EAST SUSSEX FIRE AUTHORITY

POLICY & RESOURCES PANEL

THURSDAY 15 NOVEMBER 2012 at 10:00 HOURS

MEMBERS

East Sussex County Council

Councillors Livings, Ost, Scott, Sparks, Thomas and Waite.

Brighton and Hove City Council

Councillors Pidgeon and Rufus.

You are requested to attend this meeting to be held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, on Thursday 15 November 2012 at 10:00 hours.

AGENDA

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

843. Apologies for Absence.

844. 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).

845. To consider any public questions and petitions.

846. Non-confidential Minutes of the last Policy & Resources Panel meeting held on 30 August 2012 (copy attached).

847. 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.

848. Revenue Budget and Capital Programme Monitoring – 2012/13 – joint report of the Chief Fire Officer & Chief Executive and Treasurer (copy attached).

849. Treasury Management – half year report for 2012/13 – report of the Treasurer (copy attached).

850. Members' Allowances Scheme – Independent Review – report of the Chief Fire Officer & Chief Executive (copy attached).

851. Exclusion of the Press and Public.

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

852. Confidential Minutes of the last Policy & Resources Panel meeting held on 30 August 2012 (copy attached). (Exempt categories under paragraphs 3 and 4 of the Local Government Act 1972).

853. Sussex Control Centre – Agreement between West Sussex County Council and East Sussex Fire Authority pursuant to Section 16 of the Fire & Rescue Services Act 2004 – confidential report of the Chief Fire Officer & Chief Executive (copy to follow). (Exempt category under paragraphs 3 and 4 of the Local Government Act 1972).

854. 2013/14 Medium Term Financial Planning preparations – confidential joint report of the Chief Fire Officer & Chief Executive and Treasurer (copy attached). (Exempt category under paragraph 3 of the Local Government Act 1972).

855. Facing the Challenge proposals – confidential report of the Chief Fire Officer & Chief Executive (copy attached). (Exempt category under paragraph 3 of the Local Government Act 1972).

856. Hastings Review consultation update – confidential oral update by Chief Fire Officer & Chief Executive. (Exempt category under paragraphs 3 & 4 of the Local Government Act 1972).

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

Agenda Item No. 846

EAST SUSSEX FIRE AUTHORITY

Minutes of the meeting of the POLICY AND RESOURCES PANEL held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, at 10.00 hours on Thursday 30 August 2012.

Members Present: Councillors Livings (Chairman), Ost, Pidgeon, Rufus, Scott, Sparks, Thomas and Waite.

Also present:
Mr. D. Prichard (Chief Fire Officer & Chief Executive), Mr. G Walsh (Deputy Chief Fire Officer), Mr. G. Ferrand (Assistant Chief Fire Officer), Mrs. D. Williams (Assistant Chief Officer – Corporate Services), Mr. D. Savage (Treasurer), Mr. R. Charman (Director of Financial Services), Ms. L. Woodley (Deputy Monitoring Officer) and Mrs. S. Klein (Clerk).

Mr. N. Robinson, Mrs. S. Jakeman, Mr. C. Fry, Mrs. V. Chart, Miss L. Birch, Mr. W. Tricker and Mr. B. Brewster also attended the meeting, and were given approval to stay for the exempt part of the agenda – items, numbers 839, 840 and 841.

830. **DISCLOSABLE PECUNIARY INTERESTS**

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

831. **APOLOGIES FOR ABSENCE**

831.1 There were no apologies for absence.

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

832.1 National Framework Document
At the last meeting of the Panel, Members had requested a précis of the National Framework Document, and the Clerk handed out copies at this meeting.

832.2 FBU –meeting with new Brigade Secretary
The Chairman had received a letter from Mark Brown, introducing himself as the new FBU Brigade Secretary and asking for a meeting with the Fire Authority. Members agreed with the Chairman's suggestion that this should be limited to the Group Leaders and a date would be arranged outside this meeting.

