EAST SUSSEX FIRE AUTHORITY

POLICY & RESOURCES PANEL

THURSDAY 5 NOVEMBER 2015 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 O'Quinn 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.	
988.	1	In relation to matters on the agenda, seek declarations of any disclosable pecuniary interests under Section 30 of the Localism Act 2011.
989.	1	Election of Chairman.
990.	1	Apologies for Absence.
991.	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).

992.	3	Non-confidential Minutes of the last Policy & Resources Panel meeting held on 28 May 2015 (copy attached).
993.	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.
994.	7.	Revenue Budget and Capital Programme Monitoring 2015/16 – joint report of the Chief Fire Officer & Chief Executive and the Treasurer (copy attached).
995.	21.	Treasury Management – Half Year Review for 2015/16 – report of the Treasurer (copy attached).
996.	37.	Day-Crewed Plus Duty System – report of the Chief Fire Officer & Chief Executive (copy attached).
997.	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.
998.	43.	Confidential Minutes of the last Policy & Resources Panel meeting held on 28 May 2015 (copy attached). (Exempt category under paragraphs 1 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. 992

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 11.30 hours on Thursday 28 May 2015.

Members Present: Councillors Barnes, Deane, Lambert (Chair of the meeting), Pragnell, Scott and Theobald.

N.B. Councillor Deane attended the meeting as the Green Party representative pending a review of the political balance on the Authority's Panels at the annual meeting of the Fire Authority on 18th June 2015.

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) (until 12:10 hours), Mr. D. Savage (Treasurer), Mr. W. Tricker (Head of Finance & Procurement), Mrs. L. Ridley (Head of Performance Management), Mr. J. Salmon (Estates Manager), Mr. M. O'Brien (Director of Response & Resilience), Miss L. Woodley (Deputy Monitoring Officer) and Mrs. A. Bryen (Clerk).

977a. **ELECTION OF CHAIRMAN FOR THE MEETING**

977a.1 In the absence of Councillor Howson, the Chairman of the Panel, Councillor Lambert was elected Chair for the meeting.

977. **DISCLOSABLE PECUNIARY INTERESTS**

977.1 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.

978. **APOLOGIES FOR ABSENCE**

978.1 An apology for absence was received from Councillor Howson.

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

979.1 There were no urgent items for consideration.

980. **NON-CONFIDENTIAL MINUTES OF THE POLICY & RESOURCES PANEL MEETING HELD ON 15 JANUARY 2015**

980.1 **RESOLVED** – That the minutes of the meeting held on 15 January 2015 be approved as a correct record and signed by the Chairman. (Copy in Minute Book).

981. **CALLOVER**

981.1 Members reserved the following item for debate:

983. Review of the Provision of Large Animal Rescue Capability

982. **PROVISIONAL REVENUE BUDGET AND CAPITAL PROGRAMME MONITORING 2014/15**

982.1 Members received a joint report of the Chief Fire Officer & Chief Executive and Treasurer that advised Members about the provisional revenue and capital budget outturn for 2014/15 along with an updated analysis of reserves and balances. (Copy in Minute Book).

982.2 The provisional Revenue Budget outturn for 2014/15 was projected to be £672,000 or 1.7% underspent (previously forecast as £132,000 underspend). This was primarily due to an underspend of £636,000 in IMD mainly as a result of delays in progressing a number of significant projects. It was proposed that the underspend was transferred to balances, £484,000 as a carry forward for slipped projects and £188,000 to the Capital Programme Reserve.

982.3 The overall Five Year Capital Programme was projected to be under budget by £71,000 (previously reported as £43,000). The underspend of £2,766,000, in the 2014/15 budget outturn was primarily due to the re-phasing of the Newhaven Fire Station project and a number of other property schemes (previously forecast as a £2,047,000 underspend).

982.4 The projected year end figure for total usable reserves had increased by £4.6m from the original plans primarily due to lower than anticipated drawdown to fund the Capital Programme (£2.6m), accelerated income from the sale of Service Housing (£1.3m) and delays in the implementation of the Norman vs Cheshire judgement (£0.6m).

982.5 The report informed the Panel of the savings of £2.023m taken from the 2014/15 budget. The shortfall of £429,000 was a result of delays in implementation, primarily of Sussex Control Centre (SCC) and Locality Managers.

982.6 Borrowing and investment were in line with the approved Treasury Management Strategy. The performance of these budgets as at 31 March 2015, was reflected in the Revenue Budget.

982.7 **RESOLVED** – that:

i. the fee for Commercial Training at the Customers site be set at £595 per session for 2015/16; and
ii. the following be noted:
   (a) the provisional 2014/15 Revenue Budget outturn;
   (b) the provisional 2014/15 Capital Budget outturn;
   (c) the actual use of Reserves;
   (d) that the shortfall in 2014/15 savings was managed within the overall revenue underspend;

(e) the proposed transfer of the 2014/15 revenue underspends to earmarked reserves set out in paragraph 5.5 of the report; and
(f) the capital programme slippage in Appendix 3 to the report.

983. **REVIEW OF THE PROVISION OF LARGE ANIMAL RESCUE CAPABILITY**

983.1 Members considered a report of the Chief Fire Officer & Chief Executive that updated them on the outcomes of the Integrated Risk Management Plan (IRMP) review into the provision of large animal rescue capability to Kent Fire & Rescue Service and the development of a revised call handling and charging protocol for large animal rescue incidents within East Sussex. (Copy in Minute Book).

983.2 East Sussex Fire & Rescue Service (ESFRS) had a widely respected, long and established tradition of responding to and extricating large animals (livestock and horses) which had become trapped. A specialist response capability was based at Crowborough Community Fire Station. The CFO&CE informed Members that as part of this specialist response team, firefighters had been trained in animal husbandry at Plumpton College. Where appropriate, veterinary support was provided at rescues. He assured Members that fire cover was not compromised when firefighters were otherwise engaged in animal rescues.

983.3 In March 2008, the Authority (ESFA) and Kent & Medway Towns FA (KFRA) had entered into a formal Memorandum of Understanding (MoU) for discharging large animal rescue (LAR) operations in and around the West Kent area.

983.4 Under Phase 3 of the Medium Term Financial Plan and related IRMP, Kent FRS had been consulted about establishing a full cost recovery basis for large animal rescues and a new and updated MoU was to be agreed.

983.5 ESFRS's Corporate Management Team had considered ESFRS's approach to LAR within its area, including ways of providing more clarity about when a charge may be reasonably levied. A revised call challenge procedure was to be introduced with three core lines of enquiry intended to reduce call demand in the long term.

983.6 Further development was required before charging could commence for LAR in both Kent and East Sussex although it was expected that this would be completed within the current financial year in both cases.

983.7 The Panel welcomed the proposals in the report.

983.8 **RESOLVED** – That the following developments be noted:

i. a revised Memorandum of Understanding with Kent & Medway Towns Fire Authority based on a revised set of charges predicated on full cost recovery for large animal rescue provision into their area; and
ii. a revised call handling and charging protocol for large animal rescue incidents occurring within East Sussex.

