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Policy & Resources Panel
12 November 2020

Membership:

Councillors: Peltzer Dunn (Chairman), Galley, Tutt, Pragnell, Scott, Powell and Sheppard

You are requested to attend this meeting to be held in the Via Webex
https://esfrs.webex.com/esfrs/j.php?MTID=e3838c5e566db19aedbc1ea95ef39d679
Password: HiBVNPpp547 at 11.30 am

Quorum: 3

Contact:	Ellie Simpkin, Democratic Services Officer 01323 462085 democraticservices@esfrs.org

Agenda

8. Declarations of Interest

In relation to matters on the agenda, seek declarations of interest from Members, in accordance with the provisions of the Fire Authority's Code of Conduct for Members.

9. Apologies for Absence/Substitutions

10. Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items

Any Members wishing to raise urgent items are asked, wherever possible, to notify the Chairman before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgently.

11. Minutes of the last Policy & Resources meeting held on 23 July 2020 **5 - 8**

12. Callover

The Chairman will call the item numbers of the remaining items on the open agenda. Each item which is called by any Member shall be

reserved for debate. The Chairman will then ask the Panel to adopt without debate the recommendations and resolutions contained in the relevant reports for those items which have not been called.

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

Date of Publication: 4 November 2020

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POLICY & RESOURCES PANEL

Minutes of the meeting of the POLICY & RESOURCES PANEL held Via Webex at 11.30 am on Thursday, 23 July 2020.

Present: Councillors Peltzer Dunn (Chairman), Galley, Tutt, Pragnell, Scott and Powell

Also present: D Whittaker (Chief Fire Officer), M Andrews (Assistant Chief Fire Officer), M O'Brien (Deputy Chief Fire Officer), L Ridley (Assistant Director Planning & Improvement), D Savage (Assistant Director Resources/Treasurer), H Scott-Youldon (Assistant Director Peoples Services), P Jassal (Interim Finance Manager), L Woodley (Deputy Monitoring Officer), C Porter (ITG Projector Coordinator), A Blanshard (Senior Democratic Services Officer) and E Simpkin (Democratic Services Officer)

1 Declarations of Interest

There were none.

2 Apologies for Absence/Substitutions

Apologies were received from Councillor Sheppard.

3 Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items

There were none.

4 Minutes of the last Policy & Resources meeting held on 16 January 2020

RESOLVED: That the minutes of the meeting of the Policy & Resources Panel held on 16 January 2020 be approved as a correct record and signed by the Chairman.

5 Callover

Members reserved the following items for debate:

6. Revenue Budget and Capital Programme Monitoring Provisional Outturn 2019/20

7. High Level Review of Revenue Budget 2020/21 and Capital Programme 2020/21 to 2024/25

6 Revenue Budget and Capital Programme Monitoring Provisional Outturn 2019/20

The Panel received a report from the Assistant Director Resources/Treasurer (ADR/T) on the provisional outturn for the 2019/20 Revenue Budget and

Capital Programme. The report was made on an exception basis and addressed those areas where there were material variances, based on the position at 31 March 2020. The ADR/T highlighted that the forecast was subject to change as the year end process continued and the external audit carried out.

The Panel noted that the Revenue Budget was provisionally overspent by a net £48k; an adverse variation of £220k from the forecasted underspend of £173k reported in January 2020. The current year's revised Capital Programme was provisionally forecast to be £456k underspent, of which £447k was slippage into the next financial year against the revised Capital Programme, leaving £9k as the real underspend. With regard to the use of reserves, the actual drawdown was lower than previously planned, mainly due to delays to projects and an increase in the Section 31 grant as a result of Covid-19. Further details on the variances across the Revenue Budget and the Capital Programme were set out in the report.

The Panel queried the People Services underspend and the potential impact that vacancies were having on staff. The Assistant Director People Services (ADPS) informed Members that the vacancies, which included two positions for maternity cover and a TUPE specialist to support the Project 21, were currently being advertised. Fixed term contracts had been used as an interim measure whilst a restructure had taken place to ensure that resources were appropriate to the needs of the organisation. It was recognised that HR had played a critical role during the pandemic.

Members also asked about the impact of Covid 19 on training and the Retained Duty System (RDS). The ADPS explained Service Training Centre had been open and training had continued with risk assessments and appropriate control measures in place. Staff had also been utilising online distance learning. RDS recruitment had been paused. Lung function tests were not currently available, however, the Covid-19 Working Group was considering the options for restarting these as soon as possible.

The Panel welcomed the report and commended officers for achieving a position within 1% of the Net Revenue Budget despite difficult circumstances.

RESOLVED: That the Panel noted:

(i) the provisional 2019/20 Revenue Budget outturn,
(ii) the provisional Capital Programme outturn,
(iii) the net use of Reserves during the year
(iv) the Savings delivered in 2019/20, and
(v) the Cash Investments at year-end.

That the Panel approved:

(vi) the Capital slippage of £447,000 into 2020/21;
(vii) the use of General Fund reserves to finance the net provisional overspend.

7 High Level Review of Revenue Budget 2020/21 and Capital Programme 2020/21 to 2024/25

The ADR/T introduced the report which highlighted the key findings of a high level review undertaken on the Revenue Budget 2020/21 and the 5 year Capital Programme. Given the current pandemic the ADR/T cautioned that the situation was changing on a weekly basis. It was noted that there were currently revenue pressures in the region of £800k. Funding solutions including the use of contingency, general fund reserves, Covid-19 Grant and budget savings had been identified to mitigate the pressures leaving a remaining funding gap of £94k. Further delays to the Capital Programme, in the region of £1m, were expected due to Covid-19, however, it was too early for a full assessment. Some expenditure had been reduced as a result of Covid such as fuel, training, travel and subsistence. Further details on budget pressures were set out in the report.

The ADR/T also highlighted the financial challenges facing the Authority in its planning for 2021/22 which included additional ongoing pressures of £200k in addition to the savings gap identified in Medium Term Financial Plan mid case scenario (£1.2m), a pay award for support staff 0.75% over the 2% budgeted for, a loss of income as a result of reduced council tax and business rate collections due to Covid 19, continued reliance on one–off funding from Government (Pension Grant and Protection Surge Funding) and the impact of recent cases on the Fire Fighter's Pensions scheme (McCloud / Sargeant and Matthews / O'Brien).

Discussion was also had over the forthcoming Comprehensive Spending Review (CSR) and the Home Office reform agenda. The Chief Fire Officer (CFO) informed Members that CSR submissions were being drafted and could be shared with Members. Briefing sessions for local MPs were also in the process of being arranged. With regard to the Government review on the role of Police and Crime Commissioners, the CFO added that the National Fire Chiefs Council (NFCC) would be formulating a response to questions posed on fire governance, however, the Fire Authority may want to develop its own submission from a political perspective. The CFO added that a key aspect to the Home Office reform agenda was for Fire Authorities to show strength in difficult decision making and the ability to instigate appropriate changes. Members acknowledged the importance of having a robust Integrated Risk Management Plan to ensure that service was in strong position to deal with future challenges and deliver an effective service. The Panel understood that there would be financial challenges to overcome both locally and for the sector nationwide and that engagement with the Home Office would be key.

RESOLVED: That the Panel noted:

(i) the one-off and ongoing revenue budget pressures identified
(ii) the use of contingency to finance one-off pressures

(iii) the other proposed funding options proposed in the report
(iv) the slippage identified in the Capital Programme
(v) the risks to the agreed Savings Programme
(vi) the correction to the agreed capital financing for 2020/21
(vii) that officers will identify areas where in year savings can be delivered in 2020/21
(viii) the emerging scale of the financial challenge for 2021/22 onwards including the impact of Covid 19.

The meeting concluded at 12.25 pm

Signed

Chairman

Dated this day of 2020

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Policy and Resources Panel
Date	12 November 2020
Title of Report	Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September)
By	Duncan Savage – Assistant Director Resources/Treasurer
Lead Officer	Parmjeet Jassal – Finance Manager

Background Papers	High Level Review of Revenue Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 5 (end August)

Appendices	Appendix 1: Revenue Budget 2020/21 Objective Appendix 2: Savings Programme 2020/21 to 2024/25 Appendix 3: Capital Programme 2020/21 to 2024/25 Appendix 4: Capital Budget 2020/21 Appendix 5: Engineering Capital Budget 2020/21 Appendix 6: Reserves 2020/21

Implications

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

PURPOSE OF REPORT	To report on the findings of the month 6 monitoring undertaken on the Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25.

EXECUTIVE SUMMARY	This is the second report to Policy and Resources Panel and the third to Members for the 2020/21 financial year and highlights the findings from the Month 6 monitoring

undertaken on the Revenue Budget 2020/21 and 5 year Capital Programme, approved by the Authority in February 2020.

A net Revenue overspend to the sum of £105,000 has been identified as summarised in Appendix 1. This is a favourable variation of £44,000 from the position identified in the last report to SLT of £149,000 overspend. This is mainly because of the identification of new pressures in Engineering and Finance less pressures funded through contingency approved at month 5. In year mitigations are required for these pressures and ongoing impacts will be considered alongside other priorities, as part of the budget setting process 2021/22+.

Performance against the Savings Programme is summarised in Appendix 2 and detailed in section 4.

Revenue and Capital programme risks are detailed in section 3, focusing specifically on areas that are subject to further investigation and the outcome could result in significant additional pressures in the current and future financial years. These include the impact of Covid-19 on both the Business Rate and Council Tax Collection Funds, the potential continuation of historical pressures in Engineering and Safer Communities; and new pressures in Resources relating to Finance and IT projects (CRM, BA, Firewatch).

