Control Centre	**1,672**	**1,499**	**123**	**50**					**173**
Fleet & Equipment									
Aerial Appliances	737				737				**737**
Fire Appliances	7,674	871	970	1,343	871	1,138	1,343	1,138	**6,803**
Ancillary Vehicles	2,729	2	703	330	1,161	120	382	31	**2,727**
Cars & Vans	1,773		539	387	81	445	97	224	**1,773**
BA & Ancillary Equipment	750		750						**750**
Sub Total	**13,663**	**873**	**2,962**	**2,060**	**2,850**	**1,703**	**1,822**	**1,393**	**12,790**
Total Expenditure	**26,963**	**6,352**	**3,903**	**3,305**	**6,702**	**2,581**	**2,399**	**1,721**	**20,611**

CAPITAL ASSET STRATEGY FUNDING

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Funding Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Grants							
Sussex Control Grant	123	50					173
Other grants							
Sub Total	**123**	**50**	**0**	**0**	**0**	**0**	**173**
Useable Reserves							
Capital Receipts Reserve	2,254	1,624	5,664	895			10,437
Capital Programme Reserve				878	1,920	1,338	4,136
Breathing Apparatus Reserve	750						750
Sub total	**3,004**	**1,624**	**5,664**	**1,773**	**1,920**	**1,338**	**15,323**
Revenue Contributions	537	1,200	607	452	452	452	3,700
Internal Borrowing	239	431	431	356	28	-69	1,416
Total funding	**3,903**	**3,305**	**6,702**	**2,581**	**2,400**	**1,721**	**20,611**

USE OF RESERVES

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Receipts Reserve						
Opening Balance	5,512	7,668	6,559	895	0	0
Transfers In	4,410	515	0	0	0	0
Transfers Out	2,254	1,624	5,664	895	0	0
Closing Balance	**7,668**	**6,559**	**895**	**0**	**0**	**0**
Capital Programme Reserve						
Opening Balance	5,381	5,812	4,235	4,735	4,357	2,937
Transfers In	500	500	500	500	500	500
Transfers Out	69	2,077	0	878	1,920	1,338
Closing Balance	**5,812**	**4,235**	**4,735**	**4,357**	**2,937**	**2,099**
Breathing Apparatus Reserve						
Opening Balance	1,014	0	0	0	0	0
Transfers In	0	0	0	0	0	0
Transfers Out	1,014	0	0	0	0	0
Closing Balance	**0**	**0**	**0**	**0**	**0**	**0**

N.B.

The Breathing Apparatus Reserve is used to support both £0.75m capital spend and £0.264m revenue spending.

The Capital Programme Reserve is an earmarked revenue reserve and is used in 2017/18 and 2018/19 to contribute to increasing other revenue earmarked reserves.

Appendix E

Reserves and Balances Policy

Background

This policy sets out the Authority's approach to reserves and balances. The policy has regard to LAAP Bulletin 99 'Local Authority Reserves and Balances', issued in July 2014.

Section 26 of the Local Government Act 2003 gives the Secretary of State power to set a minimum level of reserves for which an Authority must provide in setting its budget. The Secretary of State indicated that "the provisions are a fall-back against circumstances in which an Authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty".

Sections 31A and 42A of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

In reviewing medium-term financial plans and preparing annual budgets, the Authority will consider the establishment and maintenance of reserves for the general fund. There is no statutory minimum or maximum level of reserves. The nature and level of reserves will be determined formally by the Authority, informed by the judgement and advice of the Assistant Director Resources / Treasurer. This will be based on an assessment of what is appropriate and necessary in the light of the circumstances facing the Authority.

Types of reserve

The Authority will maintain the following reserves:

- general reserve: to manage the impact of uneven cash flows and unexpected events or emergencies;
- earmarked reserves: sums set aside to meet known or predicted specific requirements.

Earmarked reserves will be maintained as follows:

- Improvement and Efficiency Reserve: to enable the Authority to develop its collaborative approach to service delivery and respond to priority areas for service improvement that will deliver efficiencies;
- Insurance Reserve: to enable to effective financial management of the cost of uninsured losses;
- Service Reserves: funds set aside for specific purposes in respect of individual service business cases;
- Capital Programme Reserve: to support the provision of the capital infrastructure required to deliver the Authority's service priorities;
- Capital Receipts Reserve: capital receipts not yet applied to capital expenditure; and,

- Capital Grants and Capital Contributions Unapplied: capital grants and contributions from partners received but not yet applied to capital expenditure.

The Authority will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, will be specified in the annual Statement of Accounts.

Principles to assess the adequacy of reserves

The Assistant Director Resources / Treasurer will advise the Authority on the adequacy of reserves. In considering the general reserve, the Assistant Director Resources / Treasurer will have regard to:

- the strategic legislative, operational and financial risk contexts within which the Authority will be operating through the medium-term;
- the overall effectiveness of governance arrangements and the system of internal control;
- the robustness of the financial planning and budget-setting process;
- the effectiveness of the budget monitoring and management process

Having had regard to these matters, the Assistant Director Resources / Treasurer will advise the Authority on the monetary value of the required general reserve.

In considering specific reserves, the Assistant Director Resources / Treasurer will have regard to matters relevant in respect of each reserve, and will advise the Authority accordingly.

Service reserves

The process for the determination of Service reserves will be based upon the principles of effective operational and financial risk management. Service Directorates will be asked to submit business cases in respect of any planned under-utilisation of the agreed budget which they would wish to carry forward to apply in future years. Businesses cases will be considered by the Corporate Management Team and will be subject to the final approval of the Assistant Director Resources / Treasurer.

Use of reserves

Members, as part of agreeing the budget, will agree the policy for drawdown of reserves on the advice of the Assistant Director Resources / Treasurer.

