EAST SUSSEX FIRE AUTHORITY

POLICY & RESOURCES PANEL

THURSDAY 13 NOVEMBER 2014 at 11.30
or at the conclusion of the Scrutiny & Audit Panel meeting, whichever is the later.

MEMBERS

East Sussex County Council

Councillors Barnes, Howson, Lambert, Pragnell and Scott

Brighton and Hove City Council

Councillors Hawtree, Powell and Theobald

You are requested to attend this meeting to be held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, at 11:30 hours, or at the conclusion of the Scrutiny & Audit Panel meeting, whichever is the later.

AGENDA

Item No.	Page No.	
958.	1.	In relation to matters on the agenda, seek declarations of any disclosable pecuniary interests under Section 30 of the Localism Act 2011.
959.	1.	Apologies for Absence.
960.	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).
961.	3.	Non-confidential Minutes of the last Policy & Resources Panel meeting held on 11 July 2014 (copy attached).

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

963. 9. 2014/15 Revenue Budget and Capital Programme Monitoring – joint report of the Chief Fire Officer & Chief Executive and the Treasurer (copy attached).

964. 21. 2014/15 Treasury Management – Half year report – report of the Treasurer (copy attached).

965. 2. 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.

966. 37. Sussex Control Centre – Progress Report – report of the Chief Fire Officer & Chief Executive (copy attached). (Exempt category under paragraph 3 of the Local Government Act 1972).

967. 43. Service Headquarters – Stage 2 Options Review – confidential report of the Chief Fire Officer & Chief Executive (copy attached). (Exempt category under paragraph 3 of the Local Government Act 1972).

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

Agenda Item No. 961

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 11.45 hours on Friday 11 July 2014.

Members Present: Councillors Barnes, Hawtree, Howson (Chairman), Lambert, Pragnell, Theobald and Wincott.

N.B. Councillor Wincott attended the meeting in place of Councillor Scott having been nominated by the Deputy Monitoring Officer in consultation with the relevant Group spokesperson.

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

945. **DISCLOSABLE PECUNIARY INTERESTS**

945.1 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.

946. **ELECTION OF CHAIRMAN**

946.1 **RESOLVED** – That Councillor Howson be appointed Chairman of the Panel for the ensuing year.

947. **APOLOGIES FOR ABSENCE**

947.1 Apologies for absence were received from Councillors Powell and Scott.

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

948.1 There were no urgent items for consideration.

949. **NON-CONFIDENTIAL MINUTES OF THE POLICY & RESOURCES PANEL MEETING HELD ON 15 MAY 2014**

949.1 **RESOLVED** – That the minutes of the meeting held on 15 May 2014 be approved as a correct record and signed by the Chairman. (Copy in Minute Book).

950. **CALLOVER**

950.1 Members reserved the following items for debate:

951. 2013/14 Provisional Revenue and Capital Outturn
953. ICT Transformation Programme
954. Sussex Control Centre – Progress Report

951. **2013/14 PROVISIONAL REVENUE AND CAPITAL OUTTURN**

951.1 Members considered a report of the Treasurer that contained the provisional revenue and capital budget outturn for 2013/14 along with an updated analysis of reserves and balances. (Copy in Minute Book).

951.2 The provisional Revenue Budget outturn for 2013/14 was underspent by £647,000 comprising underspends of £51,000 within Service Delivery, £407,000 within Service Support, £59,000 within People and Organisational Development, £244,000 within Corporate Services and £4,000 within Finance.

951.3 The underspends reflect a range of savings in Corporate Services and Support Services which have been removed from the 2014/15 budget as part of the agreed non-operational savings for 2014/15, a small net underspend on Service Delivery and Operational budgets and project slippage primarily in IMD. Officers recommended that the underspend be transferred to balances, £275,000 as a carry forward for slipped projects and £372,000 to the Capital Programme Reserve as previously approved by the Fire Authority in February 2014.

951.4 The overall Capital Programme was projected to be under planned spending by £410,000. The current year's Capital Programme and spending profile was projected to be underspent by £2,985,000. This was made up of two main elements; schemes which have been delivered under budget or have been removed as no longer necessary which have resulted in a savings of £410,000 and; schemes that have been delayed and the spend slipped into 2014/15 and these total £2,575,000. The majority of the slippage related to two major partnership schemes, Newhaven Fire Station and Sussex Control Centre.

951.5 Councillor Hawtree asked Officers to explain the level of underspend within the IMD budget. The Assistant Chief Fire Officer informed Members that there had been a number of projects that had not been progressed over the past year. The Chief Fire Officer & Chief Executive added that staff time had been taken up with other projects such as the Sussex Control Centre and that combined with a reduction in staff numbers had unfortunately meant some projects had slipped.