The overall original 5 year Capital Programme (£24,045,000) increased by the 2019/20 slippage brought forward of £447,000 and reduced by net £141,000 due to updates on Fleet and Equipment resulting in a revised Capital Programme of £24,351,000. There is also a change in funding of £452,000 from Planned Revenue Contributions to Capital Receipts as summarised in Appendix 3. Overall, the Capital Programme is forecasted to be on budget.

A review of the current year Capital Projects has concluded that a net £1,231,000 (previously £1,283,000) is projected to slip mainly into 2021/22, largely due to the impact of Covid-19. Detailed information is contained within section 7 and summarised in Appendix 4. The Fleet and Equipment Capital Projects 2020/21 are detailed in Appendix 5.

The updated position on reserves shows an opening balance of £23,233,000 including an adjustment of £48,000 to fund the provisional outturn 2019/20. The forecast drawdown is £9,578,000, a reduction of £2,553,000 and an estimated closing balance of £13,655,000, as detailed in section 8 and summarised in Appendix 6. Work is ongoing to review likely drawdown of reserves during the current year.

There is a reduction in the interest receivable on the Authority's cash investments of £27,326,000 due to the Bank of England lowering its' base rates to invigorate the economy due to the impact of Covid-19. Interest payments on fixed rate loans of £10,773,000 are unaffected. One loan of £75,000 will mature this year for which payment arrangements are in hand, as detailed in Section 9.

RECOMMENDATION **Policy and Resources Panel is recommended to note:**

(i) the risks to Revenue Budget and the projected overspend,
(ii) the risks to the Capital Programme and the projected in year underspends,
(iii) the reduced net drawdown from reserves,
(iv) the monitoring of savings taken in 2020/25 including those savings at risk, and
(v) the current year investments and borrowing
(vi) the transfer of fuel savings of £20,000 (April to September) to contingency.

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1. INTRODUCTION

1.1 The Original Revenue Budget 2020/21 and Capital Strategy 2020/21 to 2024/25 was approved at the meeting of the Fire Authority on 13 February 2020. Revisions have taken place, as approved at subsequent Fire Authority meetings.

1.2 This is the second report to Policy and Resources Panel and the third to Members, for the 2020/21 financial year, and highlights the findings from Month 6 monitoring undertaken on the Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25. It should be noted the review is based on currently available information and the result may change as new information emerges during the year.

	This P&R (Period 6) £'000	Last SLT report (Period 5) £'000	Movement £'000
Revenue (see section 2)	105	149	(44)
Capital in year (see section 7)	(1,231)	(1,283)	52

1.3 The Revenue Budget, approved by the Fire Authority in February was a net expenditure requirement of £39,370,000. This has increased by £565,000 to £40,302,000 taking into account the additional Section 31 grant for 2020/21 which has been transferred to BRR reserve to finance future pressures.

1.4 A net revenue overspend to the sum of £105,000 has been identified. This is a favourable variation of £44,000 to that previously reported (£149,000 overspend),

mainly due to the identification of new unfunded pressures in Engineering and Finance less funding of pressures through contingency. The net pressure is reflected in the Revenue Budget 2020/21 objective summary at Appendix 1 and detailed in section 2 below.

1.5 The savings requirement 2020/21 is £426,000 and indications are that £361,000 savings are on course to be successfully delivered. The £65,000 savings at risk have been fully funded from contingency in the current year and ongoing impacts will be included within the budget setting process 2021/22, as detailed in Appendix 2 and section 4 below.

1.6 The five year Capital Strategy 2020/21 to 2024/25 was approved by the Fire Authority in February 2020 at £24,045,000 and revised to £24,492,000 including slippage of £447,000 brought forward from 2019/20 by Policy and Resources Panel at its meeting on 23 July 2020. A change in source of funding to the sum of £452,000 from revenue to capital receipts in 2020/21 was also approved. The 5 year capital programme was revised by a net £141,000 saving on the Fleet and Equipment to £24,351,000 as approved by SLT (20 August and 17 September). Overall, the revised 5 year Capital Programme is projected to come within budget. This is detailed in section 7 and summarised in Appendix 3.

1.7 There is an estimated net slippage of £1,231,000 on the Capital Budget 2020/21 which is mainly due to delays in capital projects as a result of the impact of covid-19 and the review of Service requirements in Engineering. Detailed information is contained within section 7 and summarised in Appendix 4.

1.8 A number of Revenue Budget and Capital Programme risks are set out in section 3 which will be monitored throughout the year. The updated position on Contingency, Reserves, Borrowing and Investments is provided at sections 6, 8 and 9 respectively.

2. REVENUE BUDGET COMMENTARY

2.1 The Revenue Budget is projected to overspend by a net £105,000 (previously reported £149,000 overspend). This is a favourable variation of £44,000 from the forecasted pressure reported to SLT in September 2020. This net overspend is summarised across divisions in Appendix 1 and detailed explanations are provided below.

2.2 **People Services:** People Services are projecting a balanced budget (previously £25,000 overspend). Fire Authority at its meeting on 3 September approved the IRMP which requires a HR post for 6 months at a cost of £25,000 and is funded from contingency. There is currently a large underspend being reported on Training in the NFCC / HO cost tracker as during the Covid pandemic the delivery of training has had to be reduced. In order to recover there is a requirement to review how we deliver training which has been postponed. This needs to consider the fact that where courses traditionally could have been anything from individuals to 20+ delegates at a time, our delivery for face to face training will lead to us having to run more courses due to number restrictions which in turn will lead to an increase in comparative costs to deliver the same training requirement. The Service is also having to move to the procurement of digital delivery methods in an attempt to recover some of the training pressures which again, could lead to a different cost

pressure. The budgetary impact of Covid-19 in training is yet to be confirmed and the recovery process will determine whether decisions are made to write off training (unlikely) or look to cover the requirement. In the forecast it is assumed the underspend on training delivery will offset the loss in commercial training income, should the application to Government for fees and charges income compensation be unsuccessful.

2.3 **Resources/Treasurer:** There is a projected overspend of £143,000 (previously reported as £201,000 overspend) as follows:-

2.3.1 **Treasurer:** A balanced budget is projected (previously £39,000 overspend) following funding the savings at risk £15,000 and the budget calculation error of £24,000 from contingency. The ongoing impact will be included in the budget setting process.

2.3.2 **ITG: £103,000** (previously £142,000) The ITG Manager has reported pressures relating to ongoing costs of £27,000 for Packnet charges 2018 to 2020 and Telent in-phase support £5,000. Savings are identified for Trustmarque £15,000 due to Microsoft software licence cost coming in less than originally quoted and a 6 month delay in the rollout of Corporate wifi £24,500. At its' meeting on 3 September, the Fire Authority approved the ITG Strategy which has a funding shortfall of £110,000 in 2020/21. Work is ongoing to identify mitigations for this pressure.

2.3.3 **Estates:** The Estates Manager continues to report a balanced budget. An exercise has commenced to review the Estates budget to identify options to deliver in year savings to mitigate pressures elsewhere across the budget. The results of this exercise will be reported in November.

2.3.4 **Procurement:** A balanced budget is projected following the funding of savings at risk £20,000, on the PPE budget as a result of continued use of FTCs and assistant instructors at STC, through contingency.

2.3.5 **Finance: £40,000** (previously on budget) The pressure has arisen from the need to provide interim cover for the Finance Manager role which exceeds the budgeted cost for that role whilst recruitment is progressed. Additional agency resource has also been appointed to provide management accounting capacity in the team until year end to address increased workloads resulting from grant monitoring, an extended external audit and the need to provide additional support for projects. This is being funded from a vacant post.

2.4 **Planning and Improvement:** The overall position is a balanced budget following the transfer of £35,000 underspend, relating to the delayed inspection, to contingency. The financial impact in 2021/22 will be provided for in the budget setting process. Work is underway to review the PMO budget to ensure that it reflects the structure agreed by SLT last November and to confirm funding drawn down from the Firewatch budget.

2.5 **Safer Communities:** The overall projection is an underspend of £65,000 (previously a balanced budget). Work has been concluded to identify the ongoing impact of posts that may not be properly reflected in the budget. It is confirmed that the funding of the SM green book post was put in a temporary basis for 2019/20 only for which in-year mitigations are required. Finance will include this post in the MTFP refresh

for future years. With regards to the 2 x JF2 posts, as no current approval for funding has been identified, these will be included within the Safer Communities restructure along with proposals for funding. The work to establish the current financial position taking account of budgeting at competent versus development posts, use of overtime and fixed term contracts to provide front line cover has been concluded. The Service has around £269,000 surplus budget due to all posts being budgeted at competent levels which is being utilised to finance the shortfall on employer's pension contributions of circa. £160,000 and income shortfall of £20,000. Further discussion with the budget holder is required to determine whether the balance of £89,000 can be declared as an underspend.

2.6 **Operational Support:** The Operational Support budget is projecting a net budget overspend of £14,000 (previously projected at £66,000 underspend) as follows:

2.6.1 **Operational Policy & Planning:** The Operational Support budget continues to project a budget underspend of £66,000. This comprises of savings on whole-time salaries of £29,000 (budget assumes level B compared to 3 staff at development rates and overtime), underspend of £49,000 due to delays to specialist training, offset by a projected overspend on Support salaries of £12,000 due to being over establishment.

2.6.2 **Engineering:** The Engineering budget is currently projected to be a net £80,000 overspent (previously balanced budget). This is due to an overspend on employees of £32,000 where posts are found to be budgeted at JF3.5 but paid at JF5.3, an overspend on non-pay of £28,000 and a projected income shortfall of £20,000. The £80,000 overspend is net of the current underspend on Fuel of £20,000 as the Covid-19 situation has resulted in reduced mileage and the BP free fuel offer has also contributed and is approved to be transferred to contingency. A review of all commitments against the repairs and maintenance budget remains outstanding. It is critical that Service Managers conclude this outstanding work urgently to identify risks and ensure that appropriate actions are completed so that the overspend in 2019/20 is not repeated.