The Assistant Director Resources / Treasurer will monitor the drawdown of specific reserves in accordance with the agreed policy, and keep Members advised through normal monitoring reports.

Risk assessment to determine the adequacy of the General Reserve

Authorities need reserves so that they can deal with unforeseen calls on resources, without disrupting service delivery. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors.

Although advice can be sought from the external auditors, it is not their responsibility to prescribe the appropriate level. In setting the level, the Authority should take into consideration the advice of their Assistant Director Resources / Treasurer, taking into account all local relevant circumstances.

Members will be aware that the working reserves provide protection against unforeseen events that could impact on the Authority. Reserves have to be used carefully. They can be used only once. Decisions to use reserves to fund on-going spending or hold down council tax increases can only apply for one year. In the following year, either additional budget reductions have to be made or additional council tax increases are required. There is a significant risk of future financial instability if significant levels of reserves are used to fund on-going spending or reductions in council tax. This is will impact on council tax rises in future years to pay for one-off use of balances.

As a general rule, the Authority should only plan to use reserves to fund one-off spending where the reserves exceed the recommended level. Where the Authority decides to use such reserves to fund on-going spending or reductions in council tax, they should indicate how they plan to make up the budget shortfall in future years. All Members must be mindful of their stewardship responsibility to the Authority.

A full review of reserves, as in the past, has taken place as part of the budget setting process. The main risks identified and their potential financial impacts are set out below and these have been used as the basis for determining the level of general reserves required.

- **Operational incident performance failure:** Non-insured costs of HSE and other investigations following a serious incident with serious implications for ESFRS, project team, ancillary costs and putting right the organisation (£1m).
- **Abnormal weather conditions:** A long hot summer, flooding in autumn and winter and heath land fires in the spring have all occurred in previous years resulting in excessively high operational costs. A prolonged seasonal problem could easily generate additional costs of £200,000 in retained pay, overtime and other support costs. In worst-case scenarios for civil emergencies, the Bellwin Scheme funding is available to support qualifying expenditure in excess of 2% of Revenue Budget (£0.5m).
- **Pension costs:** – this provision relates to additional ill health pensions not predicted at budget preparation. The Authority continues to monitor the age profile of workforce and expenditure forecasting. The Authority is also subject to a sector wide Employment Tribunal challenge to the Transitional Protections within the 2015 Firefighters Pension Scheme. If the claim is successful it is not clear whether the Government will fund any additional costs resulting (£0.4m).
- **Staff severance and redundancy provisions:** In order to achieve the level of financial savings required in future years, it may be appropriate to agree additional business case savings in advance and, as a consequence, incur additional severance payments paid to staff that exceed the sums already put by in earmarked reserves (£0.3m).
- **Funding volatility:** As a result of the Local Government Resource Review, including the Localisation of Council Tax Support Grant, the Authority is

exposed to potential increased volatility in two key income streams, business rates and council tax. (£0.7m).

- **Unanticipated business or economic pressures:** The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier. Equally, the Authority has a number of key ICT systems which, were they to fail, could require urgent external support or replacement equipment at short notice which could be costly for the Authority. The Authority is also involved in a range of transformation projects for which there is a risk of cost over-runs. There is also a risk of additional costs as a result of industrial action (£1m).
- **Inflationary increases:** Provision has been made for anticipated increases in pay and prices within the budget. However, national pay restraint is based on an average of 1% and so actual increases within different Services may vary. With the Government's relaxation of the 1% cap in 2017/18, the failure to settle the Grey Book pay claim for 2017/18 and the potential for significantly higher increases in Scotland and London the risk that actual pay inflation exceeds the budget provision is increased. The Authority is also subject to global inflationary pressures, particularly in relation to oil-based and other natural resources. The fall in the value of the pound since the vote to leave the European Union also exposes us to potential price increases from overseas suppliers (£0.2m).
- **Legal and employment issues:** As a service provider and an employer the Authority faces the potential that legal action could be taken against it on a range of grounds, including equal pay, discrimination, unfair dismissal and corporate negligence / manslaughter. Awards and legal costs in such cases can be significant so a provision within balances is prudent (£0.5m).
- **Savings plans:** The Authority has put in place its savings plans for the next 5 years and has already agreed a range of measures for implementation. However, it is possible that implementation may take longer than anticipated or savings may be less than originally estimated, leading to an in-year budget pressure (£0.3m).
- **Provision of services:** The Authority has taken on delegated responsibility for the delivery of mobilisation and control functions for West Sussex Fire and Rescue Service under a S16 agreement. Failure to provide the service to the agreed performance levels could result in additional costs for the Authority (£0.2m).
- **Loss of income:** Income targets are set within the budget for a number of functions, for example commercial and service training, and the Authority also receives income from the investment of its cash balances where rates achieved continue to decline. Although the amounts involved are small relative to the overall budget they continue to present a risk in year (£0.1m).

Proposal for the level of General Reserves

The assessment gives a preliminary figure of £5.2m (13.7%) on the net budget requirement of £37.9m (1.94% increase option) in 2018/19 or 13.6% on a net budget requirement of £38.1m (2.94% increase option). This is a slight reduction from previous years reflecting a reduction in the assessed risk in a number of areas. Although it would be unlikely for all areas of risk to impact at the same time, it is conceivable for a number of them to be interlinked, for example a major incident could impact on operational performance and result in damage to assets and insurance losses.

Taking into account the current economic climate, pressure on budgets and the uncertainty around funding beyond 2019/20, it would seem appropriate to continue to maintain the minimum level of general reserves at 8% in line with the Authority's existing policy. This equates to £3.031m in the 1.94% increase option or £3.051m in the 2.94% increase option. Currently, general balances (reserves) provision is projected to be above this level at £3.142m.

