EAST SUSSEX FIRE AUTHORITY

THURSDAY 11 FEBRUARY 2016 at 10.30 HOURS

MEMBERS

East Sussex County Council (12)

Councillors Barnes, Buchanan, Butler, Earl, Galley, Howson, Lambert, Pragnell, Scott, Sheppard, Taylor and Wincott.

Brighton & Hove City Council (6)

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

You are required to attend this meeting to be held at Fire and Rescue Service Headquarters, 20 Upperton Road, Eastbourne at 10.30 a.m.

AGENDA

Item No.	Page No.	
898.	1	In relation to matters on the agenda, seek declarations of any disclosable pecuniary interests under Section 30 of the Localism Act 2011.
899.	1	Apologies for absence.
900.	1	Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's Business. (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).
901.	1	To consider any public questions.
902.	1	To receive any petitions.
903.	5	Non-confidential minutes of the meeting held on 10 December 2015 (copy attached).

Item No.	Page No.	
904.	2	Callover. The Chairman will call the item numbers of the remaining items on the open agenda. Each item which is called by any Member shall be reserved for debate. The Chairman will then ask the Fire Authority to adopt without debate the recommendations and resolutions contained in the relevant reports for those items which have not been called.
905.	11	Fire Authority Service Planning processes for 2016/17 and beyond – Revenue Budget 2016/17 and Capital Strategy 2016/17 to 2020/21– joint report of the Chief Fire Officer and Treasurer (copy attached).
906.	57	Draft Annual Plan 2016-17 – report of the Chief Fire Officer (copy attached).
907.	59	Senior Management Restructure – report of the Chief Fire Officer (copy attached)
908.	65	Pay Policy Statement 2016-7 – report of the Chief Fire Officer (copy attached)
909.	69	Treasury Management Strategy 2016-17 – report of the Treasurer (copy attached)
910.	2	Dates of Future Meetings – to be noted:

26 May 2016	Scrutiny & Audit and Policy & Resources Panels
16 June 2016	Fire Authority
7 July 2016	Scrutiny & Audit and Policy & Resources Panels
8 September 2016	Fire Authority
15 September 2016	Scrutiny & Audit Panel
3 November 2016	Scrutiny & Audit and Policy & Resources Panels
8 December 2016	Fire Authority

Dates of Future Meetings – to be approved:

19 January 2017	Policy & Resources Panel
2 February 2017	Scrutiny & Audit Panel
9 February 2017	Fire Authority
* 27 April 2017	Scrutiny & Audit and Policy & Resources Panels
15 June 2017	Fire Authority
6 July 2017	Scrutiny & Audit and Policy & Resources Panels
7 September 2017	Fire Authority
14 September 2017	Scrutiny & Audit Panel
2 November 2017	Scrutiny & Audit and Policy & Resources Panels
7 December 2017	Fire Authority

* Easter 14-17 April 2017, ESCC elections 4 May, ESCC Annual Meeting 23 May 2017

All Fire Authority meetings to commence at 10:30 hours
All Panel meetings to commence at 10:00 hours

911. 3. 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 HQ, 20 Upperton Road, Eastbourne, and at Brighton and Hove Town Halls.

912. 97 Confidential minutes of the meeting held on 10 December 2015 (copy attached). (Exempt categories under paragraphs 1 and 3 of the Local Government Act 1972).

913. 101 Service Headquarters Heads of Terms for Lewes Sussex Police Site – confidential report of the Chief Fire Officer (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

EAST SUSSEX FIRE AUTHORITY

Minutes of the meeting of the East Sussex Fire Authority held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne at 10.30 hours on Thursday 10 December 2015.

Present: Councillors Barnes, Buchanan, Butler, Deane, Earl, Galley, Howson (Chairman), Lambert (Vice-Chair), Morris, O'Quinn, Peltzer Dunn, Penn, Pragnell, Scott, Taylor, Theobald and Wincott.

Also present:
Mr. G. Walsh (Chief Fire Officer), Mr. S. Apter (Deputy Chief Fire Officer), Mr. G. Ferrand (Assistant Chief Fire Officer), Mrs. C. Rolph (Assistant Chief Officer), Mr. D. Savage (Treasurer), Miss. E. Woodley (Deputy Monitoring Officer), Mr. W. Tricker (Head of Finance and Procurement) and Mrs. K. Ward (Clerk).

880. **DISCLOSABLE PECUNIARY INTERESTS**

880.1 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.

881. **APOLOGIES FOR ABSENCE**

881.1 Apologies for absence were received from Councillor Sheppard

882. **URGENT ITEMS AND CHAIRMAN'S BUSINESS**

882.1 There were no urgent items for consideration.

882.2 CFO Gary Walsh
The Chairman welcomed Gary Walsh to his first Fire Authority meeting as Chief Fire Officer & Chief Executive.

882.3 DCFO Steve Apter
Members welcomed Steve Apter, Deputy Chief Fire Officer, to his first meeting of the Fire Authority and wished him well during his time with East Sussex Fire & Rescue Service. Steve had been seconded from Hampshire Fire & Rescue Service and Members welcomed his temporary appointment.

882.4 ACFO Gary Ferrand
This was Gary Ferrand's last meeting as Assistant Chief Fire Officer and a presentation was made to him by Members. The Chairman and Group Leaders said a few words and thanked him, on behalf of their Groups, for his commitment to the Fire Authority over the last 6 years.

882.5 Governance Team of the Year Award
Councillor Lambert wished to record her congratulations to Brighton and Hove Corporate Legal Team who won the Governance Team of the Year award at the Lawyers in Local Government Legal Awards.

883. **TO CONSIDER PUBLIC QUESTIONS, IF ANY**

883.1 There were none.

884. **TO CONSIDER PUBLIC PETITIONS, IF ANY**

884.1 There were none.

885. **NON-CONFIDENTIAL MINUTES OF THE MEETING HELD ON 10 SEPTEMBER 2015**

885.1 **RESOLVED** – That the non-confidential Minutes of the meeting held on 10 September 2015 be approved and signed by the Chairman. (Copy in Minute Book).

886. **CALLOVER**

886.1 Members reserved the following items for debate:

887. Autumn Statement Update
888. Member Allowances Scheme – Annual Review
889. Day Crewed Plus Duty System

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

887. **AUTUMN STATEMENT UPDATE**

887.1 The Treasurer gave an oral update on the recent Spending Review and Autumn Statement which was announced on 25 November 2015.

887.2 Economic forecasts have improved by £27bn allowing the Government more flexibility than anticipated. However, there is some concern about the volatility of these figures. Government spending in 2010 took up 45% of national income and by the end of the current spending review period it was set to reach 36.5%. The headline figure for local government funding quoted by government is a cash terms rise from £40.3 billion to £40.5 billion in 2019/20 representing a fall of just 1.7% per year in real terms over the Spending Review period. Central government grant is to fall from £11.5 billion in 2015/16 to £5.4 billion in 2019/20, a real terms reduction of 56.3% or 18.7% per year. Assessing the impact of this is made complex by a range of associated announcements and the exact impact is not likely to become clearer until the local government finance settlement is announced. Initial views are that a cut of all government funding of in the region of 20-25% in cash terms over the life of the spending review would remain a reasonable planning scenario. Cuts of that order would be within our current planning assumptions. The total of locally-raised funding (mostly council tax and business rates) is estimated to increase from £28.8 billion in 2015/16 to £35.1 billion in 2019/20, a real terms increase of 13.1% or 3.1% per year. It is not possible to say yet how consistent that is with our local assumptions.

887.3 No new announcements on council tax were made in the Autumn Statement although subsequent clarification indicated that the 2% threshold would remain in place. The local government finance settlement was expected between 16 and 18 December 2014, when the referendum threshold was also expected to be announced. It was anticipated that no Council Tax Freeze Grant would be offered this year.

887.4 The expectation was that the funding settlement would be for one year only despite Councils lobbying Government for a longer term settlement so that they could plan for the future. The Government has indicated that by the end of Parliament, Local Government would retain 100% of business rate revenues. It expected that this would come with additional responsibilities and empower local authorities to deliver services in a way right for their area and lead to the withdrawal of revenue support grant

887.5 Other announcements to Members included that Newhaven had been made an Enterprise zone which meant they could offer companies business rates relief, streamlined planning regulations through the use of local development orders, and capital funding assistance aimed at supporting job creation. The Government also confirmed its intention to make it a statutory duty for emergency services to collaborate.

887.6 **RESOLVED** that the update be noted.

888. **<u>MEMBER ALLOWANCES SCHEME – ANNUAL REVIEW</u>**

888.1 The Fire Authority considered a joint report of the Chief Fire Officer, Treasurer and Monitoring Officer that apprised Members of the annual review of the Member Allowances Scheme. (Copy in Minute Book).

888.2 The scheme was formally reviewed every four years and monitored annually to ensure it remained fair and equitable. The Deputy Monitoring Officer advised Members that accepting a 1% increase in the rates of basic pay and special responsibility allowance would be consistent with other Authorities.

888.3 Councillor Wincott requested that Appendix 2 be amended to include rail travel.

888.4 **RESOLVED** – That:

i) with effect from 1 April 2016, a 1% increase in rates of basic and special responsibility allowances be implemented; and

ii) it be noted that the Chief Fire Officer has authority to keep travel and subsistence rates under review and upgrade them.

889. **<u>DAY CREWED PLUS DUTY SYSTEM</u>**

889.1 The Fire Authority considered a report of the Chief Fire Officer that informed Members of the decision of the Policy & Resources Panel to recommend to the Fire Authority that the alternative savings proposals are accepted, rather than continue to incur costs and risks associated with the introduction of Day Crewed Plus, as previously approved at the full Fire Authority on 5 June 2014. (Copy in Minute Book).

889.2 Negotiations had taken place with the Fire Brigades' Union on the implementation of the Fire Authority's decision on 5 June 2014 for the introduction of the Day-Crewed Plus duty system (DCP) at Roedean and The Ridge Fire Stations.

889.3 As a result of a failure to reach agreement on the implementation of the proposals, both parties had agreed to request assistance from the National Joint Council, Joint Secretaries. Following this, both parties had 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).

889.4 Agreement on three viable options for alternative savings proposals had been reached with the Fire Brigades' Union, as set out in the report. Members were advised of the related legal considerations, and the alternative savings proposals following extensive negotiations with the Fire Brigades' Union.

889.5 Councillor Galley acknowledged how encouraging it was that the FBU were behind the proposals and went on to ask if Officers were satisfied that it was safe to ride at the minimum.

889.6 The Chief Fire Officer advised Members that more riders would always be preferable, however, the practice of riding at a four was commonplace nationally and at times locally and the Director of Response & Resilience was currently looking at the implications of introducing this system. Given the reduction of incidents and improvements on matters such as training, equipment, etc, reviewing rider numbers was considered appropriate and safe at this time.

889.7 Councillor Wincott suggested that to reduce the number of firefighters riding an appliance to 4 would decrease the establishment by 28 posts which would impact on the Service's resilience, particularly as neighbouring Services were reducing their numbers and East Sussex could no longer rely on their support. Councillor Wincott also asked Officers if assurances had been given to the FBU about there being no compulsory redundancies and that the Service's reserves would be used to cover the 28 posts.

889.8 The Chief Fire Officer reminded Members that the options on the table were put forward by both Officers and the FBU and that resilience wasn't solely reliant on whole time staff, but included retained duty system staff. It was also highlighted that no guarantee could be given about compulsory redundancies as the future was unknown, however, officers would aim for no compulsory redundancies in line with the Authority's previously agreed HR approach.

889.9 Councillor Deane expressed concern that for every firefighter post removed, additional pressure would be exerted on those left and that East Sussex Fire Authority should write a letter to Government requesting adequate funding. Councillor Scott supported this view and felt it should be pointed out to the Government that if we don't have a resilient service, someone would eventually get hurt.

889.10 The Chairman reminded Members that he sat on the Fire Commission which had written a collective letter on the matter requesting a meeting with the Minister.

889.11 **RESOLVED** – That

i) the report be noted; and

ii) the recommendation of the Policy & Resources Panel be approved; that the alternative savings proposals are accepted, rather than continue to incur costs and risks associated with the introduction of Day Crewed Plus as approved at the full Fire Authority on 5 June 2014.

Councillor Deane abstained from the vote.

890. **EAST SUSSEX FIRE AUTHORITY CONSTITUTION – REVIEW**

890.1 The Fire Authority considered a joint report of the Chief Fire Officer and Monitoring Officer that reviewed East Sussex Fire Authority's Constitution. (Copy in Minute Book).

RESOLVED – That the following be approved:

i) Section E (Scheme of Delegations) paragraph 2.6 be amended to read: The Principal Officers are authorised to act in all matters for those functions that fall within their remit of responsibility and, without prejudice to the generality of the foregoing, to exercise the functions set out in paragraph 4.3 below with the exceptions of paragraphs 4.3 (viii), (ix) and (xi); and

ii) Section B (East Sussex Fire Authority and its Panels) Principal Officer Appointments Panel paragraph 3 be amended to read: To conduct final interviews and make appointments to Principal Officer posts.

891. **DATES OF FUTURE MEETINGS**

891.1 Members noted the dates of future meetings:

21 January 2016	Policy & Resources Panel
4 February 2016	Scrutiny & Audit Panel
11 February 2016	Fire Authority
26 May 2016	Scrutiny & Audit and Policy & Resources Panels
16 June 2016	Fire Authority
7 July 2016	Scrutiny & Audit and Policy & Resources Panels
8 September 2016	Fire Authority
15 September 2016	Scrutiny & Audit Panel
3 November 2016	Scrutiny & Audit and Policy & Resources Panels
8 December 2016	Fire Authority

All Fire Authority meetings to commence at 10:30 hours
All Panel meetings to commence at 10:00 hours

892. EXCLUSION OF PRESS AND PUBLIC

892.1 **RESOLVED** – That items nos. 893, 894, 895, 896 and 897 be exempt under the paragraphs indicated below of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006 and accordingly are not open for public inspection on the following grounds:

893 Paragraphs 1 and 3 – includes information relating to an individual and includes information relating to the financial or business affairs of any particular person (including the authority holding that information).

894 Paragraph 3 – includes information relating to the financial or business affairs of any particular person (including the authority holding that information).

895 Paragraphs 2 and 4 – includes information which is likely to reveal the identity of an individual; and 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.

896 Paragraph 3 – includes information relating to the financial or business affairs of any particular person (including the authority holding that information).

897 Paragraphs 3 and 5 – includes information relating to the financial or business affairs of any particular person (including the authority holding that information) and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

The meeting concluded at 13:40 hours.