2.7 **CFO:** An ongoing funding shortfall of £13,000 has been identified on the CFOA subscription.

2.8 **Treasury Management:** This is projected to come in on budget. Interest rates on investments have reduced considerably following the reduction in the Bank of England base rate. Although the interest received will be considerably reduced, it is forecast to meet the £75,000 interest budget. We are currently reporting a forecast loss of Treasury Management income of circa. £143,000 on the NFCC / HO Cost Tracker, however, given the grant is currently overcommitted it is unlikely that we will gain any additional flexibility as a result.

2.9 **Non Delegated Costs:** This is forecasted at a balanced budget following the funding of scheme sanction charges (£11,000) through contingency.

2.10 **Corporate Contingency:** This budget is intended to provide some flexibility for SLT to manage in-year budget pressures and was set at £454,000 for 2020/21. This has increased by £90,000 following approvals by SLT at meetings held in August, September and October (underspends: £35,000 travel and subsistence, £35,000

provided for the inspection, now delayed until the next financial year and £20,000 fuel saving of covering April to September). The total amount available in 2020/21 to £544,000 (refer to section 6 for detailed commentary).

2.11 **Transfer to and from Reserves:** There is net reduction in drawdown from reserves of £2,553,000 mainly due to a delay in capital projects and the consequent requirement in the use capital receipts (refer to detailed commentary in section 8).

3. REVENUE BUDGET AND CAPITAL PROGRAMME RISKS

3.1 **Covid 19:** The immediate financial impact of Covid 19 has been funded by grant from Government. There may be delays to capital projects and Covid 19 will continue to impact on the Authority's finances through 2020/21 and more markedly into 2021/22 where impact on both the Business Rate and Council Tax Collection Funds will be felt. The Service may need to consider options to reduce ongoing costs or other mitigating actions.

3.2 **ESFC / P21:** The Authority has made provision in its revenue budget to support the running of the interim ESFC service through 2020/21 and to fund investment in the transitional new tripartite service in September 2021. Further work is required to consolidate the financial baseline for P21 and the funding within the SCC and Mobilising Strategy Reserve.

3.3 **Pension Costs:** There is continued reliance on one-off grant to fund increased contributions for FPS as well as the uncertainty on the cost and funding of the remedy from the Sargent case (initial estimate of historic liability approx. £5m, ongoing costs £0.9m p.a.). For the latter it is now understood that the cost will impact through the next quadrennial scheme valuation i.e. from 2023/24 onwards. In addition, there is a risk around LGPS (triennial review concluded in 2020 contribution rates which started in April 2020, but the LGPS (East Sussex Pension Fund) are considering whether to undertake an interim review of contribution levels following Covid-19 impact on Fund asset values. At this stage it is understood that any impact is unlikely to be until 2021/22.

3.4 **External Audit Fees:** Our external auditors Ernst & Young (E&Y) are reviewing fees for their public sector assignments through the PSAA contract. They have proposed a significant increase in fees of circa £30,000. We are awaiting further information from them and will be engaging with PSAA who must approve any fee variation.

3.5 **Additional actuarial costs:** The requirement to commission additional actuarial reports as a result of material changes since the draft accounts were issued is likely to incur additional costs of the order of £10,000 subject to confirmation from Hymans

3.6 **FRIC Insurance Premiums:** The renewal for insurance cover is in progress and early indications are that the insurance premium could increase by around £40,000. Discussions are taking place with FRIC to understand which underlying factors have caused this and actions that can be taken to reduce future premiums e.g. by installing cameras on vehicles.

3.7 **CRM Project:** The development of the new CRM Home Safety Visit (HSV) and Business Safety (BS) systems will see the removal of inefficient paper driven

processes and the implementation of electronic data capture automating the flow of information. It is estimated that the development, purchase of devices and other associated deployment costs could extend the IT Strategy funding gap by a further £0.82m. Updated costed proposals for the development of HSV and Business Safety modules are due to be presented to SLT in November, including the prioritisation of 'Must Have' functionality to reduce the estimated cost.

3.8 **Firewatch Phase 2 Project:** This project has slipped from its original timeline and incurred additional cost. The project plan and budget is currently being re-baselined and any bid for additional funding will be reported to SLT in November.

3.9 These risks will continue to be monitored in 2020/21 and should they materialise, the Authority will need to determine how the financial impact is to be managed. The Authority has a number of options open to it to manage budget pressures: Identification of additional savings or managed underspends, use of the Corporate Contingency and/or use of General Balances.

4. SAVINGS PROGRAMME 2020/21

4.1 Appendix 2 summarises the savings requirement 2020/21 of £426,000. Early indications are that £361,000 savings are course to be successfully delivered, whilst £65,000 savings are at risk. These have all been funded through contingency in 2020/21 and future year's impacts will be considered as part of 2020/21 budget setting.

(iii) Management restructure - £5,000 (ongoing) is at risk due to the outcome of the Principal Officer Appointment Panel review of senior officer terms and conditions. This is funded from contingency;

(ii) Personal Protective Equipment - £20,000 (ongoing) is at risk due to the continuing use of FTCs and assistant instructors at STC and is funded from contingency.

(iii) FPS Admin to WYPF - £10,000 is at risk due to an incorrect amount being included in the contract and is funded from contingency.

(iv) Maritime Savings - £30,000 (one-off) due to the pay protection period for Maritime Allowance at Newhaven is likely to extend to the end of the financial year. This is funded from contingency.

4.2 Through the NFCC / HO Covid 19 monitoring we are tracking three areas of spend where Covid 19 is resulting in underspends as follows based on the period April – September 2020:

- Training = £235,000 – as noted earlier in this report work is ongoing to develop a training recovery plan and early indications are that little of this will be realisable as a saving

- Fuel = £20,000 for the first 6 months has been transferred into contingency
- Travel & Subsistence = £35,000 which has been transferred to contingency.

5. GRANTS AND FEES & CHARGES INCOME COMPENSATION SCHEME

5.1 The Government has awarded the following grants for use on specific purposes and your officers will ensure these are delivered in accordance with grant conditions:

5.2 **Covid-19:** This is to alleviate an increase in expenditure and shortfall in income relating to Covid-19. £137,000 was allocated toward the end of 2019/20 and almost all (£136,000) has been brought forward in an earmarked reserve. The allocation for 2020/21 is £633,000 and for the purpose of this exercise, it is assumed it will all be spent. It is imperative that we are able to identify and evidence relevant net additional expenditure so that we avoid unnecessary costs against the base budget and retain this grant funding. Fire Authority at its' meeting held on 3 September approved the funding of £534,000 pressures from Covid-19 grant. Monitoring as at the end of period 5 forecast total Covid related costs of £1.1m. If the loss of income from commercial training is assumed to be absorbed within the Training Budget, a bid to the Income Compensation Scheme and the loss of unbudgeted Treasury Management Income is excluded, there is still the risk that the grant of £0.77m will be exceeded. A review of actual and forecast Covid spend is underway between finance and the CWG Lead and the outcomes will be reported to EMT.

5.3 **Surge Protection Grant Funding:** The allocation for this Service is £510,000 specifically to deal with inspections for high rise buildings and other high risk buildings. The grant conditions have been received, including the deadline of December 2021 by which the high rise element of the grant must be spent. A project group has been set up, and, a delivery plan drawn up to ensure full use of the grant. The grant has been received in full, with the first quarter's grant return covering July to September due to the Home Office in the middle of October.

5.4 **Grenfell Infrastructure Fund:** The allocation £67,944 is to help support FRS to put in place a local Grenfell Inquiry recommendations co-ordination function which will help co-ordinate local activity and support the national work led by the NFCC; drive progress on local improvements and ensure funding for smoke-hoods and other technical investments. The grant conditions have been received.

5.5 **Fire Fighter Pension Scheme:** The allocation of £1,734,984 is used towards the shortfall in employer's pension contributions.

5.6 **Government Income Compensation Scheme for Fees and Charges:** The Government has launched a compensation scheme which provides for net budgeted fees and charges income loss due to the impact of Covid19 in accordance with the scheme principles. There is a 5% deductible on budget and 75% of income loss thereafter is compensated. A submission has been made to the Home Office for the income loss on commercial training (£18,000) and dry riser testing (£3,300) income covering the period April to July 2020.

6. CONTINGENCY 2020/21

6.1 The Fire Authority maintains a contingency in order to assist it in managing one-off unforeseen pressures and making investments within the financial year. At its' meeting held in February 2020, the Fire Authority agreed a contingency of £454,000 for the 2020/21 financial year.

6.2 The contingency increased by £90,000 during the financial year, as approved by SLT and brings the total amount available in 2020/21 to £544,000. This is following the transfer of £35,000 underspend on travel and subsistence, £35,000 provided for the inspection which is now delayed until the next financial year and £20,000 underspend on fuel covering April to September. Commitments approved so far total £437,000 leaving a remaining balance of £107,000 as detailed in the table below.

		£'000
Opening Balance 1 April 2020	**AD**	**454**
Travel & Subsistence Underspend aproved by SLT on 20 August	All	35
Inspection Budget no longer required approved by SLT on 17 September	LR	35
Fuel savings April to Septermber approved by SLT on 15 October	MM	20
Total Available		**544**
Maritime saving at risk	MM	30
Pension manager extension	HSY	45
Training and Assurance Secondment	HSY	60
GM ORR extension	LR	47
Swift Water Rescue	MM	10
New Workwear	DS	60
IRMP consultation	LR	30
Leadership & Behavioural framework	HSY	50
10 Internal Audit days (Approved SLT / S&A April 2020)	DS	4
NFCC VFM Framework (Approved SLT June 2020)		6
Scheme Sanction Charges	All	11
Senior Management saving at risk	DS	5
PPE saving at risk	DS	20
WYPF saving at risk	DS	10
Budget calculation error	DS	24
IRMP - HR Post x 6 months	HSY	25
Total Commitments		**437**
Amount Remaining end September 2020		**107**

6.3 **Extensions to secondments:** £152,000 for Pension Manager, Training and Assurance SM and GM ORR.