984. **CORPORATE PERFORMANCE TARGETS UP TO 2015/16**

984.1 Members received a report of the Chief Fire Officer & Chief Executive that presented the corporate performance indicator targets up to 2015/16 (base line 2010/11) for approval for inclusion in the Service's Planning documents. (Copy in minute book).

984.2 In May 2011, the Panel had agreed strategic performance indicator targets for application in 2011/12 that covered the five year period up to 2015/16. The targets were set to achieve incremental improvements in the majority of service delivery indicators, such as incidents attended, deaths and injuries.

984.3 The indicators and targets were reviewed annually against projected performance results. In some instances, due to better than expected performance or changes in Service provision, Directorates may suggest a revision to the targets based on projected performance.

984.4 **RESOLVED** – That

i the performance indicator targets for application in 2015/16 onwards contained in Appendix 1 to the report be approved; and

ii. the existing 'Top set' of strategic indicators for 2015/16 as set out below, be confirmed:

- Percentage of HSVs to the vulnerable members of our community
- Number of accidental fires in dwellings
- Percentage of accidental dwelling fires confined to room of origin
- Percentage reduction of automatic fire alarms
- Number of working days/shifts lost due to sickness absence for all staff

985. **EXCLUSION OF PRESS AND PUBLIC**

985.1 **RESOLVED** – That item 986 be exempt under paragraph 4 and item 987 be exempt under paragraph 1 of Schedule 12A to the Local Government (Access to Information) (Variation) Order 2006 and, accordingly, are not open for public inspection on the following grounds:

Paragraph 4 – that it includes 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 holders under, the authority.

Paragraph 1 – that it includes information to any individual.

The meeting concluded at 12:30 hours.

Signed

Chairman

Dated this Day of 2015

Agenda Item No. 994

EAST SUSSEX FIRE AUTHORITY

Panel	Policy & Resources
Date	5 November 2015
Title of Report	Revenue Budget and Capital Programme Monitoring 2015/16
By	Chief Fire Officer & Chief Executive and Treasurer
Lead Officer	Warren Tricker, Head of Finance & Procurement

Background Papers None

Appendices

Appendix 1: 2015/16 Revenue Budget – Functional Analysis
Appendix 2: 2015/16 Revenue Budget – Subjective Analysis
Appendix 3: 2015/16 Capital Budget Monitoring
Appendix 4: All Years Capital Budget Monitoring (to 2019/20)
Appendix 5: 2015/16 Reserves Projections
Appendix 6: Monitoring of Savings 2015/16 – 2017/18
Appendix 7: Investment as at 30 September 2015

Implications

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

EQUALITY IMPACT ASSESSMENT

PURPOSE OF REPORT

To report on issues arising from the monitoring of the 2015/16 Revenue Budget and Capital Programme, as at 30 September 2015.

EXECUTIVE SUMMARY

Although half way through the financial year, a combination of factors means there remain high levels of uncertainty. The Revenue Budget outturn for 2015/16 is projected to be £216,000 underspent.

The overall Capital Programme is projected to be £56,000 underspent. The current year's spending profile is projected to be underspent by £256,000.

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 Reserves). A summary of the current planned use of Reserves can be found at Appendix 5.

A total of £1,023,000 new savings has already been taken from the 2015/16 budget, taking the total savings to £3,046,000. The projected shortfall for the year 2015/16 is £468,000 and is shown in Appendix 6.

RECOMMENDATION

The Panel is asked to note:

(i) the projected 2015/16 Revenue Budget outturn;
(ii) the projected Capital Programme outturn;
(iii) the current use of Reserves;
(iv) the monitoring of savings taken in 2015/16; and
(v) the current year investments

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1. INTRODUCTION

1.1 The financial information contained in this report is based upon enquiries as at 30 September 2015. The report discloses the main issues, material variances and changes to previously reported variances.

1.2 This is the first report to the Policy & Resources Panel for 2015/16; the first Revenue Budget and Capital Monitoring report for 2015/16 went to the Fire Authority meeting on 10 September 2015. It should be noted that, even though it is half way through the financial year, it is difficult to accurately forecast outturn and there may be elements, both internal and external, that will influence the final position.

2. BUDGET OUTTURN SUMMARY

2.1 The table below summarises the 2015/16 Revenue Budget and Capital Programme positions:

	Last report	This report	Movement
	£'000	£'000	£'000
Revenue (see paragraph 3)	(126)	(216)	(90)
Capital in year (see paragraph 5)	(62)	(256)	(194)

3. REVENUE BUDGET COMMENTARY

3.1 **Service Delivery Response –** The budget is projected to be £38,000 underspent (previously £37,000 underspent). The projection comprises £98,000 underspend on Retained Firefighters based on 5 months of activity (previously £60,000 underspend). The cost of applying the revised calculation of sick pay due to RDS officers is £68,000 and this is being funded from the Corporate Contingency. There is an overspend on the Business Rates of Crowborough Fire Station of £23,000 (as previously reported). There is a projected overspend of £71,000 on the SCC and projected underspends of £7,000 at Hastings Borough (Equipment and Overtime) and Wealden Borough £27,000 (Support Staff budget).

3.2 **Community Safety –** The budget manager has advised that the greater part of the £231,000 Safer Business Training budget will not be spent this financial year. Progress has been made with the appointment of the Business Safety Training Co-ordinator from the middle of September. The Corporate Management Team (CMT) agreed at its September meeting to transfer any underspend to an Earmarked Reserve to be spent in 2016/17; the current estimate is £151,000, and the budget is shown as fully spent.

3.3 **Wholetime Pay & Pensions –** This budget is forecast to underspend by £74,000.

3.3.1 The Level 4 investigation at Maresfield is forecast to cost £46,000 for which there is no budget.

3.3.2 A Pensions Provision has been created of £635,000 from the 2014/15 Revenue Budget for back dated employers' contributions relating to the impact of the Norman vs Cheshire case, and an amount of £95,000 has been built into the base Revenue Budget. Calculations now indicate that not all the Provision will be required resulting in an underspend of £120,000. Forecasting this sum is difficult as actual employer pension costs will depend on uptake and it has been estimated that 30% of scheme members will not benefit by making additional pension contributions.

3.3.3 The monitoring of savings has shown that delays in the implementation of some Phase 1 savings proposals, combined with the use of RDS staff for cover and the secondment of the two Service Transformation Review Leaders for an additional 3 months, will bring the Wholetime budget under pressure. There are plans in place to manage this pressure through the use of RDS staff and the process to reduce the establishment at Hove by 1 April 2016.

3.4 **Estates –** The budget manager has advised of overspends on Business Rates for Service HQ following a revaluation and the costs associated with selling Service Houses in the region of £9,000 (as previously reported). It is expected that overspends can be absorbed within the Estates budget.

