**EAST SUSSEX FIRE AUTHORITY**

**POLICY & RESOURCES PANEL**

**THURSDAY 14 NOVEMBER 2013 at 10:00 HOURS**

**MEMBERS**

**East Sussex County Council**

Councillors Barnes, Howson, Lambert, Pragnell and Scott

**Brighton and Hove City Council**

Councillors Hawtree, Rufus and Theobald

You are requested to attend this meeting to be held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, on Thursday 14 November 2013 at 10:00 hours.

**AGENDA**

911. In relation to matters on the agenda, seek declarations of any disclosable pecuniary interests under Section 30 of the Localism Act 2011.

912. Apologies for Absence.

913. 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).

914. To consider any public questions and petitions.

915. Non-confidential Minutes of the last Policy & Resources Panel meeting held on 29 August 2013 (copy attached).

916. 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 Panel to adopt without debate the recommendations and resolutions contained in the relevant reports for those items which have not been called.

917. Revenue Budget and Capital Programme Monitoring 2013/14 – joint report of the Chief Fire Officer & Chief Executive and Treasurer (copy attached).

918. Treasury Management – half year report for 2013/14 – report of the Chief Fire Officer & Chief Executive (copy attached).

919. Exclusion of the Press and Public.

To consider whether, in view of the business to be transacted or the nature of the proceedings, the press and public should be excluded from the remainder of the meeting on the grounds that, if the public and press were present, there would be disclosure to them of exempt information. **NOTE:** Any item appearing in the confidential part of the Agenda states in its heading the category under which the information disclosed in the report is confidential and therefore not available to the public. A list and description of the exempt categories are available for public inspection at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, and at Brighton and Hove Town Halls.

920. Confidential Minutes of the last Policy & Resources Panel meeting held on 29 August 2013 (copy attached). (Exempt categories under paragraphs 3 and 4 of the Local Government Act 1972).

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

**Agenda Item No. 915**

**EAST SUSSEX FIRE AUTHORITY**

**Minutes of the meeting of the POLICY & RESOURCES PANEL held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, at 10.00 hours on Thursday 29 August 2013.**

**Members Present: Councillors Barnes, Butler, Hawtree, Howson (Chairman), Pragnell, Rufus, Scott and Taylor**

**Also present:**
Mr. D. Prichard (Chief Fire Officer & Chief Executive), Mr. G. Walsh (Deputy Chief Fire Officer), Mrs. C. Rolph (Assistant Chief Officer - People & Organisational Development), Mr. D. Savage (Treasurer), Miss L. Woodley (Deputy Monitoring Officer) and Mrs. K. Ward (Clerk).

900. **DISCLOSABLE PECUNIARY INTERESTS**

900.1 It was noted that, in relation to matters on the agenda, no participating Member had any disclosable pecuniary interest under Section 30 of the Localism Act 2011.

901. **APOLOGIES FOR ABSENCE**

901.1 Apologies were received by Councillors Lambert and Theobald.

902. **ANY OTHER NON-EXEMPT ITEMS CONSIDERED URGENT BY THE CHAIRMAN/CHAIRMAN'S BUSINESS**

902.1 There were none.

903. **TO CONSIDER ANY PUBLIC QUESTIONS AND PETITIONS**

903.1 There were none.

904. **NON-CONFIDENTIAL MINUTES OF THE POLICY & RESOURCES PANEL MEETING HELD ON 11 APRIL 2013**

904.1 **RESOLVED** – That the minutes of the meeting held on 11 July 2013 be approved as a correct record and signed by the Chairman. (Copy in Minute Book).

905. **CALLOVER**

905.1 Members reserved the following item for debate:

906. Revenue Budget and Capital Programme Monitoring 2013/14

905.1 **RESOLVED** – That all other reports be resolved in accordance with the recommendations as detailed below.

906. **REVENUE BUDGET AND CAPITAL PROGRAMME MONITORING 2013/14**

906.1 Members considered a joint report of the Chief Fire Officer & Chief Executive and the Treasurer which reported on issues arising from the monitoring of the 2013/14 Revenue Budget and Capital Programme as at 30 June 2013. (Copy in Minute Book).

906.2 The Treasurer informed Members that in the period up until June 2013, the Revenue Budget for 2013/14 was predicted to be underspent by £424,000 of which £250,000 was an in-year savings as a consequence of a review of the IMD replacement strategy which could be set against the Authority's on-going savings targets. The Treasurer reassured Members that officers were working with Managers to identify further savings that could be delivered from the existing revenue budget.

906.3 The current year's Capital Programme and spending profile was projected to be underspent by £216,000. The Chief Fire Officer and Chief Executive updated members on the progress of Newhaven Fire Station. Members were advised that Assistant Chief Fire Officer Gary Ferrand had arranged meetings with local partners, Newhaven Town Council, Lewes District Council, SECAMB and Sussex Police. Although partners were willing to commit to the scheme there were some remaining business arrangements and terms to be concluded. Newhaven Town Council had decided not to participate in the project. SECAMB had fundamentally reviewed their ways of working and no longer require ambulance stations so the use of local premises on a short term basis suits their strategy, and although the Police were keen, they had not yet committed to progressing the matter to the detailed design stage.

906.4 Councillors were disappointed with the limited response from prospective partners in the public, voluntary and commercial sectors. Officers reassured Members that extensive work had been undertaken to explore the options for partnership working on the project and to engage with public sector partners, particularly given that a deadline had now been set for partners to make a firm commitment so that the project could proceed.

906.5 The Treasurer noted that because of current financial restraints in the public sector some potential partners were unwilling to commit to the long-term leases that would be necessary to ensure that the costs of the project could be equitably recovered and the Authority was not exposed to any undue financial risk now or in the future.

906.6 **RESOLVED** – That the Panel note:

(i) The projected 2013/14 Revenue Budget outturn;
(ii) The projected Capital Programme outturn;
(iii) The current and planned use of reserves; and
(iv) The shortfall in 2013/14 budget savings.

## 907. EXCLUSION OF PRESS AND PUBLIC

907.1 **RESOLVED** – That items 908 and 909 be exempt under paragraphs 3 and 4 of Schedule 12A to the Local Government (Access to Information) (Variation) Order 2006 and, accordingly, are not open for public inspection on the grounds that they include information relating to the financial or business affairs of any particular person (including the Authority holding that information), and information relating to any consultation or negotiations, or contemplated consultation or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.

The meeting concluded at 12.55 hours.

Signed Chairman

Dated this Day of 2013

**Agenda Item No. 916**

**EAST SUSSEX FIRE AUTHORITY**

| | |
|---|---|
| Panel: | **Policy & Resources** |
| Date: | **14 November 2013** |
| Title: | **Revenue Budget & Capital Programme Monitoring 2013/14** |
| By: | **Chief Fire Officer & Chief Executive and Treasurer** |
| Purpose of Report: | **To report on issues arising from the monitoring of the 2013/14 Revenue Budget and Capital Programme as at 30 September 2013** |

---

**RECOMMENDATION:** The Panel is asked to note:

(i) the projected 2013/14 Revenue Budget outturn,
(ii) the projected Capital Programme outturn and variation to the Capital Programme,
(iii) the current and planned use of reserves,
(iv) the shortfall in 2013/14 budget savings and that they are managed within the current overall underspend,

---

## MAIN ISSUES

1. This is the third report to Policy & Resources Panel for the financial year 2013/14.

2. The projected Revenue Budget outturn for 2013/14 is an underspend of £514,000, an increase on the previously reported £424,000.

3. The overall Capital Programme is projected to be under planned spending by £284,000, an increase on the £216,000 reported to the last Policy & Resources Panel. The current year's Capital Programme and spending profile is projected to be under budget by £1,315,000, a significant movement from the £216,000 last reported to this Panel. The movement is primarily due to delays in progressing the project for a new fire station at Newhaven with spend of £970,000 slipping into 2014/15.

4. The Authority maintains Earmarked and General Reserves in order to assist it in managing its spending plans across financial years (Earmarked Reserves) and making provisions for the financial risks it faces (General Reserve). A summary of the current planned use of Reserves can be found at Appendix 5.

5. Appendix 1 details the overall Revenue Budget spend and projected outturn.

6. Appendices 2, 3 & 4 present the projected outturn on the Capital Programme over all schemes, the projected spend for the current year and forecast capital financing.