832.3 Two urgent confidential items were considered under the exempt part of the agenda.

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

833.1 There were none.

834. **NON-CONFIDENTIAL MINUTES OF THE POLICY & RESOURCES PANEL MEETING HELD ON 12 JULY 2012**

834.1 **RESOLVED** – That the minutes of the meeting held on 12 July 2012 be approved as a correct record and signed by the Chairman. (Copy in Minute Book).

834.2 The Treasurer confirmed that, under minute 826.3 – Sussex Control Centre progress report – matters relating to pensions liabilities were still subject to continuing discussions between the Authority and West Sussex County Council.

835. **CALLOVER**

835.1 Members reserved the following items for debate:

836. Revenue Budget and Capital Programme Monitoring – 2012/13
837. Integrated Risk Management Plan 2013/14-2015/16

836. **REVENUE BUDGET AND CAPITAL PROGRAMME MONITORING – 2012/13**

836.1 Members considered a joint report of the Chief Fire Officer & Chief Executive and Treasurer that reported on issues arising from the monitoring of the 2012/13 Revenue Budget and Capital Programme as at 31 July 2012. (Copy in Minute Book).

836.2 This was the second monitoring report for 2012/13, covering 1 April 2012 to 31 July 2012. The projected Revenue Budget outturn for 2012/13 was estimated to be under budget by £228,000, an increase over the previously reported £95,000 as at the end of May 2012. The projected outturn on the Capital Programme was under budget by £414,000, a reduction from the £504,000 previously reported. This was, mainly, as a consequence of greater certainty following contract close for the major works at Crowborough and the revision of the estimate of slippage to £303,000, compared with the original Capital Programme spending profile.

836.3 In response to a question from Councillor Sparks, the Treasurer explained that the Authority was reviewing its insurance cover to see if savings could be made by establishing a self-insurance fund and increasing the excesses on its existing insurance policies. The Chief Fire Officer & Chief Executive also explained that this was part of a package to reduce risks by, for example, increased driver training.

836.4 Members also noted that that the National Joint Council Employers had made a preliminary recommendation of a 1% pay increase for firefighters for 2012/13, although this was not a formal pay award offer, and this was being considered by the FBU – funds to meet a 1% increase had been included in the revenue budget.

836.5 ACFO Ferrand explained that the savings arising from the underspend on the Heathfield EA Capital Programme scheme had been negated by the funding required for the additional works arising from using Heathfield as a hub for the expansion to the Wide Area Network to cover the north and east areas of the county.

836.6 **RESOLVED** – that the Panel noted:

i. the projected 2012/13 Revenue Budget outturn;
ii. the projected Capital Programme outturn;
iii. the minor change in scope for the Heathfield EA Capital Programme scheme;
iv. the current and planned use of Balances; and
v. the progress against the 2012/13 savings targets.

837. **INTEGRATED RISK MANAGEMENT PLAN 2013/14-2015/16**

837.1 Members considered a report of the Chief Fire Officer & Chief Executive that advised them of the arrangements for delivering Integrated Risk Management Plans (IRMPs). (Copy in Minute Book).

837.2 The current IRMP contained within the Fire Authority's Medium Term Plan (MTP) for 2009/10–2012/13 required refreshing in line with the requirements of the Fire & Rescue National Framework for England, and Members noted that, in addition, the IRMP must have regard to the Sussex Resilience Forum's Community Risk Register and any other appropriate local risk analyses. Members also noted that the IRMP would be reviewed annually, to ensure it continued to meet the needs of the Service. Members then considered the following proposed IRMP Reviews:

Year	**Review**
2013/14	Review how Prevention, Protection and Response Service activities are provided to maintain the Authority's statutory duty and stated aims
2013/14	Review the co-existence of the Integrated Personal Development System against the Authority's Integrated Risk Management Plan
2014/15	Review of the Retained Duty System in light of Review 1
2014/15	Review of Aerial Provision across East Sussex considering cross border arrangements
2015/16	Review of the Day Crewed Duty System in light of the outcomes of Review 1

837.3 Consultation would be co-ordinated by Opinion Research Services and the Service's Community Risk Management Team, and would take account of the IRMP consultation Guidance Note no. 2.