Signed Chairman

Dated this 11th day of February 2016

Agenda Item No. 905

EAST SUSSEX FIRE AUTHORITY

Date:	11 February 2016
Title of Report:	Fire Authority Service Planning processes for 2016/17 and beyond – Revenue Budget 2016/17 and Capital Strategy 2016/17 to 2020/21
By:	Chief Fire Officer and Treasurer
Lead Officer:	Duncan Savage, Treasurer
Background Papers:	Fire Authority 10 September 2015 – Item 868 – Strategic Service Planning and Medium Term Financial Planning 2016/17 Policy & Resources Panel 21 January 2016 – Item 005 – Fire Authority Service Planning processes for 2016/17 and beyond – Revenue Budget 2016/17 and Capital Strategy 2016/17 to 2020/21
Appendices:	A - Medium Term Finance Plan 2016/17 – 2020/21 B - Revenue Budget Summary 2016/17 C - Savings D - Fees and Charges E - Medium Term Capital Strategy 2016/17 – 2020/21 F - Reserves and Balances Policy G - Precept for 2016/17 H - Establishment and Payroll Budget 2016/17

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

PURPOSE OF REPORT: **To consider and approve the Fire Authority's Revenue Budget 2016/17, Capital Strategy 2016/17–2020/21 and Medium Term Finance Plan for 2016/17–2020/21.**

EXECUTIVE SUMMARY:

The Authority's draft budget proposals for 2016/17 were considered by the Policy & Resources Panel on 21 January 2016. Since that meeting the report has been updated to reflect final council tax and business rates information, collection fund positions and forecast income from the business rate pool. The Local Government Finance Settlement (LGFS) will not be finalised until the Local Government Finance Report (England) 2016/17 has been approved by Parliament.

The Authority has continued to make good progress in identifying and agreeing savings proposals over the last 12 months, through its Changing the Service, Shaping our Future programme. The latest version of the MTFP shows that the Authority has already identified £6.4m of savings for delivery which would meet its funding gap up to 2019/20. However, further savings of £0.249m are still required by 2020/21.

Officers will continue to explore the potential for further savings and a range of reviews is already underway or planned for 2016/17 as part of the Changing the Service, Shaping our Future programme.

The development of the new Integrated Risk Management Plan (IRMP) in 2016/17 will be closely linked to the development of our future financial plans, ensuring that service priorities are matched to available resources and that the Authority can achieve financial sustainability over the medium term.

The report outlines proposals for setting a balanced revenue budget in 2016/17, including commitments and growth bids, subject to the Authority agreeing a 1.94% increase in its council tax in line with its existing budget strategy.

The Capital Strategy reflects the Authority's identified capital investment requirements for the next five years and can be financed from existing resources without the need to incur additional borrowing.

The Authority has acted prudently in establishing reserves and balances to meet its assessed risks and to provide one-off funding for specific priorities. This continues to provide the funding to support the Authority's transformation programme and meet its capital investment priorities over the next five years.

There is sufficient capacity within existing reserves to create an earmarked reserve of £2.0m for the expected one-off investment required as part of the IMD Transformation project.

RECOMMENDATION: The Authority is recommended to approve:

1. an increase in council tax of 1.94% and, as a result, approve:
   (i) the budget proposals set out in this Report and the net budget requirement of £38.335m for 2016/17;
   (ii) the council tax requirement of £24.280m; and
   (iii) the council tax and precepts as set out in Appendix G.

2. the capital programme for the next five years and the capital budget of £4.566m for 2016/17 and the plans to use capital grant, capital receipts and revenue contributions to finance that expenditure;

3. the maintenance of the General Reserve at a minimum of 8% of the net revenue budget over the medium term;

4. the establishment of an IMD Transformation Reserve using resources totalling £2.0m transferred from other reserves as set out in Appendix F;

5. The transfer of the Transitional Grant of £0.097m to the Improvement & Efficiency Reserve to fund the outcomes of the IRMP;

6. the transfer of the projected revenue underspend of £0.350m for 2016/17 to the Improvement & Efficiency Reserve;

7. the fees and charges set out in Appendix D; and

8. that the CFO, in consultation with the Chairman and Treasurer, be authorised to make adjustments to the presentation of the budget to reflect the final Local Government Finance Settlement.

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1. <u>INTRODUCTION</u>

1.1 The report sets out the proposed Revenue Budget for 2016/17, a revised Medium Term Finance Plan for 2016/17–2020/21 as well as the proposed Capital Strategy and Capital Programme for the Fire Authority for the period 2016/17 to 2020/21 for Members to consider. The report and budget proposals have been updated to reflect final council tax and business rates information, collection fund positions and forecast income from the business rate pool. The Local Government Finance Settlement (LGFS) will not be finalised until the Local Government Finance Report (England) 2016/17 has been approved by Parliament.

1.2 This report recommends that the Authority approves a 1.94% increase in council tax which reflects the assumption set out in the existing MTFP. This would involve setting a net budget requirement of £38.335m, a council tax requirement of £24.280m and increasing Band D council tax to £86.72.

1.3 The proposed Revenue Budget and MTFP reflect the continuing and sustained reductions in funding for public services as the Government seeks to reduce the national deficit as set out in the Provisional LGFS 2016/17 which includes indicative figures for 2017/18–2019/20.

1.4 The Authority has continued to make good progress in identifying and delivering savings proposals over the last 12 months, through its Changing the Service, Shaping our Future programme. The latest version of the MTFP takes into account the rolling forward of the Plan to include 2020/21, the alternative savings proposals to replace Day Crewed Plus approved in December 2015, budget pressures, growth bids, other changes to spending plans, the provisional LGFS and latest information on council tax and business rates. Taken together, these show that the Authority has already identified £6.4m of savings for delivery which would meet its funding gap up to 2019/20, however, further savings of £0.249m are still required by 2020/21. Whilst these figures are indicative at this stage, especially for the latter 4 years of the period, and will be subject to revision as better information becomes available, they provide a sound basis for our future financial and service planning.

1.5 There remain a number of uncertainties for funding in 2016/17, and beyond, and the Fire Authority will need to remain flexible in its approach to its financial planning. The announcement by the Government of indicative funding figures for the period 2017/18–2019/20 as part of the provisional LGFS is welcome and will support our strategic service and financial planning for the future. However, we are still awaiting further clarification on what is required of Authorities to access this four year funding offer. The Government has also committed that by the end of this Parliament, local government will retain 100% of business rates revenues to fund local services. Local government grant will be phased out and additional responsibilities will be devolved to local authorities. How this will impact on fire authorities is not yet clear and the Government proposes to consult extensively on its proposals during 2016.

1.6 The Authority will be reviewing its strategy and IRMP during 2016/17. The development of the new IRMP will be closely linked to the development of our future financial plans, ensuring that service priorities are matched to available resources and that the Authority can achieve financial sustainability over the medium term. The Authority will also need to consider any potential financial impacts of local devolution proposals should these receive approval together with the recent announcement that responsibility for the fire & rescue service will transfer to the Home Office from April 2016.

2. ECONOMIC OUTLOOK

2.1 The general state of the economy is an important factor in setting the Fire Authority's revenue budget and MTFP over the next 5 years. The UK economy has continued to show positive growth during 2015 with Gross Domestic Product (GDP) expected to reach the Office for Budget Responsibility's (OBR) forecast of 2.4%. In the medium term, GDP forecasts have been revised slightly upwards at between 2.3 and 2.5% through to 2020. The OBR also predicts that unemployment will continue to fall to 5.2% in 2016 and 2017 before rising slightly to 5.4% towards the end of the period. Real wages are growing at rates not seen since before the recession, reaching 2.9% in the 3 months to September 2015. The timing and strength of the return to sustained productivity growth remains uncertain, with UK productivity continuing to lag 20% below the G7 average. Commentators remain concerned over the impact of weaker growth in the EU and emerging market economies on the UK economy. More recently, the UK economy has been affected by the slowdown in world economic growth, particularly in China, reductions in oil prices and volatility in the financial markets. There is a risk that if the economy underperforms against the forecasts in the Autumn Statement this could affect the sustainability of the proposed 4 year local government funding settlement.

2.2 Public sector net debt as a % of GDP peaked at 83.1% in 2014/15, but in absolute terms the OBR expects it to continue to rise to in excess of £1.7tn in 2020/21.

2.3 The official bank interest rate remains low at 0.5% and most commentators now expect to see small but sustained increases from late-2016.

2.4 Consumer Price Inflation (CPI) has fallen into negative territory during the year and is forecast to be 0.1% for 2015 as a whole. The OBR expects it to remain below the 2% target through to 2018 and remain on target to 2020. The Retail Price Index (RPI) was slightly higher than expected at 1.0% in the third quarter of 2015, and is expected to rise gradually until it plateaus at just above 3% in 2018.

3. NATIONAL FUNDING

3.1 The Authority's net budget requirement, which represents gross expenditure less income from fees and charges, is funded from three main sources: council tax; Government grants (both revenue support grant and top up grant); and a share of locally retained Business Rates. As a result of the Local Government Resource Review and subsequent legislation there were significant changes to these sources of funding for 2013/14 which aimed to provide more flexibility at a local level in the way money was spent and more control over how it was collected and grown. No major changes to this system are proposed by Government for 2016/17. However, the Government has announced that it intends to fully localise business rates by 2019/20 and that this will result in the final withdrawal of revenue support grant. It is expected that this change will be revenue neutral, and that Government may devolve additional responsibilities to local authorities as part of the process. Changes to primary legislation will be required and the Government is expected to consult on its proposals in due course. It is possible that income from business rates may also be affected by the devolution proposals set out in the Three Southern Counties / Greater Brighton bids.

3.2 The Local Government Finance Report (England) 2016/17 is due to be debated in mid-February when, if approved, the LGFS will become final. It is recommended that power is delegated to the Chief Fire Officer, in consultation with the Chairman and the Treasurer, to make any presentational changes to the budget that may be required as a result. This will not impact on the agreed precept or level of council tax.

3.3 The provisional LGFS includes funding figures for 2016/17 and indicative figures up to 2019/20. DCLG has announced this as a four year settlement, but the figures for 2017/18 and beyond are part of an offer to any authority that wishes to take it up. In order to take up the offer an authority will need to publish an efficiency plan. At this point it is not clear what an efficiency plan must include and what criteria it would be judged against. It is not clear whether the announcement that responsibility for the fire & rescue service will transfer from DCLG to the Home Office will affect the funding offer made by DCLG.

3.4 The Government has defined Core Spending Power as Revenue Support Grant (RSG); retained business rates; income from New Homes Bonus; the local government element of the Better Care Fund and the Rural Services Delivery Grant, as well as income from council tax (assuming that the tax base grows by the national average growth in tax base between 2013/14 and 2015/16 and authorities increase council tax by CPI and, where appropriate, 2% to support social care). The Government calculates that Core Spending Power by this definition will fall by an average 0.5% over the period to 2019/20. For standalone fire & rescue authorities (FRAs) the forecast change is a net reduction in Core Spending Power of 2% over the period. For the Fire Authority the reduction is 1.3%.

3.5 The Government proposes to reduce revenue support for individual authorities in a way that ensures that authorities delivering the same set of services receive the same percentage change in settlement core funding (similar to Core Spending Power but without any assumed increase in council tax) for those services. This is a significant change in approach and means that those authorities that are more dependent on RSG for their funding (and logically less able to increase spending power through growth in council tax income) should receive lower reductions in Government funding.

3.6 The headline reduction in RSG for standalone FRAs is 48% or £166m over the four year period with actual reductions for individual FRAs ranging from 40% to 65%. For the Fire Authority the reduction is equal fifth highest at 58%.

3.7 The Government has confirmed that it will pay in full for the extension of small business relief announced in the Spending Review and Autumn Statement 2015 through a S31 grant. The doubling of Small Business Rate Relief will continue for a further year but the retail discount will end on 31 March 2016. We estimate that the total S31 grant receivable will be £0.217m in 2016/17.

3.8 There is no proposal to offer a Council Tax Freeze grant for 2016/17 and so this option is no longer modelled. The council tax referendum threshold is proposed at 2% with the exception of Police and Crime Commissioners and shire district authorities which are in the lowest quartile by council tax level for which a higher limit of up to £5 (on a Band D bill) applies. There is no additional flexibility for FRAs. Authorities with responsibility for social care are allowed to levy an additional increase of up to 2% specifically to be spent on social care. This will enable both of our constituent authorities to levy increases of up to 4% but does not impact on fire authorities.

3.9 As part of the 2011 Localism Act, council tax capping in England has been abolished and has been replaced by new powers for residents to approve or veto excessive council tax increases through a local referendum. If the residents vote against the increase, the local authority will have to revert to a council tax level that is compliant with the Government's threshold.

3.10 Any decision to trigger a referendum would incur a significant cost in actually carrying out the vote, and thereby acts as a disincentive to break the referendum ceiling.

3.11 Draft statutory guidance on the flexible use of capital receipts was published alongside the LGFS consultation. Under this guidance authorities would be able to use new capital receipts from April 2016 – March 2019 to pay for the revenue set-up costs of projects that will deliver revenue savings, subject to submitting an annual efficiency strategy setting out qualifying projects to DCLG. At this stage our view is that there is no benefit to the Authority in applying for this flexibility as forecast capital receipts are fully committed to funding the capital programme and the Authority has sufficient revenue reserves to fund its transformation programme.

3.12 There has been no announcement on specific grants for the fire & rescue service to date. We have continued to model on the basis of assurances given earlier in the year that both FireLink and New Dimensions grants would be protected for 2016/17 and 2017/18.

3.13 We understand that DCLG will not be providing any capital or transformation grant to fire & rescue services as part of the 2016/17 settlement.

4. MEDIUM TERM FINANCIAL STRATEGY

4.1 The Medium Term Financial Plan (Appendix A) reflects the impact of the provisional LGFS for 2016/17, including the indicative figures to 2019/20, and the latest information on business rates and council tax (this will not be finalised until later in January). For 2020/21 we have assumed that, in line with the Government's commitment to localise 100% of business rates, the total of settlement funding assessment will remain the same as in 2019/20 (albeit the component parts will obviously be different).

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

- Acceptance of the four year settlement as set out in the provisional LGFS and no change to settlement funding assessment in 2020/21;
- Growth in council tax base of 2.80% in 2016/17 and 0.6% pa thereafter;
- No assumption of growth in Business Rates base other than the impact of the annual uprating by the RPI multiplier;
- Increases of 1.94% in council tax each year;
- Net Provision for pay increases of 1.5% pa to 2018/19 and 2% thereafter;
- Provision for price increases of 1% in 2016/17 and 2.5% each year thereafter; and
- Delivery of savings in line with agreed plans (including the Riding at Minimum proposals agreed at December 2015 CFA, but at this stage not the proposed Management Restructuring or the SHQ Relocation).