3.5 **IMD** – The budget manager has advised a forecast overspend relating to the extension of the 3tc contract for the whole financial year of £273,000 for which there is no budget. It is felt that this can be contained within the IMD budget as a result of forecast underspends relating to one-off project funding of £200,000, various lines of business costs of £40,000, staffing of £20,000 and lower than expected fit-out cost of the new Newhaven Fire Station of £10,000.

3.6 **L & OD –** The budget manager has advised of a risk of a £10,000 overspend on the Wholetime Overtime budget in Learning & Organisational Development. This pressure may arise as a result of a catching-up process with regards to training as a knock-on impact of industrial action in 2014/15.

3.7 **Finance & Procurement –** The budget manager has advised that there will be an underspend of £89,000. This comprises £41,000 for Financial Services and SAP, £14,000 External Audit and £34,000 on Insurance (all as previously reported). The External Audit and Insurance may be offered up as savings when the 2016/17 budget is set, however, the Summer 2015 Budget announcement to increase Insurance Premium Tax (IPT) from 6% to 9.5% from premiums due after 1 November 2015 will put an estimated pressure on the 2016/17 Insurance budget of £16,000.

3.8 All other budgets are projected to be on target, at this stage of the year. There is a corporate contingency remaining of £129,000 which for the purposes of this report is assumed spent in full.

4. MONITORING OF SAVINGS

4.1 Appendix 6 shows in full all the cumulative savings that make up the 2015/16 Revenue Budget and are included in the Medium Term Financial Plan. Only those savings where there are issues or significant risks are shown separately. In the 2015/16 budget, new savings of £1,023,000 have been taken; £158,000 SCC savings, £10,000 non-operational savings, £674,000 Phase 1 and £107,000 Phase 2 savings and £74,000 additional savings. The forecast shortfall is £468,000 in 2015/16 falling to £466,000 in 2016/17, before falling to £52,000 by 2017/18.

4.2 The current Sussex Control Room arrangements continue to require the support of the existing control room mobilising software although off-set in part by a reduced cost from the new provider. The net position is currently forecast as a £254,000 shortfall and is being contained within the IMD budget.

4.3 The introduction of Locality Managers in Hastings and Brighton has been achieved in Hastings but delayed in the City as a result of the extension of the Day Crewed Plus consultation and complications of the work towards reaching the required establishment at Hove by 1 April 2016. This results in a pressure of £162,000 in 2015/16, falling to £121,000 in 2016/17, before reducing to nil in the following year, and is being contained within the Wholetime budget.

4.4 It has been agreed to replace the old two Watch system on Day Crewed Duty System fire stations to a revised two Watch system, across a seven day week. This does reduce the operational establishment but the shortfall over the original proposal is the result of the proposal to reduce Watch Manager and Crew Manager posts being rejected in favour of a reduction in Firefighter posts. Current establishment on each of the five stations is now 12, a reduction of 2 Firefighter posts per station. This has resulted in a £52,000 shortfall in this saving.

4.5 The introduction of Day Crewed Plus at Roedean and The Ridge Fire Stations has slipped as a result of the extension of the Day Crewed Plus consultation and this will have a one-off impact on the 2016/17 budget of £293,000. The options for Day Crewed Plus are being considered elsewhere on the agenda and the impact of any decisions will be included in future reports.

5. CAPITAL BUDGET AND PROGRAMME COMMENTARY

5.1 **Sussex Control Facility –** The Scheme is complete with the exception of the retained sum which has been estimated at £25,000. No other invoices are due, which leaves a forecast underspend of £92,000.

5.2 **Day Crewed Plus –** The consultation process for the introduction of Day Crewed Plus has resulted in a number of alternative options being identified. These options are being considered elsewhere on the agenda and the impact of any decisions will be included in future reports.

5.3 **Capital Programme Replacement of Fuel Tanks –** The project manager has advised that this scheme is now 'on hold' awaiting the outcome of the Emergency Services Collaboration Programme with Surrey and Sussex (collaborative fuel project) and may result in an underspend in 2015/16.

5.4 **Fire Appliances –** The cost of fire appliances is expected to be £30,000 higher than budget, with the final stage payment of £200,000 forecast to be made in 2016/17. This is due to a higher specification to meet operational requirements in the City as a result of the removal of the appliance at Hove in April 2016. It is expected that overall overspend can be met from underspends elsewhere in the Capital Programme in 2015/16.

5.5 **Cars and Vans –** The project manager has advised a forecast overspend of £6,000, the result of an underspend on swift water and rope rescue vehicles of £14,000 and a £20,000 overspend on the provision of cars for the Sussex Safer Road Partnership. It is expected that some of the contribution from the Partnership can be used to fund the overspend.

6. RESERVES

6.1 The table in Appendix 5 shows the planned use of Reserves for 2015/16, including the 2014/15 underspend.

6.2 £25,000 has been transferred from the Improvement and Efficiency Reserve to the Service Transformation Team for consultancy support.

6.3 £20,000 has been transferred from the Earmarked Budget carry forward for uniforms, and £227,000 for IMD works, all to be used this year.

6.4 £79,000 has been transferred from the Sprinklers Earmarked Reserve for use this year, the remaining £121,000 will be spent in 2016/17.

6.5 £84,000 has been transferred from the Volunteers' Scheme Earmarked Reserve for use this financial year.

6.6 Following CMT agreement, the current projected underspend of £151,000 from the Safer Business Training budget will be transferred to a new Earmarked Reserve. The actual amount transferred will depend on the final position.

7. BORROWING AND INVESTMENT

7.1 As at 30 September 2015, the Authority held cash balances of £20.5m which were invested as set out in Appendix 7, in accordance with the Treasury Management Strategy. It is projected that there will be a surplus over budget of £25,000.

8. POTENTIAL RISKS

8.1 **Pensions –** There is £233,000 built into the base budget for the impact of the RDS Modified Pension Scheme which, depending on the level of uptake, may result in a saving. Initial results indicate that the impact of the 2015 Firefighters' Pension Scheme may generate a saving in the region of £40,000. This area is complex, with a great number of transactions, and further analysis of the budget impact will be carried out as the position matures.

8.2 **Holiday Pay –** Following the outcome of the Employment Appeal Tribunal – Bear Scotland vs Fulton and conjoined cases, a budget pressure has arisen. The impact was initially estimated at £45,000 per year but may be less as greater clarity over the application of the ruling to the types of overtime worked is achieved. CMT has agreed an interim approach to pay a supplement on overtime payments and consultation with representative bodies is ongoing.

8.3 **Capital Programme Sustainability Scheme –** The project manager has advised of a potential underspending in the current year due to the timing of the recruitment of the Capital Projects Manager roles.