837.4 Councillor Livings asked whether any guidance had yet been received on charging for AFA calls, but the Deputy Chief Fire Officer advised that there was no national guidance in place and there could be significant risks around charging if one Service introduced a policy without that guidance.

837.5 Councillor Thomas was concerned that local fire stations would still be able to cope, with the considerable building going on around Hailsham and Hellingly. He also asked about a past move to make it compulsory for all buildings to have fire alarms fitted and the Deputy Chief Fire Officer confirmed that it had been compulsory to fit fire alarms in new domestic buildings since circa 1998. There was a movement to have landlords fit alarms in properties they rent out and discussions were continuing with DCLG regarding fitting sprinklers in residential homes.

837.6 Councillor Thomas asked if there was anything elected Members could do to bring pressure on DCLG. The Deputy Chief Fire Officer confirmed that the Director of Prevention & Protection is on the National Prevention Committee and takes Members concerns to the CFOA National Committee.

837.7 Members referred to their earlier discussions that, with the severe funding cuts coming during the next four years, they would need to adopt a different approach as to how the Service is delivered. Councillor Scott suggested that the Service should concentrate on delivering its core business, although it would be for Members to define their core business.

837.8 The Assistant Chief Officer (Corporate Services) explained the consultation methods used by Opinion Research Services to ensure they get a representative response and Councillor Thomas suggested also making use of established community groups to widen the scope in terms of inclusivity.

837.9 **RESOLVED** – That the planning arrangements outlined within the paper for delivery of Integrated Risk Management Plans be approved.

838. EXCLUSION OF PRESS AND PUBLIC

838.1 **RESOLVED** – That items 839, 840 and 841 be exempt under paragraphs 3 and 4 of Schedule 12A to the Local Government (Access to Information) (Variation) Order 2006 and, accordingly, are not open for public inspection on the grounds that they include information relating to the financial or business affairs of any particular person (including the Authority holding that information), and information relating to any consultation or negotiations, or contemplated consultation or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.

The meeting concluded at 12:28 hours.

Signed Chairman

Dated this Day of 2012

Agenda Item No. 848

EAST SUSSEX FIRE AUTHORITY

Panel	**Policy and Resources**
Date:	**15 November 2012**
Title:	**Revenue Budget & Capital Programme Monitoring 2012/13**
By:	**Chief Fire Officer & Chief Executive and Treasurer**
Purpose of Report:	**To report on issues arising from the monitoring of the 2012/13 Revenue Budget and Capital Programme as at 30 September 2012**

RECOMMENDATION: The Panel is asked to note:

(i) the projected 2012/13 Revenue Budget outturn;
(ii) the projected Capital Programme outturn;
(iii) the current and planned use of Balances;
(iv) the transfer of £258,000 to Earmarked Reserves (para 4.2);
(v) the transfer from General Fund to Earmarked Reserves for the Sussex Control Centre expenditure outside of scope of the DCLG grant (para 4.3); and
(vi) the variation to the Capital Programme for the buy-out of leased vehicles using Balances (para 5.2).

MAIN ISSUES

1. This is the third monitoring report for 2012/13 covering 1 April 2012 to 30 September 2012. The Revenue Budget outturn for 2012/13 is projected to be under budget by £412,000 compared to the £228,000 previously reported in August. This projection is after transferring £258,000 to earmarked reserves in respect of a deferred IMD fire safety project (£150,000) and the base budget provision for insurance (£108,000) that it may be possible to consider as a saving in 2013/14, once more information from the insurance market is known.

2 The overall Capital Programme is projected to overspend by £21,000 compared to the £11,000 reported to the Panel in August (see Appendix 2). The current year's programme is projected to be under budget by £559,000 against £414,000 previously reported in August, due to slippage on projects from 2012/13 to 2013/14 (see Appendix 3).

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

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

5. Appendix 5 shows the projected Balances position.

Des Prichard
CHIEF EXECUTIVE & CHIEF FIRE OFFICER

Duncan Savage
TREASURER

24 October 2012

1 INTRODUCTION

1.1 The financial information contained in this report is based upon the budget report enquiries as at 30 September 2012, and the projected outturn is shown in the summary at the end of this report as Appendix 1.