Review of earmarked reserves

Since the Authority became a precepting body, Members have agreed, in principle, to the establishment of a number of earmarked reserves. Each year, the relevance of these is reconsidered as part of the service planning process and Members are informed of the latest plans for the balances held in such reserves. As the Authority has developed its response to the reduction in government funding and the need to deliver savings through different ways of working, Members have approved the establishment of a number of key reserves to support this process – the Improvement and Efficiency Reserve, IT Strategy Reserve and also the Capital Programme Reserve (which, along with the Capital Receipts Reserve, supports the funding of the Authority's capital programme). Through careful budget management, the Authority has also established a range of Service Reserves to support the delivery of specific initiatives. These reserves remain critical in supporting the delivery of change and transformation within the Service and also ensuring continued investment in our capital assets in the absence of central government grant support.

A commentary on the purpose and planned use of each of the existing earmarked reserves is detailed below:

- Improvement & Efficiency reserve: This reserve is to enable the Authority to develop its collaborative approach to service delivery, support changes to services that will deliver efficiencies and respond to priority areas for service improvement. This includes support for the Authority's Transformation Programme and any costs that may arise from it including redundancy payments. Collaborative projects are also being progressed with a number of potential partners, many of which may require proportionate pump priming funding to realise future financial savings for all partners involved. Of the balance of £1.026m at 1 April 2018 approximately £0.278m is allocated to specific projects for example FireWatch Implementation, Service HQ Relocation (excess travel costs) and the IECR pilot. The balance is available for future projects including the outcomes from the IRMP areas of focus.
- Insurance Reserve: ESFRS has always sought to be risk adverse in managing its insurance risks and has approached the insurance market accordingly. Savings made on premiums in previous years due to increases in excesses have been placed in this reserve to help offset years when higher levels of claims may occur which have to be paid for internally. The Authority will be reviewing its options in advance of the end of its current insurance arrangements in March 2019. This will include consideration of FRICs (Fire &

Rescue Insurance Consortium) and this reserve could cover any one off costs associated with membership.

- Capital Programme Reserve: To support the provision of the capital infrastructure required to deliver the Authority's service priorities. Given the reduction in availability of capital grant from Government and the potential investment implications of new IMD and Estates Strategies, it is important that this source of funding is maintained in the short to medium term. As part of the non-operational savings proposals the Authority has agreed to reduce the base budget contribution to this reserve to £500,000 per annum in 2017/18. There is an unallocated balance of £2.099m remaining at the end of the current Capital Asset Strategy. The Authority is, however, reviewing its Estates Strategy and it is anticipated that there will be a significant requirement for additional investment as a result. The remaining balance on this reserve will be available to finance this investment.
- Capital Receipts Reserve: Capital receipts not yet applied to capital expenditure. Under statute capital receipts may only be used to finance capital expenditure. Having disposed of its stock of service houses and its HQ building the Authority has only one surplus property, Fort Road, Newhaven and this is due for disposal in 2018/19. No further disposals are currently planned and this reserve will be fully utilised over the life of the current Capital Asset Strategy.

Together the use of the Capital Programme Reserve and the Capital Receipts Reserve, along with other revenue funding, grants and contributions from partners has meant that the Authority has been able to finance its capital investment requirements without recourse to external borrowing since 2008.

Service reserves: funds set aside for specific purposes in respect of individual service business cases:

- Sprinklers: as part of its policy of promoting the use of sprinklers the Authority has made provision for match-funding the retro-fitting of sprinklers in high risk / high rise residential premises. This will be increased if the recommendation to increase council tax by 2.94% is accepted, if not then any £0.2m will be transferred from the Capital Programme Reserve as agreed by CFA in December 2017, as part of its local response to the risks highlighted by the Grenfell Tower incident.
- Safer Business Training: This reserve holds the balance of income from the East Sussex Business Rate Pool which is to be used to fund Business Safety initiatives, in support of the Pool's aim to promote economic growth.
- IT Strategy Reserve (formerly IMD Transformation): The Authority has set aside funds to support the delivery of its IT Strategy including the contractual transformation milestones delivered by telent. A transfer of £2.077m will be made from other reserves in order to ensure that the Strategy can be fully funded. It will be fully utilised by the end of 2021/22.
- ESMCP Readiness Reserve: this is grant funding from central government to fund the IT upgrades to the Sussex Control Centre that are required as part of the ESMCP. The timing of drawdown is currently expected during 2018/19 and 2019/20 but is dependent on national programme timescales.

- ESMCP Regional Programme Reserve; the Authority acts as regional lead for ESCMP implementation and holds grant funding for regional and local resourcing on behalf partner FRAs.
- Wholetime Firefighter Recruitment Reserve: the 2016/17 revenue budget underspend was set aside in this reserve to fund the additional costs of the planned recruitment of 32 new Wholetime Firefighters over the period 2017/18 – 2019/20.

The planned movement on each of the earmarked reserves is shown in the following tables, depending on the option for council tax increases adopted:

Option of 1.94% council tax increase:

Description	2018/19 Opening Balance 01/04/18 £'000	2018/19 Planned Transfers In £'000	2018/19 Planned Transfers Out £'000	Projected Closing Balance 31/03/19 £'000	Projected Closing Balance 31/03/20 £'000	Projected Closing Balance 31/03/21 £'000	Projected Closing Balance 31/03/22 £'000	Projected Closing Balance 31/03/23 £'000
Earmarked Reserves								
Improvement & Efficiency	1,026	0	(538)	488	228	0	0	0
Sprinklers	290	0	(290)	0	0	0	0	0
Insurance	249	0	0	249	249	249	249	249
ESMCP ESFRS readiness	1,060	0	(660)	400	0	0	0	0
ESMCP Regional Programme reserve	277	639	(468)	448	0	0	0	0
Safer Business Training	165	0	(83)	82	0	0	0	0
IT Strategy	923	2,525	(1,226)	2,222	1,505	854	219	0
Wholetime Firefighter recruitment	294	0	(294)	0	0	0	0	0
Capital Programme Reserve	5,812	500	(2,077)	4,235	4,735	4,357	2,937	2,099
Total Earmarked Reserves	**10,096**	**3,664**	**(5,636)**	**8,124**	**6,717**	**5,460**	**3,405**	**2,348**
General Fund	3,142	0	0	3,142	3,142	3,142	3,142	3,142