951.6 **RESOLVED** – That

(i) the provisional 2013/14 Revenue outturn be noted;
(ii) the provisional 2013/14 Capital Programme outturn be noted;
(iii) the actual use of reserves be noted;
(iv) the shortfall in 2013/14 budget savings was managed within the overall revenue underspend be noted; and
(v) the transfer of the 2013/14 revenue underspend to earmarked reserves as set out in paragraph 7.1 of the report (i.e. £275,000 of the revenue budget underspend to be transferred into an earmarked reserve to fund the projects listed in Appendix 6 of the report to be drawn down in 2014/15; and the balance of £372,000 to be transferred to the Capital Programme Reserve as agreed by the Fire Authority in February 2014), be approved.

952. **2014/15 REVENUE BUDGET AND CAPITAL PROGRAMME MONITORING**

952.1 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 2014/15 Revenue Budget and Capital Programme as at 31 May 2014. (Copy in Minute Book).

952.2 **RESOLVED** – That the following be noted:

(i) the projected 2014/15 Revenue Budget outturn;
(ii) the projected Capital Programme outturn;
(iii) the planned use of reserves; and
(iv) the monitoring of savings taken in 2014/15.

953. **ICT TRANSFORMATION PROGRAMME**

953.1 Members considered a report of the Chief Fire Officer & Chief Executive which advised the Panel of the intended programme of work to transform the Service's ICT infrastructure and services. (Copy in Minute Book).

953.2 The Service's ICT equipment, systems and applications had increased in both number and complexity over the years hosted on servers managed internally at Service Headquarters. There had been increasing reliance on internal staff to manage and maintain the IT environment who had been constrained by capacity and occasionally lack of skill and capability, to meet the increasingly dynamic and demanding requirements of the business.

953.3 Following a review during 2013/14, the results of which were reported to Corporate Management Team (CMT), it was agreed that there was a need to transform the ICT environment to a more suitable and affordable solution which would meet both the current and future needs of the Service. A programme of work had been progressing that may result in all ICT services being managed externally.

953.4 CMT had agreed to progress an initiation stage in advance of agreeing a full programme of transformation of ICT. This had resulted in the development of a plan to deliver the transformation programme and set out the context, aim and scope for delivery.

953.5 It had been agreed that a fully managed service may be the preferred outcome with options ranging from fully managed service provided by a single provider, a managed service from multiple suppliers or a managed service from a single supplier acting as a managing agent. The programme of work would identify which model would be most advantageous and which supplier would be best suited to deliver within the preferred model.

953.6 Councillor Barnes asked Officers to be more ambitious in their plans and consider options such as integrating with or "piggy backing" off larger organisations. He didn't feel it would be appropriate to be reliant on commercial organisations and that Officers should fully map the functions so that any supplier could grasp how the Service worked and what it's requirements were.

953.7 Councillor Hawtree expressed concern that outsourcing could expose the Service to risk. The Chief Fire Officer & Chief Executive advised Members that the involvement of a specialist firm would provide valuable guidance on the needs and requirements of the Service in moving forward and help find the best strategic outcomes, as well as delivering considerable savings.

953.8 **RESOLVED**: That
- (i) the intended course of action as set out within the report be noted with particular emphasis to be given by Officers to partnership working; and
- (ii) the transfer of up to £400,000 in total from within the existing IMD budget to fund the transformation work be approved.

954. SUSSEX CONTROL CENTRE

954.1 Members considered a report of the Chief Fire Officer & Chief Executive which provided an update on the progress and financial position of the Sussex Control Centre Project. (Copy in Minute Book).

954.2 The Sussex Control Centre (SCC) had been live at Haywards Heath since 21 May 2014. Both legacy systems continued to perform and the Project Team was now fully focussed on the delivery of the new mobilising system.

954.3 The next stages of the project fell primarily into 4 areas; data provision, acceptance tests, installation and training. Data provision had to be completed before Factory Acceptance Test which was during week commencing 21 July. Installation would take part in 2 phases due to it taking place in a fully operational control environment (August and late September). Training was scheduled for September and October.

954.4 To the end of May 2014 £1.98m had been spent on shared costs with further commitments of £0.02m and further anticipated spend of £0.37m.

954.5 The forecast spend for grant funded expenditure now stood at £3.62m, and exceeded the value of the grant by £0.02m. Spend to the end of May 2014 stood at £2.29m with another £0.88m approved to be spent.

954.6 **RESOLVED**: That the report be noted.

955 & 956. EXCLUSION OF PRESS AND PUBLIC

955/6.1 **RESOLVED** – That item 957 be exempt under paragraphs 3 & 4 of Schedule 12A to the Local Government (Access to Information) (Variation) Order 2006 and, accordingly, is not open for public inspection on the grounds that it includes information relating to the financial or business affairs of any particular person (including the Authority holding that information) and information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holder under, the authority.

PART 2

957. **<u>CONFIDENTIAL MINUTES OF THE MEETING OF THE POLICY & RESOURCES PANEL HELD ON 15 MAY 2014 (EXEMPT CATEGORIES UNDER PARAGRAPHS 3 AND 4 OF THE LOCAL GOVERNMENT ACT 1972)</u>**

957.1 **RESOLVED** – That the confidential minutes of the meeting held on 15 May 2014 be approved as a correct record and signed by the Chairman. (Copy in Minute Book).

The meeting concluded at 12.45 hours.