4.3 The MTFP now forecasts a net expenditure reduction of 0.8% to 2016/17, 3.9% to 2017/18, no change to 2018/19 and subsequent increases of 1.1% to 2019/20 and 2.5% to 2020/21. This takes account of future provisions for increases in pay and prices, agreed savings, the factors described in paragraph 6.4, and it indicates the shortfall that will be required to be met from further savings to ensure that expenditure matches available grant, business rates and council tax income. On the basis of these assumptions, the MTFP shows that the Authority has identified sufficient savings to close its funding gap up to 2019/20 and allowed it to fund a number of growth bids and continue its policy to provide additional revenue contributions to fund capital expenditure (given the withdrawal of Government funded capital grant). Further savings of £0.249m are required by 2020/21.

5. <u>PROJECTED REVENUE POSITION 2015/16</u>

5.1 The Authority has a revenue budget of £38.627m for the financial year 2015/16. Based on figures reported to the Corporate Management Team in January 2016, the revenue budget is forecast to underspend by £71,000.

5.2 It is recommended that any forecast revenue underspend that is not required to be carried forward for specific purposes is transferred to the Improvement & Efficiency Reserve to support the funding of the Authority's transformation programme and any outcomes from the IRMP review. Members are reminded that the 2016/17 LGFS does not include any further transformation funding for the fire & rescue service.

6. <u>REVENUE BUDGET 2016/17</u>

6.1 <u>Impact of national funding changes on local position</u>

6.1.1 The Revenue Budget Summary for 2016/17 and the MTFP have been updated to reflect the provisional funding announced in the LGFS and the final information advised by the billing authorities on council tax base, business rates base and collection fund surpluses and deficits. The impact of the provisional LGFS for 2016/17 and a comparison with figures previously modelled and reported to the Fire Authority is set out in Table 1 below.

6.1.2 In summary, the impact of the provisional LGFS is a reduction in resources in 2016/17 of £0.062m against that previously modelled. This is primarily due to lower than expected RSG of £0.061m. A number of billing authorities have received backdated claims for business rates relief from NHS Trusts. Whilst these claims have not been reflected in the information provided for business rate income in 2016/17, if successful they will impact on business rate income and could potentially affect the East Sussex Business Rate Pool. We will continue to monitor the situation.

6.1.3 Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. The Authority has agreed to continue to participate in the East Sussex Business Rate Pool for 2016/17. We are still awaiting confirmation of the forecast income from the Pool for 2016/17 but have assumed that a figure of £0.100m with an equal level of expenditure on business safety activities. Under the terms of the Pooling agreement this funding must be used to support the economic regeneration of East Sussex. Pilots to improve support to local businesses are currently being developed using the 2015/16 funding from the Pool.

Table 1 – Summary of Impact of Local Government Finance Settlement

	2016/17 £'000
Locally Retained Business Rates	2,505
Top Up Grant	4,768
Business Rates Baseline	7,273
Revenue Support Grant	6,196
Settlement Funding Assessment	**13,469**
Estimated value of Business Rates Pool included above	(100)
Settlement Funding Assessment Adjustment (S31 grant)	217
Total for comparative purposes	**13,586**
As reported to Policy & Resources September 2015	13,648
Increase/(decrease) in funding	**(62)**

6.1.4 Since the localisation of Council Tax Support Grant in 2013/14, billing authorities have been required to approve their own local Council Tax Reduction Schemes (LCTRS). Initially these schemes set out to recover the 10% reduction in national funding by reducing support for certain council taxpayers, alongside changes to existing discounts and exemptions. All local billing authorities except Hastings Borough Council have changed their LCTRS for 2016/17 to reduce the level of support available, thereby reducing the cost of the LCTRS. These changes are taken into account, along with underlying tax base growth, changes to claimant numbers and collection rates in calculating the new council tax base. There is a potential risk to the collection fund in 2016/17 as a result of these changes, but in East Sussex it has been agreed that additional support will be provided through the billing authorities to try and mitigate this. The Authority's share of this cost is estimated to be £25,000, shown as a commitment in the 2016/17 budget.

6.1.5 The Authority's council tax Base for 2016/17 is calculated as 279,983.54, an increase of 2.80% on 2015/16 (272,366.01). If the Authority were to increase its council tax as currently modelled by 1.94% this would provide income of £24.280m compared to £23.856m previously modelled. Each 1% increase in council tax yields additional income of £0.238m using the 2016/17 taxbase.

6.1.6 The billing authorities have confirmed that there will be a surplus of £0.448m on the Council Tax collection fund and a deficit on the Business Rates collection fund of £0.079m for distribution in 2016/17. Members should note that any net collection fund surplus is a one off benefit only.

6.1.7 The latest resource position is reflected in the Revenue Budget Summary and the MTFP, however, the net movement in resources since the last report to Members is summarised in Table 2 below.

Table 2 – Movement in Resources

	2016/17 Latest position £'000	**2016/17 Fire Authority September 2015 £'000**	**Increase / (Decrease) £'000**
Locally Retained Business Rates	2,505	2,526	(21)
Business Rates Top up	4,768	4,762	6
Business Rates Baseline	7,273	7,288	(15)
Revenue Support Grant	6,196	6,257	(61)
Settlement funding assessment	**13,469**	**13,545**	**(76)**
Council Tax Collection Fund Surplus / (Deficit)	448	0	448
Business Rates Collection Fund Surplus / (Deficit)	(79)	0	(79)
Section 31 grant Business Rates adjustment	217	103	114
Council Tax Requirement	24,280	23,856	424
Total Resources	**38,335**	**37,504**	**831**

6.2 Overview of current budget proposals

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

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

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

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

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

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

6.2.2 The Authority identified that it had a funding gap of £7.1m in July 2013 and subsequently embarked on a phased programme called ‘Changing the Service, Shaping our Future’ to identify and evaluate savings proposals. Through this Programme, the Authority has since approved a range of operational and non-operational savings proposals which have, in combination with pre-existing savings initiatives, so far delivered revenue budget savings totalling £3.046m with a further £3.325m identified for delivery by 2020/21.

6.2.3 During 2016/17 the Authority will be reviewing its Corporate Strategy and its IRMP which will form the basis for considering risk and need across the communities we serve and the level, type and disposition of resources that are required to meet that need. The IRMP process will be the main mechanism through which future savings proposals are considered, including a number of Changing the Service, Shaping our Future reviews which have been delayed until after the new mobilising system at the Sussex Control Centre goes live.

6.2.4 Precepting status means that the Revenue Budget has to be balanced within the context of the impact upon council taxpayers and demands and pressures faced by the Fire Authority in meeting its statutory obligations, commitments and requirement to maintain an effective level of Reserves & Balances. The 2016/17 Revenue Budget has been prepared against a background of continued reductions in funding for public services as part of the Government’s continuing deficit reduction strategy.

6.2.5 Taken together, the Authority’s approved savings plans alongside increased income from council tax mean that, in addition to addressing identified budget commitments, the Authority can fund a small number of one off / short term growth bids approved by Corporate Management Team, totalling £0.385m in 2016/17 (see Table 4). We have utilised one-off flexibility from the net collection fund position to extend and increase, for 2016/17 only, additional funding of £0.280m within the Operational Pay budget. This will assist with managing the planned changes to the operational workforce and an increase in cover for long term sickness absence. The Authority can also continue with its approach agreed as part of the 2015/16 budget to use short term revenue flexibility to provide additional funding for the Capital Strategy (£0.495m in 2016/17) which partially mitigates the loss of capital grant from Government. However, the Authority must take decisions on the 2016/17 budget in the knowledge that this flexibility is available only in the short term and additional savings of £0.249m are still required by 2020/21. Further details of the proposed draft revenue budget and capital programme are set out from paragraph 6.4 onwards.

6.3 **Consultation**

6.3.1 Extensive public consultation was last carried out in 2012/13 as part of the review of the Medium Term Plan and Integrated Risk Management Plan 2013/14–2017/18 which included coverage of council tax and value for money. Summary outcomes from the independently managed 2012/13 consultation in relation to finance are set out below:

- More than four fifths (83%) of residents agreed that the current council tax charge (£81.86 per year for a Band D property) for the Fire & Rescue Service provides good value for money; 3% disagreed.

- Two fifths (40%) of residents thought that the Service should accept the Government's freeze grant offer and not increase its council tax in 2013/14, knowing that cuts would have to be made in 2015/16 and beyond to compensate for the loss of grant; 60% thought that the Service should not accept the Government's freeze grant offer.

- But, when asked to consider the longer term impacts on budgets, more than 9 in 10 (92%) residents thought that the Service should reject the Government's offer, and still increase council tax so that it helps to fund fire & services in future years when the grant ceases; 8% thought that the Service should not reject the offer.

- Just over two fifths (42%) of residents who are council tax bill payers said that they would support an increase of approximately 81p or less per year per household.

- However, when asked if they would still support a higher increase, almost three fifths (58%) of residents who are council tax bill payers said that they would support an increase of approximately £1.60 or less per year per household.

6.3.2 The Changing the Service, Shaping our Future programme developed its proposals for change in line with these consultation outcomes which expressed a preference for savings to be found through changes to crewing arrangements rather than reductions in appliances or fire stations. Full public consultation was carried out prior to the consideration and approval of Phase 2 proposals in June 2014. Further public consultation will be carried out as part of the review of the IRMP during 2016/17.

6.3.3 The representative bodies including the Fire Brigades' Union, the Fire Officers' Association, the Retained Firefighters' Union and UNISON have been briefed on the 2016/17 Revenue Budget proposals. Staff and business representative bodies and local authorities were invited to comment on the draft Revenue Budget proposals for 2016/17. As at 1 February 2016 no responses had been received. Any responses received after the papers are published will be circulated at the meeting.

6.4 **Basis of Estimates**

6.4.1 2016/17 estimates have been prepared on the following basis:

- Net provision for pay inflation has been set at 1.5% in 2016/17. The Government restated its aim, in the Autumn Statement and Spending Review 2015, that public sector pay rises should not exceed an average of 1% p.a. over the period to 2019/20. Fire service pay is negotiated nationally.
- To update other costs to take account of inflation to estimated 2016/17 outturn prices at 1.0%.
- To include both increases and decreases resulting from the introduction of or removal of commitments flowing from strategic decision making or changes to legislation, for example the IMD Strategy and the expected impact of the introduction of the flat rate state pension on employer's national insurance contributions.
- To include growth bids approved by Corporate Management Team to support policy decisions of the Authority and other service priorities.
- The inclusion of the latest Changing the Service, Shaping our Future savings proposals including the Riding at Minimum savings proposals which replace the Day Crewed Plus proposals.

6.4.2 The impact of these assumptions on the 2016/17 Revenue Budget is shown overleaf in Table 3. Further detail of savings is shown in Table 5 (page 22) and Appendix C.

Table 3 - Summary of Net Budget Requirement

	£'000	**Change %**
Net Budget Requirement 2015/16	**38,627**	
Pay inflation	480	1.24%
Non pay inflation	98	0.25%
Changes in capital financing	(10)	(0.03%)
Commitments: see Table 4	1,002	2.59%
Savings: see Table 5	(1,862)	(4.82%)
Net Budget Requirement 2016/17	**38,335**	**(0.76%)**

6.5 **Fees and Charges**

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

6.5.2 Appendix D gives details of increases in fees and charges for Fire & Rescue Service activities. The Revenue Budget assumes that the current policy will be followed, i.e. that income will rise to ensure that net expenditure will increase by no more than the rate of inflation. To reflect nationally agreed increases in pay and the overall level of provision for inflation generally, it is proposed to increase fees and charges by 1.0% in 2016/17.

6.5.3 The Localism Act introduced by the Government allows FRAs to introduce other fees and charges subject to local consultation and this includes being able to charge for false alarm calls from persistent offenders.

6.5.4 Officers have investigated the opportunities to make charges and have reviewed the false alarms policy and activity as well as quantifying potential income that might be derived from a change in policy for the charging for special services incidents that have hitherto not been charged. Proposals have been agreed to develop charging for large animal rescue (both in East Sussex and for work carried out on behalf of Kent & Medway FRA) and search and rescue activity carried out on behalf of Surrey and Sussex Police. As these proposals have not yet been fully developed we have not set income targets for the 2016/17 budget, but will review the situation during the year with a view to setting income targets for 2017/18. New charge rates for large animal rescue are included in Appendix D. Charging for lift release may be considered once work has been carried out with those landlords (often public sector) whose properties result in the most call outs to try and reduce the number of incidents.

6.5.5 In the 2016/17 budget the fees and charges listed in Appendix D amount to £132,000, the remainder of the income budget is mainly income from West Sussex County Council for the Sussex Control Centre.

6.6 Main Variations

6.6.1 The changes in commitments leading to increased or decreased provision are shown in Table 4 overleaf:

Table 4 – Budget Commitments

Commitments	£'000
Adjustment to Firefighter pension employer's contributions	55
Reduction ill health charges (pension) budget	(21)
Flat Rate State Pension, pressure on NI employer's contributions	528
Increase in LGPS employer's contribution to reflect triennial valuation	26
Hand held radios – one year only	150
IMD Strategy	(251)
Fleet Strategy	74
Adjustment to the level of Capital Expenditure from Revenue account	(593)
Increase in FireLink Grant in line with Government pledge for New Burdens Grant	(2)
Increase in New Dimensions Grant in line with Government pledge for New Burden Grant	(1)
Contribution to billing authority costs to support LCTRS	25
Address pressure on the IMD FireLink budget	14
Business Rates revaluations for Service HQ and Crowborough fire station	9
To re-align the East Sussex allowance to the day-crewed stations' establishment	108
Additional funding for services in Operations Planning and Procedures	46
Continued support for legacy mobilising system until April 2017	273
Make good shortfall in IMD mast rental income	27
Increase staffing costs in Community Safety	23
Corporate contingency changes	63
Reduction in Business Rates Pool income from 15/16 level (one year only)	(129)
Emergency Services Mobile Communications Project (ESMCP)	20
Additional wholetime resources allocation – one year only	173
Total committed	**617**

Growth	
Increase staffing resource for FireWatch	9
Establishment of Programme Management Office (3 years)	180
Integrated Risk Management Plan strategic review (1 year – 2016/17)	60
HR project resource for Enterprise Bill (1.75 years from 2016/17)	36
Retrofit of sprinklers in high risk and high rise residential areas (two years only)	100
Total Growth	**385**

Total of Commitments and Growth	**1,002**

6.7 Savings Plan

6.7.1 Given the scale of the funding gap that the Authority faced from 2014/15 it agreed to fundamentally review all of its services, including Prevention, Protection and Response. This programme, called ‘Changing the Service, Shaping our Future’, is set out over three phases, and the Authority has already approved a range of proposals which we anticipate will deliver savings of £3.051m by 2020/21. This now includes savings of £1.1m from the Riding at Minimum proposal which replaces the Day Crewed Plus savings of £0.391m. This change has also resulted in the reduction in the savings expected from the implementation of Locality Managers by £0.121m. When taken together with savings identified from non-operational services of £1.392m, the existing Facing the Challenge process, and Sussex Control Centre, these initiatives are expected to deliver £4.909m in 2016/17 and £6.371m by 2020/21.