7. Appendix 6 shows the progress against the Facing the Challenge savings already taken from the 2013/14 budget.

**Des Prichard**
**CHIEF FIRE OFFICER & CHIEF EXECUTIVE**

**Duncan Savage**
**TREASURER**

28 October 2013

1. **INTRODUCTION**

1.1 The financial information contained in this report is based upon enquiries as at 30 September 2013.

2. **BUDGET OUTTURN SUMMARY**

2.1 The table below summarises the 2013/14 Revenue Budget and Capital Programme positions.

| | Last P & R Report | This P & R Report | Movement |
|---|---|---|---|
| | £,000 | £,000 | £,000 |
| Revenue (See Paragraph 3) | (424) | (514) | (90) |
| Capital (See Paragraph 5) | (216) | (1,315) | (1,099) |

2.2 This is the third report to Policy & Resources on the 2013/14 financial year.

3. **PROJECTED REVENUE BUDGET OUTTURN – OBJECTIVE LEVEL**

3.1 The table below represents the projected Revenue Budget at objective level:

| Directorate/Budget | Base Budget | Transfer | Current Budget | Projected Outturn | Variance | Variance Last P & R |
|---|---|---|---|---|---|---|
| | £,000 | £,000 | £,000 | £,000 | £,000 | |
| Service Delivery Response | 5,382 | (49) | 5,333 | 5,290 | (43) | (15) |
| Service Delivery Prevention | 518 | (58) | 460 | 450 | (10) | (41) |
| Service Delivery Protection | 114 | 54 | 168 | 168 | 0 | 0 |
| Operational Pay and Pensions | 17,970 | (243) | 17,727 | 17,788 | 61 | 36 |
| **Total Service Delivery & Operational budget** | **23,984** | **(296)** | **23,688** | **23,696** | **8** | **(20)** |
| | | | | | | |
| Service Support Estates | 1,304 | 41 | 1,345 | 1,351 | 6 | 22 |
| Service Support IMD | 3,169 | (24) | 3,145 | 2,863 | (282) | (250) |
| Service Support Fleet | 1,601 | 4 | 1,605 | 1,653 | 48 | 31 |
| Service Support SCC | 77 | 37 | 114 | 114 | 0 | 0 |
| Service Support Health & Safety | 121 | 20 | 141 | 140 | (1) | (1) |
| **Total Service Support budget** | **6,272** | **78** | **6,350** | **6,121** | **(229)** | **(198)** |
| | | | | | | |
| POD HR | 691 | 23 | 714 | 672 | (42) | (42) |
| POD L & O D | 1,952 | 52 | 2,004 | 2,004 | 0 | 0 |
| **Total People & Org Development** | **2,643** | **75** | **2,718** | **2,676** | **(42)** | **(42)** |
| | | | | | | |
| **Corporate Services** | **2,499** | **64** | **2,563** | **2,316** | **(247)** | **(184)** |
| | | | | | | |
| **PO's** | **689** | **(36)** | **653** | **653** | **0** | **0** |
| | | | | | | |
| **Central** | **2,992** | **115** | **3,107** | **3,103** | **(4)** | **20** |
| | | | | | | |
| **Total** | **39,079** | **0** | **39,079** | **38,565** | **(514)** | **(424)** |

3.2 **SERVICE DELIVERY**: The projected overspend of £8,000 (reported to the last Policy & Resources as an underspend of £20,000) comprises an underspend of £43,000 in Response, £10,000 in Prevention and an overspend of £61,000 in Operational Pay and Pensions, described in detail below.

3.2.1 **Response:** The budget is forecast to underspend by £43,000 (last reported underspend of £15,000). Based on five month's activity there is a projected underspend of £61,000 on the retained budget (last reported £31,000). There is a projected overspend of £13,000 as reported to the last Policy & Resources on the Operational Planning budget. There is a £3,000 projected overspend on the Wealden Borough Budget, Community Safety budget, unchanged from the last Policy & Resources. The forecast now includes a projected overspend of £12,000 on business rates payable on Preston Circus and a projected underspend of £10,000 on the M&CC budget that relates to Employee costs, where the strength is 1 FTE under establishment.

3.2.2 **Prevention:** At the previous Policy & Resources Panel meeting the Prevention and the Protection budgets were reported together. Now reported separately, the projected underspend in Prevention is £10,000 compared to £41,000 contained within the last reported underspend relating to Community Safety budgets.

3.2.3 **Protection:** The Prevention budget is projected to come in on budget.

3.2.4 **Operational Pay and Pensions:** The budget is forecast to overspend by £61,000 (last reported as £36,000). It is anticipated that the industrial action to date will have no material impact on the forecast. A number of pensions related risks have emerged in recent months in relation to the Norman v. Cheshire judgement, which clarified the pensionable status of a range of allowances paid to some firefighters, and the government's consultation on a modified pension scheme for retained firefighters employed between 2000-06. We are currently modelling the potential financial impact of these risks and will report this to Members in due course, setting out how the likely additional costs, both one off and on-going can be financed.

3.3 **SERVICE SUPPORT:** This budget is forecast to be underspent by £229,000 (compared to £198,000 last reported). Details are shown in paragraphs 3.3.1 to 3.3.5 below.

3.3.1 **Estates:** The budget manager has advised that this budget will overspend by £6,000 (last reported as an overspend of £22,000). The overspend can be attributed to business rates on the HQ building which has been revalued by District Valuation Office resulting in a bill above the inflationary allowance provided for in the budget.

3.3.2 **Information Management Department (IMD):** The forecast projection is an underspend of £282,000 (£250,000 reported last month) due primarily to a review of the planned replacement of IMD network infrastructure. A strategic review of the IMD function is currently in progress and will identify the potential for on-going savings in the IMD budget which can be set against the savings target for 2014/15 – 2018/19.

3.3.3 **Fleet:** The fleet budget is projected to overspend by £48,000 (previously reported as £31,000). The projection comprises overspends of £105,000 on the equipment budget and £5,000 on car leasing. In addition there is revenue spending of £50,000 on replacement BA cylinders which replaces the planned Breathing Apparatus scheme in the capital programme. This is offset by a projected underspend on the fuel budget of £79,000 and additional income relating to the sale of cars and vans of £33,000.

3.3.4 **Sussex Control Centre:** The SCC project is projected to be on budget. Additional funding of £30,000 has been made available from other corporate budgets to fund the shared cost of the secondary control room for which there was no provision in the original project budget. Changes have been made to the allocation of the £3.6m grant as the project has progressed. The main change in the revenue budget has been to reflect the higher than anticipated costs of redundancy. However as this is fully funded from the grant allocation, there is no additional cost to this Authority.

3.3.5 **Health & Safety:** The forecast projection remains unchanged at an underspend of £1,000.

3.4 **PEOPLE AND ORGANISATIONAL DEVELOPMENT (POD):** As previously reported the POD budgets are projected to underspend by £42,000 due to a projected underspend of £30,000 on the Advertising for Staff budget and £12,000 underspend on employees within the Human Resources budget. The L & OD manager has advised that L & OD spending plans are undergoing a formal review and Corporate Management Team will be advised of the results at their meeting in November.

3.5 **CORPORATE SERVICES:** The Corporate Services budgets projected underspend is £247,000 (last reported as £184,000). The underspend relates to an underspend of £41,000 on a budget held for developments to our finance system, SAP, which is unlikely to be required this year and an underspend on printing of £19,000. It also takes into account the previously reported underspends on Members allowances of £21,000 (previously reported as £18,000) and unchanged forecast underspends of £136,000 on insurance and £30,000 on uniforms. The insurance budget and associated Earmarked Reserve will be reviewed once the outcome of the retendering of the insurance contract is completed later in the year.

3.6 **PRINCIPAL OFFICERS BUDGET:** The Principal Officers budget projection remains on target.

3.7 **CENTRAL:** The forecast projection is an underspend of £4,000 (last reported as an overspend of £20,000).

3.7.1 **Centrally controlled:** The centrally controlled budgets are forecast to underspend by £55,000 (last reported underspend of £32,000). The movement comprises unplanned spend of £20,000 on preparation for Industrial Action and £3,000 on Marlie Farm. This has been offset by projected underspends in a number of areas, primarily on Advertising and Publicity of £22,000, and £13,000 Central Car Allowances.