Signed Chairman

Dated this Day of 2014

Agenda Item No. 963

EAST SUSSEX FIRE & RESCUE

Panel	**Policy & Resources**
Date:	**13 November 2014**
Title:	**2014/15 Revenue Budget and Capital Programme Monitoring**
By:	**Chief Fire Officer & Chief Executive and Treasurer**
Purpose of Report:	**To report on issues arising from the monitoring of the 2014/15 Revenue Budget and Capital Programme as at 30 September 2014.**

RECOMMENDATION: The Panel is asked to note:

i. the projected 2014/15 Revenue Budget outturn;
ii. the projected 2014/15 Capital Budget outturn;
iii. the projected use of Reserves and the creation of an earmarked reserve for sprinklers;
iv. the monitoring of savings taken in 2014/15; and
v. that borrowing and investment activity are in line with the Treasury Management Strategy; and

to approve:

vi. the variation to the Capital Programme for the revised Newhaven scheme.

MAIN ISSUES

1. This is the third report to the Authority, the last being made to the Fire Authority on 11 September 2014. As we move into the second half of the financial year the certainty of forecast outturn is increasing but there remain many elements, both internal and external, that will influence the final position.

2. The Revenue Budget outturn for 2014/15 is projected to be £129,000 overspent (previously reported as £69,000 underspent).

3. The Capital Programme is subject to a variation for Newhaven scheme (see paragraph 4.2) which takes account of revised spending profile and partner contributions. Assuming the variation is approved, the overall Programme is projected to be under budget by £51,000 (previously £16,000 under budget). The current year's spending profile is projected to be underspent by £51,000 (previously £16,000 under budget).

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. The Authority has committed £200,000 to financially support sprinklers in high rise high risk buildings and any underspend in 2014/15 will be transferred to a new Earmarked Reserve.

5. The savings of £2.023m already taken from the 2014/15 budget are set out in Appendix 6. The projected shortfall of £7,000 occurs in 2014/15 only (paragraph 6.1).

6. Borrowing and investment are in line with the approved Treasury Management Strategy. Interest receivable from investment activity is expected to exceed the budget target by £38,000 and this is reflected in the Revenue Budget outturn.

Des Prichard	**Duncan Savage**
CHIEF FIRE OFFICER & CHIEF EXECUTIVE	**TREASURER**
28 October 2014	

1. **INTRODUCTION**

1.1 The format of the report has been changed to increase transparency. The body of the report concentrates on the major issues and risks, with fuller detail available in the appendices.

1.2 The financial information contained in this report is as at 30 September 2014. This report discloses the main issues, material variances and changes to previously reported variances. All other budgets are as planned.

2. **BUDGET OUTTURN SUMMARY**

2.1 The table below summarises the 2014/15 Revenue Budget and Capital Programme positions.

	Last CFA Report	**This P & R Report**	**Movement**
	£,000	£,000	£,000
Revenue (see paragraph 3)	69	129	60
Capital (see paragraph 4)	(16)	(51)	(35)

3. **REVENUE BUDGET COMMENTARY**

3.1 The main issues to report to the Panel since the last meeting are as follows:

3.2 The Operational Pay and Pensions budget is forecast to be on budget whilst work continues to establish the one off and on-going costs of implementing the Norman vs. Cheshire judgement for which there is provision of £540,000 and £95,000 respectively in the budget.

3.3 The Head of IMD is in the process of reviewing the IMD budget and Members will be advised of any variations to the forecast £126,000 overspend once the review is complete. The current forecast overspend is £126,000 (previously £26,000) and is the result of the replacement of the Wide Area Network (WAN) and support for the legacy mobilising system, given the situation with the SCC Project. This is expected to deliver significant revenue saving in future years, but will result in a pressure in 2014/15 due to one-off implementation costs.

3.4 There is a projected underspend on the Fuel budget of £50,000 (previously on budget). The underspend has materialised as wholesale fuel prices have reduced and the fleet is travelling fewer miles.

3.5 The additional cost incurred as a result of industrial action in 2014/15 is £121,000 (previously reported as £54,000). This is the gross additional cost to the Authority and does not include deductions from pay which total £119,000 as these are part of the Operations budget. If the gross additional cost cannot be contained within the overall revenue budget it will be funded from General Reserves. The total net cost to the Authority of the current dispute now stands at £59,000, with £220,000 total additional costs off-set in part by deductions of £161,000.

3.6 The Finance & Procurement budget remains as previously reported at £20,000 underspent due to lower than expected premiums on the insurance contract.

3.7 There is a forecast underspend on the Performance Management budget of £10,000 following a recent voluntary redundancy. This underspend will be taken as an additional saving in 2014/15 and the full year effect in 2015/16 following a reorganisation within the Team.

4. CAPITAL BUDGET & PROGRAMME COMMENTARY

4.1 Due to specification changes the Replacement of Appliances scheme is forecast to underspend by £35,000.

4.3 The Newhaven scheme has been developed into a joint project with Lewes District Council and Sussex Police to which partners have agreed to contribute. It is also the subject of a joint bid with Lewes District Council to the 2015/16 Local Government Transformational Challenge Award. If successful it will result in a grant receipt to the Authority of £663,000 which further off-sets the gross cost.