6.4 **Swift Water Rescue:** £10k one-off this risk crystalised during 2019/20 following the resolution of a challenge by the FBU regarding Additional Availability Allowances and majority of costs (for historic liabilities) were accrued for in 2019/20. A small pressure of £10,000 will also impact in 2020/21.

6.5 **New Workwear:** £60,000 one-off – relating to the roll out of new workwear using a new national contract.

6.6 **IRMP consultation:** £48,000 one-off – as agreed by Fire Authority, of which £18,000 is additional cost arising from Covid 19 and will be funded from the Covid 19 grant. The remainder £30,000 is funded from Corporate Contingency.

6.7 **Leadership and Behavioural Framework:** £50,000 one-off for training and communications as part of roll out agreed by SLT.

6.8 **Scheme Sanction Charges:** WYPF our new FPS administrator has identified that scheme sanction charges have in the past been incorrectly charged to some FPS members upon retirement. The Service is in the process of refunding these charges at a cost to the revenue budget of £11,000.

6.9 **Budget Calculation Error:** an ongoing budget error of £24,000 has been identified within the Resources Division and it is corrected using contingency. Future years will be picked up as part of the budget setting process.

6.10 **IRMP:** The IRMP was approved by the Fire Authority at its' meeting held on 3 September. This included a HR post for a period of 6 months at a cost of £25,000 which is funded from contingency.

6.11 **Savings at Risk:** £65,000 savings are unable to be secured in this financial year and are funded through contingency as detailed in section 4 above.

7. CAPITAL PROGRAMME COMMENTARY

7.1 The original 2020/21 Capital Budget and five year Capital Strategy of £24,045,000 was approved by the Fire Authority in February 2020. The revised Capital programme 2020/21 to 2024/25 is £24,351,000, including slippage of £447,000 brought forward from 2019/20, a net reduction of £12,000 on Fleet and Equipment Capital Programme as approved by August SLT and identified savings of £129,000 approved by September SLT.

7.1.1 This is funded by Capital Receipts £8,018,000, Reserves £4,196,000, Planned Revenue contributions and New Borrowing £10,329,000. Overall, the 5 year Capital Programme is forecasted to come in on budget, as summarised in Appendix 3. Work has commenced to set the new five year Capital Programme 2021/22 to 2025/26 which includes a comprehensive review of each capital scheme, within each financial year to ensure updated spending plans are understood, they are consistent between Finance and Service and are accurately reflected in the general ledger and decision documents.

7.2 The revised Capital Budget for 2020/21 is £6,292,000, including slippage of £447,000 from 2019/20, £18,000 net reduction on Engineering and Fleet Capital, as approved by August SLT and £129,000 identified savings approved by September SLT. Overall, projected expenditure for the year is £5,061,000 resulting in a projected underspend of £1,231,000 (20% of budget). The Capital Budget has 2 main components: Estates / Property and Engineering / Fleet & Equipment which are projecting underspends of a net £723,000 (£1,208,000 less £485,000) and £508,000 respectively. These are summarised in Appendix 4.

7.3 **Estates / Property:** The Estates team has reviewed the impact of Covid-19 on the Estate's Capital Programme and identified further revisions that are necessary. Projected expenditure is £2,163,000 against the Capital budget 2020/21 of £2,886,000, which results in a projected net underspend of £723,000 (25% of budget). All of this projected underspend is likely to result in seeking approval to slip budget into the next financial year. It should be noted there are 2 projects totalling £485,000 (design guide scheme £420,000 security £65,000) that are planned to be brought forward and a budget transfer is required from 2021/22 into the current financial year.

7.4 **Engineering:** A detailed review of the Fleet and Equipment (F&E) Capital Budget continues to be undertaken jointly by Finance and Engineering officers. The Engineering budget for 2020/21 is £3,406,200 including slippage from 2019/20 of £161,000, a net reduction of £18,500 to the F&E capital budget 2020/21 (approved by 20 August SLT) and identified savings of £129,600 (approved by 17 September SLT). Engagement with the IRMP implementation team work is required to establish the exact impact of proposals, including the review of Special Appliances, and will be reported in due course.

7.4.1 Projected expenditure against this budget is £2,897,800 resulting in a net underspend of £508,400 which is slippage due to delays in completing projects and likely to result in slippage, mainly into the 2021/22 financial year. A minor overspend to the sum of £2,000 has been identified which remains within the capital programme until the year-end. The position per project / vehicle is summarised in Appendix 5.

7.5 The updated Capital Programme is summarised in the table below.

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Original Approved Programme	5,992	6,767	4,461	3,906	2,919	24,045
Slippage from 2019/20	447	0	0	0	0	447
SLT Aug (CFA 3 Sept) - Fleet & Eng	(18)	0	3	3	0	(12)
SLT September - Fleet & Eng	(129)	0	0	0	0	(129)
Revised Programme	**6,292**	**6,767**	**4,464**	**3,909**	**2,919**	**24,351**
Slippage 2020/21 to 2021/22 - Engineering	(510)	500	0	0	10	0
Slippage 2020/21 to 2021/22 - Estates	(1,208)	1,208	0	0	0	0
Budget brought forward - Estates	485	(485)	0	0	0	0
Updated Capital Programme	**5,059**	**7,990**	**4,464**	**3,909**	**2,929**	**24,351**
Funded by:						
Capital Receipts	5,059	2,943	3	3	10	8,018
Reserves	0	2,696	500	500	500	4,196
Revenue Contributions	0	452	452	452	452	1,808
New Borrowing / Need to Borrow	0	1,899	3,509	2,954	1,967	10,329
Updated Capital Programme	**5,059**	**7,990**	**4,464**	**3,909**	**2,929**	**24,351**

8. RESERVES 2020/21

8.1 The Fire Authority maintains Reserves in order to assist it in managing its specific spending plans across the financial year (Earmarked Reserves), making provisions for the financial risks it faces (General Fund Reserves) and making investments (Capital Receipts Reserve).

8.2 The opening balance at 1 April is £23,233,000 including a contribution from general fund reserve of £48,000 to finance the provisional net overspend 2019/20 as approved by Policy and Resources Panel on 23 July 2020.

8.3 Actual net transfers from reserves total £9,578,000 compared to planned net drawdown of £12,131,000. This is a net reduction in drawdown of £2,553,000 resulting in an estimated balance at 31 March 2021 of £13,655,000, as summarised in the table overleaf and detailed in Appendix 6.

8.4 The net changes are explained in section 8.6 below. Work continues with budget managers to confirm the planned use of revenue reserves in 2020/21.

		Planned Net Transfers	Actual Net Transfers	Net change	Month 6
	Balance @ 1 April 2020	**2020/21**	**2020/21**		**Balance @ 31 March 2021**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Earmarked Reserves	13,808	(6,584)	(4,427)	2,157	9,381
General Fund	1,869	(7)	(54)	(47)	1,815
Total Revenue Reserves	**15,677**	**(6,591)**	**(4,481)**	**2,110**	**11,196**
Total Capital Reserves	7,556	(5,540)	(5,097)	443	2,459
Total Usable Reserves	**23,233**	**(12,131)**	**(9,578)**	**2,553**	**13,655**

8.5 The overall net reduction in drawdown from reserves of £2,553,000 is as follows:-

8.5.1 **Earmarked Reserves Decrease of £2,157,000** - due to retaining the anticipated surplus of £565,000 on Section 31 grant in the Business Rate Relief (BRR) reserve to contribute towards potential shortfalls in 2021/22 arising from Covd-19, full use of the Covid-19 reserve of £136,000, a reduced drawdown on Improvement & Efficiency reserve of £193,000 and no drawdown on ESMCP ESFRS Readiness £1,425,000 BRR Pilot Economic Development £70,000 and Sprinklers of £293,000 due to delays in delivery of the projects we are match funding.

8.5.2 **General Fund Reserve Increase of £47,000** - the pay award was allowed for in the 2020/21 at 2% increase. However, the employer's side has offered a Green Book pay award of 2.75%, which would result in a 0.75% budgeted deficit estimated at £47,000. This is fully funded by general fund reserve in 2020/21 and future years will be built into the budget requirement.

8.5.3 **Capital Reserves Decrease of £443,000** - due to the use of capital receipts unapplied reserve, adjustments to the capital programme and savings identified, as approved by SLT (20 August and 17 September) and impact of net capital slippage into 2021/22 (refer to capital section 7 above).

9. BORROWING AND INVESTMENT

9.1 As at end September, the Authority held cash balances of £27,326,000 which are invested in accordance with the Treasury Management Strategy, as follows.

	£m
Aviva Cash Money Market Fund (overnight access)	4.000
Aberdeen Cash Money Market Fund (overnight access)	4.000
Deutsche (overnight access)	1.076
Santander 95 day notice	4.000
Barclays 95 day notice	4.000
Goldman Sachs 95 day notice	4.000
Lloyds / HBOS 175 day notice	4.000
Dudley MBC 18 month deposit (matures 25 October 2021)	2.250
Total Investments	**27.326**

9.2 Further work is in progress to confirm the forecast level of drawdown from reserves during the year. The Authority's budget anticipated a reduction from £19,800,000 to £7,500,000 and this will mean the need to liquidate investments during the year. Finance is working with the ESCC Treasury Management team to improve cash-flow monitoring to facilitate this. Notice has been given on the Lloyds / HBOSS 175 day notice account.