2. BUDGET OUTTURN SUMMARY

2.1 The table below summarises the change from previously reported 2012/13 Revenue Budget and Capital spending positions.

Projected Outturn

	Last P&R Panel report (30.08.12) £,000	This P&R Panel report £,000	Movement £,000
Revenue (see paragraph 3)	(228)	(412)	(184)
Capital (see paragraph 5)	(414)	(559)	(145)

2.2 The movement in the projected Revenue Budget outturn is detailed in Paragraph 3 below.

3 PROJECTED REVENUE BUDGET OUTTURN – OBJECTIVE LEVEL

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

Directorate/Budget	**Current Budget**	**Actual to date**	**Projected Outturn**	**Variance**	**Last P & R 30 August**
	£,000	**£,000**	**£,000**	**£,000**	**£,000**
Service Delivery Response	5,406	2,663	5,396	(10)	0
Service Delivery Prevention	717	374	713	(4)	0
Operational Pay and Pensions	18,296	8,995	18,092	(204)	0
Total service delivery/operational budget (61% of total budget)	**24,419**	**12,032**	**24,201**	**(218)**	**0**
Service Support Estates	1,292	487	1,291	(1)	0
Service Support IMD	3,166	1,748	3,156	(10)	0
Service Support Fleet	2,007	1,111	1,900	(107)	0
Service Support Other	221	165	219	(2)	0
Total Service Support budget (17% of total budget)	**6,686**	**3,511**	**6,566**	**(120)**	**0**
POD OD	582	260	578	(4)	0
POD HR	738	369	735	(3)	0
POD L & D	1,424	619	1,420	(4)	0
Total People & Org Development (7% of total budget)	**2,744**	**1,248**	**2,733**	**(11)**	**0**
Corporate Services (6% of budget)	**2,357**	**1,063**	**2,348**	**(9)**	**(102)**
PO's (2% of budget)	**779**	**336**	**779**	**0**	**0**
Central (7% of budget)	**3,045**	**127**	**2,991**	**(54)**	**(126)**
Total	**40,030**	**18,317**	**39,618**	**(412)**	**(228)**

3.2 **SERVICE DELIVERY**: The projected underspend of £14,000 reflects the pay award provision not required for Response and Prevention support staff.

3.3 **OPERATIONAL PAY:** The operational budget is projected to be on-line. The recently announced 1% pay award for all uniformed personnel under Grey Book service conditions is taken into account.

3.3.1 **Wholetime:** Operational strength is currently at 414, 7 below establishment as at 30 September 2012. However, a combination of possible recruitment of external transferees and further migration of Retained Duty System (RDS) staff to wholetime positions is expected to allow a sufficient operational strength in 2012/13. It is assumed that these appointments, combined with the use of planned overtime to maintain crewing, will result in a balanced budget.

3.3.2 The need for operational staff savings in 2013/14 has to be borne in mind before any permanent recruitment is made and will be balanced against crewing requirements.

3.3.3 **Retained**: The retained budget is projected to be online and includes the provision for a 1% pay award. As always, the Retained budget remains very volatile and Financial Services continue to work closely with Borough Commanders to monitor the situation.

3.4 **PENSIONS**: Following a review of Firefighter pensions when submitting the DCLG Top Up Grant data, the previous projected underspend of £126,000 on pensions did not include the Ill Health Provision of £78,000 in the base budget that will not be required in 2012/13. This increases the projected underspend in this category to £204,000, £100,000 of which will be saved from the base in 2013/14. The cost of Ill Health retirements is met in the financial year following retirement and, as there are retirements in the current year, the Ill Health base budget provision will be maintained for 2013/14.

3.5 **SERVICE SUPPORT:** This budget is forecast to be under by £120,000. (Previously reported to be online) This comprises an underspend on Support Staff pay of £20,000 and a projection for Fuel of £100,000. It also assumes that the £70,000 earmarked for an IMD Strategic Consultant in the budget will be spent this year and that £150,000 for the Fire Safety Data Base is transferred to Earmarked Reserves as detailed in Paragraph 3.5.2 below.