4.2 It is recommended that the Policy & Resources Panel approves a revised Newhaven scheme with a total gross cost of £2,364,000 in 2014/15 and overall gross cost of £3,560,000. After partner contributions of £1,002,000 the net cost to the Authority is expected to be £2,558,000 which is a reduction on the original scheme total of £3,070,000 of £512,000.

4.4 As agreed by the Fire Authority on 11 September an additional scheme for Day Crewed Plus Adaptations has been added to the Capital Programme. The bid to the Fire Transformation Fund has been unsuccessful and the cost of this scheme will be funded from the Capital Programme Reserve or the Capital Receipts reserve.

5. RESERVES

5.1 The anticipated drawdown from the Improvement and Efficiency Reserve to fund the Transformation Team is the subject of detailed planning and the phasing of the drawdown will be reported back to Policy and Resources Panel at is next meeting.

5.2 The drawdown of the Maritime earmarked reserve has been amended from £50,000 to £28,000 to align to the current proposals for the Team.

5.3 A new earmarked reserve has been established for the element of the Sprinkler budget that is now expected to be required in 2015/16.

5.4 Following consultation with Budget Managers the 2013/14 carry forwards, (£275,000) have been agreed and have been transferred during October 2014.

6. MONITORING OF SAVINGS

6.1 Following a reorganisation in Performance Management (see paragraph 3.7) the shortfall in 2014/15 has been reduced to £7,000. Work continues to review the savings from Phase 1 of the Changing the Service, Shaping our Future programme.

7. BORROWING AND INVESTMENT

7.1 There has been no new external borrowing or repayment of existing loans. The total of external loan debt remains £11.123m.

7.2 As at 30 September 2014, the Authority held cash balances of £19.959m which were invested as set out in Appendix 7 in accordance with the Treasury Management Strategy. The move of some funds from overnight deposits to investment in fixed term and notice accounts has led to a forecast surplus of £38,000 on interest receipts.

Appendix 1

East Sussex Fire Authority
2014/15 Revenue Budget – Functional Analysis

	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance-last report CFA £'000
Service Delivery Response	5,440	5,260	5,260	0	0	
Service Delivery Community Risk Management	675	493	493	0	0	
Service Delivery Business Safety	119	162	162	0	0	
Operational Pay & Pensions	18,295	18,472	18,472	0	0	31
Service Delivery	**24,529**	**24,387**	**24,387**	**0**	**0**	**31**
Service Support Estates	1,257	1,267	1,267	0	0	32
Service Support IMD	3,015	2,941	3,067	126	4.3	26
Service Support Fleet	1,656	1,656	1,606	(50)	(3.0)	
Service Support Special Projects Team	130	129	129	0	0	
Service Support	**6,058**	**5,993**	**6,069**	**76**	**1.3**	**58**
POD HR	657	696	696	0	0	
POD L&OD	1,674	1,737	1,737	0	0	
People & Organisational Development	**2,331**	**2,433**	**2,433**	**0**	**0**	
Cost of Democracy	176	176	176	0	0	
Additional cost of industrial action	0	0	121	121	-	
Corporate Management	1,020	1,101	1,101	0	0	
Finance & Procurement	1,853	1,882	1,862	(20)	(1.1)	(20)
Performance Management	205	205	195	(10)	(4.9)	
Net Financing Costs	907	907	869	(38)	(4.2)	
Central	177	43	43	0	0	
Corporate	**4,338**	**4,314**	**4,367**	**53**	**1.2**	**(20)**
Transfers from Reserves		(28)	(28)	0	0	
Transfers to Reserves	1,519	1,676	1,676	0	0	
Total Net Expenditure	**38,775**	**38,775**	**38,904**	**129**	**0.3**	**69**
Council Tax	(22,306)	(22,306)	(22,306)	0	0	
Business Rates	(6,912)	(6,912)	(6,912)	0	0	
Revenue Support Grant	(9,051)	(9,051)	(9,051)	0	0	
S31 Grants	(230)	(230)	(230)	0	0	
Collection Fund Surplus/Deficit Council Tax	(276)	(276)	(276)	0	0	
Total Financing	**(38,775)**	**(38,775)**	**(38,775)**	**0**	**0**	
Total Over / (Under) spend			**129**	**129**	**0.3**	**69**