Total Revenue Reserves	**13,238**	**3,664**	**(5,636)**	**11,266**	**9,859**	**8,602**	**6,547**	**5,490**
Capital Receipts Reserve	7,668	515	(1,624)	6,559	895	0	0	0
Total Capital Reserves	**7,668**	**515**	**(1,624)**	**6,559**	**895**	**0**	**0**	**0**
Total Usable Reserves	**20,906**	**4,179**	**(7,260)**	**17,825**	**10,754**	**8,602**	**6,547**	**5,490**

Option of 2.94% council tax increase for 2018/19 and 2019/20 and 1.94% thereafter:

Description	**2018/19 Opening Balance 01/04/18 £'000**	**2018/19 Planned Transfers In £'000**	**2018/19 Planned Transfers Out £'000**	**Projected Closing Balance 31/03/19 £'000**	**Projected Closing Balance 31/03/20 £'000**	**Projected Closing Balance 31/03/21 £'000**	**Projected Closing Balance 31/03/22 £'000**	**Projected Closing Balance 31/03/23 £'000**
Earmarked Reserves								
Improvement & Efficiency	1,026	0	(538)	488	228	0	0	0
Sprinklers	290	200	(290)	200	250	0	0	0
Insurance	249	0	0	249	249	249	249	249
ESMCP ESFRS readiness	1,060	0	(660)	400	0	0	0	0
ESMCP Regional Programme reserve	277	639	(468)	448	0	0	0	0
Safer Business Training	165	0	(83)	82	0	0	0	0
IT Strategy	923	2,525	(1,226)	2,222	1,505	854	219	0

Wholetime Firefighter recruitment	294	0	(294)	0	0	0	0	0
Capital Programme Reserve	5,812	500	(2,077)	4,235	4,735	4,357	2,937	2,099
Total Earmarked Reserves	**10,096**	**3,864**	**(5,636)**	**8,324**	**6,967**	**5,460**	**3,405**	**2,348**
General Fund	3,142	0	0	3,142	3,142	3,142	3,142	3,142
Total Revenue Reserves	**13,238**	**3,864**	**(5,636)**	**11,466**	**10,109**	**8,602**	**6,547**	**5,490**
Capital Receipts Reserve	7,668	515	(1,624)	6,559	895	0	0	0
Total Capital Reserves	**7,668**	**515**	**(1,624)**	**6,559**	**895**	**0**	**0**	**0**
Total Usable Reserves	**20,906**	**4,379**	**(7,260)**	**18,025**	**11,004**	**8,602**	**6,547**	**5,490**

Appendix F (i)

EAST SUSSEX FIRE AUTHORITY: PRECEPT FOR 2018/19
REF: S43 LOCAL GOVERNMENT FINANCE ACT 1992
Option for 1.94% council tax increase

	£	**£**
NET BUDGET REQUIREMENT		**37,884,000.00**
Forecast Business Rates retained	2,617,000.00	
Top Up grant	4,977,000.00	
Total Base Line funding	7,594,000.00	
Add Revenue Support Grant	3,660,000.00	
Total Grant funding (excluding transitional/freeze grant)	11,254,000.00	
Transition Grant	0.00	
Section 31 Grant Business Rates adjustment	412,000.00	
Previous Year's Surpluses/(Deficits)	301,000.00	
Total Council Tax required		**25,917,000.00**
Tax base	**287,611.38**	
Basic Council Tax (Band D equivalent)		**90.11**

Basic Council Tax from above calculation		**Council Tax**
Band A	**6/9**	**60.07**
Band B	**7/9**	**70.09**
Band C	**8/9**	**80.10**
Band D	**9/9**	**90.11**
Band E	**11/9**	**110.13**
Band F	**13/9**	**130.16**
Band G	**15/9**	**150.18**
Band H	**18/9**	**180.22**

	Tax Base	**Precept**
Brighton and Hove	**88,976.40**	**8,017,663**
Eastbourne	**34,354.40**	**3,095,675**
Hastings	**25,582.00**	**2,305,194**
Lewes	**37,034.00**	**3,337,134**
Rother	**37,726.98**	**3,399,578**
Wealden	**63,937.60**	**5,761,417**
	287,611.38	**25,916,661**

Appendix F (ii)

EAST SUSSEX FIRE AUTHORITY: PRECEPT FOR 2018/19
REF: S43 LOCAL GOVERNMENT FINANCE ACT 1992
Option for 2.94% council tax increase

	£	**£**
NET BUDGET REQUIREMENT		**38,140,000.00**
Forecast Business Rates retained	2,617,000.00	
Top Up grant	4,977,000.00	
Total Base Line funding	7,594,000.00	
Add Revenue Support Grant	3,660,000.00	
Total Grant funding (excluding transitional/freeze grant)	11,254,000.00	
Transition Grant	0.00	
Section 31 Grant Business Rates adjustment	412,000.00	
Previous Year's Surpluses/(Deficits)	301,000.00	
Total Council Tax required		**26,173,000.00**
Tax base	**287,611.38**	
Basic Council Tax (Band D equivalent)		**91.00**
Basic Council Tax from above calculation		**Council Tax**
Band A	**6/9**	**60.67**
Band B	**7/9**	**70.78**
Band C	**8/9**	**80.89**
Band D	**9/9**	**91.00**
Band E	**11/9**	**111.22**
Band F	**13/9**	**131.44**
Band G	**15/9**	**151.67**
Band H	**18/9**	**182.00**
	Tax Base	**Precept**
Brighton and Hove	**88,976.40**	**8,096,852**
Eastbourne	**34,354.40**	**3,126,250**
Hastings	**25,582.00**	**2,327,962**
Lewes	**37,034.00**	**3,370,094**
Rother	**37,726.98**	**3,433,155**
Wealden	**63,937.60**	**5,818,322**
	287,611.38	**26,172,635**