3.7.2 **Treasury Management:** The Treasury Management budget remains at a projected of overspend £51,000 due to lower than anticipated bank interest received.

3.8 **IN SUMMARY:** At this stage of the financial year the Revenue Budget is projected to underspend by £514,000.

## 4. RESERVES

4.1 The table below sets out the opening Reserves at the start of the year of the financial year and the planned movements during the course of the financial year, to closing Reserves as at 31 March 2014.

| **Reserves** | **1 April 2013** | **Transfers in** | **Transfers out** | **31 March 2014** |
|---|---|---|---|---|
| | | | | |
| Earmarked | 3,446 | 477 | (903) | 3,020 |
| Capital Programme | 2,818 | 1,000 | (1,100) | 2,718 |
| General | 3,552 | 200 | | 3,752 |
| Total | **9,816** | **1,677** | **(2,003)** | **9,490** |

4.2 The planned use of balances and reserves has been reviewed since the budget was set and is reflected in Appendix 5

## 5. CAPITAL PROGRAMME PROJECTS

5.1 Appendix 2 details the Capital Programme estimated payments as approved by the Fire Authority at its meeting on 7 February 2013, adjusted to reflect slippage on schemes already in progress at 1 April 2013 and updated to reflect other agreed variations. The overall Programme is projected to be under planned spending by £284,000 with the scheme by scheme detail shown in Appendix 2.

5.2 The capital budget for 2013/14 is projected to be underspent by £1,315,000. Full details of the 2013/14 capital budget are shown in Appendix 3. Details of any variances to the programme are shown below, with all other projects being reported as on budget.

5.3 **Replacement Appliances:** The Project Manager has advised that the order is complete and there will be a saving of £40,000. The £40,000 is due to negotiating a new contract with John Dennis Coachbuilders and only fitting 1-7 foam to one unit rather than two as originally planned.

5.4 **Replacement Cars and Vans:** The Project Manager has advised that most of the vehicles have been delivered and the scheme is projected to be on budget. The Projected underspend in 2013/14 relates to the Digital Van, where the business case is being reviewed and the £45,000 budget is being slipped into 2014/15.

5.5 **B A Compressors** The order for the BA compressors has been placed, the Project Manager has advised that the scheme will be £10,000 under budget.

5.6 **New Breathing Apparatus Pod:** Following a review, the Pod is no longer required resulting in a reduction in the Capital Programme of £140,000. The preferred alternative is to provide sixty BA cylinders, the cost of which is reflected in the revenue budget projection (paragraph 3.3.3).

5.7 **Newhaven Fire Station:** The land for the project was purchased last financial year. Work continues in engaging interested parties for the development of a shared space building. Negotiations are on-going and, as a result, £50,000 is anticipated to be spent in this financial year and the remaining £970,000 likely to slip into 2014/15 and 2015/16.

5.8 **Aerial Rescue Pump (ARP):** The Project Manager has advised that the final factory based testing has proved satisfactory and the vehicle has now been delivered. The Scheme has come in £66,000 under budget primarily due to the decision not to include 1 in 7 foam in the final specification.

5.9 **Crowborough Refurbishment:** The Project Manager has advised that the scheme is projected to underspend in the current year by £36,000, of which £16,000 will need to be slipped into 2014/15 as a provision for retention payment giving an overall Scheme underspend of £20,000.

5.10 **IMD Strategy Sussex Control Centre:** The Project Manager has indicated that the Scheme remains on budget.

5.10.1 The Sussex Control Centre (SCC) capital programme scheme entered into with West Sussex Fire & Rescue Service is funded by a grant from the Department of Communities and Local Government (DCLG). The budget was agreed as £1,120,000 and following initialisation of the Project and identification of lead authority for various work streams the budget was revised to reflect changes in the project with a shift of expenditure from revenue to capital and a reallocation of that expenditure between the two authorities to reflect where it will actually be incurred. The movement is primarily due to this Authority taking a lead on the procurement of the main mobilising system and to a broader review of the project budget following the finalisation of the staffing structure and a resultant increase in the cost of redundancies above the original allocation. The resulting increase in our capital programme spend of £907,000 will be fully funded by grant income.

5.10.2 The table below shows the impact on the Authority's capital programme:

| ITEM | Capital Split East<br>£'000 | 2012/13<br>£'000 | 2013/14<br>£'000 |
|---|---|---|---|
| **Original** | | | |
| MDT | 579 | 234 | 345 |
| CONTROL ROOM | 360 | 0 | 360 |
| COMMUNICATION | 75 | 0 | 75 |
| SAN H | 106 | 0 | 106 |
| **GRANT FUNDED EXPENDITURE** | **1,120** | **234** | **886** |
| **Current** | | | |
| MDT | 430 | 234 | 196 |
| CONTROL ROOM | 1,238 | 0 | 1,238 |
| COMMUNICATION | 146 | 0 | 146 |
| SAN H | 213 | 0 | 213 |
| **GRANT FUNDED EXPENDITURE** | **2,027** | **234** | **1,793** |
| **INCREASE / (DECREASE)** | | | |
| MDT | (149) | 0 | (149) |
| CONTROL ROOM | 878 | 0 | 878 |
| COMMUNICATION | 71 | 0 | 71 |
| SAN H | 107 | 0 | 107 |
| **GRANT FUNDED EXPENDITURE** | **907** | **0** | **907** |

MDT – A mobile data terminal located on fire appliances providing mobilising and safety information.

SAN – H – The interface between the Airwave terrestrial trunked (TETRA) radio network and the Control Centre's Integrated Communication Control System (ICCS).

5.10.2 Capital grant can only be used to finance capital expenditure whereas revenue grant can be used for either capital or revenue expenditure. However DCLG have previously agreed to changes to the project and the revised plans have been shared with DCLG who are not expected to object. A full analysis is included at Appendix 7.

5.10.4 West Sussex Fire & Rescue Service is fully aware of the changes and West Sussex County Council will update their capital programme accordingly.

5.11 **Window Replacement Eastbourne:** This is the final project within a wider replacement scheme for which the final retention payment has now been made. Whilst this project has overspent by £2,000, the overall scheme has been delivered within its original cost estimate.

5.12 **Heathfield:** The Project Manager has advised that although the scheme has finished, there remains the retention payment of £3,000 to be made to the contractor. Overall the scheme will underspend by £10,000.

5.13 Appendix 4 shows the recently approved projected resources available to finance the Capital Programme. So far, one Service House of the budgeted two has been sold this year. The Authority has previously agreed that all Service houses must be vacated ahead of the 31 March 2015 deadline.

## 6 FACING THE CHALLENGE SAVINGS SCHEDULE

6.1 Appendix 6 shows the £1.325m Facing the Challenge savings that were agreed when the 2013/14 Revenue Budget was set. The majority of these savings have been achieved.

6.2 The total projected shortfall now stands at £56,000 in 2013/14 which is currently absorbed within the 2013/14 forecast underspend as agreed by Corporate Management Team in July 2013.