3.5.1 **Estates:** Financial Services are continuing to review the Estates budget with the newly appointed Head of Estates Management whereby an underspend is anticipated. The findings will be reported to Corporate Management Team (CMT) in November.

3.5.2 **Information Management Department:** Financial Services and the Head of IMD had identified potential savings of up to £200,000. However, in the current year, this will be utilised to ensure the delivery of key work streams in 2012/13. For 2013/14, the first call on the potential savings will be to meet service investments proposed in the 2013/14 IMD Strategy as considered by CMT. The Director of Prevention and Protection and the Head of IMD have advised that the Fire Safety Database Community Safety Module scheduled for 2012/13 be deferred to 2014/15 due lack of staff resources, and £150,000 should be transferred to Earmarked Reserves for this purpose.

3.5.3 **Fleet:** There is a projected underspend on the fuel budget of £100,000 due to a number of factors: wholesale fuel prices having remained stable for the past two years; inflation provision above actual price increases; reduced fleet mileage due to fewer incidents; and enhanced fleet management arising from the introduction of the vehicle data loggers. It is not proposed to allocate this underspend, at this stage, but to retain it for any overspends and/or add to general reserves at year-end, if not required. It will be removed from the base budget when forming the 2013/14 committed budget and reflected as a committed budget saving to help towards the strategic resources gap.

3.6 **PEOPLE AND ORGANISATIONAL DEVELOPMENT (POD):** The projected underspend of £11,000 reflects the 1% pay award provision not required for Organisational Development, Human Resources and L&D support staff.

3.7 **CORPORATE SERVICES:** There is a projected underspend of £9,000. This is the net position after the £108,000 in insurance budgets is transferred to Earmarked Reserves as set out in Paragraph 4.2 below. The £9,000 then relates to underspends on Members' Allowances (£6,000) and support staff (£9,000) and also an overspend on Internal Audit fees of £6,000. The Insurance underspend £108,000 and Audit fees overspend had been previously reported to The Panel.

3.8 **CENTRAL:** £54,000 has been identified as unallocated following a review of centrally held budgets undertaken following the announcement of the recent fire pay award.

3.9 In summary, the Revenue Budget is projected to underspend by £412,000.

4. <u>BALANCES</u>

4.1 The table below sets out the opening Balances at the start of the financial year and the planned and projected use during 2012/13.

Earmarked Reserves	**1 April 2012**	**2012/13 Transfers**	**31 March 2013**
	£,000	£,000	£,000
Total Earmarked Reserves	2,365	151	2,516
Capital Programme Reserve	1,152	1,000	2,152
General Fund	4,093	(1,043)	3,050
Total	**7,610**	**108**	**7,718**

4.2 **The Panel is asked to note the in-year transfer of £258,000 to Balances (Earmarked Reserves) for the following:**

Transfers from Budget 2012/13 to Earmarked Reserves	£,000
IMD Fire Safety Database Project (Transfer to Earmarked Reserve – deferred to 2014/15)	150
Insurance (Transfer to future Earmarked Reserve in addition to £106,000 already in Reserves)	108
TOTAL	**258**

4.3 **The Panel is also asked to note the transfer of £311,000 from General Fund Balances to Earmarked Reserves for the Sussex Control Room expenditure which is outside of the scope of the DCLG grant. (detailed below)**

General Funds to Earmarked Reserves	£,000
SCC Desktop Provision	85
SCC Connectivity	106
Mapping Solution	120
TOTAL	**311**

4.4 Appendix 5 sets out the current opening and new use of Balances for 2012/13, in detail.

5. CAPITAL PROGRAMME PROJECTS

5.1 As part of the drive to close the budget funding gap in the Medium Term Financial Plan, the Panel is advised that discussions are taking place to buy out the remaining operational vehicles that are currently leased. Currently, ESFRS pay a lease charge for 18 vehicles costing around £214,000 per annum which will be the annual saving in 2013/14 reducing to £169,000 in 2015/16. The cost is in the region of £670,000 and can be funded from the Capital Programme reserve. There is a saving of £110,000 (NPV) compared to the costs of leasing over the period, excluding the asset value that comes to the Fire Authority at the end of the lease.