Appendix 2

East Sussex Fire Authority
2014/15 Revenue Budget – Subjective Analysis

	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance-last CFA report £'000
Salaries, Allowances and On-costs	28,246	28,488	28,559	71	0.2	29
Training Expenses	555	527	548	21	4.0	
Other Employees Costs	209	172	186	14	8.1	
Employee Costs	**29,010**	**29,187**	**29,293**	**106**	**0.4**	**29**
Repair, Maintenance and Other Costs	1,009	1,009	1,009	0	0.0	7
Utility Costs	1,135	1,135	1,135	0	0.0	
Premises Costs	**2,144**	**2,144**	**2,144**	**0**	**0.0**	**7**
Vehicle Repairs and Running costs	930	934	864	(70)	(7.5)	
Travel Allowances and Expenses	126	121	121	0	0.0	
Transport Costs	**1,056**	**1,055**	**985**	**(70)**	**(6.6)**	
Equipment and Supplies	1,111	1,101	1,103	2	0.2	33
Fees and Services	1,574	1,626	1,626	0	0.0	
Communications and Computing	2,604	2,492	2,618	126	5.1	
Other Supplies and Services	489	514	519	5	1.0	
Supplies and Services	**5,778**	**5,733**	**5,866**	**133**	**2.3**	**33**
Minimum Revenue Provision	445	445	445	0	0.0	
Interest Payments	514	514	514	0	0.0	
Capital Financing	**959**	**959**	**959**	**0**	**0.0**	
Grants and Contributions	(433)	(433)	(433)	0	0.0	
Interest Received	(52)	(52)	(90)	(38)	73.1	
Other Income	(1,206)	(1,466)	(1,468)	(2)	0.1	
Income	**(1,691)**	**(1,951)**	**(1,991)**	**(40)**	**2.1**	
Transfers from Reserves		(28)	(28)	0	0	
Transfers to Reserves	1,519	1,676	1,676	0	0	
Total Net Expenditure	**38,775**	**38,775**	**38,904**	**129**	**0.3**	**69**
Financed By:						
Council Tax	(22,306)	(22,306)	(22,306)	0	0.0	
Business Rates	(6,912)	(6,912)	(6,912)	0	0.0	
Revenue Support Grant	(9,051)	(9,051)	(9,051)	0	0.0	
S31 Grants	(230)	(230)	(230)	0	0.0	
Collection Fund Surplus/Deficit Council Tax	(276)	(276)	(276)	0	0.0	
Total Financing	**(38,775)**	**(38,775)**	**(38,775)**	**0**	**0.0**	
Total Over/(Under) spend	**0**	**0**	**129**	**129**	**0.3**	**69**

Appendix 3

East Sussex Fire Authority
2014/15 Capital Budget Monitoring

Capital Scheme	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance-last CFA report £'000
Schemes Starting in 2014/15						
Replacement Fire Appliances	240	240	205	(35)	(14.5)	
Replacement Ancillary Vehicles	14	14	14	0	0	
Replacement Cars and Vans	211	211	211	0	0	
Property Strategy	115	115	115	0	0	
Day Crewed Plus Adaptions		218	218	0	0	
Total Schemes Starting 2014/15	**580**	**798**	**763**	**(35)**	**(4.4)**	
Schemes Starting in Previous Years						
Replacement Cars and Vans	51	51	51	0	0	
Crowborough Refurbishment	43	43	27	(16)	(37.2)	(16)
Property Strategy Sustainability	140	140	140	0	0	
Property Strategy Replacement Fuel Tanks	75	75	75	0	0	
IMD Strategy SCC	1,158	1,158	1,158	0	0	
Newhaven Fire Station	2,972	2,364	2,364	0	0	
Property Strategy STC	23	23	23	0	0	
BA Classroom Maresfield	8	8	8	0	0	
Sussex Control Facility	187	187	187	0	0	
Total Schemes Starting in Previous Years	**4,657**	**4,049**	**4,033**	**(16)**	**0.0**	(16)
Total Capital Expenditure	**5,237**	**4,847**	**4,796**	**(51)**	**(1.0)**	**(16)**

Appendix 4

East Sussex Fire Authority
2014/15 – 2018/19 Capital Programme Monitoring

Capital Scheme	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance- last CFA report £'000
Schemes Starting in 2014/15						
Replacement Fire Appliances	240	240	205	(35)	(14.5)	
Replacement Ancillary Vehicles	14	14	14	0	0	
Replacement Cars and Vans	211	211	211	0	0	
Property Strategy	115	115	115	0	0	
Day Crewed Plus Adaptions	0	1,855	1,855	0	0	
Total Schemes Starting 2014/15	**580**	**2,435**	**2,400**	**(35)**	**(1.4)**	
Continuing Schemes Starting in Previous Years						
Replacement Cars and Vans	210	210	210	0	0	
Crowborough Refurbishment	1,005	1,005	989	(16)	(1.5)	(16)
Property Strategy Sustainability	420	420	420	0	0	
Property Strategy Replacement Fuel Tanks	190	190	190	0	0	
IMD Strategy SCC	2,027	2,027	2,027	0	0	
Newhaven Fire Station	3,070	3,560	3,560	0	0	
Property Strategy STC	40	40	40	0	0	
BA Classroom Maresfield	220	220	220	0	0	
Sussex Control Facility	1,100	1,100	1,100	0	0	
Total Schemes From Previous Years	**8,282**	**8,772**	**8,756**	**(16)**	**(0.18)**	**(16)**
Total Capital Expenditure	**8,862**	**11,207**	**11,156**	**(51)**	**(0.45)**	**(16)**

Note:

1. The Newhaven Fire Station scheme is the gross cost of the scheme (£3,560,000) and attracts other funding sources. There is partner funding of £1,002,000 reducing the net cost to the Authority to £2,558,000.
2. The scheme is also subject to a bid for grant funding of £663,000 leaving a net cost to the Authority of £1,895,000.