**East Sussex Fire & Rescue Service Outturn Projection April 2013 to March 2014** **Appendix 1**

| | Base Budget | Variations | Current Budget | Actual to Date | Projected Outturn | Projected Variance |
|---|---|---|---|---|---|---|
| | £,000 | £,000 | £,000 | £,000 | £,000 | £,000 |
| Employees | 25,150 | 1,754 | 26,904 | 12,856 | 26,972 | 68 |
| Pensions | 3,018 | 26 | 3,044 | 2,402 | 3,032 | (12) |
| Premises | 2,257 | (167) | 2,090 | 1,172 | 2,112 | 22 |
| Transport | 1,159 | (9) | 1,150 | 599 | 1,015 | (135) |
| Supplies & Services | 5,302 | 295 | 5,597 | 2,236 | 5,149 | (448) |
| Support Services | 525 | 8 | 533 | 11 | 492 | (41) |
| Capital Charges | 2,521 | (2,521) | 0 | 0 | 0 | 0 |
| **Gross Service Budget** | **39,932** | **(614)** | **39,318** | **19,276** | **38,772** | **(546)** |
| Specific Grants | (188) | 0 | (188) | (76) | (174) | 14 |
| Other Income | (643) | (1,843) | (2,486) | (527) | (2,519) | (33) |
| **Total Service Income** | **(831)** | **(1,843)** | **(2,674)** | **(603)** | **(2,693)** | **(19)** |
| **Net Service Budget** | **39,101** | **(2,457)** | **36,644** | **18,673** | **36,079** | **(565)** |
| Capital Charges credit | (2,521) | 2,521 | 0 | 0 | 0 | |
| Interest receivable less capital financing | 852 | 5 | 857 | (24) | 908 | 51 |
| Transfer from reserves | 0 | (99) | (99) | 0 | (99) | 0 |
| Transfer to reserves | 1,647 | 30 | 1,677 | 0 | 1,677 | 0 |
| **Total Net Expenditure** | **39,079** | **0** | **39,079** | **18,649** | **38,565** | **(514)** |
| Financed by: | | | | | | |
| Formula Grant | (17,318) | 0 | (17,318) | (11,140) | (17,318) | 0 |
| Council Tax | (21,625) | 0 | (21,625) | (10,813) | (21,625) | 0 |
| Council Tax Collection Fund (Surplus)/Deficit | (136) | 0 | (136) | (68) | (136) | 0 |
| | **(39,079)** | **0** | **(39,079)** | **(22,021)** | **(39,079)** | **0** |

The variations to the Employees budget and the Income budget predominantly reflect the introduction of the costs of and income from West Sussex Fire & Rescue Service in respect of the Interim Service for the Control and Mobilising Service provided at Chichester under the Sussex Control Centre Project following the TUPE of West Sussex Control Room Staff to the employment of East Sussex Fire & Rescue Service.

**Appendix 2**

## East Sussex Fire & Rescue Service Capital Programme Monitoring April 2013 to March 2014

| Capital scheme | Total approved payments | Variations | Total Approved Budget | Spend previous years | Spend 2013/14 | Total Spend | Orders placed 2013/14 | Orders to be placed | Forecast outturn | Variance on approved Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| **Schemes starting in 2013/14** | **£,000** | £,000 | **£,000** | £,000 | £,000 | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** |
| Replacement Fire Appliances | **480** | | **480** | | 170 | **170** | 264 | 6 | **440** | **(40)** |
| Replacement Cars & Vans | **210** | | **210** | | 91 | **91** | 37 | 82 | **210** | **0** |
| BA Compressors | **110** | | **110** | | | **0** | 92 | 8 | **100** | **(10)** |
| New Breathing Apparatus POD | **140** | | **140** | | | **0** | | | **0** | **(140)** |
| Property Strategy: Bohemia Road | **50** | | **50** | | | **0** | | 50 | **50** | **0** |
| Property Strategy: Preston Circus | **50** | | **50** | | | **0** | | 50 | **50** | **0** |
| Property Strategy: STC | **40** | | **40** | | 17 | **17** | | 23 | **40** | **0** |
| Newhaven Fire Station | **3,070** | | **3,070** | | 1 | **1** | | 3,069 | **3,070** | **0** |
| **Total Schemes starting 2013/14** | **4,150** | | **4,150** | | **279** | **279** | **393** | **3,288** | **3,960** | **(190)** |
| **Continuing schemes starting in previous years** | | | | | | | | | | |
| Combined Aerial Rescue Pump | **769** | | **769** | 554 | 149 | **703** | | | **703** | **(66)** |
| Crowborough Refurbishment | **1,019** | | **1,019** | 393 | 471 | **864** | 85 | 50 | **999** | **(20)** |
| BA Classroom Maresfield | **220** | | **220** | 16 | 174 | **190** | 30 | | **220** | **0** |
| IMD Strategy Sussex Control Centre | **1,120** | 907 | **2,027** | 234 | 199 | **433** | 1,187 | 407 | **2,027** | **0** |
| Property Strategy: Roedean Drill Tower | **16** | | **16** | 16 | | **16** | | | **16** | **0** |
| Property Strategy: Replacement Fuel Tanks | **190** | | **190** | | | **0** | | 190 | **190** | **0** |
| Property Strategy: Roedean Roof | **30** | | **30** | | | **0** | | 30 | **30** | **0** |
| Property Strategy: Sustainability Initiative | **420** | | **420** | | | **0** | | 420 | **420** | **0** |
| Window Replacement Eastbourne | **0** | | **0** | | 2 | **2** | | | **2** | **2** |
| Sussex Control Centre – Property adaptations | **666** | 434 | **1,100** | | | **0** | | 1,100 | **1,100** | **0** |
| Heathfield | **112** | | **112** | 99 | | **99** | 3 | | **102** | **(10)** |
| **Total schemes from previous years** | **4,562** | **1,341** | **5,903** | **1,312** | **995** | **2,307** | **1,305** | **2,197** | **5,809** | **(94)** |
| **Total** | **8,712** | **1,341** | **10,053** | **1,312** | **1,274** | **2,586** | **1,698** | **5,485** | **9,769** | **(284)** |



Saved Document on 01/04/19

**Capital Spend in 2013/14 – April 2013 to March 2014 (NOT total project outturn)** **Appendix 3**

| Capital scheme | Budget spend 2013/14 | Spend 2013/14 | Orders placed 2013/14 | Orders still to be placed in 2013/14 | Projected Outturn | Projected Outturn on approved budget |
|---|---|---|---|---|---|---|
| **Schemes starting in 2013/14** | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** |
| Replacement Fire Appliances | **480** | 170 | 264 | 6 | **440** | **(40)** |
| Replacement Cars & Vans | **210** | 91 | 37 | 37 | **165** | **(45)** |
| BA Compressors | **110** | | 92 | 8 | **100** | **(10)** |
| New Breathing Apparatus POD | **140** | | | | **0** | **(140)** |
| Property Strategy: Bohemia Road | **50** | | | 50 | **50** | **0** |
| Property Strategy: Preston Circus | **50** | | | 50 | **50** | **0** |
| Property Strategy: STC | **40** | 17 | | 23 | **40** | **0** |
| Newhaven Fire Station | **1,020** | 1 | | 49 | **50** | **(970)** |
| **Total Schemes starting 2013/14** | **2,100** | **279** | **393** | **223** | **895** | **(1,205)** |
| **Continuing schemes starting in previous years** | | | | | | |
| Combined Aerial Rescue Pump | **215** | 149 | | | **149** | **(66)** |
| Crowborough Refurbishment | **626** | 471 | 85 | 34 | **590** | **(36)** |
| BA Classroom | **204** | 174 | 30 | | **204** | **0** |
| IMD Strategy Sussex Control Centre | **1,793** | 199 | 1,187 | 407 | **1,793** | **0** |
| Property Strategy: Replacement Fuel Tanks | **80** | | | 80 | **80** | **0** |
| Property Strategy: Roedean Roof | **30** | | | 30 | **30** | **0** |
| Property Strategy: Sustainability | **105** | | | 105 | **105** | **0** |
| Window Replacement Eastbourne | **0** | 2 | | | **2** | **2** |
| Sussex Control Centre – Property adaptations | **1,100** | | | 1,100 | **1,100** | **0** |
| Heathfield | **13** | | 3 | | **3** | **(10)** |
| **Total Schemes starting in previous years** | **4,166** | **995** | **1,305** | **1,756** | **4,056** | **(110)** |
| **Total** | **6,266** | **1,274** | **1,698** | **1,979** | **4,951** | **(1,315)** |

**Capital Resources 2013/14** **Appendix 4**

| | Original Budget | Current Budget | Income Received | Projected Resources | Variance on 2013/14 Budget spend |
|---|---|---|---|---|---|
| | **£,000** | **£,000** | **£,000** | **£,000** | **£,000** |
| Sussex Control Grant | 886 | 1,793 | | 1,793 | 0 |
| Government Grant | 931 | 931 | 931 | 931 | 0 |
| Capital Receipts | 400 | 400 | 245 | 400 | 0 |
| Revenue Transfer to Capital Reserves | 1,000 | 1,000 | | 1,000 | 0 |
| **Total Resources** | **3,217** | **4,124** | **1,176** | **4,124** | **0** |