6.7.2 The Authority has previously agreed to the savings from the establishment of the Sussex Control Centre, a single mobilising and control centre for fire & rescue in Sussex in collaboration with West Sussex Fire & Rescue Service. The annual savings from the Project remain at £0.475m and these are included in the budget. However, as a result of the delay in implementation of the new mobilising system, the 2016/17 budget recognises a pressure in the IMD budget totalling £0.273m (see Table 4).

6.7.3 A number of reviews / projects are underway as part of the Changing the Service, Shaping our Future programme which have the potential to deliver further savings:

- IMD Transformation (contract due to be let in 2016/17)
- Service HQ relocation (awaiting finalisation of Heads of Terms)
- Management Restructure (final proposal due to be considered reported February 2016)
- Emergency Services Collaboration Programme – Integrated Transport Function
- Phase 3 reviews:
    - Retained Duty System (Review 1) – due to report March by 2016
    - Technical rescue Unit (Review 5) – due to report March by 2016
    - Flexi Duty System (Review 6) – due to report March by 2016
    - Demand Led Rostering (Review 7) -– due to report March by 2016
    - Schools Education Programme (Review 8) – due to be carried out during 2016/17 by the Head of Community Safety
    - Support Services Review (Review 14) – due to commence February / March 2016

6.7.4 The following Phase 3 reviews are dependent on the Service implementing dynamic mobilising as part of the new mobilising system at Sussex Control Centre. They have been delayed and will now form part of the IRMP process in 2016/17:

- Rural Review (Review 3)
- Day Crewed Plus at Uckfield (Review 10)
- Day Crewed Plus at Lewes (Review 11)

6.7.5 All these savings are summarised in Table 5 and have now been included in the Revenue Budget. A full listing is included in Appendix C.

Table 5 – Savings

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Total Facing the Challenge Savings	(494)	(567)	(567)	(567)	(567)
Sussex Control Centre Savings	(474)	(474)	(474)	(474)	(474)
Total Deferred Savings	(339)	(339)	(339)	(339)	(339)
Total Phase 1 Savings	(892)	(892)	(892)	(892)	(892)
Total Phase 2 Savings	(1,319)	(1,879)	(2,159)	(2,159)	(2,159)
Total Additional non-Operational Savings	(213)	(213)	(213)	(213)	(213)
Total non-Operational Savings	(1,179)	(1,555)	(1,728)	(1,728)	(1,728)
Total savings	**(4,909)**	**(5,918)**	**(6,371)**	**(6,371)**	**(6,371)**

7. CAPITAL PROGRAMME

7.1 Capital Programme 2016/17-2020/21 (base year 2015/16)

7.1.1 The Medium Term Capital Strategy has been developed in line with the Authority's vision and aims and its Integrated Risk Management Plan. It aims to provide a sustainable and affordable level of investment to support our service provision to the communities of East Sussex and the City of Brighton and Hove. In the light of the need to deliver substantial revenue savings over the next five years, the Authority is reviewing all of its operational and support services through the Changing the Service, Shaping our Future programme. Decisions that have already been taken to change the service, which have capital investment implications, have been reflected in this strategy. It is likely that further changes to this strategy will be needed as further service reviews are carried out.

It is likely that the Strategy will be subject to further review in 2016/17 to ensure it reflects any capital investment decisions resulting from the IRMP review, the IMD Transformation Programme and the ESCP Integrated Transport Function work stream.

7.1.2 Details of the Medium Term Capital Strategy and its funding over the 5 year period are shown in Appendix E and summarised in the following table:

Table 6
Revenue Impact of Capital Programme 2016/17 to 2020/21

Revenue Impact of Capital Programme 2015/16 to 2019/20						
	Total resource	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fleet	8,874	2,426	1,295	1,816	1,990	1,347
Property	4,001	1,533	890	729	569	280
IMD	607	607	0	0	0	0
Total Gross Cost	**13,482**	**4,566**	**2,185**	**2,545**	**2,559**	**1,627**
Cost of 2014/15 Strategy	**8,889**	2,784	1,645	2,070	2,390	n/a
Increase (decrease)	**2,966**	**1,782**	**540**	**475**	**169**	**n/a**
Revenue implication	4,669	945	943	927	927	927
Previously forecast revenue implication	3,742	945	943	927	927	n/a
Total Revenue Cost (Saving)	**0**	**0**	**0**	**0**	**0**	**n/a**

8. RESERVES & BALANCES

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

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

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

8.3 Specifically, the Authority is required to maintain general reserves sufficient to cover the key financial risks that it faces. The annual review of the robustness of reserves and balances is set out in Appendix F. A summary of the forecast year end reserves and balances position is set out in Table 7 overleaf. The main proposed change is the recommendation to establish an IMD Transformation reserve of £2.0m that will be used to fund the one-off costs of implementation of the Authority's new IMD Strategy and outsourced service arrangements, including any required capital investment in our infrastructure, applications and devices. Whilst the costs will not become clear until the new outsourced contract is let during 2016/17, it is prudent to establish a reserve given the scale of investment likely to be required which could not be funded from the revenue budget. It is proposed that the reserve is funded by transferring the balance of the general reserve above its 8% policy minimum (£0.700m) along with the unused balance of the Budget Carry Forward and Relocation reserves (£0.302m), and £0.998m from the Capital Programme reserve.

Table 7 – Summary of Forecast Reserves and Balances						
	31/03/2016 £'000	**31/03/2017 £'000**	**31/03/2018 £'000**	**31/03/2019 £'000**	**31/03/2020 £'000**	**31/03/2021 £'000**
Capital Programme Reserve	4,631	5,381	5,881	6,381	6,881	7,381
Other Earmarked Reserves	4,989	2,639	1,039	249	249	249
Total Earmarked Reserves	9,620	8,020	6,920	6,630	7,130	7,630
General Fund	3,053	3,053	3,053	3,053	3,053	3,053
Capital Reserves	6,484	4,735	5,510	3,628	1,500	229
Total Useable Reserves	**19,157**	**15,808**	**15,483**	**13,311**	**11,683**	**10,912**

9. CHIEF FINANCE OFFICER STATEMENT

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

10. EQUALITY IMPACT ASSESSMENT

10.1 Following the introduction of the Equality Act 2010 the Authority must, in the exercise of its functions, including the setting of its Revenue Budget and the taking of decisions on savings proposals, have due regard to its duties under the Act and in relation to certain protected characteristics. This means that Members must understand the consequences of the decisions they take for those with the relevant protected characteristics and consider these proportionately alongside other relevant factors. The majority of savings included in the 2016/17 Revenue Budget were approved by the Fire Authority in December 2013, February and June 2014, and December 2015 and Equality Impact Assessments were prepared at the time. These have been updated since, as the operational savings proposals have been developed for implementation, and to reflect the additional non-operational savings proposals. Copies are available from the Clerks should Members wish to review them prior to approving the Revenue Budget. The Equality Impact Assessment for any new savings proposals will be developed and reported as approval for each proposal is sought.

Appendix A

MEDIUM TERM FINANCIAL PLAN 2016/17 - 2020/21

INCREASE COUNCIL TAX BY 1.94% EACH YEAR

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Gross Revenue Service Budget	**37,807**	**36,774**	**36,904**	**37,542**	**38,479**
Less					
Specific grants	(213)	(215)	(193)	(174)	(157)
Other income	(1,374)	(1,409)	(1,446)	(1,482)	(1,519)
Total income	**(1,587)**	**(1,624)**	**(1,639)**	**(1,656)**	**(1,676)**
Net Service Budget	**36,220**	**35,150**	**35,265**	**35,886**	**36,803**
Capital financing costs less interest receivable	870	868	852	852	852
Capital expenditure from the Revenue Account	495	341	232	0	0
Transferred to Balances	847	622	500	500	500
Total Net Expenditure	**38,432**	**36,981**	**36,849**	**37,238**	**38,155**

Net Budget brought forward	**38,627**	**38,432**	**36,981**	**36,849**	**37,238**
Unavoidable cost pressures					
Pay inflation	480	485	475	476	483
Price inflation	98	224	213	215	222
Total inflation	**578**	**709**	**688**	**691**	**705**
Changes in Capital Financing	(10)	(2)	(16)	0	0
Budget commitments	1,099	(1,149)	(351)	(302)	212
Savings approved	(1,862)	(1,009)	(453)	0	0
Total Net Expenditure	**38,432**	**36,981**	**36,849**	**37,238**	**38,155**

Sources of Funding	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£'000	£'000	£'000	£'000	£'000
Locally Retained Business Rates	2,505	2,574	2,651	2,731	
Business Rate Top Up	4,768	4,862	5,005	5,165	
Business Rates Baseline	**7,273**	**7,436**	**7,656**	**7,896**	
Revenue Support Grant	6,196	4,524	3,660	3,157	
Start Up Funding Assessment	**13,469**	**11,960**	**11,316**	**11,053**	**11,053**
Section 31 Grant Business Rates adjustment	217	0	0	0	0
Transition Grant	97	122			
Council Tax Collection Fund (Deficit) / Surplus	448	0	0	0	0
Business Rates Collection Fund (Deficit) / Surplus	(79)				
Council Tax Requirement	24,280	24,899	25,533	26,185	26,853
Total Resources Available	**38,432**	**36,981**	**36,849**	**37,238**	**37,906**
Additional Savings Required / (surplus)	**0**	**0**	**0**	**0**	**249**

Appendix B

Revenue Budget Subjective Summary

	2015/16 Original Estimate £'000	2016/17 Original Estimate £'000
Salaries, Allowances and On-costs	27,624	27,560
Training Expenses	560	534
Other Employees Costs	84	228
Employee Costs	**28,268**	**28,322**
Repair, Maintenance and Other Costs	1,047	1,057
Utility Costs	1,161	1,177
Premises Costs	**2,208**	**2,234**
Vehicle Repairs and Running costs	956	936
Travel Allowances and Expenses	138	141
Transport Costs	**1,094**	**1,077**
Equipment and Supplies	1,293	2,165
Fees and Services	1,600	1,708
Communications and Computing	2,613	1,641
Other Supplies and Services	581	660
Supplies and Services	**6,087**	**6,174**
Sums set aside from revenue	1,532	934
Interest Payments	510	506
Capital Financing	**2,042**	**1,440**
Grants and Contributions	(440)	(487)
Interest Received	(75)	(75)
Other Income	(1,157)	(1,100)
Income	**(2,072)**	**(1,662)**
Transfers From reserves		
Transfers To reserves	1,000	847
Total Net Expenditure	**38,627**	**38,432**
Financed By:		
Council Tax	(23,170)	(24,280)
Business Rates	(7,290)	(7,273)
Revenue Support Grant	(7,514)	(6,196)
Transition Grant	0	(97)
S31 Grants	(276)	(217)
Council Tax Freeze Grant	0	0
Collection Fund Surplus/Deficit	(377)	(369)
Total Funding	**(38,627)**	**(38,432)**

Savings (cumulative from 2014/15) **APPENDIX C**

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Facing the Challenge Savings					
GIS Data Controller post	(36)	(36)	(36)	(36)	(36)
Reduction L & D external training budget	(40)	(40)	(40)	(40)	(40)
DFS post (net)	(50)	(50)	(50)	(50)	(50)
Project Officer post following RCC cutover (Grade 7)	(35)	(35)	(35)	(35)	(35)
Visual Imaging Technician	(34)	(34)	(34)	(34)	(34)
Graphics Designer	(36)	(36)	(36)	(36)	(36)
Fifth floor admin support	(16)	(16)	(16)	(16)	(16)
Insurance Portfolio	(30)	(30)	(30)	(30)	(30)
ICS Review - take post 37 quality assurance manager - Updated 20 June 2013 ICS Review Costings V6a	(143)	(216)	(216)	(216)	(216)
Removal of Aerial Ladder Platform and pumping appliances from Eastbourne Fire Station and replace with a Combined Aerial Rescue Platform	(74)	(74)	(74)	(74)	(74)
Total Facing the Challenge Savings	**(494)**	**(567)**	**(567)**	**(567)**	**(567)**

Sussex Control Centre Savings	**(474)**	**(474)**	**(474)**	**(474)**	**(474)**

Deferred Savings					
Reduction in Transitional Costs provision not taken in 2013/14	(174)	(174)	(174)	(174)	(174)
Relocation Expenses additional savings not taken in 2013/14	(20)	(20)	(20)	(20)	(20)
Hydrants additional savings not taken in 2013/14	(15)	(15)	(15)	(15)	(15)
Uniform additional savings not taken in 2013/14	(30)	(30)	(30)	(30)	(30)

Savings (cumulative from 2014/15) **APPENDIX C**

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Insurance Additional savings not taken 2013/14	(50)	(50)	(50)	(50)	(50)
Fuel additional savings not taken in 2013/14	(50)	(50)	(50)	(50)	(50)
Total Deferred Savings	**(339)**	**(339)**	**(339)**	**(339)**	**(339)**

Non Operational Savings					
Cleaning – review of current specification	(53)	(53)	(53)	(53)	(53)
Security – anticipated saving through contract re-procurement	(8)	(8)	(8)	(8)	(8)
Electricity Consumption Savings (premises wide) – as a result of Solar PV installation	(10)	(10)	(10)	(10)	(10)
Firelink Contract – review of budget against actual costs	(86)	(86)	(86)	(86)	(86)
Increase in income from mast rentals	(10)	(10)	(10)	(10)	(10)
Fuel – based on reducing trends in fleet mileage	(20)	(20)	(20)	(20)	(20)
Operational Equipment (Breathing Apparatus) – reduction in provision for ad hoc replacement – to be managed within equipment replacement budget	(33)	(33)	(33)	(33)	(33)
Various reductions in Health and Safety budget to reflect changes in working practices	(10)	(14)	(18)	(18)	(18)
Advertising budget – reflects lower level of recruitment advertising	(32)	(32)	(32)	(32)	(32)
Interview Expenses – reflects lower level of actual spend	(5)	(5)	(5)	(5)	(5)
HR Restructuring completed 2013/14	(8)	(8)	(8)	(8)	(8)
Reduction in Skills Refresher courses as a result of overall reduction in operational posts	(7)	(7)	(7)	(7)	(7)
Reduce L&OD course administration team by 1 fte as part of team relocation to STC	(24)	(24)	(24)	(24)	(24)
Establish a visiting instructor rate of pay to replace over-time payments	(30)	(30)	(30)	(30)	(30)