Appendix G

Establishment and payroll budget

	FTE @ 1/4/18	FTE @ 1/4/19
Principal Officers	3	3
Wholetime Firefighter	333	333
RDS firefighter Units	219	219
Control Room Staff	38	38
Support staff	143.9	141.4

Appendix H

Local Government Financial Settlement (provisional) Core Spending Power of Combined Fire Authorities

	Settlement Funding Assessment	Compensation for under-indexing the business rates multiplier	Estimated Council Tax excluding Parish Precepts	Rural Services Delivery Grant	2018-19 Provisional Core Spending Power	2017-18 Core Spending Power	Change
Combined Fire Authorities							
Avon Fire	£16.162	£0.219	£25.971	£0.000	**£42.351**	£41.694	1.6%
Bedfordshire Fire	£8.571	£0.119	£20.042	£0.000	**£28.733**	£28.208	1.9%
Berkshire Fire Authority	£10.335	£0.143	£22.206	£0.000	**£32.684**	£32.164	1.6%
Buckinghamshire Fire	£7.582	£0.103	£18.966	£0.000	**£26.651**	£26.267	1.5%
Cambridgeshire Fire	£9.023	£0.123	£19.274	£0.000	**£28.419**	£28.040	1.3%
Cheshire Fire	£13.621	£0.190	£27.659	£0.000	**£41.470**	£40.980	1.2%
Cleveland Fire	£14.726	£0.188	£11.455	£0.000	**£26.369**	£26.195	0.7%
Derbyshire Fire	£13.352	£0.180	£23.326	£0.000	**£36.858**	£36.451	1.1%
Devon and Somerset Fire	£22.618	£0.319	£50.477	£0.340	**£73.755**	£72.749	1.4%
Dorset and Wiltshire Fire	£14.549	£0.209	£39.232	£0.039	**£54.030**	£53.331	1.3%
Durham Fire	£10.695	£0.143	£17.112	£0.000	**£27.949**	£27.642	1.1%
East Sussex Fire	£11.128	£0.156	£26.240	£0.000	**£37.524**	£37.025	1.3%
Essex Fire Authority	£25.237	£0.331	£44.891	£0.000	**£70.459**	£69.551	1.3%
Hampshire Fire	£22.130	£0.292	£41.363	£0.000	**£63.785**	£63.022	1.2%
Hereford & Worcester Fire	£7.898	£0.114	£22.710	£0.088	**£30.810**	£30.359	1.5%
Humberside Fire	£20.216	£0.256	£22.089	£0.000	**£42.561**	£42.124	1.0%
Kent Fire	£21.598	£0.299	£46.852	£0.000	**£68.749**	£67.755	1.5%
Lancashire Fire	£24.346	£0.314	£29.176	£0.000	**£53.836**	£53.332	0.9%
Leicestershire Fire	£13.432	£0.181	£20.549	£0.000	**£34.162**	£33.625	1.6%
North Yorkshire Fire	£8.817	£0.123	£20.698	£0.413	**£30.052**	£29.652	1.3%
Nottinghamshire Fire	£16.395	£0.217	£24.314	£0.000	**£40.926**	£40.410	1.3%
Shropshire Fire	£5.333	£0.079	£15.434	£0.257	**£21.102**	£20.752	1.7%
Staffordshire Fire	£14.508	£0.193	£25.134	£0.000	**£39.834**	£39.395	1.1%
All CFA average (excluding mets)					**£41.438**	**£40.901**	**1.3%**

Appendix I

P&R Panel 18 January 2018

Summary of Discussion on Item 86 – Revenue Budget and Capital Programme

On balance the view of the Panel was that the Fire Authority should agree a Council Tax increase of 2.94% in 2018/19 and plan on the basis of a similar rise in 2019/20. However, the Panel was anxious that this decision did not send out the wrong signals and stressed that Officers should continue to focus on improving productivity, efficiency and effectiveness across the Service and that the savings target within the Medium Term Finance Plan (MTFP), either £0.7m or £1.2m (depending on the level of Council Tax increase agreed), should be regarded as a minimum threshold to be identified over the period. Members of the Panel saw particular opportunities arising from closer collaboration with other fire authorities and from partnership working

In coming to this view the Panel considered the content of the paper and in particular the risks that the Authority faced:

- The uncertainty in the Authority's funding position beyond 2019/20 as a result of the next Comprehensive Spending Review, the Fairer Funding Review, changes to the Business Rates Retention regime and the potential for FRA income from Business Rates to be replaced with a Home Office Grant;
- The potential for pay awards to exceed the provision in the budget for 2018/19 and over the life of the MTFP in the light of Government's relaxation of the 1% pay cap and the current ongoing negotiations within the fire sector regarding the expansion of the role map;
- The expectation that there would be an expansion of the statutory duties of Fire Authorities in relation to Business Safety as a result of the Moore-Blick and Hackitt Reviews, and that despite the New Burdens doctrine this was unlikely to be fully funded by central government.