Appendix 5

## Reserves Projections March to April

| Description | Budget Manager | Corporate Owner | Opening Balance 1/4/2013 | 2013/14 In £'000 | Out £'000 | **Closing Balance 31/03/14** |
|---|---|---|---|---|---|---|
| **Earmarked Reserves** | | | £,000 | £,000 | £,000 | **£,000** |
| Improvement & Efficiency | Richard Charman | Duncan Savage | 1,189 | 447 | (300) | **1,336** |
| Maritime Incident and Response Group | Glenn Jones | Gary Walsh | 150 | | (50) | **100** |
| Estates Condition Survey | Julian Salmon | Gary Ferrand | 38 | | (38)* | **0** |
| Community Safety Smoke Detectors | Neal Robinson | Gary Walsh | 50 | | | **50** |
| Insurance | Richard Charman | Duncan Savage | 249 | | | **249** |
| Technical Fire Safety | Andy Reynolds | Gary Walsh | 55 | | (55)* | **0** |
| Community Fire Safety | Andy Reynolds | Gary Walsh | 150 | | | **150** |
| Breathing Apparatus | Bill Brewster | Gary Ferrand | 750 | | | **750** |
| SCC Desktop provision | Brenda Guile | Gary Ferrand | 85 | | (85) | **0** |
| SCC Connectivity | Brenda Guile | Gary Ferrand | 106 | | (106) | **0** |
| SCC Mapping Solution | Brenda Guile | Gary Ferrand | 120 | | (120) | **0** |
| Coaching for Safer Communities | Neal Robinson | Gary Walsh | 50 | | | **50** |
| Relocation Expenses for staff vacating houses | Vicky Chart | Cheryl Rolph | 140 | 30 | | **170** |
| RDS Training | Mark Rist | Cheryl Rolph | 70 | | (70) | **0** |
| Volunteers Scheme | David Kemp | Gary Walsh | 236 | | (73) | **163** |
| IMD HR Replacement | Vicky Chart | Cheryl Rolph | 8 | | (6)* | **2** |
| **Total Earmarked Reserves** | | | **3,446** | **477** | **(903)** | **3,020** |
| **Capital Programme Reserve** | | | 2,818 | 1,000 | (1,100) | **2,718** |
| **General Fund** | | | 3,552 | 200 | | **3,752** |
| **TOTAL ALL RESERVES** | | | **9,816** | **1,677** | **(2,003)** | **9,490** |

*** denotes reserve has been drawn down into the revenue budget**

**Appendix 6**

**Facing the Challenge savings (Progress Report)**

| Ref Number | Description | Savings agreed | Savings achieved | Savings not achieved | Notes |
|---|---|---|---|---|---|
| | | **£,000** | **£,000** | **£,000** | |
| 71 | IMD Trainer Reduction in Hours | (8) | (8) | | |
| 73 | Reduction in Hours L & D Workforce Manager | (12) | (12) | | |
| 74 | Reduction in L & D External Training budget | (11) | (11) | | |
| 75 | Fitness Advisor replace with Specialist instructor | (12) | (12) | | Alternative savings were volunteered, and taken from the external training budget |
| 76 | External Audit fees | (15) | (15) | | |
| 77 | Dog Handler Post | (50) | (50) | | |
| 78 | ACO (CS) post | (90) | (90) | | |
| 79 | Relocation Expenses | (30) | (30) | | |
| 81 | ICS Review | (271) | (258) | 13 | Following the implementation of the Review at the beginning of June there is a shortfall of £13,000. However the over saving over the medium term has increased by £17,000 to a total saving of £474,000 |
| 82 | HR Assistant | (4) | (4) | | |
| 14 | Station Cooks | (60) | (60) | | |
| 15 | Policy Support Officer | (36) | (36) | | |
| 22 | ICT Technician Post | (36) | (36) | | |
| 24 | Performance Review Support Post | (17) | (17) | | |
| 25 | HR Occupational Health Co-ordinator | (12) | (12) | | |

| Ref Number | Description | Savings agreed | Savings achieved | Savings not achieved | Notes |
|---|---|---|---|---|---|
| | | **£,000** | **£,000** | **£,000** | |
| 32 | Corporate Risk Manager | (26) | (26) | | |
| 35 | ED Watch Manager | (47) | (47) | | |
| 36 | Clerk to the Fire Authority | (15) | (15) | | |
| 39 | Station Manager L & D (Amended to Green Book) | (15) | (15) | | |
| 43 | Head of OD | (74) | (74) | | |
| 44 | Reduction in Hours H of HS 0.8 to 0.6 fte | (19) | (19) | | |
| 50 | NVQ Facilitator | (18) | (18) | | |
| 51 | Equipment Officer Post | (35) | (35) | | Alternative savings were volunteered, and taken from the Engineers pay budget. |
| 55 | Reduce Spot Hire/Contract Leasing budget | (31) | (26) | 5 | Projected overspend in current year shortfall £5,000. |
| 57 | Reduction of Smoke Alarms budget | (50) | (50) | | |
| 58 | Community Safety Team 2 grey book 0.5 green book Fte | (91) | (91) | | |
| | NVQ Facilitator additional savings | (1) | (1) | | |
| | Equipment Officer Post | (9) | (9) | | |
| | Fire Control OP | (35) | (35) | | |
| | Engineering Services Technician | (41) | (41) | | |
| | IMD Training & Citrix Manager | (34) | (34) | | |
| | Web Developer Post | (25) | (25) | | |
| | Insurance | (20) | (20) | | |

| Ref Number | Description | Savings agreed | Savings achieved | Savings not achieved | Notes |
|---|---|---|---|---|---|
| | | **£,000** | **£,000** | **£,000** | |
| 69 | Removal ALP and pumping appliance Eastbourne | (75) | (37) | 38 | Assumes that ARP is operational from 1 January 2014. |
| | **Total Facing the Challenge Savings taken** | **(1,325)** | **(1,269)** | **56** | |

**Appendix 7**

**Changes to Sussex Control Centre Grant Funded Budget**

| ITEM | Total Budget £'000 | Capital £'000 | Capital Split East £'000 | Capital Split West £'000 | Revenue £'000 | Revenue Split East £'000 | Revenue Split West £'000 |
|---|---|---|---|---|---|---|---|
| **Original** | | | | | | | |
| MDT SUB TOTAL | 910 | 840 | 579 | 261 | 70 | 35 | 35 |
| CONTROL ROOM SUB TOTAL | 1,127 | 720 | 360 | 360 | 407 | 203 | 204 |
| COMMUNICATION SUB TOTAL | 360 | 150 | 75 | 75 | 210 | 105 | 105 |
| SAN H SUB TOTAL | 428 | 211 | 106 | 106 | 217 | 108 | 109 |
| STAFF SUB TOTAL | 775 | 0 | 0 | 0 | 775 | 387 | 388 |
| **GRANT FUNDED EXPENDITURE** | **3,600** | **1,921** | **1,120** | **802** | **1,679** | **839** | **841** |
| | | | | | | | |
| **Current** | | | | | | | |
| MDT SUB TOTAL | 760 | 690 | 430 | 260 | 70 | 35 | 35 |
| CONTROL ROOM SUB TOTAL | 1,417 | 1,263 | 1,238 | 25 | 154 | 77 | 77 |
| COMMUNICATION SUB TOTAL | 211 | 211 | 146 | 65 | 0 | 0 | 0 |
| SAN H SUB TOTAL | 313 | 213 | 213 | 0 | 100 | 100 | 0 |
| STAFF SUB TOTAL | 899 | 0 | 0 | 0 | 899 | 699 | 200 |
| **GRANT FUNDED EXPENDITURE** | **3,600** | **2,377** | **2,027** | **350** | **1,223** | **911** | **312** |
| | | | | | | | |
| **INCREASE / (DECREASE)** | | | | | | | |
| MDT SUB TOTAL | (150) | (150) | (149) | (1) | 0 | 0 | 0 |
| CONTROL ROOM SUB TOTAL | 290 | 543 | 878 | (335) | (253) | (126) | (127) |
| COMMUNICATION SUB TOTAL | (149) | 61 | 71 | (10) | (210) | (105) | (105) |
| SAN H SUB TOTAL | (115) | 2 | 108 | (106) | (117) | (8) | (109) |
| STAFF SUB TOTAL | 124 | 0 | 0 | 0 | 124 | 312 | (187) |
| **GRANT FUNDED EXPENDITURE** | **0** | **456** | **908** | **(452)** | **(456)** | **73** | **(528)** |