Appendix 5

Reserves Projections March 2014 to April 2015

Description	Opening Balance 01/04/14 £'000	2014/15 Original Transfers In £'000	2014/15 Original Transfers Out £'000	2014/15 Projected Transfers In £'000	2014/15 Projected Transfers Out £'000	Projected Closing Balance 31/03/15 £'000
Earmarked Reserves						
Improvement and Efficiency	1,757	519	(100)	519	(100)	2,176
Budget Carry Forward	275		(275)		(275)	0
Maritime Incident and Response Group	123		(50)		(28)*	95
Sprinklers	0			112		112
Community Safety Smoke Detectors	50		(50)		(50)	0
Insurance	249					249
Community Fire Safety	150		(65)		(65)	85
Breathing Apparatus	750					750
SCC Desktop Provision	85		(85)		(85)	0
SCC Connectivity	106		(106)		(106)	0
Mapping Solution	120		(120)		(120)	0
Relocation Expenses for Staff Vacating Houses	170		(70)		(70)	100
Volunteers Scheme	163		(79)		(79)	84
Total Earmarked Reserves	**3,998**	**519**	**(1,000)**	**631**	**(978)**	**3,651**
Capital Programme Reserve	3,443	1,000	(187)	1,000	(218)	4,225
General Fund	3,752					3,666
Total Revenue Reserves	**11,193**	**1,519**	**(1,187)**	**1,631**	**(1,282)**	**11,542**
Capital Receipts Reserve	**2,639**	**444**	**(2,374)**	**974**	**(2,374)**	**1,239**
Total Usable Reserves	**13,832**	**1,963**	**(3,561)**	**2,605**	**(3,656)**	**12,781**

**indicates where amount has been drawn down from the reserve into the revenue budget.*

Projected use of the Capital Programme Reserve and the Capital Receipts reserve remains unchanged pending the level of receipts generated and the Newhaven grant bid.

Appendix 6

East Sussex Fire Authority
2014/15 Savings Monitoring

	Original Budget £'000	Projected Outturn £'000
Facing The Challenge Savings	(419)	(402)
Non Operational Savings	(729)	(729)
Phase 1 Savings	(219)	(219)
Control Room Savings	(317)	(317)
Other Savings	(339)	(349)
Total Savings	**(2,023)**	**(2,016)**

Appendix 7

East Sussex Fire Authority
Investments as at 30 September 2014

Counterparty	Type	Amount £'000	Term	Rate %
Lloyds/HBOS	Fixed Term	3,000	6 months	0.70
Santander	Notice	3,000	95 days	0.60
Barclays	Notice	3,000	100 days	0.65
Ignis	MMF	3,000	Overnight	Variable
JPM	MMF	1,959	Overnight	Variable
Black Rock	MMF	-	Overnight	Variable
Insight	MMF	3,000	Overnight	Variable
Deutsche Bank	MMF	3,000	Overnight	Variable
Goldman	MMF	-	Overnight	Variable
Total Current Investments		**19,959**		

Agenda Item No. 964

EAST SUSSEX FIRE AUTHORITY

Panel:	**Policy & Resources**
Date:	**13 November 2014**
Title:	**2014/15 Treasury Management – Half year report**
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 2014/15. 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 2014/15.

MAIN ISSUES

1. The Fire Authority has complied with its approved Treasury Management Strategy and Prudential Indicators during the first 6 months of the year.

2. In challenging economic conditions the average rate of interest received through Treasury Management activity was 0.48%. This reflected the Fire Authority's continuing prioritisation of security and liquidity over yield.

3. No new borrowing has been undertaken in 2014/15 to date with total loan debt outstanding remaining at £11.123m at an average interest rate of 4.62%. There have been no beneficial opportunities to reschedule debt so far during the year. The projected outturn of the Fire Authority's Capital Financing Requirement (CFR), a measure of the underlying need to borrow, remains £11.123m.

Duncan Savage
TREASURER
28 October 2014

Background Papers
Fire Authority
5 June 2014 – Agenda Item 790 Treasury Management – Stewardship report for 2013/14
14 February 2014 – Agenda Item 772: Treasury Management Strategy for 2014/15

CIPFA Treasury Management in the Public Services code of practice and cross sectional guidance notes
Local Government Act 2003
CIPFA Prudential Code

TREASURY MANAGEMENT-HALF YEAR REVIEW FOR 2014/15

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 preceding 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 2014/15 and the economic factors affecting the strategy in the first six months of this year; and
b) The Fire Authority's treasury activity during the first six months on borrowing and short term investments.

2. **2014/15**

2.1 Original Strategy for 2014/15

2.1.1 At its meeting on 14 February 2014, the Fire Authority agreed its treasury management strategy for 2014/15, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2014/15 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's past strategy has been 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 current financial climate, 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 20th 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 Asset Service, was that short term rates were expected to remain on hold for a considerable time. The economic outlook and structure of market interest rates and government debt yields had several key treasury mangement implications:

(a) Although Eurozone concerns have subsided, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods.