5.2 **The Panel is asked to note the variation to the Capital Programme to include the above operational leasing buy out, subject to the agreement of the Treasurer when costs are confirmed.**

5.3 Appendix 2 details the Capital Programme allowing for slippage brought forward from 2011/12, approved at the Policy & Resources Panel meeting on 24 May 2012 and including previously approved variations. The overall programme is projected to overspend by £21,000 compared to the previously reported £11,000.

5.4 Appendix 3 shows the current year's budgeted and projected Capital spend. The Project Managers have advised that the following projects totalling £559,000 compared to the previously reported £414,000 will not spend to budget in 2012/13.

- **Crowborough Refurbishment:** Following a recent Project Board Meeting, the Project Manager has advised that the Project, which is due to start this month and expected to take 52 weeks, will spend approximately £540,000 in 2012/13 with the remaining budget of £468,000 slipping into 2013/14. Therefore, this presents a projected spend under budget in the current year of £469,000 that will be spent in 2013/14. (Previously Reported as £313,000)

- **Replacement Cars and Vans:** This scheme has resulted in a saving of £17,000.

- **Roedean Drill Tower:** The Project Manager has advised that the amount of work required on the tower is substantially less than anticipated with a resultant saving of £70,000. (Previously reported as £80,000)

- **Wadhurst Drill Tower:** The scheme is completed with an underspend in the current year of £4,000, but an overall overspend of £29,000. The overspend was previously reported to Policy and Resources Panel in July 2012.

- **Aerial Rescue Pump:** Changes to the specifications has meant that a saving of £11,000 will be achieved.

5.5 **Heathfield EA:** The Project Manager has advised that the original building work on this project will come in slightly under budget. There is additional work being carried out to support the Wide Area Network extension (Heathfield will be a hub) that will cost in the region of £15,000. The project was previously reported to the P&R Panel as being on line, but this was before the additional work was undertaken.

5.6 **Refurbishment Lewes & Bexhill:** The Project Manager has advised that the Lewes & Bexhill project is complete and the final retention payments have been made to the contractors. The scheme was projected to come in on budget in this financial year, but has overspent by £2,000 as a result of a final inspection and schedule of defects by the architects. Overall, the project overspent by £81,000 compared to the £79,000 previously reported.

5.7 Appendix 4 shows the projected resources available to finance the Capital Programme.

6. <u>GENERAL BUDGET ISSUES</u>

6.1 The Financial Services Team is continuing to work with Budget Managers reviewing their monitoring arrangements and budgets to identify any further potential areas of future savings to help close the funding gap and lessen the potential for redundancies. Elsewhere on this Agenda is a first draft projection of the committed budget for 2013/14 as part of the 2013/14 Medium Term Financial Planning preparations.

7. <u>SUMMARY</u>

7.1 This reports the current position on the main areas of spending for both Revenue and Capital. There are no outstanding issues**.**

East Sussex Fire & Rescue Service Outturn Projection April to September 2012 **Appendix 1**

	Base Budget	Variations	Current Budget	Actual to Date	Projected Outturn	Projected Variance
	£,000	£,000	£,000	£,000	£,000	£,000
Employees	26,029	234	26,263	12,471	26,155	(108)
Premises	2,093	76	2,169	1,078	2,169	0
Transport	1,396	(30)	1,366	829	1,266	(100)
Supplies & Services	6,034	(231)	5,803	2,685	5,797	(6)
Support Services	527		527	3	533	6
Capital Financing	2,428		2,428	0	2,428	0
Less Income	(1,283)	(275)	(1,558)	(445)	(1,558)	0
Total	**37,224**	**(226)**	**36,998**	**16,621**	**36,790**	**(208)**
Treasury Management	(1,594)	4	(1,590)	204	(1,590)	0
Pensions	3,200	(36)	3,164	1,492	2,960	(204)
Total Expenditure	**38,830**	**(258)**	**38,572**	**18,317**	**38,160**	**(412)**
Transfer from Balances						
Transfer to Balances	1,200	258	1,458		1,458	
Total Gross Expenditure	**40,030**	**0**	**40,030**	**18,317**	**39,618**	**(412)**
Financed by:						
Formula Grant	(15,245)		(15,245)	(7,622)	(15,245)	0
Council Tax	(24,764)		(24,764)	(12,382)	(24,764)	0
Council Tax Collection Fund (Surplus)/Deficit	(21)		(21)	(11)	(21)	0
	(40,030)	**0**	**(40,030)**	**20,015**	**(40,030)**	**0**