The Panel also considered the results of the public consultation carried out as part of the Integrated Risk Management Plan process during 2016/17 which showed that 79% of respondents felt that the Authority offered value for money and 81% said they would be willing to pay more for their fire service through Council Tax. Members from Brighton and Hove City Council highlighted that the most recent residents survey had resulted in a 100% satisfaction rating for the Fire Service. The Panel felt that this demonstrated public support for increases in Council Tax to ensure that the Service was adequately funded.

The Panel recognised the impact of increases in Council Tax across all local authorities in East Sussex and the City of Brighton and Hove, including fire and police, on Council Taxpayers particularly those on fixed incomes. The Panel felt that the sustained reductions in Government funding since 2010/11 left the Authority with little option but to increase Council Tax. The Panel noted that:

- The Government's own Core Spending Power calculations communicated to the Authority assumed that the Authority would increase Council Tax by 3%

- Higher percentage increases were proposed by both the County and City Councils and the Police and Crime Commissioner.
- The difference between a 1.94% and 2.94% increase in the Authority's Band D Council Tax was 89 pence in 2018/19.

The Panel discussed the need for the Authority to achieve financial stability over the medium term and that this included continued investment in its assets, through the Capital Asset Strategy, to ensure that they were fit for purpose and met the future needs of the Service and the Community. The Panel welcomed the proposal to fully fund the IT Strategy through the re-purposing of existing reserves and the review of the Estates Strategy. They noted that the latter was likely to result in the need for further investment over the next five to fifteen years and that the Authority would need to reconsider its capital financing strategy and the impact on the Revenue Budget as part of the 2019/20 service planning process.

The Panel welcomed greater clarity on the Reserves and Balances Policy which set out clearly how the Authority planned to make use of its available one off resources over the next five years and noted that these resources were planned to reduce from £20.9m to £5.5m over the period. Necessarily this would have some effect on our ability to secure a greater return via our Treasury Management Strategy.

Agenda Item No. 32

EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	15 February 2018
Title	Pay Policy Statement for 2018/2019
By	Vicky Chart, Assistant Director Human Resources & Organisational Development
Lead Officer	Vicky Chart, Assistant Director Human Resources & Organisational Development
Background Papers	None
Appendices	Appendix 1 – Pay Policy Statement

Implications:

CORPORATE RISK		**LEGAL**	✓
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES	✓	**CORE BRIEF**	

Purpose of Report	To approve the Fire Authority's Pay Policy statement for the period 1 April 2018 to 31 March 2019.
EXECUTIVE SUMMARY	The Localism Act 2011 imposes a duty on relevant local authorities to prepare pay policy statements for each financial year, beginning with 2012/13. The statement must be approved by 31 March 2018.
RECOMMENDATION	The Fire Authority is asked to approve the Pay Policy Statement set out in Appendix 1.

1 BACKGROUND

1.1 Section 38 of the Act places a requirement on a relevant authority (which term includes a Combined Fire Authority) to prepare a pay policy statement for the financial year 2012-13 and each subsequent financial year. A pay policy statement must set out the authority's policies for the financial year relating to:

- The remuneration of its chief officers
- The remuneration of its lowest paid employees
- The relationship between the remuneration of its chief officers and that of other employees who are not chief officers.

1.2 The statement must include the definition of 'lowest paid employees' adopted by the authority for the purposes of the statement, together with the authority's reasons for adopting that definition.

1.3 The statement must include the authority's policies relating to:

- The level and elements of remuneration for each chief officer
- Remuneration of chief officers on recruitment
- Increases and additions to remuneration for each chief officer
- The use of performance-related pay for chief officers
- The use of bonuses for chief officers
- The approach to the payment of chief officers on their ceasing to hold office under or being employed by the authority, and
- The publication of and access to information relating to the remuneration of chief officers.

In relation to the above, the authority does not operate performance-related pay for chief officers or bonuses.

It may also include the authority's policies for the financial year relating to other terms and conditions applying to its chief officers. The authority must comply with its Pay Policy Statement for the financial year when making any determination relating to the terms and conditions of a Chief Officer. The Policy can be amended by the Fire Authority at any time throughout the financial year to which it relates.

1.4 The term remuneration in relation to a chief officer is defined by the Act as:

- The chief officer's salary or, in the case of a chief officer engaged by the authority under a contract for services, payments made by the authority to the chief officer for those services
- Any bonuses payable by the authority to the chief officer
- Any charges, fees or allowances payable by the authority to the chief officer
- Any benefits in kind to which the chief officer is entitled as a result of the chief officer's office or employment
- Any increase in or enhancement of a chief officer's pension entitlement where the increase is as a result of a resolution of the authority, and

- Any amounts payable by the authority to the chief officer upon the chief officer ceasing to hold office under or being employed by the authority, other than amounts that may be payable by virtue of any enactment.

1.5 The Act prevents approval of a pay policy statement being delegated by the Authority to a Panel. The Fire Authority's first pay statement was approved and published in accordance with the guidance by 31 March 2012.

Thereafter the policy will be published annually, as soon as reasonably practicable after being approved, on the ESFRS website.

1.6 The Authority is asked to approve the Statement attached as Appendix 1, which has been drawn up with due regard to all relevant guidance and previous statements. Changes to the presentation reflect our experiences since the pay policy came into force and keeping under review other examples.

Appendix 1

Pay Policy Statement 2018/19

Introduction

The Pay Policy Statement set out below has been compiled in accordance with Sections 38 to 43 of the Localism Act 2011. The Act requires East Sussex Fire Authority to publish a Pay Policy Statement for each financial year. The information contained in this Statement is based on the pay position of employees as at 31 December 2017, unless otherwise stated. The purpose of a Pay Policy Statement is to provide information to the public on the pay arrangements that apply to employees of the Authority, including the Chief Fire Officer and his direct reports. The Statement also includes information on how decisions to set or change pay are made.