Savings (cumulative from 2014/15) **APPENDIX C**

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Incorporate ASK refresher training into 4 day operational skills refresher course	(50)	(50)	(50)	(50)	(50)
Closer collaboration through to joint training function with WSFRS being accepted and implemented by both FRS	0	0	0	0	0
Reduce budget allocation for Information Management, Health & Safety, Technical Fire Safety and Human Resources training – reflects patterns of actual spend and better prioritisation of training bids	(78)	(78)	(78)	(78)	(78)
Development budget - Reflects reduction in operational posts and Incident Command review. Budget currently due to spend 60% of allocation in current year. Proposal to make a significant cut for two years whilst downsizing in place then increase slightly to reflect the need to develop staff who achieve promotion in years three, four and five of plan	(45)	(30)	(30)	(30)	(30)
External audit – reduction in fees following the winding up of the Audit Commission	(15)	(15)	(15)	(15)	(15)
Car allowances/Travel – reflects reduction in spend	(2)	(2)	(2)	(2)	(2)
Uniform – based on proposals to reduce operational posts	0	0	(44)	(44)	(44)
Car Allowances	(4)	(4)	(4)	(4)	(4)
External Printing and Copying – reflects impact of on line Council Tax leaflets	(21)	(21)	(21)	(21)	(21)
Advert & Publicity (Cost of Democracy) – reflects reductions in spend	(21)	(21)	(21)	(21)	(21)
Members Allowances – reflects cessation of Standards Panel / Independent Members	(15)	(15)	(15)	(15)	(15)

Savings (cumulative from 2014/15) **APPENDIX C**

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Contribution to Reserves – General balances are currently above the minimum level set out in Reserves and Balances Policy. This saving will reduce the Authority's ability to respond to additional risks / calls on balances in future years	(200)	(200)	(200)	(200)	(200)
Contribution to Capital Programme Reserves – This will reduce the revenue funding available to support the capital programme over the medium term which will mean the programme will need to be reduced in scale and any major new schemes will either need to be self-financing or funded by grant	(250)	(500)	(500)	(500)	(500)
Reduce provision for pay increases from 2% to 1.5% from 2016/17 – Risk that actual pay increases exceed provision necessitating further savings across the service. However, given medium term outlook on public finances it is likely that public sector pay restraint will need to continue beyond 2015/16 on affordability grounds	(118)	(241)	(366)	(366)	(366)
Various reductions in corporate budgets to reflect reduced actual spend	(24)	(38)	(38)	(38)	(38)
Total non-Operational Savings	**(1,179)**	**(1,555)**	**(1,728)**	**(1,728)**	**(1,728)**

Phase 1 Savings					
To review the number of Home Safety visits carried out annually, targeting the most vulnerable in our community and, as a result of the reduction in incidents, a greater proportion to be undertaken by crews. This will enable a reduction in the number of CSAs by four (Savings £111,544) through redeployment and/or natural wastage, starting in 2014/15, and the enhancement of their role for specific and discrete community safety work through central management.	(114)	(114)	(114)	(114)	(114)

Savings (cumulative from 2014/15) **APPENDIX C**

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Introduction of Locality Managers in Hastings and Brighton. This will reduce the number of Watch Managers by 8 with the remaining Locality Managers increasing their salary as a result by becoming Watch Manager B	(203)	(203)	(203)	(203)	(203)
Removal of the Arson and Incident Reduction Manager. This will reduce the establishment by one Station Manager A (42)	(50)	(50)	(50)	(50)	(50)
It is proposed that the existing 6 borough fire safety offices are combined to form 2 larger Business Safety offices. These will be the City and Lewes (based at Hove) and Rother, Hastings, Wealden and Eastbourne (based at Eastbourne) and will be centrally co-ordinated and managed through a service level agreement with Borough Commanders. This will reduce the establishment by 4 flexible duty officers at Station Manager A (FDS)	(153)	(153)	(153)	(153)	(153)
It is proposed to amend the current two watch system on day crewed duty system fire stations to a one watch system across a seven day week. This will reduce the operational establishment by either 15 or by 13 dependent upon decisions relating to Battle Fire Station, Hastings (Option 1), and the introduction of two day crewed plus stations at Uckfield and Lewes	(372)	(372)	(372)	(372)	(372)
Total Phase 1 Savings	**(892)**	**(892)**	**(892)**	**(892)**	**(892)**

Phase 2 Savings					
Remove 1 firefighting appliance from The City, leaving 4 wholetime pumps crewed 24 hours a day. FA 05.06.14	(932)	(932)	(932)	(932)	(932)

Savings (cumulative from 2014/15) **APPENDIX C**

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Convert Battle Fire Station from day crewed to new one watch system, providing additional response to Hastings, remove RDS. FA 05.06.14. Revised to use retained cover from Battle to maintain crewing at weekends	(107)	(107)	(107)	(107)	(107)
Introduce day crewed plus at Roedean and The Ridge fire stations. FA 05.06.14	0	0	0	0	0
Riding at Minimum	(280)	(840)	(1,120)	(1,120)	(1,120)
Total Phase 2 Savings	**(1,319)**	**(1,879)**	**(2,159)**	**(2,159)**	**(2,159)**

Additional Savings					
Performance Management net staffing savings	(10)	(10)	(10)	(10)	(10)
Fuel	(85)	(85)	(85)	(85)	(85)
Special Projects Additional Redundancy	(14)	(14)	(14)	(14)	(14)
Maritime accommodation [NEW]	(3)	(3)	(3)	(3)	(3)
Reduction in SAP charges following the introduction of e-payslips [NEW]	(10)	(10)	(10)	(10)	(10)
Nationally agreed reduction in external audit fees [NEW]	(14)	(14)	(14)	(14)	(14)
Expected continuing savings from insurance premiums [NEW]	(18)	(18)	(18)	(18)	(18)
Expected continuing savings from members' allowances [NEW]	(11)	(11)	(11)	(11)	(11)
Communications: equipment & printing [NEW]	(30)	(30)	(30)	(30)	(30)
DFM contingency savings [NEW]	(18)	(18)	(18)	(18)	(18)
Total Additional Savings	**(213)**	**(213)**	**(213)**	**(213)**	**(213)**

Total cumulative savings	**(4,909)**	**(5,918)**	**(6,371)**	**(6,371)**	**(6,371)**

Appendix D

FEES AND CHARGES
WITH EFFECT FROM 1 APRIL 2016

Fee	**Existing Fees 2015/16 £**	**New Fees 2016/17 £**
The hiring of a major pumping appliance with crew per hour	279	282
The hiring of other pumping vehicles with crew per hour	224	227
The hire of hydraulic platforms or turntable ladders with crew per hour	301	305
Large animal rescue per hour	279	282
Dry Riser:		0
Subsequent test at the owner's request		0
First Dry Riser	207	210
Additional Dry Risers	135	137
Interviews: *		0
Insurance Co Etc	135	137
After two hours	88	89
Copy of Petroleum Licences *	32	33
Copy plans *	37	38
Standby at Venue	279	282
Fire Investigation Report	300	303
Chemical Protection Suit	155	157
Commercial Training One day course (per person) *	177	179
Commercial Training Customers Site (per Session) *	595	599
Commercial Training Fire Talk (per session) *	359	363
Inspection of Plans for Marriage Act 1994 *	114	116
Environmental search fees *	106	108

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

MEDIUM TERM CAPITAL STRATEGY 2016/17-2020/21 **Appendix E**

Overview

The Medium Term Capital Strategy has been developed in line with the Authority's vision and aims and its Integrated Risk Management Plan. It aims to provide a sustainable and affordable level of investment to support our service provision to the communities of East Sussex and the City of Brighton & Hove. In the light of the need to deliver substantial revenue savings over the next five years, the Authority is reviewing all of its operational and support services through the Changing the Service, Shaping our Future programme. Where decisions have already been taken to change the service, which have capital investment implications, these are reflected in this strategy. It is likely that further changes to this strategy will be needed as further service reviews are carried out. The main areas covered within the strategy are summarised below.

Property – Major Schemes

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

- **Newhaven Fire Station –** whilst this scheme completes in the current year (2015/16) it is retained within the strategy as retention values will remain post occupation and be subject to snagging or other outstanding works. The disposal of the Fort Road site is subject to discussion with public and voluntary sector partners, however, the Authority has agreed that disposal is the preferred option and has previously been advised of the approximate market value.
- **Preston Circus –** Over many years officers have been working with Brighton & Hove City Council and other partners to maximise the practical use at the current site and discussions have been on-going, with a variety of options still to be considered and appraised. Consequently, there remains the need to budget approximately £420,000 over the next five years, within the General Property Strategy, to maintain existing facilities and services. However, other options may need to be explored, for example, increasing the current provision to undertake adaptations and more substantial refurbishment to ensure it remains fit for purpose, alternatively, the Authority may wish to explore partial disposal or rental to public or third sector entities. The Strategic Property Assets Collaboration in East Sussex Programme (SPACES) have identified a central Brighton location as being key to the future provision of collaborative workspace. There are a number of partners, who as a result of their own property rationalisation programmes, may require space in this location for shared workspace. This would support the approach being taken by SPACES to make best use of existing strategically located operational sites which, as a result of their operational needs, are in fixed locations and the national remit to deliver greater efficiencies in the public estate. As part of any future options appraisal, this opportunity should also be fully considered, prior to any major investment being made to the building.

- **Service HQ Disposal –** at its AGM the Authority agreed that the current HQ site would be disposed of, subject to the detail and validation of the draft disposal strategy as presented. Since that time the Authority has considered a further report with various options in regard to disposal. These options will be likely to result in differing disposal values.

- **Service HQ Relocation** – at its AGM the Authority agreed with the recommendations set out in the Service HQ – Stage 3 Report to relocate to the Sussex Police site in Lewes. As part of this programme, there are identified capital costs of £650,000 which include: remodelling and refurbishment of two dispersal sites; Programme Management support to deliver the project; and one-off costs associated to document management solutions. These costs have been included within this report and are off-set by the anticipated capital receipt from the disposal of the existing SHQ site. The Heads of Terms are yet to be finalised and there remains an option in regard to financing the rental charge of space by way of a capital contribution, however, advice is being sought in regard to using capital in this way.

Property – General Schemes
This Strategy seeks to achieve property maintenance and improvements as identified by the most recent property condition survey undertaken in 2013. This informs us of the overall cost prioritisation of work and ensures that the building stock can be sustained in effective working order on a long term basis. It also reflects the capacity of the Estates Team to deliver the required day-to-day services effectively. This Strategy has identified that significant progress has been achieved with the previously identified investment schemes. Consequently, there have been changes to the current Capital Programme and changes to schemes starting in 2015/16 and beyond. One such scheme, which is added to this Strategy, is the Fire Training Units (FTU) at Service Training Centre. This facility remains a critical part of the Service and ensures that we maintain firefighter competency within the operational environment.

The fuel tanks and fuel management scheme which was identified as a strategic requirement within previous strategies has been placed on hold as a consequence of the sub-regional Integrated Transport Function (ITF) project led by the Emergency Services Collaborative Programme (ESCP), the Authority remains committed to this project. This will consider a collaborative means of purchasing, managing and storing fuel stock for emergency vehicles across the blue light partners.

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

Information Management
The Information Management Strategy is currently undergoing a major review as the Authority seeks to implement a new model for its service delivery through the IMD Transformation Programme. The procurement process is underway and, although this allows suppliers to present revenue and capital options, it is too early, at this stage, to include any firm investment plans in this Strategy. The position will be reviewed once the procurement is complete.

Fleet and Equipment
The Authority has a rolling programme of replacing its vehicle fleet in line with its agreed lifing policy. This encompasses fire appliances (approximately 3 each year), aerial appliances, ancillary vehicles and the light fleet (cars and vans). The current IRMP Review of Prevention, Protection and Response will consider the volume and type of incidents across the Service area and map the prominent life and property risks with the type of equipment needed on front line appliances. This now includes the provision of two smaller appliances following the IRMP Phase 3 project. Any further outcomes from the IRMP Review will be reflected in future versions of this Strategy or, indeed, may require agreement for variation to the Strategy.

The Technical Rescue Unit review is being undertaken by the Service Transformation Team and has yet to conclude with any clear recommendation. The timing of any outcome which impacts on capital (purchase or disposal) will clearly impact on this programme and will need to be reported as a variation should this occur after the ratification of the programme by the Authority at its budget setting meeting in February 2016.

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

Emergency Services Collaborative Partnership (ESCP)
The Authority is working with Surrey and Sussex Police, West Sussex and Surrey Fire & Rescue Services and SECAmb to develop a Strategy for an Integrated Transport Function (ITF). The Partnership has been successful in securing £6.0m in grant funding from central government but has not yet developed a final business case. At this stage no capital investment implications have been identified for inclusion in this Strategy. Detailed strategies for Property, IMD and Fleet and Engineering are available as separate documents.

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

- **Capital Grant**

General capital grant allocations from central government for fire authorities ended in 2014/15 and grant funding thereafter is on a wholly bid-for basis. The Authority submitted two bids for 2015/16, however these were unsuccessful. We were successful in gaining £6.0m grant as part of the ESCP. We do not expect there to be any capital or transformation grant funding from DCLG as part of the 2016/17 Settlement.

- **Partner Contributions**

The Authority is increasingly engaged in collaborative working with other public sector partners, particularly other emergency services. This includes capital projects and, where the Authority is lead body for a scheme, this may lead to partners making contributions towards the capital costs. The Newhaven Fire Station Scheme (Saxon House) aims to deliver a community hub with office space with our partners, Lewes District Council and Sussex Police, contributing £0.977m to the cost of the scheme.