(b) Investment returns are likely to remain relatively low during 2014/15 and beyond.

(c) Borrowing interest rates have been decreasing over the period. 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 even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future.

2.1.6 The economic recovery in the UK since 2008 had been the worst and lowest recovery in recent history. However, growth rebounded in quarter 1 and 2 of 2013. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

Investment and Borrowing Strategy agreed for 2014/15

2.1.7 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 Capita Asset Services Guidance Notes (including CIPFA TM Code). The Authority's investment priorities will be security first, liquidity second, and then return.

2.1.8 The Authority will make use of the creditworthiness service provided by Capita 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.

2.1.9 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*

2.1.10 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

2.1.11 The use of Specified Investments - Investment instruments identified for use in the financial year are as follows:
The Table below set out the types of investments that fall into each category, counterparties available to the Authority, and the limits placed on each of these.

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 blls	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	£3m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£3m	1 yr
Barclays	UK		£3m	1 yr
Santander UK	UK		£3m	1 yr
HSBC	UK		£3m	1 yr
Individual Money Market Funds	UK/Eire domiciled	AAA rated Money Market Funds	£3m	Liquidity/ instant access

2.1.12 The use of Non Specified Investments - 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.

2.1.13 The net borrowing requirement within Table 3.2.1 below 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.

2.1.14 Treasury staff will regularly review opportunity for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made Public Works Loan Board (PWLB) debt restructuring now much less attractive. Consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

2.1.15 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; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.1.16 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.

2.1.17 All debt rescheduling will be agreed by the Treasurer.

2.2 **Economic factors affecting the Strategy in 2014/15 (commentary supplied by our advisors Capita Asset Services).**

Economic performance to date and outlook

2.2.1 After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering.

2.2.2 The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate.

2.2.3 The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.

2.2.4 There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

2.2.5 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

2.2.6 The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

Interest Rate Outlook

2.2.7 The Authority's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.25%	2.50%
5yr PWLB rate	2.50%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%	3.50%	3.50%
10yr PWLB rate	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.20%	4.30%	4.30%
25yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%
50yr PWLB rate	3.90%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	5.00%

2.2.8 Capita Asset Services undertook a review of its interest rate forecasts on 24 October. During September and October, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, plus fears around Ebola and an accumulation of dismal growth news in most of the ten largest economies of the world and also on the growing risk of deflation in the Eurozone, had sparked a flight from equities into safe havens like gilts and depressed PWLB rates. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2015.

2.2.9 PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows:

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- Recapitalisation of European banks requiring more government financial support.

2.3 **Interest on short term balances**

2.3.1 Base interest rate has stayed at 0.5% in 2014/15 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 2014/15, agreed in February 2014, 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.

2.3.4 The total amount received in short term interest for the six months to 30th September 2014 was £48k at an average rate of 0.48%. This was below the average of base rates in the same period (0.50%) 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 In April the authority placed a 6 month fixed term deposit with Lloyds/HBOS at 0.70% which was previously on instant access (call) with Lloyds/HBOS and paid 0.40%. In July funds were placed with Barclays and Santander in 100 and 95 day notice accounts at rates of 0.60%. Both banks were new counterparties on the Authority's lending list and reduced the balance in Cash Type MMF's. Placing funds in fixed or notice accounts has resulted in increased yield for the first 6 months of 2014/15. 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 had a past 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 2014 (£11.123m) was 4.62% and will be unchanged at 31 March 2015 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.

3. Prudential Indicators and limits relating to Treasury Management activities

3.1 The limits set for 2014/15

The Strategy Report for 2014/15 set self-imposed prudential indicators and limits. These are on an annual basis and monitored. They comprise:

None of the limits has been exceeded in 2014/15 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 2014/15, original estimate and projected outturn in 2014/15 for borrowing.

	2013/14 Actual	2014/15 Original Estimate	2014/15 Projected Outturn
	£000	**£000**	**£000**
Opening CFR	**10,578**	**11,123**	**11,123**
Capital Investment	3,281	4,141	4,796
Sources of Finance	(2,313)	(3,695)	(4,350)
MRP	(419)	(446)	(446)
Movement in year	**545**	**-**	**-**
Closing CFR	**11,123**	**11,123**	**11,123**
less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**11,123**	**11,123**	**11,123**
Actual Long Term Borrowing	**11,123**	**11,123**	**11,123**
Over / (Under) Borrowing	-	-	-
Operational Boundary	**11,550**	**11,590**	**11,590**
Authorised Limit	**13,982**	**13,982**	**13,982**

3.2.2 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.

3.2.3 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 capital financing requirement and estimates of cash flow requirements for all purposes.

3.2.4 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 2015 of £11,123,000 is under the Authorised limit set for 2014/15 of £13,982,000.

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.