Structure of the Workforce

As at 31 December 2017 the Authority employed 730 people (649 full-time equivalents or FTEs). These employees span various pay groups which perform a variety of roles and have different patterns of working to meet service delivery needs. In its simplest form these are employees who either have an operational role (firefighters working on fire stations, control operators and technical staff working in specialist areas) or those who provide administrative and corporate functions such as finance, information systems and human resources.

The Authority has a third group of employees, namely the Principal Officers (Chief Fire Officer, Deputy Chief Fire Officer and Assistant Chief Fire Officer).

Number of FTE Staff Employed by Category as at 31 December 2017:

Staff Group	Definition	Number of Staff in Group
Whole-time Firefighters	Firefighters who work 42 hours a week to crew stations 24 hours a day either as firefighters located at the station, or as firefighters located at the station during the day and responding from their own homes on an on-call basis at night, or who work in specialist areas such as Technical Fire Safety.	326
Sussex Control Centre	Staff who receive 999 calls.	55
On-Call Firefighters	A duty system where firefighters respond from their own homes or workplaces located near to the fire station on an on-call basis.	125
Support Staff	Staff who typically do not wear a uniform and work in administrative and professional support functions.	127
Community Support Front Line	Specialist staff who provide fire and road safety prevention advice and offer home safety services and specialist advice for those more at risk.	13
Principal Officers/ Statutory Officers	Principal Officers comprise the Chief Fire Officer, Deputy Chief Fire Officer, and Assistant Chief Fire Officer.	3

Pay Policy

The overarching framework for pay and conditions of service for staff employed by the Authority is governed by three National Joint Councils. These are the NJC for Local Authority Fire and Rescue Services, the NJC for Local Government Services and the NJC for Brigade Managers of Local Authority Fire and Rescue Services. The principal role of each of these national bodies is to reach agreement on a national framework of pay and conditions of service for authorities to apply locally. Each NJC is made up of people who represent the employers and others who represent employees; the latter will typically be trade union representatives. The frameworks of pay and conditions set by each of these national bodies are locally referred to as the Grey Book (applies to uniformed staff); the Green Book (applies to staff who do not wear a uniform); and the Gold Book (applies to the Principal and Statutory Officers) respectively.

Each NJC acknowledges that its national framework of pay and conditions will need to be adjusted locally to reflect local needs. Where appropriate, this will be undertaken through local agreement, with recognised trade unions where they exist or, alternatively, through local decision-making processes.

The Equality Act 2010 gives women (and men) a right to equal pay for equal work. The Authority undertook an equal pay audit in 2011 to ensure that its pay and benefits policy and practice were not being applied inconsistently, resulting in unequal pay for work of equal value for men or women. There were no major areas of concern identified as a result of the audit, those areas which did need review have been catered for in the introduction of the new job evaluation scheme during 2016/2017.

Local Variations to Pay and Conditions of Service

The national pay agreements and the terms and conditions constitute a minimum standard but it is acknowledged that these can be modified through local negotiation to reflect local needs. There is a mechanism in place to agree such changes. However, any changes to the pay or conditions of service of the Principal Officers must be approved by the Authority's Principal Officers Appointments Panel. The Fire Authority will be informed of any national changes to the pay or terms and conditions of all employees.

Pay Structure

Each category of staff will be linked to a separate pay structure which is directly linked to a national pay agreement. When the pay agreement has been amended to reflect local needs, Members of the Authority will be updated accordingly.

The pay structure for uniformed staff is based on the national pay agreement which is negotiated and issued by the National Joint Council. The pay structure for uniformed staff is based upon six roles, each having a development or competent pay point. Move from one to the other is based on an individual completing a development programme which is then subject to independent verification. The annual salary within each role is a fixed point salary. This means that, unless the employee is promoted, or a national pay award is agreed, the salary will remain unchanged. Employees may move up the pay structure through promotion into a higher role. For an employee to do this they must be approved by their line manager as having demonstrated the type of behaviours and skills required of an employee operating at the higher level; potentially have attended an assessment centre; and then be successful through interview for a role at the higher level.

The pay structure is different for those staff the majority of whom do not wear a uniform. A project to update the pay and grading structure has recently been undertaken. New employees are assigned to the new pay and grading structure with the majority of existing staff, transitioning over on 1st April 2018 or earlier if there are issues with parity. Employees are appointed to a post which has a specific job family assigned to it. Within each job family there are pay points. The experience and skills of the employee are evaluated against the requirements of the job which will then determine the pay point to which they are appointed. Progression to higher pay points within the job family is made on an annual basis.

Pay Awards

An annual pay increase is awarded based on the outcome of the relevant national pay negotiation process. Based upon the decisions taken at a national level by the NJCs relevant to this Authority, the Authority's Green Book staff received a pay award of 1%, applicable from 1 April 2017, and Grey Book Staff received a 1% award, effective from 1 July 2017. The pay award for the Principal Officers was a 1% increase and was awarded in January 2017.

How are Grades and Roles Determined?

When a post is created or has changed significantly it is evaluated in order that it can be matched against the appropriate grade for the role. A job evaluation process is used to determine the grade of a post. The process of job evaluation considers a range of factors relating to the demands of the job, including knowledge necessary to do the job; complexity; level of discretion in, and potential impact of, decision-making; accountabilities in relation to people, finance and physical resources such as equipment or property. The job evaluation process ensures that the principle of equal pay for work of equal value is met and that the demands required of the post are assessed as objectively as possible. The job evaluation process includes input from trained individuals from across the organisation, including union representatives.