**Agenda Item No. 918**

**EAST SUSSEX FIRE AUTHORITY**

| | |
|---|---|
| Panel: | **Policy & Resources** |
| Date: | **14 November 2013** |
| Title: | **Treasury Management – Half year report for 2013/14** |
| By: | **Treasurer** |
| Purpose of Report: | **The treasury management half yearly report is a requirement of the Fire Authority's reporting procedures and covers the treasury activity for the first six months of 2013/14. The report includes an update on the first half year of Prudential Indicators which relate to the treasury activity.** |

---

**RECOMMENDATION:** The Panel is asked to note the treasury management performance for the first half year of 2013/14.

---

## MAIN ISSUE

1. To receive and note the treasury management performance for the first half year of 2013/14.

**Duncan Savage**
**TREASURER**
November 2013

**Background Papers**
Fire Authority
6 June 2013 – Agenda Item 727 Treasury Management – Stewardship report for 2012/13
7 February 2012 – Agenda Item 707: Treasury Management Strategy for 2013/14

Policy and Resources Panel
15 November 2012 - Agenda Item No 849: Treasury Management – half year report for 2012/13

CIPFA Treasury Management in the Public Services (2011)
Code of practice and cross sectional guidance notes
Local Government Act 2003
Local Government Investments –Guidance from the former Office of the Deputy Prime Minister
CIPFA Prudential Code in November 2012
Communities and Local Government –Changes in the Capital Finance System

**TREASURY MANAGEMENT-HALF YEAR REVIEW FOR 2013/14**

## 1. INTRODUCTION

1.1 The Fire Authority's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

a) The Local Government Act 2003 (the Act) and supporting regulations require the Authority to "have regard to" the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice when setting Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

b) The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) which sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

c) Under the Act the former Office of the Deputy Prime Minister has issued Investment Guidance to structure and regulate the Authority's investment activities.

1.2 The Fire Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken on a prudent, affordable and sustainable basis and its treasury management practices demonstrate a low risk approach.

1.3 The Code requires the regular reporting of treasury management activities to:

a) Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report);
b) Review actual activity for the proceeding year;
c) Review mid-year activity (this report) ; and
d) Report changes to our Strategy (when required)

1.4 This report sets out information on:

a) A summary of the strategy agreed for 2013/14 and the economic factors affecting the strategy in the first six months of this year;
b) The Fire Authority's treasury activity during the first six months on borrowing and short term investments;

## 2. **2013/14**

### 2.1 **Original Strategy for 2013/14**

2.1.1 At its meeting on 7 February 2013, the Fire Authority agreed its treasury management strategy for 2013/14, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2013/14 as set out below.

2.1.2 East Sussex Fire Authority defines its treasury management activities as:

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

The Fire Authority regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

**Borrowing**

2.1.3 The Fire Authority has had a strategy to borrow to support the Capital Programme and lend out other cash (rather than using internal borrowing). Historically this had meant that the interest rate earned on cash balances was higher than the interest rate paid on loans from the Public Works Loans Board (PWLB). In the last few years, this interest rate differential had been removed. In the short term therefore, it was agreed that although the limits would allow new borrowing, external borrowing would only take place if the rates available were so low that the long-term benefits significantly exceeded the short term cost. In practice, no new PWLB borrowing has taken place since January 2008.

2.1.4 Opportunities to reschedule debt have been monitored but have not yet arisen. The PWLB increased all of its lending rates on the 20$^{th}$ October 2010 (the day of the Government's Comprehensive Spending Review) by 1% on all rates. However, it did not increase the rate of interest used for repaying debt so that not only had the cost of our future borrowing increased but the opportunity to restructure our debt when market conditions allow had been significantly reduced.

**Investment**

2.1.5 When the strategy was agreed in February of this year, the advice given to us by our advisors, Capita (formerly named Sector), was that short term rates were expected to remain on hold for a considerable time. Economic forecasting remained troublesome with so many extermal influences weighing on the UK. There was consensus among analysts that the economy would remain weak and key areas of uncertainty included:

(a) a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself; the impact of the Eurozone crisis on financial markets and the banking sector;
(b) the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
(c) the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;
(d) a continuation of high levels of inflation;
(e) the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
(f) stimulus packages failing to stimulate growth; potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

2.1.6 The overall balance of risks remained weighted to the downside. Lack of economic growth, both domestically and overseas, would impact on confidence putting upward pressure on unemployment. It would also further knock levels of demand which would bring the threat of recession back into focus.

2.1.7 Capita believed that the longer run trend would be for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

2.1.8 Given the weak outlook for economic growth, Capita saw the prospects for any interest rate changes before mid-2013 as very limited. There was potential for the start of Bank Rate increases to be even further delayed if growth disappointed.

**Investment and Borrowing Strategy agreed for 2013/14**

2.1.9 In the current economic climate it is essential that a prudent approach is maintained. This will be achieved through investing with selected banks and funds which meet the Fire Authority's rating criteria. The emphasis will continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield. The strategy for 2013/14 must continue with this prudent approach and only small changes were proposed to the strategy for 2012/13 agreed by the Fire Authority a year ago.

2.1.10 It is also important to recognise that movements within the money markets can happen with no notice and the Treasurer may have to amend this strategy in order to safeguard Fire Authority funds. As in the past any such actions will be reported to the next Fire Authority meeting.

2.1.11 It is not expected that any new external borrowing will be undertaken in the next 15 months.

2.1.12 Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored and will be taken if and when they emerge.

2.1.13 The UK currently has an AAA sovereign rating but it is possible that this rating could be downgraded by one, or more, rating agencies in the future if our economy struggles to recover. To ensure that the Fire Authority can continue to invest with UK institutions in the event of this happening, the reference to the sovereign rating criteria of AAA on our UK Investment with Government Equity Holding of minimum of 30% has been removed.

2.1.14 The previous strategy in 2012/13 continued with the policy of ensuring minimum risk but will also need to deliver secure investment income of at least bank rate on the Fire Authority's cash balances. The revised target of bank base rate for 2013/14 reflects the lower rates available in the market on the change to more prudent investments. There has also been a reduction in interest paid as a direct result of the Bank of England and HM Treasury's Funding for Lending scheme which has given additional deposits to Banks and cut their demand for funds from other sources (such as local authorities). This has been taken into account in formulating the budget.

2.1.15 The Fire Authority balances would be invested in line with the following specific policy:

**(A) UK Investment Without Government Equity Holding**

Up to a maximum of £3m deposited up to a period of up to one year with any of the following:

| **Bank / Fund / Local Authority** |
|---|
| Barclays |
| Santander UK |
| HSBC |
| Nationwide |
| Individual Treasury Type Money Market Funds (AAA rated) which invest in Government Securities only |
| Individual Cash Type Money Market Funds (AAA rated) |
| Another Local Authority (Equivalent to the low risk of investing with the Government but not formally rated ) |

Only banks which meet the following minimum rating criteria for at least two of the designated agencies to be used.

| Ratings Agency | Long Term | Short Term |
|---|---|---|
| Fitch | AA- | F1+ |
| Moody | AA3 | P-1 |
| Standards and Poors | AA- | A-1+ |

**(B) UK Investment With Government Equity Holding of minimum of 30%**

30% was taken as a minimum level of significant associated company influence. In practice it serves as a trigger to formally review our position.

Up to a maximum of £3m deposited up to a period of up to three months with the following:

The then current policy stance was overnight but the policy allowed changes to reflect market conditions if and when they improved.

| Bank |
|---|
| Lloyds/HBOS<br>Nat West/RBS |

Only banks which met the following minimum rating criteria for at least two of the designated agencies were to be used.

| Ratings Agency | Long Term | Short Term |
|---|---|---|
| Fitch | A | F1 |
| Moody | A2 | P-1 |
| Standards and Poors | A | A-1 |

The policy retained the ability to revert to some, or even extensive use of the Government's Debt Management Account Deposit Facility (DMADF) if market risk conditions tightened.

2.1.16 Additional requirements under the Code of Practice require the Fire Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information has been and will continue to be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Sovereign ratings, Credit Default Swaps, equity prices, the Capita security and liquidity model and the CIPFA National treasury risk model as well as media updates etc.) would be assessed when comparing the relative security of differing investment counterparties.