Interest Rate Exposure	2014/15 Upper	2015/16 Upper	2016/17 Upper
Limits on fixed interest rates based on net debt*	100%	100%	100%
Limits on variable interest rates based on net debt*	0%	0%	0%

*Net debt is borrowings less investments

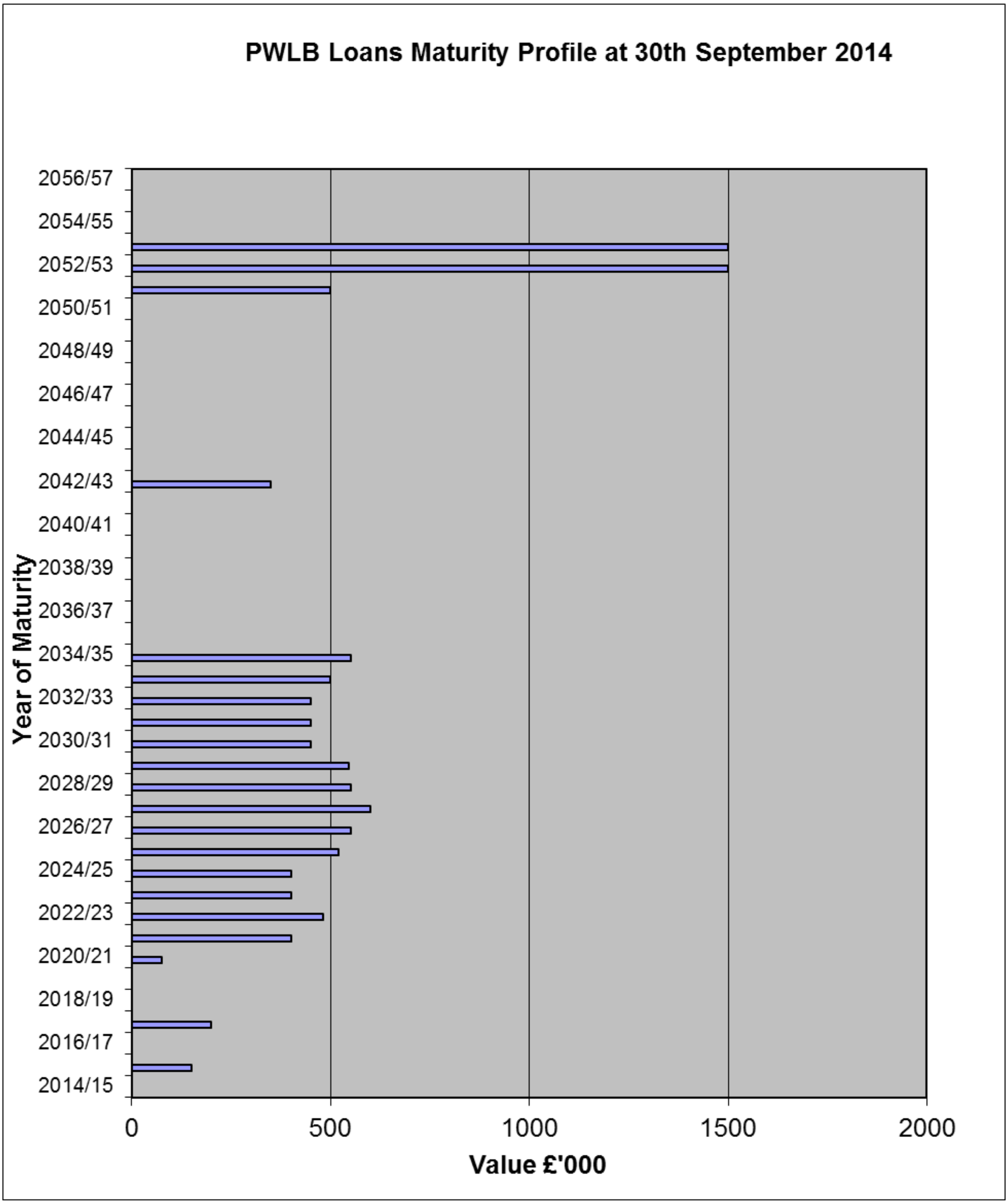
No new borrowing undertaken and all lending at fixed rates

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%	12%
10 years and within 20 years	0%	80%	43%
20 years and within 30 years	0%	80%	10%
30 years and within 40 years	0%	80%	31%
Over 40 years	0%	80%	0%

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 2014/15 to date. The following graph shows when the debt will mature.



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**

<u>The Fire Authority's Borrowing Need (the Capital Financing Requirement)</u>

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 Capital Finance Requirement projections for 2014/15 in its Strategy approved in February. These are in the original estimate below:

	2013/14 Actual £000	**2014/15 Original Estimate £000**	**2014/15 Projected Outturn £000**
Opening CFR	10,578	11,123	11,123
Closing CFR	11,123	11,123	11,123
Movement in CFR	**545**	**-**	**-**
Movement in CFR represented by:			
Net financing	968	446	446
MRP	(423)	(446)	(446)
Movement in year	**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 2014/15 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 2014/15 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 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.

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 Advisers

4.1 The Strategy for 2014/15 explained that the Fire Authority uses Capita Asset Services 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. 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 change.