Pension Arrangements

The Authority currently administers four occupational pension schemes. There are three schemes for firefighters: the Firefighters' Pension Scheme 1992 (FPS) (closed to new entrants from April 2006), the New Firefighters' Pension Scheme 2006 (NFPS) and the Firefighters' Pension Scheme 2015 for new entrants. The employee contribution rates effective from 1 April 2015, determined by statute, currently range from 11.0% to 17.0% for the FPS, 8.5% to 12.5% for the NFPS and 11% to 14.5% for FPS 2015, depending on salary level. Employer contribution rates are 21.7% (FPS), 11.9% (NFPS) and 14.3% of core pensionable pay.

The Firefighters' Pension Scheme 2015 (FPS 2015), Firefighters' Pension Scheme (FPS) and New Firefighters' Pension Scheme (NFPS) are statutory schemes. The rules and regulations governing the schemes are laid down by the Government.

There are some provisions of the Schemes that are discretionary. Discretionary powers allow employers such as East Sussex Fire Authority to choose how, or if, they apply certain provisions.

Generally these discretions lead to enhanced benefits to scheme members, but result in an additional strain on the pension fund. As at 31 December 2017 no discretions have been awarded under the schemes.

Green Book staff are auto-enrolled onto the Local Government Pension Scheme (LGPS). The employee contribution rates for this scheme currently range from 5.5% to 12.5% depending on salary level. The employer contribution rate is 12.5%.

The new Local Government Pension Scheme 2014 came into effect on 1 April 2014. The Scheme is a 'Career Average Revalued Earnings' (CARE) Scheme, which is a move away from a final salary scheme.

The Local Government Pension Scheme (LGPS) is a statutory scheme. The rules and regulations governing the schemes are laid down by the Government.

There are some provisions of the Scheme that are discretionary. Discretionary powers allow employers such as East Sussex Fire Authority to choose how, or if, they apply certain provisions.

Generally these discretions lead to enhanced benefits to scheme members, but result in additional costs which fall to the Authority and <u>not</u> to the pension scheme. As at 31 December 2017 no discretions have been awarded under the new scheme.

Senior Officers

The Authority is required to publish information relating to the pay of its most senior employees, which are defined as those employees whose annual salary is £50,000 or more. This information is published on an annual basis in the Authority's Statement of Accounts.

Post	FTE Salary	Notes
Chief Fire Officer	£140,050	Car provided
Deputy Chief Fire Officer	£112,244	Car provided
Assistant Chief Fire Officer	£105,295	Car provided
Assistant Director – Operational Support & Resilience	£62,633	Response car provided plus 20% flexible duty system allowance.
Assistant Director – Safer Communities	£57,252	Response car provided plus 20% flexible duty system allowance.
Assistant Director – Human Resources & Organisational Development	£59,431	Eligible for lease car provision (taken)
Assistant Director – Training & Assurance	£58,149	Eligible for lease car provision (not taken)
Assistant Director – Planning & Improvement	£55,670	Eligible for lease car provision (taken)
Assistant Director – Resources / Treasurer	£78,650	Eligible for lease car provision (not taken)
ITG Manager	£67,527	
Strategic Engineering Manager	£55,670	Lease car provision (eligible due to mileage)
Estates Manager	£55,670	
Finance Manager	£55,670	

Ratio between Highest Earner and Average Earnings of the Organisation and Definition of 'Lowest Paid'

The Authority is required to publish information which expresses as a ratio the difference between the pay of its highest paid employee and the average pay for all other employees.

The Authority is also required to publish its own definition of 'lowest paid' employees as it applies to the Authority's workforce.

The Authority has a range of staff employed on different conditions of service and this means that it has a range of salary levels. Some staff are employed on contracts which are regarded as secondary employment. This means that they are able to undertake their contract in addition to other full-time employment. Specifically, this relates to firefighters who work the ‘On Call’ duty system, providing on call availability from their home or place of work. These employees have full-time work outside the Authority.

The Authority also has a group of staff employed on annualised contracts. These are part-time contracts worked by staff that may have primary employment elsewhere. However, they could be staff who are already employed by the Authority but whose working pattern allows them to work some additional hours whilst still maintaining appropriate levels of rest. For the purposes of publishing information on the comparison of pay in relation to the Authority’s highest earner when compared to the rest of the workforce and a definition of the ‘lowest paid’ in the context of the Authority, these groups of employees has not been included. This is because these posts constitute secondary employment and will typically be for a lower number of hours, which results in no true full-time equivalent salary. They would, therefore, skew the results of any comparison to full-time salaries.

The table below sets out the difference between the pay of the highest paid employee (the Chief Fire Officer) when compared to the average pay of all other employees. The information illustrates that the Chief Fire Officer’s pay is (4.68) times more than the average pay of a competent Firefighter role as at 31 December 2017. This differential is £110,116.

The Chief Fire Officer and Principal Officers received a pay award in January 2017. This was in line with the NJC guidance in that all Principal Officers receive an increase of 1% of basic salary.

	December 2015	December 2016	December 2017
Chief Fire Officer	£137,290	£138,663	£140,050
Mean Salary	£29,345	£29,638	£29,934
Ratio	4.68	4.68	4.68

This ratio is calculated by dividing the Chief Fire Officer’s pay by the average mean salary for a Firefighter (excluding secondary contracts). The number of other staff is the average FTE for the 12 months ending 31 December 2017.

The Authority’s Definition of ‘Lowest Paid’ Employees

The Authority regards its lowest paid employees to be those employed on its Green Book conditions of employment. These are employees who do not wear a uniform and who work in administrative and corporate function areas.

Re-Engagement of Employees

The Authority does not have a policy on re-engagement. Former employees are entitled to apply for posts in accordance with a competitive process and, if employed, usual rules on pension arrangements (should the individual be in receipt of one) apply.

Occasionally, due to the specialist nature of the Fire Service, specialists or experts may be called in under a contract for consultancy services.