- **Capital Receipts**

Receipts from the disposal of existing capital assets may only be used to fund expenditure on new capital assets. The Government is consulting on new flexibilities for capital receipts generated between 2016/19, to be used to fund the revenue costs of transformation projects. Given the Authority's current position in terms of both funding of the capital programme (primarily through capital receipts) and the availability of one off revenue finance through its Reserves, then the new arrangements are unlikely to offer any benefit to the Authority. The position will be kept under review. The disposal of a number of the Authority's assets including all remaining service housing (as a result of the Rural Review in 2010), the site of the current Newhaven Fire Station (estimated at £0.515m in 2016/17) and the existing Service Headquarters (SHQ) (estimated at £2.38m in 2017/18) will be used to fund the capital strategy. As at 31 March 2016 it is estimated that there will unapplied capital receipts of £6.484m (Capital Receipts Reserve) with the two receipts mentioned above to be added to this sum during 2016/17 and 2017/18. It is the Authority's current policy to use capital receipts to fund the capital programme before using the Capital Programme Reserve (which is a revenue reserve).

- **Revenue Contributions**

The Authority can make revenue contributions to the cost of its capital expenditure either direct from its revenue budget or from reserves earmarked for capital schemes. As at 31 March 2016 it is estimated that there will be a balance of £4.631m in the Capital Programme Reserve (CPR) and £0.75m in the BA Reserve. For a number of years there has been provision in the revenue budget to pay £1.0m each year into the CPR. As part of the savings proposals agreed in February 2014 this will reduce to £0.75m in 2016/17 and £0.5m in 2017/18. The Authority has also agreed to set aside additional funding from its revenue budget between 2016/17 and 2018/19 to help fund the costs of the capital programme in the absence of Government grant.

- **Prudential Borrowing**

The Authority can use prudential borrowing to fund capital expenditure spreading the cost over the life of the asset. Overall our total borrowing must be sustainable and affordable. Borrowing commits the Authority to a long term cost which has implication for our revenue budget. Broadly speaking, every £1m of additional borrowing would add £100,000 of financing costs to the Authority's revenue budget. The Authority is not currently planning any new external borrowing during the life of this Strategy.

MEDIUM TERM CAPITAL STRATEGY 2016/17-2020/21
SCHEME SUMMARY AND FUNDING

Capital Programme Expenditure	Total Budget	Total Previous Year's Spend	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Remaining Spend
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property – Major Schemes									
Crowborough Fire Station	997	980	17						**17**
Newhaven Fire Station	3,560	1,044	2,467	49					**2,516**
Day Crewed Plus – Roedean & the Ridge									**0**
Service HQ Relocation	650		26	624					**650**
Sub Total	**5,207**	**2,024**	**2,510**	**673**	**0**	**0**	**0**	**0**	**3,183**
Property – General Schemes									
General Schemes	2,976		110	705	595	594	569	280	**2,853**
Replacement Fuel Tanks	220				190	30			**220**
Sustainability	420		55	155	105	105			**420**
Sub Total	**3,616**	**0**	**165**	**860**	**890**	**729**	**569**	**280**	**3,493**
Information Management									
Sussex Control Centre	**2,027**	**1,421**	**0**	**607**	**0**	**0**	**0**	**0**	**607**
Fleet & Equipment									
Aerial Appliances	680						680		**680**
Fire Appliances	5,165		310	935	865	1,240	800	1,045	**5,195**
Ancillary Vehicles	1,457		26	556	200	300	282	110	**1,474**
Cars & Vans	1,321		230	185	230	276	228	192	**1,341**
BA & Ancillary Equipment	750			750					**750**
Sub Total	**9,373**	**0**	**566**	**2,426**	**1,295**	**1,816**	**1,990**	**1,347**	**9,440**
Total Expenditure	**20,223**	**3,445**	**3,241**	**4,566**	**2,185**	**2,545**	**2,559**	**1,627**	**16,723**

Funding	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Funding Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Grants							
Sussex Control Grant		607					**607**
Transformation Grant							**0**
Sub Total	**0**	**607**	**0**	**0**	**0**	**0**	**607**
Partner Contributions							
Newhaven – Lewes DC	477	8					**485**
Newhaven – Sussex Police	195	3					**198**
Sussex Safer Roads Partnership	10						**10**
Sub Total	**682**	**11**	**0**	**0**	**0**	**0**	**693**
Useable Reserves							
Capital Receipts Reserve	1,044	2,264	1,605	1,882	2,128	1,271	**10,194**
Capital Programme Reserve							**0**
Other Earmarked reserves		750					**750**
Capital grants & capital contributions Unapplied	123						**123**
Sub total	**1,167**	**3,014**	**1,605**	**1,882**	**2,128**	**1,271**	**11,067**
Revenue Contributions	1,097	495	341	232	0	0	**2,165**
Internal Borrowing	295	439	239	431	431	356	**2,191**
Total funding	**3,241**	**4,566**	**2,185**	**2,545**	**2,559**	**1,627**	**16,723**

a) *To part fund the IMD Transformation earmarked reserve*

Funding – Use of Reserves	**2015/16 £’000**	**2016/17 £’000**	**2017/18 £’000**	**2018/19 £’000**	**2019/20 £’000**	**2020/21 £’000**
Capital Receipts Reserve						
Opening Balance	4,361	6,484	4,735	5,510	3,628	1,500
Transfers In	3,167	515	2,380			
Transfers Out	1,044	2,264	1,605	1,882	2,128	1,271
Closing Balance	**6,484**	**4,735**	**5,510**	**3,628**	**1,500**	**229**
Capital Grant and Contributions Unapplied						
Opening Balance	123	0	0	0	0	0
Transfers In						
Transfers Out	123					
Closing Balance	**0**	**0**	**0**	**0**	**0**	**0**
Capital Programme Reserve						
Opening Balance	4,629	4,631	5,381	5,881	6,381	6,881
Transfers In	1,000	750	500	500	500	500
Transfers Out	998					
Closing Balance	**4,631**	**5,381**	**5,881**	**6,381**	**6,881**	**7,381**
Breathing Apparatus Reserve						
Opening Balance	750	750	0	0	0	0
Transfers In						
Transfers Out		750				
Closing Balance	**750**	**0**	**0**	**0**	**0**	**0**

Appendix F

Reserves and Balances Policy

Background

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

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

Sections 32 and 43 of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

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

Types of reserve

The Authority will maintain the following reserves:

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

Earmarked reserves will be maintained as follows:

- Improvement and Efficiency Reserve: to enable the Authority to develop its collaborative approach to service delivery and respond to priority areas for service improvement;
- Insurance Reserve: to enable to effective financial management of the cost of uninsured losses;
- Service reserves: funds set aside for specific purposes in respect of individual service business cases;
- Capital Programme Reserve: to support the provision of the capital infrastructure required to deliver the Authority's service priorities;
- Capital Receipts Reserve: capital receipts not yet applied to capital expenditure; and,
- Capital Grants and Capital Contributions Unapplied: capital grants and contributions from partners received but not yet applied to capital expenditure.

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

Principles to assess the adequacy of reserves

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

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

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

In considering specific reserves, the Treasurer will have regard to matter relevant in respect of each reserve, and will advise the Authority accordingly.

Service reserves

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

Use of reserves

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

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

Risk assessment to determine the adequacy of the General Reserve

Authorities need reserves so that they can deal with unforeseen calls on resources, without disrupting service delivery. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although advice can be sought from the external auditors, it is not their responsibility to prescribe the appropriate level. In setting the level, the Authority should take into consideration the advice of their Treasurer, taking into account all local relevant circumstances.

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

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

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

- **Operational incident performance failure:** Non-insured costs of HSE and other investigations following a serious incident with serious implications for ESFRS, project team, ancillary costs and putting right the organisation (£1m).
- **Abnormal weather conditions:** A long hot summer, flooding in autumn and winter and heath land fires in the spring have all occurred in previous years resulting in excessively high operational costs. A prolonged seasonal problem could easily generate additional costs of £200,000 in retained pay, overtime and other support costs. In worst-case scenarios for civil emergencies, the Bellwin Scheme funding is available to support qualifying expenditure in excess of 2% of Revenue Budget (£0.5m).
- **Pension costs:** Review adequacy of pension provision as part of the revenue budget process – this provision relates to additional ill health pensions not predicted at budget preparation. Continue to monitor age profile of workforce and expenditure forecasting. (£0.6m).
- **Staff severance and redundancy provisions:** In order to achieve the level of financial savings required in future years, it may be appropriate to agree additional business case savings in advance and, as a consequence, incur additional severance payments paid to staff that exceed the sums already put by in earmarked reserves (£0.25m).
- **Funding volatility resulting from Local Government Resources Review:** as a result of the Local Government Resource Review, including the Localisation of Council Tax Support Grant the Authority is exposed to potential increased volatility in two key income streams, business rates and council tax (£0.75m)

- **Unanticipated business or economic pressures:** The Authority has a wide range of contractual arrangements which could see a financial loss in the event of the bankruptcy of a supplier. Equally the Authority has a number of key ICT systems which were they to fail could require urgent external support or replacement equipment at short notice which could be costly for the Authority. There is also a risk of additional costs as a result of industrial action (£1m).
- **Inflationary increases:** provision has been made for anticipated increases in pay and prices within the budget. However, national pay restraint is based on an average of 1% and so actual increases within different services may vary. The Authority reduced its inflation provision for 2016/17 to 1.0% based on the latest information – it is possible that pressures may exceed this in some areas. (£0.2m)
- **Legal and employment issues:** as a service provider and an employer the Authority faces the potential that legal action could be taken against it on a range of grounds, including equal pay, discrimination, unfair dismissal and corporate negligence / manslaughter. Awards and legal costs in such cases can be significant so a provision within balances is prudent (£0.5m)
- **Savings plans:** the Authority is developing its savings plans for the next 5 years and has already agreed a range of measures for implementation. However it is possible that implementation may take longer than anticipated or savings may be less than originally estimated leading to an in year budget pressure (£0.4m)
- **Provision of services:** the Authority has taken on delegated responsibility for the delivery of mobilisation and control functions for West Sussex Fire & Rescue Service under a S16 agreement. Failure to provide the service to the agreed performance levels could result in additional costs for the Authority (£0.25m)
- **Loss of income:** income targets are set within the budget for a number of functions, for example commercial and service training, and the Authority also receives income from the investment of its cash balances where rates achieved continue to decline. Although the amounts involved are small relative to the overall budget they continue to present a risk in year (£0.1m)

Proposal for the level of General Reserves

The assessment gives a preliminary figure of £5.55m (14.5%) on the net budget requirement of £38.335m in 2016/17. Although it would be unlikely for all areas of risk to impact at the same time, it is conceivable for a number of them to be interlinked, for example a major incident could impact on operational performance and result in damage to assets and insurance losses.

Taking into account the current economic climate and pressure on budgets, it would seem appropriate to continue to maintain the minimum level of general reserves at 8% in line with the Authority's existing policy. This equates to £3.067m. Currently general balances (reserves) provision is projected to be above this level at £3.753m, so it is proposed that £0.700m is transferred into a new IMD Transformation Reserve (see further detail in later paragraphs).

Review of earmarked reserves

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

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

- Improvement & Efficiency reserve: This reserve is to enable the Authority to develop its collaborative approach to service delivery, support changes to services that will deliver savings and respond to priority areas for service improvement. This includes support for the Authority's Transformation Programme and any costs that may arise from it including redundancy payments. Collaborative projects are also being progressed with a number of potential partners many of which may require proportionate pump priming funding to realise future financial savings for all partners involved.
- Insurance Reserve: ESFRS has always sought to be risk adverse in managing its insurance risks and has approached the insurance market accordingly. However, the high cost of premiums required ESFRS to accept higher excess limits on fleet insurance and pay for the additional costs incurred up to the higher excess levels. This has actually proven to be financially beneficial and a similar review is now taking place for property excesses. The savings made are placed in this reserve to help offset years when higher claims may occur which have to be paid for internally.
- Capital Programme Reserve: to support the provision of the capital infrastructure required to deliver the Authority's service priorities. Given that there could be potential additional capital implications both from the Changing the Service, Shaping our Future programme and the review of the IRMP and that Government Capital Grant funding is shifting from pro rata apportionment to "bid for" basis then it is important that this source of funding is maintained in the short to medium term. As part of the non-operational savings proposals the Authority has agreed to reduce the base budget contribution to this reserve to £500,000 per annum by 2018/19. In addition it is proposed to transfer £0.998m into the IMD Transformation Reserve; and
- Budget Carry Forward – this reserve is to allow the carry forward of underspends into the following financial year where projects have slipped or there are other outstanding financial commitments to be met. It is recommended that the balance of the reserve at not utilised during 2015/16 (£0.212m) which primarily relates to delayed IMD projects is transferred into the new IMD Transformation Reserve.
- Capital Receipts Reserve: capital receipts not yet applied to capital expenditure.

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

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

- Community Fire Safety Database: This provision is for the purchase and implementation of an extension to the Technical Fire Safety Database, currently being implemented. The scheme was expected to be completed in 2015/16 but is now delayed until 2016/17 as a result of the IMD Transformation Project.
- Breathing Apparatus: The renewal of breathing apparatus is on a life cycle basis, and significant costs are incurred at lifecycle replacement, due in 2016/17. Following a review this project has been included in the Capital Strategy and this reserve will be used to fund it.
- Mapping Solution a reserve to meet specific IT infrastructure for both ESFRS and the Sussex Control Centre which are not funded from the DCLG grant, and is expected to fully drawn down during 2016/17.
- Relocation expenses for staff vacating service housing: This reserve is no longer required as all service houses have been vacated and have been disposed of during 2015/16. It is recommended that the balance remaining (£0.090m) is transferred into the new IMD Transformation Reserve.
- Volunteers Scheme: the funding in this reserve has been fully drawn down. A further year's funding of £80,000 for 2016/17 will be provided from the Improvement & Efficiency Reserve whilst changes to the scheme to cover Sussex Police are implemented and future funding options explored.
- Sprinklers – as part of the 2014/15 budget the Authority approved £200,000 of funding to match fund the retrofitting of sprinklers in high risk / high rise residential premises. The unspent balance of this budget has been transferred into a reserve to fund projects planned for 2015/16 and 2016/17.
- Safer Business Training: this reserve holds the balance of income from the East Sussex Business Rate Pool which is to be used to fund Business Safety initiatives, in support of the Pool's aim to promote economic growth. It is expected that the balance will be drawn down in 2016/17.
- IMD Transformation Reserve: the Authority is in the process of outsourcing its IMD service delivery and it is anticipated that significant investment will be required in order to secure the necessary upgrading of its network, applications and devices. This reserve will also be used to fund any one off revenue costs of the implementation of the new IMD service. Clearer plans for the use of this reserve will be set out once the contract is let during 2016/17.