East Sussex Fire Authority **Appendix 1**
2015/16 Revenue Budget – Functional Analysis

	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance- last report £'000
Service Delivery Response	5,418	4,899	4,851	(38)	(0.8)	(37)
Service Delivery Community Safety	490	842	842	0		
Service Delivery Business Safety	345	657	657	0		
Wholetime Pay & Pensions	17,532	17,475	17,401	(74)	(0.4)	
Service Delivery	**23,785**	**23,863**	**23,751**	**(112)**	**(0.5)**	**(37)**
Service Support Estates	1,297	1,297	1,297	0		
Service Support IMD	2,922	3,149	3,149	0		
Service Support Fleet	1,607	1,608	1,608	0		
Service Support Special Projects Team	128	128	128	0		
Service Support	**5,954**	**6,182**	**6,182**	**0**	**0.0**	**0**
POD HR	721	721	721	0		
POD L&OD	1,712	1,720	1,730	10	0.6	
People & Organisational Development	**2,433**	**2,441**	**2,451**	**10**	**0.4**	**0**
Cost of Democracy	173	173	173	0		
Additional cost of Industrial action	0	0	0	0		
Corporate Management	1,116	1,045	1,045	0		
Finance & Procurement	1,971	1,987	1,898	(89)	(4.5)	(89)
Performance Management	202	227	227	0		
Net Financing Costs	884	884	859	(25)	(2.8)	
Central	22	22	22	0		
Corporate	**4,368**	**4,338**	**4,224**	**(114)**	**(2.6)**	**(89)**
Capital Expenditure from the Revenue Account	1,087	1,087	1,087	0		
Transfer From Reserves	0	(435)	(435)	0		
Transfer To Reserves	1,000	1,151	1,151	0		
Total Net Expenditure	**38,627**	**38,627**	**38,411**	**(216)**	**(0.6)**	**(126)**
Financed By:						
Council Tax	(23,170)	(23,170)	(23,170)	0		
Business Rates	(7,290)	(7,290)	(7,290)	0		
Revenue Support Grant	(7,514)	(7,514)	(7,514)	0		
S31 Grants	(276)	(276)	(276)	0		
Collection Fund Surplus/Deficit Council Tax	(377)	(377)	(377)	0		
Total Financing	**(38,627)**	**(38,627)**	**(38,627)**	**0**	**0**	**0**
Total Over / (Under) Spend	**0**	**0**	**(216)**	**(216)**	**(0.6)**	**(126)**

East Sussex Fire Authority **Appendix 2**
2015/16 Revenue Budget – Subjective Analysis

	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance-last report £'000
Salaries, Allowances and On-costs	27,624	27,989	27,849	(140)	(0.5)	(60)
Training Expenses	560	582	582	0		
Other Employees Costs	84	292	292	0		
Employee Costs	**28,268**	**28,863**	**28,723**	**(140)**	**(0.5)**	**(60)**
Repair, Maintenance and Other Costs	1,047	1,047	1,047	0		
Utility Costs	1,161	1,161	1,184	23	2.0	23
Premises Costs	**2,208**	**2,208**	**2,231**	**23**	**1.0**	**23**
Vehicle Repairs and Running costs	956	961	927	(34)	(3.5)	(34)
Travel Allowances and Expenses	138	143	143	0		
Transport Costs	**1,094**	**1,104**	**1,070**	**(34)**	**(3.1)**	**(34)**
Equipment and Supplies	1,293	2,163	2,163	0		
Fees and Services	1,600	1,682	1,620	(43)	(3.3)	(55)
Communications and Computing	2,613	1,663	1,663	0		
Other Supplies and Services	581	432	435	3	0.7	
Supplies and Services	**6,087**	**5,940**	**5,900**	**(40)**	**(0.7)**	**(55)**
Minimum Revenue Provision	445	445	445	0		
Interest Payments	510	510	510	0		
Capital Financing	**955**	**955**	**955**	**0**	**0**	**0**
Grants and Contributions	(486)	(486)	(486)	0		
Interest Received	(75)	(75)	(100)	(25)	(33.3)	
Other Income	(1,511)	(1,685)	(1,685)	0		
Income	**(2,072)**	**(2,246)**	**(2,271)**	**(25)**	**(1.1)**	**0**
Capital Expenditure from the Revenue Account	1,087	1,087	1,087	0		
Transfers From reserves		(435)	(435)	0		
Transfers To reserves	1,000	1,151	1,151	0		
Total Net Expenditure	**38,627**	**38,627**	**38,411**	**(216)**	**(0.6)**	**(126)**
Financed By:						
Council Tax	(23,170)	(23,170)	(23,170)	0		
Business Rates	(7,290)	(7,290)	(7,290)	0		
Revenue Support Grant	(7,514)	(7,514)	(7,514)	0		
S31 Grants	(276)	(276)	(276)	0		
Collection Fund Surplus/Deficit Council Tax	(377)	(377)	(377)	0		
Total Financing	**(38,627)**	**(38,627)**	**(38,627)**	**0**	**0.0**	**0**
Total Over / (Under) Spend	**0**	**0**	**(216)**	**(216)**	**(0.6)**	**(126)**

East Sussex Fire Authority **Appendix 3**
2015/16 Capital Budget Monitoring

Capital Scheme	Original Budget	Revised Budget	Projected Outturn	Variance	Variance	Variance Last Report
	£'000	£'000	£'000	£'000	%	£'000
Property Major Schemes						
Crowborough Refurbishment	0	17	17			
Newhaven Fire Station	2,783	2,467	2,467			
Sussex Control Facility		93	1	(92)	(98.9)	(92)
Day Crewed Plus – Roedean & the Ridge	1,637	1,855	1,855			
Service HQ Relocation	0	118	118			
Subtotal	**4,420**	**4,550**	**4,458**	**(92)**	**(2.0)**	**(92)**
Property General Schemes						
General Schemes	345	387	387			
Replacement Fuel Tanks	190	190	190			
Sustainability	210	210	210			
Subtotal	**745**	**787**	**787**	**0**	**0.0**	**0**
Information Management						
IMD Strategy SCC	**0**	**607**	**607**	**0**	**0.0**	**0**
Fleet & Equipment						
Fire Appliances	480	480	310	(170)	(35.4)	30
Ancillary Vehicles	30	30	30			
Cars & Vans	180	210	216	6	2.9	
Subtotal	**690**	**720**	**556**	**(164)**	**(22.8)**	**30**
Total	**5,855**	**6,664**	**6,408**	**(256)**	**(3.8)**	**(62)**

East Sussex Fire Authority **Appendix 4**
All Years Capital Budget Monitoring (to 2019/20)

Capital Scheme	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance last Report £'000
Property Major Schemes						
Crowborough Refurbishment	1,005	997	997			
Newhaven Fire Station	3,560	3,560	3,560			
Sussex Control Facility	1,100	1,100	1,008	(92)	(8.4)	(92)
Day Crewed Plus – Roedean & the Ridge	1,855	1,855	1,855			
Service HQ Relocation	0	650	650			
Subtotal	**7,520**	**8,162**	**8,070**	**(92)**	**(1.1)**	**(92)**
Property General Schemes						
General Schemes	2,595	2,595	2,595			
Replacement Fuel Tanks	190	190	190			
Sustainability	420	420	420			
Subtotal	**3,205**	**3,205**	**3,205**	**0**	**0**	**0**
Information Management						
IMD Strategy SCC	**2,027**	**2,027**	**2,027**	**0**	**0**	**0**
Fleet & Equipment						
Fire Appliances	3,835	3,826	3,856	30	0.8	30
Aerial Appliances	680	680	680			
Ancillary Vehicles	1,044	1,038	1,038			
Cars & Vans	1,461	1,457	1,463	6	0.4	
BA & Ancillary Equipment	750	750	750			
Subtotal	**7,770**	**7,751**	**7,787**	**36**	**0.5**	**30**
Total	**20,522**	**21,145**	**21,089**	**(56)**	**(0.3)**	**(62)**