2.1.17 All Money Market Funds used will be monitored and chosen by the size of fund, rating agency recommendation, exposure to other Countries (Sovereign debt), weighted average maturity and weighted average life of fund investment and counterparty quality.

2.1.18 All of the investments will be classified as Specified Investments. These investments are sterling investments of not more than one-year maturity with institutions we deem to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These are considered low risk assets where the possibility of loss of principal or investment income is small. The Fire Authority does not have any Non Specified Investments which are ones of more than one-year maturity or with institutions which have a lesser credit quality.

## 2.2 Economic factors affecting the Strategy in 2013/14 (commentary supplied by our advisors Capita).

### The first six months of 2013/14

2.2.1 During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

2.2.2 The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre 2008.

2.2.3 Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged.

2.2.4 Bank Rate is unlikely to change until unemployment first falls to 7%, which is not expected until mid-2016. However, 7% is only a point at which the Bank of England's Monetary Policy Committee (MPC) will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

2.2.5 Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

**Outlook for the next six months of 2013/14**

2.2.6 Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Problems in Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries.

## 2.3 Interest on short term balances

2.3.1 Base interest rate has stayed at 0.5% in 2013/14 to date. The rate is the lowest ever and has remained unchanged for the longest period on record. The last change was on 5th March 2009.

2.3.2 There have been continued uncertainties in the markets during the year to date as set out in section 2.2 above.

2.3.3 The strategy for 2013/14, agreed in February 2013, continued the prudent approach and ensured that all investments were only to the highest quality rated banks and only up to a period of one year. No changes to this Strategy have been required but a more prudent approach has been adopted because of the uncertainties in the market. Investments in all banks continued to be on call (overnight only).

2.3.4 The total amount received in short term interest for the six months to 30th September 2013 was £34k at an average rate of 0.36%. This was below the average of base rates in the same period (0.5%) and fell short of the aim to secure investment income of at least base rate on the Fire Authorities general cash balances. This is against a backdrop ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk.

2.3.5 The interest rate received on all MMFs has reduced during the first six months and the “Treasury Type” MMFs and the Government’s Debt Management Account Deposit Facility (DMADF) rates received are less than received on “Cash Type” MMFs. The reason for these changes was the continued major concerns in the market due to the problems with European countries and the Euro. The changes to the investments held comply with our Treasury Management Strategy and the Fire Authority has continued to follow an extremely prudent approach with security and liquidity as the main criteria before yield.

## 2.4 Long term borrowing

2.4.1 The Fire Authority has had a strategy to borrow to support the Capital Programme and lend out other cash (rather than using internal borrowing). Historically this meant that the interest rate earned on cash balances was higher than the interest rate paid on loans from the Public Works Loans Board (PWLB). In the current financial climate, this interest rate differential has been removed. The cost of new borrowing is now well in excess of the rate achievable on our investments. No new PWLB borrowing has taken place since January 2008 and is unlikely in the current climate unless long term PWLB rates reach a very low level (where the long term benefit would exceed the short term costs).

2.4.2 The average interest rate of all debt at 30 September 2013 (£11.1m) was 4.62% and will be unchanged at 31 March 2014 as long as no new loans are taken and no beneficial rescheduling of debt is available.

2.4.3 Opportunities for cost effective repayment of existing debt and restructuring opportunities were constantly monitored but none emerged in the first six months of the year.

2.4.4 The Department of Communities and Local Government has asked local authorities to make a return to enable them to benefit from a small reduction in all of the PWLB rates for new loans. The PWLB "certainty rate" as it has been named will reduce PWLB borrowing rates by 0.20% for most local authorities. A return has been submitted to keep our options open but despite this reduction it will be unlikely that the Authority will be borrowing as the long term benefit will still not exceed the short term costs.

## 3. Prudential Indicators and limits relating to Treasury Management activities

### 3.1 The limits set for 2013/14

The Strategy Report for 2013/14 set self-imposed prudential indicators and limits. There are on an annual basis and monitored. They comprise:

None of the limits has been exceeded in 2013/14 to date.

| **Prudential Indicator** | **Compliant** |
|---|---|
| Capital Expenditure | Yes |
| Ratio of Financing Costs to Net Revenue Stream | Yes |
| Capital Financing Requirement (CFR) | Yes |
| Net external Borrowing compared to the medium term CFR | Yes |
| Upper limits for fixed interest rate exposure and variable interest rate exposure | Yes |
| Upper limit for total principal sums invested over 365 days | Yes |
| Actual External Debt | Yes |
| Authorised Limit for External Debt | Yes |
| Operational Boundary for External Debt (see 3.2) | Yes |
| Maturity Structure of Fixed Rate Borrowing (see 3.4) | Yes |
| Maturity Structure of Investments (see 3.6) | Yes |
| Incremental Impact of Capital Investment Decisions | Yes |
| Adoption of the CIPFA Treasury Management Code (see 3.5) | Yes |
| Interest rate exposures (see 3.3) | Yes |
| Interest rate on long term borrowing | Yes |
| Interest on investments | Yes |
| Minimum Revenue Provision (see 3.7) | Yes |

## 3.2 Authorised limit for borrowing

3.2.1 The table below sets out the actual 2012/13, original estimate and projected outturn in 2013/14 for borrowing.

| | 2012/13 Actual £,000 | 2013/14 Original Estimate £,000 | 2013/14 Projected Outturn £,000 |
|---|---|---|---|
| **Opening Capital Financing Requirement (CFR)** | **11,059** | **10,734** | **10,578** |
| Capital Investment | 2,585 | 4,699 | 4,951 |
| Sources of Finance | (2,067) | (4,086) | (3,999) |
| Minimum Reserve Provision (MRP) | (419) | (429) | (407) |
| MRP – Finance Leases | (580) | - | - |
| **Movement in year** | **(481)** | **184** | **545** |
| **Closing CFR** | **10,578** | **10,918** | **11,123** |
| less Finance Lease Liability | (394) | - | - |
| **Underlying Borrowing Requirement** | **10,184** | **10,918** | **11,123** |
| **Actual Long Term Borrowing** | **11,123** | **11,123** | **11,123** |
| Over / (Under) Borrowing | (939) | (205) | - |
| **Operational Boundary** | **11,550** | **11,543** | **11,543** |
| **Authorised Limit** | **13,982** | **13,987** | **13,987** |

3.2.2 During 2012/13, the Authority bought out the leases of eighteen vehicles and appliances which it funded from reserves. The remaining finance lease liability was therefore reduced to £nil at 31 March 2013.

3.2.3 The Operational boundary for borrowing was based on the same estimates as the Authorised limit. It reflected directly the authorised borrowing limit estimate without the additional amount for short term borrowing included to allow, for example, for unusual cash movements. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

3.2.4 The Authorised limit was consistent with the Fire Authority's current commitments, existing plans and the proposals for capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom (short term borrowing) over and above this to allow for day to day operational management, for example unusual cash movements or late receipt of income. Risk analysis and risk management strategies were taken into account as were plans for capital expenditure, estimates of the CFR and estimates of cash flow requirements for all purposes.

3.2.5 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The estimated long term borrowing at 31 March 2014 of £11,123,000 is under the Authorised limit set for 2013/14 of £13,987,000.