9.3 The Bank of England reduced the base interest rate from 0.75% to 0.10% to invigorate the economy due to the impact of Covid -19. We are beginning to see an impact as Banks start to reduce their rates on investments, resulting in lower interest receivable. We are awaiting further modelling but at this stage we expect to be able to deliver budgeted interest receipts of £75,000. If interest rates had stayed at their prevailing rates, we would have seen additional income of approximately ££143,000, similar to that realised in the last two financial years, to use towards managing current pressures.

9.4 The Authority has debts totalling £10,773,000 and there is no impact on the interest payable, as these are subject to fixed interest rate deals. £75,000 of the debt will mature at the end of the current financial year for which payment arrangements are in hand.

Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September)

Revenue Budget 2020/21 – Objective Summary

	Original Budget	Revised Budget	Projected Outturn	Variance	Variance %	Variance last report to SLT
	£'000	£'000	£'000	£'000		£'000
Peoples Services	3,641	3,804	3,804	0	0.00%	25
Resources/Treasurer	7,507	7,670	7,813	143	1.86%	201
Planning and Improvement	1,274	1,313	1,313	0	0.00%	(35)
Total Deputy Chief Fire Officer	**12,422**	**12,787**	**12,930**	**143**	**1.12%**	**191**
Safer Communities	21,015	21,233	21,168	(65)	(0.31%)	0
Operational Support	4,300	4,239	4,253	14	0.33%	(66)
Total Assistant Chief Fire Officer	**25,315**	**25,472**	**25,421**	(51)	**(0.20%)**	**(66)**
CFO Staff	705	729	742	13	1.78%	13
Treasury Management	839	839	839	0	0.00%	0
Non Delegated costs	(1,058)	(1,162)	(1,162)	0	0.00%	11
Corporate Contingency	454	108	108	0	0.00%	0
Transfer from Reserves	(627)	(723)	(723)	0	0.00%	0
Transfer to Reserves	1,687	2,252	2,252	0	0.00%	0
Total Corporate	**2,000**	**2,043**	**2,056**	**13**	**0.64%**	**24**
Total Net Expenditure	**39,737**	**40,302**	**40,407**	**105**	**0.26%**	**149**
Financed By:						
RSG	(3,208)	(3,208)	(3,208)	0	0.00%	0
Council Tax	(27,931)	(27,931)	(27,931)	0	0.00%	0
Business Rates	(7,714)	(7,714)	(7,714)	0	0.00%	0
S31 Grants	(799)	(1,364)	(1,364)	0	0.00%	0
Collection Fund Surplus/Deficit	(85)	(85)	(85)	0	0.00%	0
Total Financing	**(39,737)**	**(40,302)**	**(40,302)**	**0**	**0.00%**	**0**
Total Over / (Under) Spend	**0**	**0**	**105**	**105**	**0.26%**	**149**

*includes transfer of £20k fuel savings to corporate contingency approved by SLT 15 October

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Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25
Monitoring at Month 6 (end September)

Savings Programme 2020/21

Description	Responsible Officer	2020/21 Savings £,000	2020/21 Projection £,000	2020/21 At Risk £,000
Management Restructure	Corporate	(5)	0	5
Engineering - cutting equipment purchased early (1 year only)	RF	(60)	(60)	0
PPE & Workwear	DS	(91)	(71)	20
Fire Brigade Union (FBU) post	MM	(20)	(20)	0
Going digital on CFA agendas implementation of Modern.Gov	LR	(3)	(3)	0
Reduction in administration costs in Safer Communities	MM	(25)	(25)	0
Use of BR Pooling to support service delivery	DS/MM	(50)	(50)	0
Estates Strategy revenue maintenance savings.	DS	(20)	(20)	0
Business Rates overstated pressure.	DS	(67)	(67)	0
FPS administration moving to West Yorkshire Pension Fund	DS	(24)	(14)	10
Webex savings from each directorate.	Corporate	(12)	(12)	0
Primary Authority income target	MM	(19)	(19)	0
Maritime	RF	(30)	0	30
		(426)	**(361)**	**65**

*Savings at risk £65,000 fully funded through contingency.

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Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September)

Capital Programme 2020/21 to 2024/25

	Responsible Officer	Original Capital Programme 2020/21 to 2024/25	Slippage 2019/20	SLT August Revision	SLT September Revision	Revised Capital Programme 2020/21 to 2024/25	Total Capital Programme Projected Spend	Variation	Variation
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Property									
Shared Investment Schemes									
Integrated Transport Project	DS	1,000	0	0	0	1,000	1,000	0	0
- Partner contribution	DS								
Integrated Transport Project net cost	**DS**	**1,000**	**0**	**0**	**0**	**1,000**	**1,000**	**0**	**0**
One Public Estate									
- Heathfield		40	10	0	0	50	50	0	0
- Partner contribution									
- Heathfield net cost	**DS**	**40**	**10**	**0**	**0**	**50**	**50**	**0**	**0**
- Lewes		230	16	0	0	246	246	0	0
- Partner contribution		0	0	0	0	0	0	0	
- Lewes net cost	**DS**	**230**	**16**	**0**	**0**	**246**	**246**	**0**	**0**
- Preston Circus		2,969	90	0	0	3,059	3,059	0	0
- Partner contribution									
- Preston Circus net cost	**DS**	**2,969**	**90**	**0**	**0**	**3,059**	**3,059**	**0**	**0**
- Uckfield		90	10	0	0	100	100	0	0
- Partner contribution									
- Uckfield net cost	**DS**	**90**	**10**	**0**	**0**	**100**	**100**	**0**	**0**
Total Shared Investment Schemes		**4,329**	**126**	**0**	**0**	**4,455**	**4,455**	**0**	**0**
Strategic Schemes									
- Replacement Fuel Tanks		330	83	0	0	413	413	0	0
- Partner contribution		(330)	137	0	0	(193)	(193)	0	0
- Replacement fuel tanks net cost	**DS**	**0**	**220**	**0**	**0**	**220**	**220**	**0**	**0**
Design Guide Schemes		2,313	(20)	0	0	2,293	2,293	0	0
BA Chambers works		0	6	0	0	6	6	0	0
Sustainability		376	20	0	0	396	396	0	0
Security		134	0	0	0	134	134	0	0
Total Strategic Schemes	**DS**	**2,823**	**226**	**0**	**0**	**3,049**	**3,049**	**0**	**0**
General Schemes	**DS**	**4,099**	**(65)**	**0**	**0**	**4,034**	**4,034**	**0**	**0**
Total Property	**DS**	**11,251**	**287**	**0**	**0**	**11,538**	**11,538**	**0**	**0**

Capital Programme 2020/21 to 2024/25 continued.

	Responsible Officer	Original Capital Programme 2020/21 to 2024/25	Slippage 2019/20	SLT August Revision	SLT September Revision	Revised Capital Programme 2020/21 to 2024/25	Total Capital Programme Projected Spend	Variation	Variation
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Total Property	**DS**	**11,251**	**287**	**0**	**0**	**11,538**	**11,538**	**0**	**0**
Information Management									
- Sussex Control Centre		0	37	0	0	37	37	0	0
- Grant funds		0	(37)	0	0	(37)	(37)	0	0
Sussex Control Centre net cost	**DS**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fleet and Equipment									
- Vehicle cameras		118	0	0	0	118	118	0	0
- Grants funds		(118)	0	0	0	(118)	(118)	0	0
- Vehicle cameras net cost	**MM**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
RPE Project		0	157	0	0	157	157	0	0
Telemetry		70	0	0	0	70	70	0	0
Total Special Projects	**MM**	**70**	**157**	**0**	**0**	**227**	**227**	**0**	**0**
Fire Appliances		7,358	0	0	0	7,358	7,358	0	0
Ancillary Vehicles		3,627	(31)	(125)	(26)	3,445	3,445	0	0
Cars		1,008	0	3	0	1,011	1,011	0	0
Vans		731	34	110	(103)	772	772	0	0
Total Fleet and Equipment	**MM**	**12,794**	**160**	**(12)**	**(129)**	**12,813**	**12,813**	**0**	**0**
Total Expenditure		**24,045**	**447**	**(12)**	**(129)**	**24,351**	**24,351**	**0**	**0**

*ALP £948k included within ancillary vehicles

Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September)

Capital Budget 2020/21

Capital Programme Expenditure	Budget 2020/21 £'000	Projected 2020/21 spend £'000	Variance 2020/21 £'000	Variance %	Last SLT report £'000
Property					
Shared Investment Schemes					
Integrated Transport Project	100	50	(50)	(50)	(50)
- Partner contribution	0		0		0
Integrated Transport Project net cost	**100**	**50**	**(50)**	**(50)**	**(50)**
One Public Estate					
- Heathfield	50	10	(40)	(80)	(40)
- Partner contribution	0		0		0
- Heathfield net cost	**50**	**10**	**(40)**	**(80)**	**(40)**
- Lewes	116	10	(106)	(91)	(106)
- Partner contribution	0		0		0
- Lewes net cost	**116**	**10**	**(106)**	**(91)**	**(106)**
- Preston Circus	840	200	(640)	(76)	(640)
- Partner contribution	0		0		0
- Preston Circus net cost	**840**	**200**	**(640)**	**(76)**	**(640)**
- Uckfield	70	25	(45)	(64)	(45)
- Partner contribution	0	0	0		0
- Uckfield net cost	**70**	**25**	**(45)**	**(64)**	**(45)**
Total Shared Investment Schemes	**1,176**	**295**	**(881)**	**(75)**	**(881)**
Strategic Schemes					
- Replacement Fuel Tanks	413	193	(220)	(53)	167
- Partner contribution	(193)	(193)	0	0	0
- Replacement fuel tanks net cost	**220**	**0**	**(220)**	**(100)**	**(220)**
Design Guide Schemes	10	430	420	4,200	420
BA Chambers works	6	0	(6)	(100)	(6)
Sustainability	340	320	(20)	(6)	(20)
Security	0	65	65	100	65
Total Strategic Schemes	**576**	**815**	**239**	**41**	**239**
General Schemes	**1,134**	**1,053**	**(81)**	**(7)**	**(81)**
Total Property	**2,886**	**2,163**	**(723)**	**(25)**	**(723)**

Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September)

Capital Budget 2020/21 continued

	Budget 2020/21 £'000	Projected 2020/21 spend £'000	Variance 2020/21 £'000	Variance %	Last SLT report £'000
Total Property	**2,886**	**2,163**	**(723)**	**(25)**	**(723)**
Information Management					
- Sussex Control Centre	0	37	37	0	0
- Grant funds	0	(37)	(37)	0	0
Sussex Control Centre net cost	0	0	0	0	0
Fleet and Equipment					
- Vehicle cameras	118	118	0	0	0
- Grants funds	(118)	(118)	0	0	0
- Vehicle cameras net cost	**0**	**0**	**0**	0	**0**
RPE Project	157	157	0	0	0
Telemetry	70	70	0	0	0
Special Projects	**227**	**227**	**0**	**0**	**0**
Fire Appliances	1,717	1,717	0	0	
Ancillary Vehicles	1,034	526	(508)	(49)	(534)
Cars	175	175	0	0	
Vans	253	253	0	0	(26)
Total Fleet and Equipment	**3,406**	**2,898**	**(508)**	**(49)**	**(560)**
Total Expenditure	**6,292**	**5,061**	**(1,231)**	**(20)**	**(1,283)**

*ALP £190k included within ancillary vehicles

*slippage £1,233,000 overspend £2,000 net £1,231,000

Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September) - Engineering Capital Budget 2020/21

	Base Budget 2020/21 as per FA Feb 20	Slippage from 2019/20	SLT August Revisions	SLT September Revisions	Total budget 2020/21	Projected Spend	Variance 2020/21	Slippage
	£	£	£		£	£	£	£
Fire Appliances								
Appliances 19/20 GX55AAE	280,000	0	0	0	280,000	280,000	0	0
Appliances 19/20 Concept 12t	300,000	0	0	0	300,000	300,000	0	0
Appliances 19/20 GX05ABZ	280,000	0	0	0	280,000	280,000	0	0
Appliances 20/21 GX56NWP	285,600	0	0	0	285,600	285,600	0	0
Appliances 20/21 GX57EUK	285,600	0	0	0	285,600	285,600	0	0
Appliances 20/21 GX57EUR	285,600	0	0	0	285,600	285,600	0	0
Ancillary Vehicles								
Aerial Ladder Platform GX04BMY STN 76	200,000	(10,000)	0	0	190,000	190,000	0	0
Replacing Honda GU16 LVJ	12,200	0	0	(12,200)	0	0	0	0
Animal Rescue GX51 UBM	107,000	(23,000)	0	0	84,000	84,000	0	0
Replacing Land Rover GX53 AXM	100,000	0	0	0	100,000	0	(100,000)	(100,000)
Ancillary Vehicles 2019/20 GX53AZU			0	0	0	2,000	2,000	0
Replacing Land Rover GX53 AZV	100,000	0	0	0	100,000	0	(100,000)	(100,000)
Replacing Landrover GX02AZO	61,500	2,000	0	0	63,500	63,500	0	0
Replacing Land Rover GX53 AZW	100,000	0	0	0	100,000	0	(100,000)	(100,000)
Replacing Y87 GNJ GP Truck STN 84	178,000	0	0	0	178,000	178,000	0	0
Replacing foam special (OSU) OU04 VNW S	200,000	0	0	0	200,000	0	(200,000)	(200,000)
Anciliary Veh 20/21 - POD 001	125,000	0	(125,000)	0	0	0	0	0
Anciliary Veh 20/21 - Boat SWR	10,900	0	0	(2,900)	8,000	8,000	0	0
Anciliary Veh 20/21 - SWR boatTrailer	6,600	0	0	(6,600)	0	0	0	0
Anciliary Veh 20/21 - TRA 11 decon	4,400	0	0	(4,400)	0	0	0	0
Anciliary Veh 20/21 - TRA 8 Road safety	10,400	0	0	0	10,400	0	(10,400)	(10,400)
Cars								
Cars 19/20- GX66JKY CFO	36,000	0	(5,500)	0	30,500	30,500	0	0
Cars 19/20 -GX66JOU ACFO	36,000	0	(5,500)	0	30,500	30,500	0	0
Cars 20/21 - GV63 HUH response car	26,500	0	2,000	0	28,500	28,500	0	0
Cars 20/21 - GV63 HUA response car	26,500	0	2,000	0	28,500	28,500	0	0
Cars 20/21 - GX13 FNL	10,700	0	(10,700)	0	0	0	0	0
Cars 20/21 - GX13 FNH	10,700	0	(10,700)	0	0	0	0	0
Cars 20/21 - GX13 FNF	10,700	0	(10,700)	0	0	0	0	0
Cars 20/21 - GX13 FNG	10,700	0	(10,700)	0	0	0	0	0
Cars 20/21 - GU63 NNZ	10,700	0	(10,700)	0	0	0	0	0
Cars 20/21 - NEW (Response Car)	0	0	28,500	0	28,500	28,500	0	0
Cars 20/21 - NEW (Response Car)	0	0	28,500	0	28,500	28,500	0	0
Vans								
Replacing Movano GX60 PUV	0	4,000	2,500	0	6,500	6,500	0	0
Replacing Movano GX60 PUY	0	4,000	2,500	0	6,500	6,500	0	0
Replacing Vivaro GX60 PTZ	0	11,000	0	(11,000)	0	0	0	0
Replacing Vivaro GX60 PVJ	0	13,000	0	(13,000)	0	0	0	0
Replacing Corsa GX11 HAA	0	3,000	0	(3,000)	0	0	0	0
Vans 20/21 - GX13 FNO BA Van	35,700	0	0	(35,700)	0	0	0	0
Vans 20/21 - GX15 JJK SSO van	37,700	0	0	0	37,700	37,700	0	0
Vans 20/21 - GX13 FNN	13,900	0	0	0	13,900	13,900	0	0
Vans 20/21 - GX13 FNM	13,900	0	0	0	13,900	13,900	0	0
Vans 20/21 - GX63 RHO	40,800	0	0	(40,800)	0	0	0	0
Vans 20/21 - RDS - GX13 FNK	17,500	0	0	0	17,500	17,500	0	0
Vans 20/21 - RDS - GX13 FNJ	17,500	0	0	0	17,500	17,500	0	0
Vans 20/21 - RDS - GX13 FNE	17,500	0	0	0	17,500	17,500	0	0
Vans 20/21 - RDS - GU63 NOF	17,500	0	0	0	17,500	17,500	0	0
Vans 20/21 - Station Van (76 Shift)	0	0	17,500	0	17,500	17,500	0	0
Vans 20/21 - Station Van (90 Shift)	0	0	17,500	0	17,500	17,500	0	0
Vans 20/21 - Station Van (91 Shift)	0	0	17,500	0	17,500	17,500	0	0
Vans 20/21 - Station Van (92 Shift)	0	0	17,500	0	17,500	17,500	0	0
Vans 20/21 - Station Van (93 Shift)	0	0	17,500	0	17,500	17,500	0	0
Vans 20/21 - Station Van (? Shift)	0	0	17,500	0	17,500	17,500	0	0
Special Projects								
Vehicle Cameras	118,000	0	0	0	118,000	118,000	0	0
Grant	(118,000)	0	0	0	(118,000)	(118,000)	0	0
RPE project	0	157,000	0	0	157,000	157,000	0	0
Telemetry	70,000	0	0	0	70,000	70,000	0	0
Total Fleet and Equipment	**3,393,300**	**161,000**	**(18,500)**	**(129,600)**	**3,406,200**	2,897,800	**(508,400)**	**(510,400)**

*£508,400 underspend of which £510,400 is slippage and £2,000 overspend

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Revenue and Capital Budget 2020/21 and Capital Programme 2020/21 to 2024/25 Monitoring at Month 6 (end September)

Reserves 2020/21

Description	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21	Projected Closing Balance
	Opening Balance 01/04/20	Original Planned Transfers In	Original Planned Transfers Out	Original Planned Transfers Net	Actual Planned Transfers In	Actual Planned Transfers Out	Actual Planned Transfers Net	Month 6 Closing Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Earmarked Reserves								
Improvement & Efficiency	471	500	(90)	410	500	(283)	217	688
Sprinklers	640	0	(293)	(293)	0	0	0	640
Insurance	249	0	0	0	0	0	0	249
ESMCP ESFRS Readiness	1,425	0	(1,425)	(1,425)	0	0	0	1,425
ESMCP Regional Programme	566	0	(259)	(259)	0	(287)	(287)	279
Responding to new risks Revenue	18	0	0	0	0	0	0	18
IT Strategy	3,351	549	(2,032)	(1,483)	549	(1,871)	(1,322)	2,029
Wholetime Firefighter recruitment	40	0	0	0	0	0	0	40
SCC Reserve	622	0	0	0	0	0	0	622
Mobilising Strategy	3,553	0	(3,329)	(3,329)	0	(3,329)	(3,329)	224
Business Rates Retention Pilot, financial stability	587	0	(480)	(480)	565	(480)	85	672
Business Rates Retention Pilot, economic development	86	0	(70)	(70)	0	0	0	86
Business Rates Pool Reserve	355	0	(155)	(155)	0	(155)	(155)	200
Covid-19	136			0			(136)	0
Carry Forwards	0	0	0	0	0	0	0	0
Capital Programme Reserve	1,709	500	0	500	500	0	500	2,209
Total Earmarked Reserves	**13,808**	**1,549**	**(8,133)**	**(6,584)**	**2,114**	**(6,405)**	**(4,427)**	**9,381**
General Fund	1,869	138	(145)	(7)	138	(192)	(54)	1,815
Total Revenue Reserves	**15,677**	**1,687**	**(8,278)**	**(6,591)**	**2,252**	**(6,597)**	**(4,481)**	**11,196**
Capital Receipts Reserve	7,518	0	(5,540)	(5,540)	0	(5,059)	(5,059)	2,459
Capital Receipts Unapplied	38			0		(38)	(38)	0
Total Capital Reserves	**7,556**	**0**	**(5,540)**	**(5,540)**	**0**	**(5,097)**	**(5,097)**	**2,459**
Total Usable Reserves	**23,233**	**1,687**	**(13,818)**	**(12,131)**	**2,252**	**(11,694)**	**(9,578)**	**13,655**

*Safer Business Training reserve combined with BR Pool reserve.