East Sussex Fire Authority **Appendix 5**
2015/16 Reserves Projections

Description	Opening Balance 01/04/15 £'000	2015/16 Original Transfers In £'000	2015/16 Original Transfers Out £'000	2015/16 Projected Transfers In £'000	2015/16 Projected Transfers Out £'000	Projected Closing Balance 31/03/2016 £'000
Earmarked Reserves						
Improvement and Efficiency	2,109		(700)		(700)	1,409
Budget Carry Forward	484		(484)		(484)	0
Sprinklers	200		(200)		(79)	121
Insurance	249					249
Community Fire Safety	145		(145)		(145)	0
Breathing Apparatus	750					750
Mapping Solution	69		(69)		(69)	0
Relocation Expenses (Staff Vacating Houses)	90		(90)		(90)	0
Volunteers Scheme	84		(84)		(84)	0
Safer Business Training	0			151		151
Capital Programme Reserve	4,629	1,000		1,000		5,629
Total Earmarked Reserves	**8,809**	**1,000**	**(1,772)**	**1,151**	**(1,651)**	**8,309**
General Fund	3,753					3,753
Total Revenue Reserves	**12,562**	**1,000**	**(1,772)**	**1,151**	**(1,651)**	**12,062**
Capital Receipts Reserve	4,361	2,652	(3,743)	2,652	(3,861)	3,152
Capital Grants and Capital Contributions unapplied	123		(123)		(123)	0
Total Capital Reserves	**4,484**	**2,652**	**(3,866)**	**2,652**	**(3,984)**	**3,152**
Total Usable Reserves	**17,046**	**3,652**	**(5,638)**	**3,803**	**(5,635)**	**15,214**

Medium Term Financial Plan Forecast of Useable Reserves

	31/03/15 £'000	31/03/16 £'000	31/03/17 £'000	31/03/18 £'000	31/03/19 £'000	31/03/20 £'000
Earmarked Reserves	8,809	8,309	7,337	7,128	7,628	8,128
General Balance	3,753	3,753	3,753	3,753	3,753	3,753
Capital Reserves	4,484	3,152	2,139	3,778	2,139	180
Total Usable Reserves	**17,046**	**15,214**	**13,229**	**14,659**	**13,520**	**12,061**

East Sussex Fire Authority | Appendix 6

Monitoring of Savings 2015/16 - 2017/18

Summary showing Changing the Service Phases 1 and 2 and other operational savings

Ref.		Budget 2015/16 £'000	Budget 2016/17 £'000	Budget 2017/18 £'000	Current Forecast 2015/16 £'000	Current Forecast 2016/17 £'000	Current Forecast 2017/18 £'000	Variance 2015/16 £'000	Variance 2016/17 £'000	Variance 2017/18 £'000
	Phase 1 Savings									
5	Locality Managers	(324)	(324)	(324)	(162)	(203)	(324)	162	121	0
6	Move to revised watch system on Day Crewed Stations	(424)	(424)	(424)	(372)	(372)	(372)	52	52	52
	All other Phase 1 savings	(145)	(317)	(317)	(145)	(317)	(317)	0	0	0
	Total Phase 1 Savings	**(893)**	**(1,065)**	**(1,065)**	**(679)**	**(892)**	**(1,013)**	**214**	**173**	**52**
	Phase 2 Savings									
3	Introduce day crewed plus at Roedean and the Ridge fire stations.	0	(391)	(391)	0	(98)	(391)	0	293	0
	All other Phase 2 savings	(107)	(1,039)	(1,039)	(107)	(1,039)	(1,039)	0	0	0
	Total Phase 2 Savings	**(107)**	**(1,430)**	**(1,430)**	**(107)**	**(1,137)**	**(1,430)**	**0**	**293**	**0**
	Sussex Control Centre	**(474)**	**(474)**	**(474)**	**(220)**	**(474)**	**(474)**	**254**	**0**	**0**
	Total Facing the Challenge	**(419)**	**(494)**	**(567)**	**(419)**	**(494)**	**(567)**	**0**	**0**	**0**
	Total deferred savings	**(339)**	**(339)**	**(339)**	**(339)**	**(339)**	**(339)**	**0**	**0**	**0**
	Total non-operational savings	**(740)**	**(1,179)**	**(1,555)**	**(740)**	**(1,179)**	**(1,555)**	**0**	**0**	**0**
	Total additional savings	**(74)**	**(74)**	**(74)**	**(74)**	**(74)**	**(74)**	**0**	**0**	**0**
	Total all other savings	**(2,046)**	**(2,560)**	**(3,009)**	**(1,792)**	**(2,560)**	**(3,009)**	**254**	**0**	**0**
	Total Savings	**(3,046)**	**(5,055)**	**(5,504)**	**(2,578)**	**(4,589)**	**(5,452)**	**468**	**466**	**52**

East Sussex Fire Authority **Appendix 7**
Investment as at 30 September 2015

Counterparty	Type	Amount £'000	Term	Rate %
Lloyds/HBOS	Fixed Term	2,000	6 months	0.70
Lloyds/HBOS	Fixed Term	2,000	12 months	1.00
Santander	Notice	4,000	95 days	0.90
Barclays	Notice	3,000	100 days	0.67
Standard Life	MMF	3,000	Overnight	Variable
Insight	MMF	3,000	Overnight	Variable
Deutsche Bank	MMF	3,000	Overnight	Variable
JPM	MMF	534	Overnight	Variable
Total Current Investments		**20,534**		

Agenda Item No. 995

EAST SUSSEX FIRE AUTHORITY

Panel	Policy & Resources
Date	5 November 2015
Title of Report	Treasury Management – Half Year Review For 2015/16
By	Treasurer

Background Papers

Fire Authority:
18 June 2015 – Agenda Item 854 Treasury Management – Stewardship report for 2014/15

12 February 2015 – Agenda Item 835: Treasury Management Strategy for 2015/16

CIPFA Treasury Management in the Public Services code of practice and cross sectional guidance notes

Local Government Act 2003

CIPFA Prudential Code

Appendices

Implications

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

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 2015/16. The report includes an update on the first half year of Prudential Indicators which relate to the treasury activity.