Appendix 2

East Sussex Fire & Rescue Service Capital Programme Monitoring April 2012 to March 2013

Capital scheme	Base Budget	Variations	Total approved budget	Spend previous years	Spend 2012/13	Total Spend	Orders placed	To be processed 2012/13	To be processed future years	Forecast outturn	Variance on approved Budget
Schemes starting in 2012/13	£,000	£,000	**£,000**	£,000	£,000	**£,000**	£,000	£,000	£,000	**£,000**	**£,000**
Replacement Cars & Vans	40		**40**		23	**23**				**23**	**(17)**
Purchase of Land for Service Requirements	1,800		**1,800**		4	**4**	8	1,788		**1,800**	**0**
BA Classroom Maresfield	220		**220**		15	**15**	10	195		**220**	**0**
Property Strategy	760		**760**		0	**0**		210	480	**690**	**(70)**
Operational Vehicles lease buy out		670	**670**			**0**		670		**670**	**0**
Information Management Strategy; SCC	1,120		**1,120**			**0**		840	280	**1,120**	**0**
Total Schemes starting 2012/13	**3,940**	**670**	**4,610**	**0**	**42**	**42**	**18**	**3,703**	**760**	**4,523**	**(87)**
Continuing schemes starting in previous years											
Combined Aerial Rescue Pump	780		**780**	105		**105**	664			**769**	**(11)**
Wadhurst Drill Tower	150		**150**	179		**179**				**179**	**29**
Crowborough Refurbishment	350	670	**1,020**	12	6	**18**	65	469	468	**1,020**	**0**
Heathfield EA	110		**110**	6	68	**74**	13	32		**119**	**9**
Refurbishment Lewes & Bexhill	605	27	**632**	693	19	**712**	1			**713**	**81**
Total schemes from previous years	**1,995**	**697**	**2,692**	**995**	**93**	**1,088**	**743**	**501**	**468**	**2,800**	**108**
Total	**5,935**	**1,367**	**7,302**	**995**	**135**	**1,130**	**761**	**4,204**	**1,228**	**7,323**	**21**

Capital Spend in 2012/13 – forecast spending at 2012/13 outturn (NOT total project outturn)

Appendix 3

Capital scheme	Budget spend 2012/13	Spend 2012/13	Orders placed	Still to be Processed in 2012/13	Outturn	Variance on 2012/13 Budget
Schemes starting in 2012/13						
Replacement Cars & Vans	**40**	23			**23**	**(17)**
Purchase of Land for Service Requirements	**1,800**	4	8	1,788	**1,800**	**0**
BA Classroom Maresfield	**220**	15	10	195	**220**	**0**
Property Strategy Roedean Drill Tower	**90**			20	**20**	**(70)**
Property Strategy Roedean Roof	**30**			30	**30**	**0**
Property Strategy Replacement of Fuel Tanks	**55**			55	**55**	**0**
Property Strategy Sustainability Initiative	**105**			105	**105**	**0**
Operational Vehicles lease buy out	**670**			670	**670**	**0**
Information Management Strategy; SCC	**840**			840	**840**	**0**
Total Schemes starting 2012/13	**3,850**	**42**	**18**	**3,703**	**3,763**	**(87)**
Continuing schemes starting in previous years						
Combined Aerial Rescue Pump	**675**		664		**664**	**(11)**
Wadhurst Drill Tower	**4**				**0**	**(4)**
Crowborough Refurbishment	**1,008**	6	65	469	**540**	**(468)**
Heathfield EA	**104**	68	13	32	**113**	**9**
Refurbishment Lewes & Bexhill	**18**	19	1		**20**	**2**
Total Schemes starting in previous years	**1,809**	**93**	**743**	**501**	**1,337**	**(472)**
Total	**5,659**	**135**	**761**	**4,204**	**5,100**	**(559)**