The planned movement on each of the earmarked reserves is shown in the following table:

	31/03/2015 Balance £'000	2015/16 Projected Movements £'000	**31/03/2016 Projected Balance £'000**	2016/17 Projected Movements £'000	**31/03/2017 Projected Balance £'000**
Earmarked Reserve					
Improvement and Efficiency	**2,109**	(419)	**1,690**	(700)	**990**
Budget carry forward	**484**	(484)	**0**		**0**
Sprinklers	**200**	(87)	**113**	(113)	**0**
Insurance	**249**		**249**		**249**
Community Fire Safety Database	**145**	(10)	**135**	(135)	**0**
Breathing Apparatus	**750**		**750**	(750)	**0**
Mapping Solution	**69**	(69)	**0**	0	**0**
Relocation Expenses for Staff vacating service housing	**90**	(90)	**0**		**0**
Volunteers Scheme	**84**	(84)	**0**		**0**
Safer Business Training	**0**	52	**52**	(52)	**0**
IMD Transformation	**0**	2,000	**2,000**	(600)	**1,400**
Capital Programme reserve	**4,629**	2	**4,631**	750	**5,381**
Total Earmarked Reserves	**8,809**	**811**	**9,620**	**(1,600)**	**8,020**
General Fund	**3,753**	(700)	**3,053**		**3,053**
Total Revenue Reserves	**12,562**	**111**	**12,673**	**(1,600)**	**11,073**
Capital Receipts Reserve	**4,361**	2,111	**6,484**	(1,749)	**4,735**
Capital Grants & Contributions Unapplied	**123**	(123)	**0**		**0**
Total Useable Reserves	**17,046**	**2,019**	**19,157**	**(3,349)**	**15,808**

Appendix G

EAST SUSSEX FIRE AUTHORITY: PRECEPT FOR 2016/17
REF: S43 LOCAL GOVERNMENT FINANCE ACT 1992

	£	£
NET BUDGET REQUIREMENT		**38,432,000.00**
Forecast Business Rates retained	2,505,000.00	
Top Up grant	4,768,000.00	
Total Base Line funding	7,273,000.00	
Add Revenue Support Grant	6,196,000.00	
Total Grant funding (excluding transitional/freeze grant)	13,469,000.00	
Transition Grant	97,000.00	
Section 31 Grant Business Rates adjustment	217,000.00	
Previous Year's Surpluses/(Deficits)	369,000.00	
Total Council Tax required		**24,280,000.00**
Tax base	**279,983.54**	
Basic Council Tax (Band D equivalent)		**86.72**

Basic Council Tax from above calculation		**Council Tax**
Band A	**6/9**	**57.81**
Band B	**7/9**	**67.45**
Band C	**8/9**	**77.08**
Band D	**9/9**	**86.72**
Band E	**11/9**	**105.99**
Band F	**13/9**	**125.26**
Band G	**15/9**	**144.53**
Band H	**18/9**	**173.44**

	Tax Base	**Precept**
Brighton and Hove	**86,173.00**	**7,472,923**
Eastbourne	**33,606.10**	**2,914,321**
Hastings	**24,678.00**	**2,140,076**
Lewes	**35,797.10**	**3,104,325**
Rother	**36,808.84**	**3,192,063**
Wealden	**62,920.50**	**5,456,466**
	279,983.54	**24,280,174**

Appendix H

Establishment and payroll budget

Staffing

Staff Group	Establishment at 1 April 2016 Full time equivalent	Establishment at 31 March 2017 Full time equivalent	2016/17 Associated payroll cost budget £'000
Principal officers	4.0	4.0	671
Wholetime Firefighter	376.0	343.0	16,115
Retained Firefighter*	242.0	242.0	2,157
Mobilising staff	38.0	38.0	1,635
Support staff	145.1	150.3	5,787
Total	**805.1**	**777.3**	**26,365**

* Retained firefighters are not measured by FTEs, but by 'units' of which there are 242.0

Agenda Item No. 906

EAST SUSSEX FIRE AUTHORITY

Date	11 February 2016
Title	Draft Annual Plan 2016/17
By	Chief Fire Officer
Lead Officer	Liz Ridley, Head of Performance Management
Purpose of report	To summarise the outstanding actions required to complete the Draft Annual Plan 2015/16 for approval and for final completion by the publication date of 30 June 2015.
Background Papers	Minutes of the Fire Authority December 2015; Minutes of the P&R and S&A Panels November 2015 and January/February 2016
Appendices	None

Implications:

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

EXECUTIVE SUMMARY

The current 2015/16 Annual Plan contains key information on the Fire Authority's Service priorities for the year ahead, including summary performance information and available resources.

The draft 2016/17 Annual Plan is prepared alongside the decisions being made by the Fire Authority and its Panels on similar issues for 2016/17 and beyond.

The Fire Authority, at its meeting on 10 December 2015, considered the key Service priorities and savings to meet the overall resources available to the Fire Authority, but deferred final consideration on the Council Tax precept until the February 2016 meeting.

The final version of the draft 2016/17 Annual Plan will be adapted to take into consideration the outcomes of all of the 2016/17 Service Planning decisions, including current Community Risk Management review activities, the latest Revenue Budget and Capital Programme as well as the outcome of the corporate performance results 2015/16.

As agreed in previous years, the Fire Authority is asked to delegate authority for the approval of the final version of the Annual Plan to the Chief Fire Officer, in consultation with the Chairman, prior to publication.

RECOMMENDATIONS: The Fire Authority is asked to:

i approve, in principle, the roll forward of the draft Annual Plan for publication by 30 June 2016, subject to any final amendments once the Revenue Budget has been approved at this meeting and other outstanding information set out in the report; and

ii delegate authority for the approval of the final version of the Annual Plan to the Chief Fire Officer in consultation with the Chairman.

Agenda Item No. 907

EAST SUSSEX FIRE AUTHORITY

Date	11 February 2016
Title of Report	Senior Management Restructure
By	Chief Fire Officer
Lead Officers	Cheryl Rolph, Assistant Chief Officer and Vicky Chart, Head of Human Resources

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Background Papers	Amendment to the title of Chief Fire Officer, Fire Authority Agenda Item No. 537, 6 June 2002; Senior Management restructure Fire Authority Agenda Item No. 895, 10 December 2015.

Appendices	Appendix A – Feedback.

Implications

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

PURPOSE OF REPORT	To advise the Fire Authority of the outcome of the individual staff consultations and trade union feedback on the proposed Senior Management restructure.

EXECUTIVE SUMMARY	The aim of the structure review was to deliver financial savings by creating an organisational structure that reflected the changes needed to meet the Authority's current needs from 2016; to deliver organisational change and be efficient and lean. The consultation process has not revealed anything which would materially change the proposals. The Equality Impact Assessment has produced an action plan in order to mitigate the impact.
RECOMMENDATION	The Fire Authority is asked to note the feedback and equality impact assessment action plan which will be monitored by the Scrutiny & Audit Panel.

1. **INTRODUCTION**

1.1 The Authority has experienced sustained reductions in its grant funding as a result of the Government's deficit reduction strategy. Through its Changing the Service, Shaping the Future programme it has identified £6.4m of savings between 2014/15 and 2020/21, and expects to have to make further savings of £0.3m by the end of this period to close its funding gap.

1.2 At its December 2015 meeting, the Fire Authority approved a new senior management structure for staff and union consultation.

1.3 This report informs the Members of the material points resulting from staff and union consultation, advises of the outcomes of the equality impact assessment and of the latest financial position in respects to expected savings from the structural changes proposed.

2. **CONSULTATION FEEDBACK**

2.1 Individual consultation meetings with all directly affected individuals have concluded and briefings with the trade unions and the wider staff have taken place. Appendix A details the common themes and concerns.

2.2 Members should be assured that no major issues have been identified through this process although a few common themes have arisen, which are notably positive, that:

- the structure provides clarity of roles;
- it provides a broader approach to culture change; and
- the whole structure seems very logical.

2.3 On the basis that there are no major reasons presented which prevent the structure being implemented as approved by the Fire Authority in December 2015, officers will now commence implementation from 7 March with the full structure to be in place, subject to successful recruitment, by 1 June 2016.

2.4 The concerns and issues which have been identified will be taken forward as an action plan and will form part of the scope of the post implementation review 12 months after go live i.e. June 2017.

3. **FINANCIAL IMPLICATIONS.**

3.1 The proposals set out in this report are intended to deliver savings that will help the Authority in closing the funding gap set out in its Medium Term Financial Plan. The exact figures will not be known until the consultation process is complete, job evaluation and grading has been undertaken, and implications in terms of redundancy costs and pay protection are clear. As the final savings from the restructure are not yet confirmed they have not been built into the Authority's budget proposals for 2016/17. They will be built into the MTFP in due course and any in-year savings reflected in the regular budget monitoring reports.

3.2 Based on current estimates, we anticipate that, once fully implemented, the new structure will deliver revenue budget savings in the order of £276,000 per annum. These savings will be reduced by both the ongoing costs of applying the Authority's pay protection policy over 3 years and one-off costs of redundancy. These costs will be dependent on the final outcome of the appointment process but, in the highest cost scenario, would result in the following savings (assuming a 1 July 2016 start date):

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Gross Revenue Budget saving	207	276	276	276	276
Pay protection costs	(22)	(29)	(29)	(7)	0
Net Revenue Budget saving	185	247	247	269	276
Redundancy costs	(90)	0	0	0	0

This would give a payback period of 6.5 months (taking account of both pay protection and redundancy costs). Redundancy costs are funded from the Improvement & Efficiency Reserve, so the net revenue budget saving for 2016/17 would be £185,000. These costings do not take into account any potential impact of the planned review of job evaluation and gradings, due to be carried out in 2016/17, or any changes to the structure below Head of Service level.

3.3 There is also the impact on pension costs through pension strain, as a result of restructure. This is not an immediate cost to the Authority, as we pay an additional 1% contribution to the East Sussex Pension Fund each year, but would be taken into account at the next actuarial valuation and may impact on future employer contribution rates. The estimated pension strain cost resulting from the restructure is £197,000. Information has been requested from ESPF to show the total strain costs since the last valuation (1 April 2014) against the additional contributions paid, so that the Authority can review the overall position.

4. EQUALITY IMPACT ASSESSMENT (EIA)

4.1 An EIA has been completed and can be found in the Members room, meeting rooms and on request to the Clerks.

4.2 The main impact is that a new structure comprising 3 operational Principal Officers significantly reduces the opportunity for women to secure these posts. However, there are more opportunities at the Assistant Director role for both female and support managers which is to be welcomed. Other than impacts onto 'a person of a particular sex, male or female' no other negative impacts for other protected characteristics are revealed.

4.3 An equality improvement action plan has been prepared to assist mitigate the adverse implications and it recommended that the Scrutiny & Audit Panel consider this with the year-end performance results in paying particular regard to key performance indicators in the HR section.

5 CONCLUSIONS

5.1 The aim of the structure review was to deliver financial savings by creating an organisational structure that reflected the changes needed to meet the Authority's current needs from 2016; to deliver organisational change; and be efficient and lean. It is officers' view that these aims have been achieved.

5.2 As Members will know, since the project started, responsibility for the Fire & Rescue Service has transferred across Government departments, has a new Fire Minister and the Government response to the consultation 'Enabling closer working between Emergency Services' has been released. Whilst these influences were kept in mind during the project, it is difficult now to be certain as to the impact of these changes and the managerial input that may be needed should the proposals within the consultation be enacted. Therefore, the structure will need to remain flexible and be kept under review.

Appendix A

Consultation feedback

Individual

Overall the consultation has been positive with feedback including:

- The structure provides clarity of roles
- It provides a broader approach to culture change
- A logical approach for PO responsibilities in that the DCFO will focus on planning and assurance and the ACFO on delivery
- That CMT now includes a range of professional skills which is key in a top level team
- The whole structure seems very logical

There were a few common themes that were raised:

- Concern that there was a reduced capacity at senior level
- Loss of technical skills with the amalgamation of two professionally qualified finance roles
- Concern was raised about delivering the many programmes of work
- With a larger CMT there is a risk it could become tactical rather than strategic
- The meeting process and structures underneath do need to be reviewed to ensure we move away from the "silo" mentality
- A better understanding of the organisations project management plans and how it relates to the structure

Response to common themes:

- It was always the intention of the restructure to deal with the senior manager structure and then allow the Assistant Director roles to review their own Departments. We would expect this review to be undertaken and take into account the programmes of work and assess priorities and resources accordingly.
- We acknowledged the risk about CMT but due to the structure, agenda management and chairing consider this meeting will retain is strategic nature.
- There is a commitment to review the meeting process underneath CMT and Assistant Directors will be asked to do this as part of the review of their Departments.
- The CFO and DCFO will be asked to communicate their plans for Project Management and how it relates to the current structure so there is a better understanding in this area.

Trade Union feedback

APFO.
Particular concern was raised about the health and well-being of the senior team who already work long hours and in the past have been unable to fully take the minimum periods of annual leave required by law. They were concerned that any more reductions in numbers will continue to negatively impact upon those individuals who remain in position. No information on evaluation scheme and the remuneration package had been provided as part of the consultation and they articulated that they would like to see more information on this. One of the other concerns was that in the previous restructure, concerns had been raised about the impact onto remaining PO's and that the mitigation was a 'post review impact', but that never happened. Comment was also raised that the proposed changes may lessen the diversity of the Senior Team, (subject to appointment). However, it is recognised that a number of the Assistant Director positions will be support (non-operational posts) and therefore provide the potential for increased diversity at that level.

Fire Brigades Union
No official feedback but at the individual briefing it seemed that they were largely content and could see the logic of the new structure. They did indicate that they would want to see how things worked in reality and were reassured about the intention to review in 12 months' time.

Fire Officers Association
Broadly supportive of the structure and thought it was logical in its content.

Retained Firefighters Union.
They declined to attend the briefing as their view was that it did not affect their members.

UNISON
Broadly supportive of the structure and thought it was logical in its content and reflective of workflows.

<u>Response to Trade Union concerns</u>

Further information on the JE scheme and remuneration package will be provided to APFO.

A review of the new structure will take place 12 months after 'go-live'.

The Chairman/Vice Chairman are encouraged to meet with APFO officials during the first 6 months of the new structure.

A stress review and a development plan to be undertaken for all CMT during first 3 months.

The potential for impact onto diversity issues had been noted in the EIA and, at Assistant Director level, there is a 50/50 split for operational and support posts, with one post being identified as potentially being open to both operational and support staff.