EXECUTIVE SUMMARY	The Fire Authority has complied with its approved Treasury Management Strategy and Prudential Indicators during the first 6 months of the year. In challenging economic conditions the average rate of interest received through Treasury Management activity was 0.61%. This reflected the Fire Authority's continuing prioritisation of security and liquidity over yield. No new borrowing has been undertaken in 2015/16 to date; a £150k loan matured through the Public Works Loan Board (PWLB) on 30 September 2015. Total loan debt outstanding is £10.973m at an average interest rate of 4.61%. 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, is £10.973m.
RECOMMENDATION	The Panel is asked to note the treasury management performance for the first half year of 2015/16.

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 that 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 2015/16 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. <u>2015/16</u>

2.1 Original Strategy for 2015/16

2.1.1 At its meeting on 14 February 2015, the Fire Authority agreed its treasury management strategy for 2015/16, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2015/16 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 20 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 2015/16 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 2015. 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 2015/16

2.1.7 The Authority's investment policy has regard to DCLG'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 2 years	*Up to 2 years*	*Up to 1 year*	*Up to 1 year*	*Up to 6 months*	*Up to 100 days*	*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 overleaf sets 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 year
Government Treasury Bills	UK	Term Deposits	unlimited	1 year
Local Authorities	UK	Term Deposits	unlimited	1 year
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK	Term Deposits (including callable deposits), Certificate of Deposits	£4m	1 year
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£4m	1 year
Barclays	UK		£4m	1 year
Santander UK	UK		£4m	1 year
HSBC	UK		£4m	1 year
Individual Money Market Funds	UK/Ireland /domiciled	AAA rated Money Market Funds	£4m	Liquidity/ instant access

2.1.12 The use of Non Specified Investments – the Fire Authority does not have any Non Specified Investments which are those 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;
- Enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

2.1.16 Consideration will also be given to identifying whether 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 2015/16 (Commentary Supplied By Our Advisors Capita Asset Services)

Economic Performance To Date and Outlook

2.2.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006, and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y).

2.2.2 Growth is expected to weaken marginally to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget.

2.2.3 Despite these headwinds, the Bank of England is forecasting growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth.

2.2.4 The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

2.2.5 There are, therefore, considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

Interest Rate Outlook

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

2.2.7 Capita Asset Services undertook a review of its interest rate forecasts on 11 August. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts, and so caused PWLB rates to fall. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September, in respect of Volkswagen and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

2.2.8 Despite market turbulence in late August, and then September, causing a sharp downturn in PWLB rates, the overall trend in the longer term will be 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. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners – the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and/or the start of Fed. rate increases, causing a flight to safe havens.

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

- Uncertainty around the risk of a UK exit from the EU.

- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.

- The commencement by the US Federal Reserve of increases in the Fed. funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

2.3 **Interest on Short Term Balances**

2.3.1 Base interest rate has stayed at 0.5% in 2015/16 to date. The rate is the lowest ever and has remained unchanged for the longest period on record. The last change was on 5 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 2015/16, agreed in February 2015, 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 30 September 2015 was £58k at an average rate of 0.61%. This was above the average of base rates in the same period (0.50%) and succeeded in the aim to secure investment income of at least base rate on the Fire Authority's general cash balances. This is against a backdrop of ensuring, so far as is possible in the financial climate, the security of principal and the minimisation of risk.

2.3.5 In April the authority placed a £2m six month fixed term deposit with Lloyds/HBOS at 0.70% and a £2m 12 month fixed term deposit at a rate of 1%. In August funds were placed with Santander in a 95 day notice account at a rate of 0.90% – £4m is now on deposit. Placing funds in fixed or notice accounts has resulted in increased yield for the first six months of 2015/16. 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 this 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 2015 (£10.973m) was 4.61% and will be unchanged at 31 March 2016 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 2015/16**

The Strategy Report for 2015/16 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 2015/16 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 2015/16 for borrowing.

	2014/15 Actual £,000	2015/16 Original Estimate £,000	2015/16 Projected Outturn £,000
Opening CFR	**11,123**	**11,123**	**11,123**
Capital Investment	2,081	5,855	6,408
Sources of Finance	(1,636)	(5,560)	(6,113)
MRP	(445)	(445)	(445)
Movement in year	**-**	**(150)**	**(150)**
Closing CFR	**11,123**	**10,973**	**10,973**
less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**11,123**	**10,973**	**10,973**
Actual Long Term Borrowing	**11,123**	**10,973**	**10,973**
Over / (Under) Borrowing	-	-	-
Operational Boundary	**11,590**	**11,441**	**11,441**
Authorised Limit	**13,982**	**13,831**	**13,831**

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 2016 of £10,973,000 is under the Authorised limit set for 2015/16 of £13,831,000.

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	2015/16 Upper	2016/17 Upper	2017/18 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

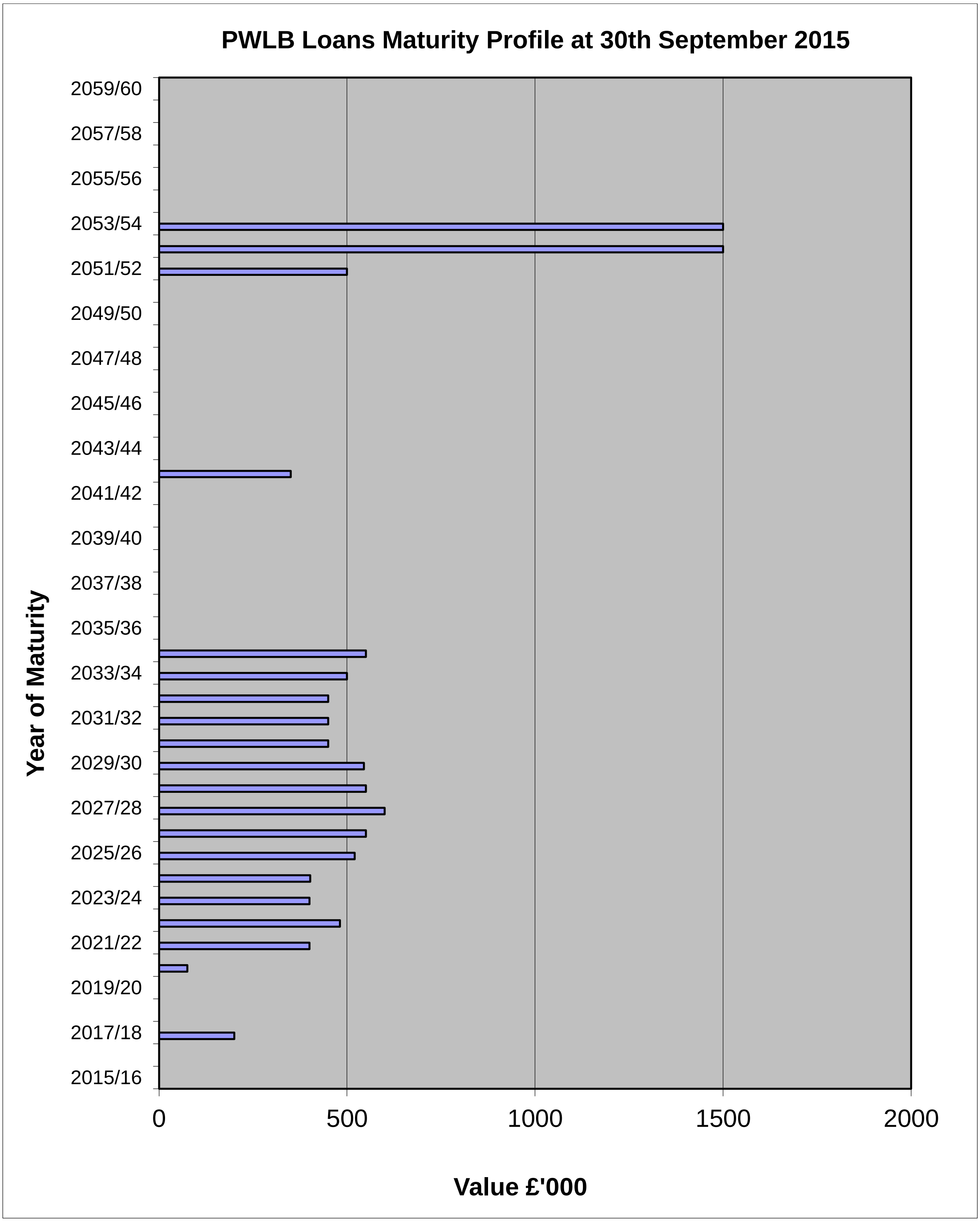
No new borrowing undertaken and all lending at fixed rates.