3.3 **Interest rate exposure**

The Fire Authority's Prudential Indicator continued the practice of seeking competitive fixed interest rate exposure for borrowing, lending and a combined figure of borrowing and lending.

| **Borrowing** | **2013/14 Estimate** | **2013/14 Actual To date** |
|---|---|---|
| Fixed Rate Exposure | | |
| Upper Limit | 100% | 100% |
| Lower Limit | 100% | |
| Variable Rate Exposure | | |
| Upper Limit | 0% | 0% |
| Lower Limit | 0% | |

No new borrowing to-date has been undertaken in 2013/14 and is unlikely for the rest of the year.

| **Lending** | **2013/14 Estimate** | **2013/14 Actual To date** |
|---|---|---|
| Fixed Rate Exposure | | |
| Upper Limit | 100% | 100% |
| Lower Limit | 0% | |
| Variable Rate Exposure | | |
| Upper Limit | 100% | 0% |
| Lower Limit | 0% | |

All lending at fixed rates

| **Combined Borrowing and Lending** | **2013/14 Estimate** | **2013/14 Actual To date** |
|---|---|---|
| Fixed Rate Exposure | | |
| Upper Limit | 100% | 100% |
| Lower Limit | 38% | |
| Variable Rate Exposure | | |
| Upper Limit | 62% | 0% |
| Lower Limit | 0% | |

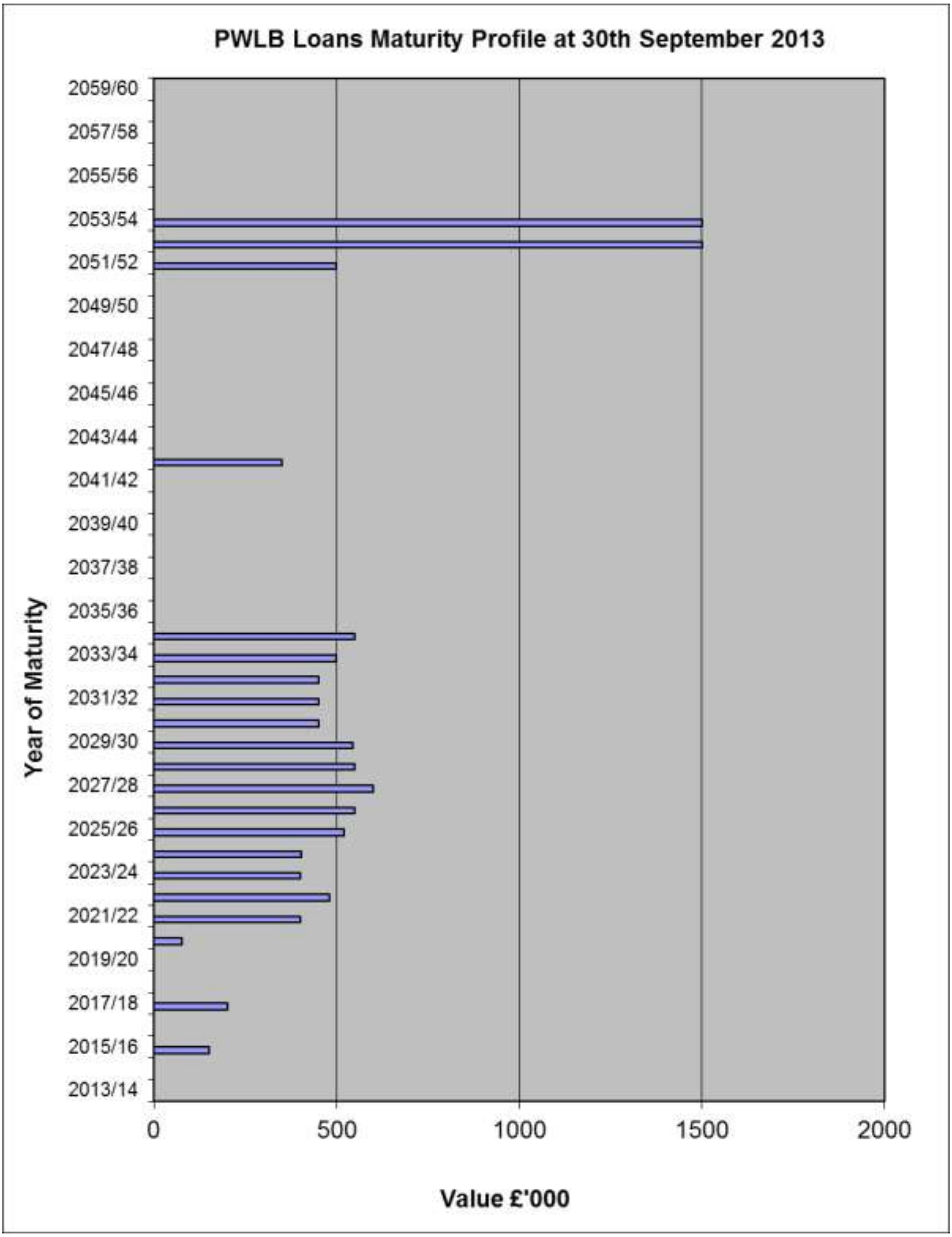
No new borrowing undertaken and all lending at fixed rates

3.4 **Maturity structure of debt**

The Fire Authority set upper and lower limits for the maturity structure of its borrowings as follows.

| | Estimated Lower Limit | Estimated Upper Limit | Current |
|---|---|---|---|
| Under 12 months | 0% | 25% | 0% |
| 12 months and within 24 months | 0% | 40% | 1% |
| 24 months and within 5 years | 0% | 60% | 2% |
| 5 years and within 10 years | 0% | 80% | 9% |
| 10 years and within 20 years | 0% | 80% | 44% |
| 20 years and within 30 years | 0% | 80% | 13% |
| 30 years and within 40 years | 0% | 80% | 18% |
| Over 40 years | 0% | 80% | 13% |

Any new borrowing undertaken would give due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any future years when interest rates may be unfavourable. No new borrowing has been undertaken in 2013/14 to date. The following graph shows when the debt will mature.


PWLB Loans Maturity Profile at 30th September 2013
Year of Maturity
2059/60
2057/58
2055/56
2053/54
2051/52
2049/50
2047/48
2045/46
2043/44
2041/42
2039/40
2037/38
2035/36
2033/34
2031/32
2029/30
2027/28
2025/26
2023/24
2021/22
2019/20
2017/18
2015/16
2013/14
0
500
1000
1500
2000
Value £'000

3.5 **Compliance with the treasury management code of practice**

East Sussex Fire Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

3.6 **Maturity structure of investments**

The authority has continued the current policy and not invested any sums for more than 364 days.

3.7 **Minimum Revenue Provision Statement**

The Fire Authority's Borrowing Need (the Capital Financing Requirement)

3.7.1 The prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the underlying borrowing need.

3.7.2 The Fire Authority approved the CFR projections for 2013/14 in its Strategy approved in February. These are in the original estimate below:

| | **2012/13 Actual £,000** | **2013/14 Original Estimate £,000** | **2013/14 Projected Outturn £,000** |
|---|---|---|---|
| Opening CFR | 11,059 | 10,734 | 10,578 |
| Closing CFR | 10,578 | 10,918 | 11,123 |
| **Movement in CFR** | **(481)** | **184** | **545** |
| **Movement in CFR represented by:** | | | |
| Net financing | 518 | 613 | 952 |
| MRP | (419) | (429) | (407) |
| Reduction in Finance Lease Liability | (580) | - | - |
| **Movement in year** | **(481)** | **184** | **545** |

3.7.3 The Fire Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge called the Minimum Revenue Provision (MRP), although it is also allowed to undertake additional voluntary payments.

3.7.4 The Fire Authority has implemented MRP guidance and will assess the MRP for 2013/14 in accordance with the main CLG Regulations contained within the guidance issued by the Secretary of State under section 21 (1A) of the Act. A variety of options are provided to authorities, so long as there is a prudent provision. The major proportion of the MRP for 2013/14 will relate to the more historic debt liability for capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

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

3.7.5 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).

## 4 Treasury Management Advisors

4.1 The Strategy for 2013/14 explained that the Fire Authority uses Capita as its treasury management consultant through the contract that exists with East Sussex County Council. The company has provided a range of services which have included:

a) Technical support on treasury matters, capital finance issues and advice on reporting;
b) Economic and interest rate analysis;
c) Debt services which includes advice on the timing of borrowing;
d) Debt rescheduling advice surrounding the existing portfolio;
e) Generic investment advice on interest rates, timing and investment instruments;
f) Credit ratings from the three main credit rating agencies and other market information;
g) Assistance with training on treasury matters.

4.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Authority. This service remains subject to regular review.

4.3 Capita is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market-leading treasury management service to their clients and better those offered by competitors. The advice will continue to be monitored regularly to ensure an excellent level of service provided to the Authority.

## 5 Conclusion

5.1 The prime objective of Treasury Management is the effective management of risk and that its activities are undertaken in a prudent affordable and sustainable basis.

5.2 This report confirms the Authority has continued to follow an extremely prudent approach with the main criteria of security and liquidity before yield. The current emphasis must continue to be able to react quickly if market conditions worsen.