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EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Policy & Resources Panel
Date	12 November 2020
Title of Report	Treasury Management-Half Year Review For 2020/21
By	Assistant Director Resources / Treasurer
Lead Officer	*Richard Carcas, Principal Finance Officer, Treasury & Taxation Centre of Expertise, Orbis*

Background Papers

Fire Authority:
11 June 2020 – Agenda Item 74 Treasury Management – Stewardship report for 2019/20
13 February 2020 – Agenda Item 45: Treasury Management Strategy for 2020/21

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

Local Government Act 2003

CIPFA Prudential Code

Appendices None

Implications

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

PURPOSE OF REPORT

The treasury management half yearly report is a requirement of the Fire Authority's reporting procedures and covers the treasury activity for the first six months of 2020/21. The report includes an update on the first half year of Prudential Indicators which relate to treasury activity.

EXECUTIVE SUMMARY

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

In challenging economic times as a result of the global impact from the coronavirus pandemic and the national response during lockdown the average rate of interest received through Treasury Management activity was 0.51%. This reflected the Fire Authority's continuing prioritisation of security and liquidity over yield. The Bank of England (BOE) base interest rate during the period was 0.10%.

The Fire Authority has always adopted a prudent approach on its investment strategy and, in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. During 2019/20, an option appraisal for the use of alternative investment options was completed. This option appraisal concluded that, given the Authority's planned steep reduction in reserves (resulting from its planned investment in its Capital Asset Strategy and Project 21), then investment options with a time horizon of up to 3 years would suit the Authority's cash profile and maximise returns at an appropriate level of risk.

The 2020/21 strategy reflected the options appraisal exercise broadly maintaining the prudent approach and ensuring that all investments are only to the highest quality rated banks and financial institutions. The appraisal has resulted in short dated bond funds being added to Authority's list of approved instrument for potential future use which will provide the opportunity to increase returns at an acceptable level of risk.

No new borrowing has been undertaken in 2020/21 to date. On the 30th September 2020 total Public Works Loan Board (PWLB) loan debt outstanding was £10.773m at an average interest rate of 4.60%. The next loan repayment is due on the 31st March 2021 (£75k) with the PWLB. There have been no beneficial opportunities to reschedule debt so far during the year. The projected outturn of the Fire Authority's Capital Financing Requirement (CFR), a measure of the underlying need to borrow is £10.698m.

RECOMMENDATION

The Panel is recommended to:

(i) Note the treasury management performance for the first half year of 2020/21.

(ii) Identify any further reassurance the Panel requires in relation to the delivery of the Treasury Management Strategy.

1. INTRODUCTION

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

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

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

c) Under the Act the Ministry of Housing, Communities and Local Government (MHCLG) has issued Investment Guidance to structure and regulate the Authority's investment activities.

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

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

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

1.4 This report sets out information on:

a) A summary of the strategy agreed for 2020/21 and the economic factors affecting the strategy in the first six months of this year;
b) The Fire Authority's treasury activity during the first six months on borrowing and short term investments.

2. 2020/21

2.1 Original Strategy for 2020/21

2.1.1 At its meeting on 13 February 2020, the Fire Authority agreed its treasury management strategy for 2020/21, taking into account the economic scene including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2020/21 as set out below.

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

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

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

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

Borrowing

2.1.3 The Fire Authority will need to recommence borrowing in the short to medium term in order to fund its Capital Strategy. 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. No new PWLB borrowing has taken place since January 2008.

2.1.4 Back on the 9 October 2019 the Government announced an unexpected increase to the PWLB interest rate for all new loans. The increase added a further 1% (100bps) to the cost of borrowing. It also increased the statutory limit on how much the PWLB can have lent out at once, from £85bn to £95bn. However, it did not increase the rate of interest used for repaying debt so that not only had the cost of our future borrowing increased but the opportunity to restructure our debt when market conditions allow had been significantly reduced.

2.1.5 HM Treasury released a consultation with local authorities on possibly further amending margins over PWLB gilt yields; this was to end on 4th June, but that date was subsequently put back to 31 July 2020. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield). The final report is due in the coming year and most Local Authorities have delayed borrowing from the PWLB until the full outcome of the consultation is released.

Investment

2.1.6 When the strategy was agreed in February of this year, the advice given to us by our advisors, Link Asset Service, was that short term rates were expected to remain low for a considerable time. As global events have taken place this view has not been altered.

2.1.7 An options appraisal was undertaken as part of the 2020/21 strategy setting outlining the scope and options for alternative investments based on the capital strategy and levels of investment balances available. This option appraisal concluded that, given the Authority's planned steep reduction in reserves (resulting from its planned investment in its Capital Asset Strategy and Project 21), then investment options with a time horizon of up to 3 years would suit the Authority's cash profile and maximise returns at an appropriate level of risk. Officers in conjunction with the Treasurer will aim to seek additional returns within the approved strategy with regard to security, liquidity and yield.

2.1.8 It was recommended to add Short Dated Bond Funds to the Authority's current approved options for Investment. They are added to the group of Specified Investments the Authority can use and could be used subject to due dillegnece and favourable market conditions. They are designed to produce an enhanced return over and above an Ultra Short Dated Fund. The manager may use a wider range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated and a proportion of lower rated investments. The return on the funds are typically much higher, but can be more volatile than Ultra-Short Dated bond funds, so a longer investment time horizon is recommended.

Investment and Borrowing Strategy agreed for 2020/21

2.1.9 The Authority's investment policy has regard to the MHCLG's Guidance on Local Government Investments (the Guidance), the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Link Asset Services Guidance Notes (including CIPFA TM Code).

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

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.1.11 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 within the following durational bands that are domiciled in the UK.

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

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

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

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

The Table below set out the types of investments that fall into each category, counterparties available to the Authority, and the limits placed on each of these.

Counterparty	Country/ Domicile	Instrument	Max. investment	Max. maturity period
Counterparties in UK				
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	unlimited	1 yr
Government Treasury bills	UK	Term Deposits	unlimited	1 yr
Local Authorities	UK	Term Deposits	unlimited	1 yr
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK	Term Deposits (including callable deposits), Certificate of Deposits	£4m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK		£4m	1 yr
Barclays	UK		£4m	1 yr
Santander UK	UK		£4m	1 yr
HSBC	UK		£4m	1 yr
Goldman Sachs IB	UK	Term Deposits	£4m	1 yr
Standard Chartered Bank	UK	Term Deposits	£4m	1 yr
Individual Money Market Funds	UK / Ireland Domiciled	AAA rated Money Market Funds	£4m	Liquidity/instant access
Enhanced Money Market / Cash Funds (EMMFs) VNAV	UK/Ireland/EU Domiciled	AAA Bond Fund Rating	£4m	Liquidity

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

Non Specified Investments	Minimum credit criteria	Period
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	N/A	2 - 5 years
Short Dated Bond Fund(s)	N/A	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

2.1.14 The net borrowing requirement within Table 3.2.1 below shows that, based on current estimates, the Authority does not need to borrow in the immediate term, to support the capital programme. However in the short to medium term 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 Assistant Director Resources / Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

2.1.15 Treasury staff regularly review opportunity for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made Public Works Loan Board (PWLB) debt restructuring now much less attractive. Consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through market loans where a facility is available to agree terms but the borrower does not draw down the loan until a forward date when the funds are required.

2.1.16 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).

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

2.1.18 All debt rescheduling will be agreed by the Assistant Director Resources / Treasurer.

2.2 **Economic performance to date and outlook (commentary supplied by our advisors Link Asset Services). September 2020.**

2.2.1 The coronavirus outbreak has done huge economic damage to the UK and economies around the world.

2.2.2 As expected, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to 21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

2.2.3 The MPC also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

2.2.4 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crsis and £7bn more recently.

2.2.5 In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy

later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

2.2.6 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

2.2.7 Link Asset Services, has provided the following forecast as at 30th September 2020.

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

2.3 Interest on short term balances

2.3.1 The average base interest rate during the six months was 0.10% with no expectation placed on any increase in the near short term.

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

2.3.3 The strategy for 2020/21, agreed in February 2020, continued the prudent approach and ensured that all investments were only to the highest quality rated banks and only up to a period of one year.

2.3.4 The total amount received in short term interest for the six months to 30th September 2020 was £68k at an average rate of 0.51%. This was above the average of base rates in the same period (0.10%) and succeeded in the aim to secure investment income of at least base rate on the Fire Authority's general cash balances.