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%	0%
24 months and within 5 years	0%	60%	2%
5 years and within 10 years	0%	80%	16%
10 years and within 20 years	0%	80%	47%
20 years and within 30 years	0%	80%	3%
30 years and within 40 years	0%	80%	32%
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 2015/16 to date. The following graph shows when the debt will mature.


PWLB Loans Maturity Profile at 30th September 2015
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
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 Capital Finance Requirement projections for 2015/16 in its Strategy approved in February. These are in the original estimate below:

	2014/15 Actual £000	2015/16 Original Estimate £000	2015/16 Projected Outturn £000
Opening CFR	11,123	11,123	11,123
Closing CFR	11,123	10,973	10,973
Movement in CFR	**-**	**150**	**150**
Movement in CFR represented by:			
Net financing	445	445	445
MRP	(445)	(445)	(445)
Movement in year	**-**	**-**	**-**

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 Authority 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. For any new borrowing the Asset Life Method will be used to calculate MRP.

4. **TREASURY MANAGEMENT ADVISORS**

4.1 The Strategy for 2015/16 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 include 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 to be able to react quickly if market conditions change.

Agenda Item No. 996

EAST SUSSEX FIRE AUTHORITY

Date:	5 November 2015
Title:	Day-Crewed Plus Duty System
By:	Chief Fire Officer & Chief Executive

Background Papers: Previous Reports:
June 2014 – CFA Item 791 – IRMP Review of Prevention, Protection & Response – consultation outcomes and way forward
September 2015 – CFA Item 868 – Strategic Service Planning and MTFP 2016/17

Appendices: None

Implications:

Corporate risk		Legal	
Environmental		Policy	✓
Equality impact		Political	
Financial	✓	Other (please specify)	
Health & safety		Core brief	
Human resources	✓		
Equality Impact Assessment			

Any implications affecting this report are noted at the end of the report.

Purpose of Report:

1. To apprise Members on progress with the negotiations on the implementation of the Day-Crewed Plus duty system.
2. To advise Members of related legal considerations.
3. To advise Members of alternative savings proposals following extensive negotiations with the Fire Brigades Union.
4. To approve the removal of the concessionary Christmas Shopping Day from all Grey Book Staff.
5. To note the additional savings proposals under negotiation with the Fire Brigades Union, which will identify further savings from April 2016.

Executive Summary:

1. Senior managers have committed considerable time and effort to the ongoing negotiation with the Fire Brigades Union on the implementation of the Fire Authority's decision on 5 June 2014 of the introduction of the Day-Crewed Plus duty system (DCP) at Roedean and The Ridge Fire Stations.

2. As a result of a failure to reach agreement on the implementation of the proposals, both parties agreed to requesting assistance from the National Joint Council, Joint Secretaries. Following this, both parties agreed to seek alternative proposals that would allow the Fire Authority to achieve the savings required in the Medium Term Financial Plan (MTFP) and bridge the funding gap of £2.1m by 2020/21 (at the time of the negotiations this was £1.4m by 2019/20).

3. Agreement on alternative savings proposals has been reached with the Fire Brigades Union, as reported in this paper, and members of the Policy & Resources Panel are asked to recommend that the Fire Authority approves these alternative proposals to make savings and halt any progress with the implementation of DCP within East Sussex Fire & Rescue Service.

Recommendations:

i) Members are asked to note the contents of the report; and

ii) Members are asked to recommend that the Fire Authority approves the recommendation of the Chief Fire Officer & Chief Executive that the alternative savings proposals are accepted, rather than continue to incur costs associated with the introduction of Day Crewed Plus, as an agreed negotiated position cannot be reached with the Fire Brigades Union.

Gary Walsh
CHIEF FIRE OFFICER & CHIEF EXECUTIVE
23 October 2015

1. BACKGROUND

1.1 In June 2014, the Fire Authority Members approved proposals to make operational savings following a period of public consultation. This included the introduction of a Day Crewed Plus duty system (DCP) at The Ridge and Roedean Fire Stations, resulting in a reduction of the wholetime establishment and, therefore, a saving on the operational budget of £391,000.

1.2 Accommodation blocks comprising private bedrooms, communal lounge and kitchen facilities would have to be provided for these stations and the estimated cost of building this on-site accommodation has been included in the Capital Programme at £1,855,000.

1.3 In addition to this proposal, officers have undertaken a further review of Aerial Provision as part of the transformation programme (Phase 2) and recommended that the Aerial Ladder Platforms at Preston Circus and Bohemia Road could be accommodated at The Ridge and Roedean on the DCP duty system, thereby saving an additional £510,000, with a further reduction on the wholetime establishment.

1.4 Members can, therefore, see that the overall proposal to introduce DCP would not only achieve a substantial contribution towards the savings required in the MTFP, but would also allow the same level of service delivery as currently exists at these two community fire stations, with no reduction in attendance times from these stations for pumping appliances. However, a change in the location of the aerial appliances would have some impact on attendance to high risk areas, especially in Hastings.

2 DAY CREWED PLUS AND WORKING TIME REGULATIONS

2.1 In order to implement DCP a collective agreement would be required with the representative bodies in relation to (1) the impact of DCP on the Working Time Regulations and (2) in relation to the Grey Book (national terms and conditions of employment for operational staff), as DCP is not a nationally recognised duty system.

2.2 Throughout the negotiations with the Fire Brigades Union it became clear that we were unable to reach agreement through either the formal consultation or negotiation procedures, or as a result of the assistance of the National Joint Secretaries (NJS).