Agenda Item No. 908

EAST SUSSEX FIRE AUTHORITY

Date	11 February 2016
Title	Pay Policy Statement for 2016/2017
By	Monitoring Officer
Lead Officer	Cheryl Rolph, Assistant Chief Officer

Background Papers	Fire Authority reports: February 2012 – 625; February 2013 – 708; February 2014 – 773; February 2015 – 836

Appendices	Appendix 1 – Pay Policy Statement Appendix 2 – New Management Structure

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Implications:

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

Purpose of Report	To approve the Fire Authority's Pay Policy statement for the period 1 April 2016 to 31 March 2017.

EXECUTIVE SUMMARY	The Localism Act 2011 imposes a duty on relevant local authorities to prepare pay policy statements for each financial year, beginning with 2012/13. The statement must be approved by 31 March 2016.

RECOMMENDATION	The Fire Authority is asked to approve the Pay Policy Statement set out in Appendix 1.

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1. **BACKGROUND**

1.1 In the Coalition Agreement, the Government made a commitment to strengthen councillors' powers to vote on large salary packages for council officers. Additionally, the Government has taken steps to increase transparency about how taxpayers' money is used, including in the pay of public sector staff. On 29 September 2011, the Secretary of State published the Code of Recommended Practice for Local Authorities on Data Transparency. The Code enshrines the principles of transparency and asks public bodies to follow the principles when publishing data; responding to public demand; releasing data in open formats available for re-use and releasing data in a timely way. This includes data on senior salaries and the structure of the workforce. In June 2010, the Government asked Will Hutton to undertake an independent review of Fair Pay in the public sector. His report was published in March 2011 and made several recommendations for promoting pay fairness in the public sector. Chapter 8 of Part 1 of the Localism Act 2011 (the Act) brings those strands together.

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

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

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

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

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

It may also include the authority's policies for the financial year relating to other terms and conditions applying to its chief officers.

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

- The chief officer's salary or, in the case of a chief officer engaged by the authority under a contract for services, payments made by the authority to the chief officer for those services
- Any bonuses payable by the authority to the chief officer
- Any charges, fees or allowances payable by the authority to the chief officer
- Any benefits in kind to which the chief officer is entitled as a result of the chief officer's office or employment
- Any increase in or enhancement of a chief officer's pension entitlement where the increase is as a result of a resolution of the authority, and
- Any amounts payable by the authority to the chief officer upon the chief officer ceasing to hold office under or being employed by the authority, other than amounts that may be payable by virtue of any enactment.

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

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

Agenda Item No. 909

EAST SUSSEX FIRE AUTHORITY

Date	11 February 2016
Title of Report	Treasury Management Strategy for 2016/17
By	Treasurer
Lead Officer	Richard Carcas – Principal Finance Officer (Treasury Management) ESCC

Background Papers	Fire Authority: 12 February 2015 Treasury Management Strategy for 2015/16 18 June 2015 Treasury Management Stewardship Report 2014/15 Policy & Resources Panel 5 November 2015: Half year review for 2015/16 CIPFA Prudential Code CIPFA Treasury Management in the Public Services – Code of practice Local Government Act 2003 Local Government Investments Guidance from the former Office of the Deputy Prime Minister

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Appendices	1: Treasury Management Scheme of Delegation 2: The Prudential & Treasury Indicators 3: Minimum Revenue Provision (MRP) Policy Statement 4: Approved countries for investment 5: Comment from Capita Asset Services on the outlook for 2015/16 6: Counterparty list

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Implications

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

PURPOSE OF REPORT	To approve the Treasury Management Strategy, Policy Statement and the Minimum Revenue Provision (MRP) Statement 2016/17

EXECUTIVE SUMMARY

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

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

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

4. The 2016/17 counterparty list for specified and non-specified investment is set out in the Appendices 4 and 6.

5. The Fire Authority has always adopted a prudent approach on its investment strategy and in the last few years, there have been periodic changes to the list of the approved organisations used for investment of short term surpluses. This list is regularly reviewed to ensure that the Authority is able to invest at the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained. The 2016/17 strategy continues the prudent approach and ensures that all investments were only to the highest quality rated banks and only up to a period of one year.

6. The Authority is recommended to approve the 2016/17 strategy with no changes from the approved 2015/16 strategy.

7. The background information and the calculation of the Authorised Limit for borrowing for 2016/17 of £11.813m are set out in the attached Appendix 2 (Table 8).

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

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

10. The Treasury Management policy statement for 2016/17 remains unchanged from the current year and is set out in Section 5.

RECOMMENDATION	The Fire Authority is recommended to: i) approve the treasury management strategy and policy statement for 2016/17 (and adopted for the remainder of 2015/16); ii) determine that for 2016/17 the Authorised Limit for borrowing shall be £11.813m; iii) adopt the prudential indicators as set out in the attached Appendix 2; and iv) approve the Minimum Revenue Provision (MRP) Statement for 2016/17 as set out in the attached Appendix 3.

1. **Introduction**

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

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

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

1.3 The Treasury Management Strategy for 2016-17 covers the following areas:

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

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

2. **Economic Overview**

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

Table 1

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2016	0.50	2.00	3.40	3.20
Jun 2016	0.50	2.10	3.40	3.20
Sep 2016	0.50	2.20	3.50	3.30
Dec 2016	0.75	2.30	3.60	3.40
Mar 2017	0.75	2.40	3.70	3.50
Jun 2017	1.00	2.50	3.70	3.60
Sep 2017	1.00	2.60	3.80	3.70
Dec 2017	1.25	2.70	3.90	3.80
Mar 2018	1.25	2.80	4.00	3.90
Jun 2018	1.50	2.90	4.00	3.90

2.2 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 although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% 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 since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

2.3 The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing the Bank Rate.

2.4 The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

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

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3. Treasury Management Position

3.1 The Authority's projected treasury portfolio position at 31 March 2016, with forward estimates is summarised in Table 2 below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2

	2015/16	2016/17	2017/18	2018/19
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**
External Borrowing				
Borrowing at 1 April	11,123	10,973	10,973	10,773
New Borrowing	-	-	-	-
Loan Redemption	(150)	-	(200)	-
Actual borrowing at 31 March	**10,973**	**10,973**	**10,773**	**10,773**
***CFR – the borrowing need**	**10,973**	**10,973**	**10,773**	**10,773**
Under/(over) borrowing	**-**	**-**	**-**	**-**

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

3.2 Within the set of prudential indicators there are a number of key tests to ensure that the Authority operates its activities within well defined limits. One of these is that the Authority needs to ensure that its total borrowing, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current and next two financial years.

3.3 The CFR forecast at the end of 2015/16 remains in line with actual borrowing, after the repayment of debt and longer-term loan redemptions. The Authority is required to repay an element of the CFR each year through a revenue charge called the minimum revenue provision (MRP).

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

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

4. Borrowing Strategy

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

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

Policy on Borrowing in Advance of Need

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

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

Prudential & Treasury Indicators

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

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

Debt Rescheduling

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

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

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

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

4.10 All debt rescheduling will be agreed by the Treasurer.

Sensitivity of the Forecast and Risk Analysis

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

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (non-compliance with statutory and regulatory requirements, risk of fraud).

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

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate; and
- counterparty risk – the Authority follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

5. Investment Strategy

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

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

5.3 Investment instruments identified for use in the financial year are listed in section 5.15 and 5.18 under the 'Non-Specified and Specified' Investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices – Schedules.

Credit worthiness Policy

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

5.5 Additionally, 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.

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

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

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

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

5.8 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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

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

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

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

5.12 The Capita Asset Services colours and the maximum time periods are shown para 5.5 above. In the Capita Asset Services methodology if counterparty has no colour then they are not recommended for investment and this would remove these counterparties from the Authority's counterparty list.

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

Country Limits

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

5.15 The UK continues to enjoy an AA+ sovereign rating. However the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Specified Investments

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

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

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

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

5.18 Criteria for Specified Investments.

Table 3

Counterparty	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Counterparties in UK				
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	unlimited	1 yr
Government Treasury bills	UK	Term Deposits	unlimited	1 yr
Local Authorities	UK	Term Deposits	unlimited	1 yr
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK	Term Deposits (including callable deposits), Certificate of Deposits	£4m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£4m	1 yr
Barclays	UK		£4m	1 yr
Santander UK	UK		£4m	1 yr
HSBC	UK		£4m	1 yr
Individual Money Market Funds	UK/Ireland/ domiciled	AAA rated Money Market Funds	£4m	Liquidity/instant access

Non Specified Investments

5.18 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.

Investment Position and Use of Authority's Resources

5.19 Investment returns expectations**.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

5.20 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

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

- 2016/17 0.60%
- 2017/18 1.25%
- 2018/19 1.75%
- 2019/20 2.25%

5.22 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

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

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

6. Minimum Revenue Provision

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

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

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

7. Policy on the use of External Service Providers

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

7.2 The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

7.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

APPENDIX 1

Treasury Management Scheme of Delegation

1. Fire Authority

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

a) **Prudential and Treasury Indicators and Treasury Strategy (This report)**
The first and most important report covers:
- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

b) **A Mid Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision.

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

2. The Treasury Management Role of the Section 151 Officer

2.1 The Section 151 (responsible) Officer:
- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

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

APPENDIX 2

1. **The Prudential and Treasury Indicators**

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

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

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

Table 5

Description	**2015/16 Projected**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
	£m	**£m**	**£m**	**£m**
Capital Expenditure	3.241	4.566	2.185	2.545
Financed by:				
Capital receipts	(1.044)	(2.264)	(1.605)	(1.882)
Capital grants & contributions	(0.805)	(0.618)	-	-
Revenue Financing	(1.097)	(0.495)	(0.341)	(0.232)
Capital Reserves	-	(0.750)	-	-
Net financing	**0.295**	**0.439**	**0.239**	**0.431**

1.4 The Authority's borrowing need (the Capital Financing Requirement) - The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

1.6 Following accounting changes, the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought on the balance sheet. Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes. As of 31st March 2013 the Authority had no finance leases or PFI Schemes.

Table 6

	2015/16 Projected	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement				
	£m	**£m**	**£m**	**£m**
Opening CFR	11.123	10.973	10.973	10.773
Net Financing (as above)	0.295	0.439	0.239	0.431
MRP	(0.445)	(0.439)	(0.439)	(0.431)
Closing CFR	**10.973**	**10.973**	**10.773**	**10.773**

1.7 **The Operational Boundary.** This is the limit which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Table 7

Description	2015/16 Projected	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**
Borrowing	11.253	11.253	11.053	11.053
PFI/Leases	-	-	-	-
Total	**11.253**	**11.253**	**11.053**	**11.053**

1.8 **The Authorised Limit for external borrowing**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authority's plans, or those of a specific authority, although this power has not yet been exercised; and
- The Authority is asked to approve the following Authorised Limit:

Table 8

Description	2015/16 Projected	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**
Borrowing	11.813	11.813	11.613	11.613
PFI/Leases	-	-	-	-
Total	**11.813**	**11.813**	**11.613**	**11.613**

2. Treasury Management Limits on Activity

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

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

Table 9

	2016/17	2017/18	2018/19
Interest rate exposures	**Upper**	**Upper**	**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			
Maturity structure of fixed interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	25%
12 months to 2 years		0%	40%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years to 20 years		0%	80%
20 years to 30 years		0%	80%
30 years to 40 years		0%	80%
40 years to 50 years		0%	80%

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

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

Table 10

Description	2015/16 Projected	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%	%
Ratio	2.28	2.29	2.36	2.34

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

2.5 **Incremental impact of capital investment decisions on the band D council tax**

Table 11

Description	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£	£	£
Band D Council Tax	0.06	0.09	0.12

3. **Treasury Management Budget**

Table 12

Description	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Interest Payable	0.510	0.506	0.504	0.504
Interest Receipts	(0.075)	(0.075)	(0.075)	(0.083)
Minimum Revenue Provision	0.445	0.439	0.439	0.431
TOTAL	**0.880**	**0.870**	**0.868**	**0.852**

APPENDIX 3

Minimum Revenue Provision Policy Statement

1. Policy Statement

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

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

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

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

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

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

1.7 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators. There are no implications for the authority's MRP policy for 2016/17.

1.8 The policy that has been recommended for adoption since 1 April 2014 retains the key elements of the policy previously approved but now incorporates the IFRS changes (re PFI and finance leases) and the consequential updated Government Guidance. The policy for 2016/17 is therefore as follows:-

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

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

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

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

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

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

APPENDIX 4

Illustrative list of Approved Countries for Investments

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

AAA

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

AA+

- U.K.

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

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APPENDIX 5

Capital Assets Services (our Treasury advisors) on the Economic Background outlook for 2016/17

1. **The Global Economy**

1.1 **The Eurozone**. The ECB issued a €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in Q1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in Q2 and looks as if it may maintain this pace in Q3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

1.2 **USA.** GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

1.3 **China and Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.3% after a short burst of strong growth of 1.0% during Q1. Japan has been hit hard by the downturn in China during 2015. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

2. The UK Economy

2.1 Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time.

- Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.
- Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC’s 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.
- Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.

2.2 The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

2.3 However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

2.4 Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

2.5 There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

2.6 The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

2.7 The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

3. **Capita Asset Services forward view**

3.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 19 January 2016 shortly after the downbeat UK and world economic news early in 2016. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 4 of 2016.

3.2 The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. An eventual world economic recovery will also see investors switching from the safe haven of bonds to equities.

3.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US. A resurgence of the Eurozone sovereign debt crisis.
- 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 combat the threat of deflation in western economies, especially the Eurozone and Japan.

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 pace and timing of increases in the Fed. funds rate 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.

Appendix 6 - Counterparty list Banks	Country	Fitch Ratings				Moody's Ratings		S & P Ratings		CDS Price	Fire Authority Duration (Months)	Capita Duration Limit (Months)	Money Limit (£m)
		L Term	S Term	Viab.	Supp.	L Term	S Term	L Term	S Term				
Lloyds Banking Group:													4
Lloyds Bank Plc	UK	A+	F1	A	5	A1	P-1	A	A-1	47.9	6	6	
Bank of Scotland	UK	A+	F1	a	5	A1	P-1	A	A-1	53.6	6	6	
RBS/NatWest Group:													4
NatWest Bank	UK	BBB+	F2	Bbb+	5	A3	P-2	BBB+	A-2	-	12	12	
Royal Bank of Scotland	UK	BBB+	F2	Bbb+	5	Ba1	P-2	BBB+	A-3	56.6	12	12	
HSBC Bank	UK	AA-	F1+	a+	1	Aa2	P-1	AA-	A-1+	66.6	12	12	4
Barclays Bank	UK	A	F1	a	5	A2	P-1	A-	A-2	60.0	6	6	4
Santander UK	UK	A	F1	a	2	A1	P-1	A	A-1	-	6	6	4