2.3.5 In April the Authority placed a £2.25m Local Authority Deposit for an 18 month period at a fixed rate of 1.25%. This deposit will secure a fixed return in the current low interest rate environment. Other deposits have been held in bank notice accounts with Lloyds/HBOS, Barclays, Goldman Sachs and Santander, their margins are priced over base rate currently between 0.19%-0.50% depending on duration of notice, 95 to 175 days.

The investments held comply with our Treasury Management Strategy and the Fire Authority has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

2.3.6 Non specified longer duration investment options such as pooled property funds, short dated bond funds and mixed asset funds were not utilised in the period. At this time of market volatility, potential principal loss and the need to keep liquidity available means these options not yet suitable. Alternative shorter investment options such as VNAV MMF's would only offer a marginal gain in return over the current counterparty list. The Fire Authority's strategy is monitored closely and has the flexibility to move into alternatives in the correct financial climate.

2.4 **Long term borrowing**

2.4.1 The cost of new borrowing is in excess of the rate achievable on our investments. No new PWLB borrowing has taken place since January 2008 and is unlikely in the immediate future, however in the short to medium term external borrowing will be required to fund the current capital programme.

2.4.2 The average interest rate of all debt at 30 September 2020 (£10.773m) was 4.60% the next loan to mature will be a £75k PWLB Loan on 31 March 2021 at a rate of 5.13%.

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

3. PRUDENTIAL INDICATORS AND LIMITS RELATING TO TREASURY MANAGEMENT ACTIVITIES

3.1 The limits set for 2020/21

The Strategy Report for 2020/21 set self-imposed prudential indicators and limits. There are on an annual basis and monitored. They comprise:

None of the limits has been exceeded in 2020/21 to date.

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

3.2 Authorised limit for borrowing

3.2.1 The table below sets out the actual 2019/20, original estimate and projected outturn in 2020/21 for borrowing.

	2019/20 Actual £000	2020/21 Original Estimate £000	2020/21 Projected Outturn £000
Opening CFR	**10,773**	**10,773**	**10,773**
Capital Investment	2,756	5,375	5,061
Sources of Finance	(2,325)	(4,944)	(4,630)
MRP	(431)	(431)	(431)
Movement in year	**-**	**(75)**	**(75)**
Closing CFR	**10,773**	**10,698**	**10,698**

less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**10,773**	**10,698**	**10,698**
Actual Long Term Borrowing	**10,773**	**10,698**	**10,698**
Over / (Under) Borrowing	-	-	-
Operational Boundary	**10,810**	**10,735**	**10,735**
Authorised Limit	**13,199**	**13,124**	**13,124**

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

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

3.2.4 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The estimated long term borrowing at 31 March 2021 of £10,698,000 is under the Authorised limit set for 2020/21 of £13,124,000.

3.3 **Interest rate exposure**

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

Interest Rate Exposure	2020/21 Upper	2021/22 Upper	2022/23 Upper
Limits on fixed interest rates based on net debt*	100%	100%	100%
Limits on variable interest rates based on net debt*	0%	0%	0%

*Net debt is borrowings less investments

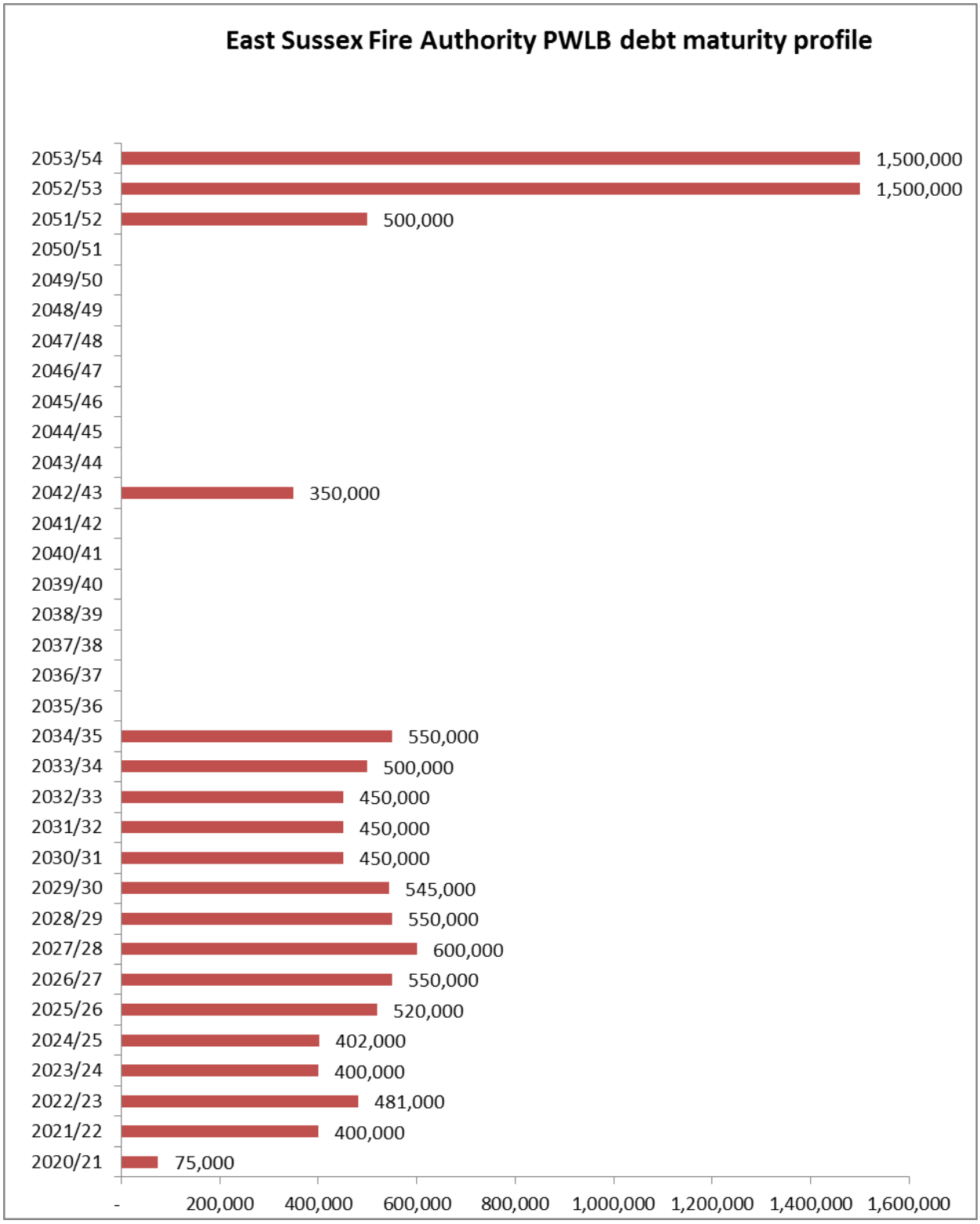
No new borrowing undertaken and all lending at fixed rates

3.4 **Maturity structure of debt**

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

	Estimated Lower Limit	Estimated Upper Limit	Current
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	40%	4%
24 months and within 5 years	0%	60%	16%
5 years and within 10 years	0%	80%	22%
10 years and within 20 years	0%	80%	22%
20 years and within 30 years	0%	80%	3%
30 years and within 40 years	0%	80%	32%
Over 40 years	0%	80%	0%

Any new borrowing undertaken would give due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any future years when interest rates may be unfavourable. No new borrowing has been undertaken in 2020/21 to date. The following graph shows when the debt will mature.


East Sussex Fire Authority PWLB debt maturity profile
2053/54
2052/53
2051/52
2050/51
2049/50
2048/49
2047/48
2046/47
2045/46
2044/45
2043/44
2042/43
2041/42
2040/41
2039/40
2038/39
2037/38
2036/37
2035/36
2034/35
2033/34
2032/33
2031/32
2030/31
2029/30
2028/29
2027/28
2026/27
2025/26
2024/25
2023/24
2022/23
2021/22
2020/21
1,500,000
1,500,000
500,000
350,000
550,000
500,000
450,000
450,000
450,000
545,000
550,000
600,000
550,000
520,000
402,000
400,000
481,000
400,000
75,000
-
200,000
400,000
600,000
800,000
1,000,000
1,200,000
1,400,000
1,600,000

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

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

3.6 **Maturity structure of investments**

The authority has a £2.25m investment with a local authority that commenced on the 18 April 2020 for a duration of 18 months, as at the 30 September 2020 the investment would mature in 390 days.

3.7 **Minimum Revenue Provision Statement**

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

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

3.7.2 The Fire Authority approved the Capital Finance Requirement projections for 2020/21 in its Strategy approved in February. These are in the original estimate below:

	2019/20 Actual £000	**2020/21 Original Estimate £000**	**2020/21 Projected Outturn £000**
Opening CFR	10,773	10,773	10,773
Closing CFR	10,773	10,698	10,698
Movement in CFR	**-**	**(75)**	**(75)**
Movement in CFR represented by:			
Net financing	431	356	356
MRP	(431)	(431)	(431)
Movement in year	**-**	**(75)**	**(75)**

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

3.7.4 The Authority sets aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR. For any new borrowing the Asset Life Method will be used to calculate MRP.

3.7.5 Over the past years the regulatory and economic environment has changed significantly and led some Authorities to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating MRP. MHCLG issued guidance in February 2018 the Authority was part of the consultation process and will amend where necessary for future strategies.

4. TREASURY MANAGEMENT ADVISORS

4.1 The Strategy for 2020/21 explained that the Fire Authority uses Link Asset Services as its treasury management consultant through the contract that exists with East Sussex County Council. The company has provided a range of services which have included:

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

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

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

5. CONCLUSION

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

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

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