2.3 The main points of contention were in relation to the voluntary ‘opt out’ of the 48-hour week and the hourly rate of pay for the average working hours required by the duty system. As a result, time was spent considering whether there were any viable alternative options that provided the same level of savings, or more, and current service delivery standards.

2.4 Subsequently, the Chief Fire Officer, officers, and the FBU have met on several occasions to consider all available alternatives. These have been comprehensively explored by both parties, including interrogation of financial data, resource and people issues.

3. ALTERNATIVE SAVINGS PROPOSALS

3.1 Throughout the course of negotiations and detailed analysis of a number of savings options, the viable options were eventually reduced to three. The viable options considered included the following:

1. To continue with the introduction of the DCP. Originally identified as a reduction of 18 FF posts and an estimated saving of £391,000.
2. To implement DCP differently, with a revised proposal, with a reduction of 24 posts and an estimated saving of £560,000.
3. Combined with the introduction of DCP, a relocation of ALP vehicles in the City and in Hastings, with a reduction of 16 posts and an estimated saving of £510,000.
4. To introduce a '3 watch duty system'. Although the proposals were never developed, initial indications were that a reduction of up to 32 posts and a resulting saving of circa £620,000.
5. Reduce the establishment on all wholetime shift stations to plan to crew each wholetime appliance with four rather than five personnel, resulting in a reduction of 28 firefighter posts with an estimated saving of £1,120,000.

4. OPTION 1 – DCP IMPLEMENTATION

4.1 Acknowledging the objections raised by the FBU in relation to the DCP, legal advice was sought on the risks of litigation to the organisation if implementation progressed without agreement.

4.2 Officers were advised that, without an 'agreement' with the representative bodies to implement DCP, the legal risks could be summarised as follows:

- Breach of Trade Union and Labour Relation (Consolidation) Act 1992, s145B with respect to inducing workers to undermine a collective agreement/bargain.
- Risk of FBU bringing an injunction to prevent the implementation of DCP.
- Individual claims for breaches to contract and Working Time Regulations.
- In the event of dismissal arising from employees rescinding their individual 'opt out' of the 48-hour working week (due to lack of alternative posts available in the Service), claims for unfair dismissal, which may include claims for automatic unfair dismissal on grounds relating to asserting a statutory right.
- Health & Safety Executive has also now given their view that a similar system to DCP in another Fire Authority is not compliant with Regulation 6 of the Working Time Regulations (Length of Night Work). However, the HSE is not requiring any change to that duty system, nor are they taking enforcement action.

4.3 The financial implications associated with each of the above claims would vary depending on the circumstances of each claim, with some members of staff potentially being treated less favourably than others.

5. **OPTION 2 – 3 WATCH DUTY SYSTEM**

5.1 The 3-watch duty system was proposed by the Fire Brigades Union as an alternative to DCP. After joint work on the proposal, and its resilience and potential savings, it was jointly agreed that the 3 Watch Duty System would not provide sufficient resilience to enable crewing levels to be maintained to cover mandatory training, sickness and other leave types whilst making sufficient savings. The Service also felt that there were a number of high risk HR matters that would reduce the ability of the Service to introduce the system.

5.2 Specifically, the 3-watch duty system still requires staff to work 24-hour shifts, which would again require a collective agreement with the representative bodies in relation to working time. Additionally, to work efficiently and achieve optimum commensurate savings from this option, all shift-based staff would be required to participate and it was envisaged that a number of staff would have difficulty complying with shifts of 24-hour length, thus giving potential rise to further legal challenge from employees.

5.3 For these reasons, the Service felt unable to support the progression of this option and the FBU understood the Service's concerns. Further consideration and discussion of this option has, therefore, ceased.

6. **OPTION 3 – RIDING AT MINIMUM**

6.1 The third option being given due consideration was to ride fire appliances at what would currently be deemed as 'minimum' for our first appliances.

6.2 It was agreed by both parties that the option of riding appliances at minimum crewing levels across all appliances on wholetime shift stations is viable and provides substantial savings, therefore closing the gap on the £2.1m required by the end of 2020/21.

6.3 This option would not require public consultation as it would be a management decision not challenged by the FBU local officials who are empowered to make this decision on behalf of their members.

6.4 Therefore, it is proposed to accept this as an alternative savings proposal to the previously approved implementation of DCP and to commence managed reductions in the establishment over the two years 2016/17 and 2017/18. The reduction of staff will be managed through voluntary redundancy and natural wastage and we aim to achieve this action without the need for compulsory redundancies.

6.5 By introducing minimum crewing levels it is possible to reduce staffing levels by 28 FF posts, resulting in a saving of approximately £1,080,000. There would also be £40,000 savings per year from paying less staff overtime to work on public holidays which brings the total saving to £1,120,000.

6.6 This is as opposed to the savings associated with DCP already approved and included in the MTFP of £391,000 and the associated reduction of 18 posts, plus the additional saving of £510,000 from relocation of the ALP to DCP stations. The sum of £1.855m has been included in the Capital Programme to build the accommodation for the DCP stations; therefore, if the DCP duty system is not implemented at this time there would not be the need to spend this money.

6.7 The following table lays out the different proposals:

Proposal	Notes	2016/17	2017/18	2018/19	2019/20	2020/21
		£,000	**£,000**	**£,000**	**£,000**	**£,000**
DCP	Original phasing, 18 posts	391	391	391	391	391
	Current phasing, 18 posts [Note 1]	98	391	391	391	391
	Updated proposal, 24 posts	140	560	560	560	560
Aerial provision	16 posts, to be in place 6 months after DCP in place	0	383	510	510	510
Riding at minimum	Based on 28 firefighters and reduced overtime costs [Note 2]	280	840	1,120	1,120	1,120

Note 1
Not going ahead with DCP also releases £1.9m from the Capital Programme.
Phased as per the MTFP approved by the Fire Authority in September 2015.

Note 2
To achieve this timescale a voluntary severance scheme will be required, costs associated with this are impossible to forecast but can be funded from the Improvement & Efficiency reserve. The phasing shown assumes a reduction of 14 posts by 31/03/17 and 28 by 31/03/18

7. FURTHER PROPOSALS

7.1 In addition to Option 3 above officers and the FBU have agreed the following:

7.2 **Christmas Shopping Day**
Agreement was reached to remove this concession for Grey Book staff. The removal of this concession would not produce any financial savings but will provide additional resilience to the wholetime establishment in the form of an extra 342 shifts available to be worked across the shift, day crewed stations, flexible duty system officers and Sussex Control Centre staff.

7.3 **Operational course delivery**
The FBU has requested a fundamental review of operational course delivery across the Service. Agreement was reached on this point. This will include delivery of training at STC, external venues and on station, as well as the introduction of distance learning.

7.4 **Overtime payments**
Agreement was reached to review all overtime payments, to all Grey Book Staff, including recall to duty payments, and to reach agreement for implementation from 1 April 2016.

7.5 **Restructure**
Agreement was reached that the Chief Fire Officer will conduct a Service-wide management restructure to realise savings.