Capital Resources 2012/13 **Appendix 4**

	Original Budget	Variations	Total Budget	Income Received	Projected Resources	Variance on 2012/13 Budget spend
	£,000	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Capital Programme Reserve	1,152		1,152		1,152	0
Contribution from General fund	0	670	670		670	0
Capital Receipts	840		840		840	0
DCLG bid funding; SCC	840		840		840	0
Government Grant	1,203		1,203	1,203	1,203	0
Revenue transfer to Capital Reserves	1,000		1,000		1,000	0
Total Resources	**5,035**	**670**	**5,705**	**1,203**	**5,705**	**0**

Appendix 5

BALANCES POSITION WITH IN YEAR TRANSFERS 2012/13						
	2012/13 Opening Balance £,000	**2012/13 Anticipated Spend £,000**	**2012/13 Transfer To General £,000**	**2012/13 Transfer To earmarked £,000**	**2012/13 Transfer To Earmarked from Rev Bud £,000**	**2013/14 Opening Balance £,000**
Earmarked Reserves						
Transition	500	(500)	0	0	0	0
Collaboration	500	0	0	0	0	500
Wide Area Network	400	0	(400)	0	0	0
San H Communication Equipment	178	0	(178)	0	0	0
Maritime Incident Response Group	150	0	0	0	0	150
Insurance Reserve	106	0	0	0	108	214
Technical Fire Safety	95	(95)	0	0	0	0
Community Fire Safety 2014/15	0	0	0	0	150	150
Breathing Apparatus 2014/15	0	0	0	750	0	750
SCC Desktop Provision				85		85
SCC Connectivity				106		106
Mapping Solution				120		120
Coaching for Safer Communities	91	0	(41)	0	0	50
Relocation Expenses for staff vacating Houses	85	0	0	0	0	85
RDS Training	70	0	0	0	0	70
IMD Strategy	55	(55)	0	0	0	0
Outstanding Minor Commitments relating to 2011/12	46	0	(46)	0	0	0
Volunteers Scheme (3 years)	36	0	0	200	0	236
IMD HR system Replacement	30	(30)	0	0	0	0
Community Safety CF	12	0	(12)	0	0	0
Safe Drive	11	0	(11)	0	0	0
Total Earmarked Reserves	2,365	(680)	(688)	1,261	258	**2,516**
General Fund	4,093		688	(1,261)	200	3,720
Operational lease buy-out		(670)				(670)
						3,050
Capital Programme Reserve	1,152		0	0	1,000	**2,152**
TOTAL BALANCES	**7,610**	**(1,350)**	**0**	**0**	**1,458**	**7,718**

EAST SUSSEX FIRE AUTHORITY

Agenda Item No. 849

Panel:	**Policy & Resources**
Date:	**15 November 2012**
Title:	**Treasury Management – half year report for 2012/13**
By:	**Treasurer**
Purpose of Report:	**The treasury management half yearly report is a requirement of the Fire Authority's reporting procedures and covers the treasury activity for the first six months of 2012/13. The report includes an update on the first half year of Prudential Indicators which relate to the treasury activity.**

RECOMMENDATION: The Panel is asked to note the treasury management performance for the first half year of 2012/13.

MAIN ISSUE

1. To receive and note the treasury management performance report for the first half year of 2012/13.

Duncan Savage
TREASURER
31 October 2012

Previous Meetings
Fire Authority
7 June 2012 – Agenda Item 644: Treasury Management – Stewardship report for 2011/12
2 February 2012 – Agenda Item 624: Treasury Management Strategy for 2012/13
8 December 2011 – Agenda Item No 593: Half yearly report and amendment to our Strategy for 2011/12

Policy & Resources Panel
17 November 2011 – Agenda Item No 777: An update on the amendments to our Strategy for 2011/12

Background Papers
CIPFA Treasury Management in the Public Services (updated in November 2009)
Code of practice and cross sectional guidance notes
Local Government Act 2003
Local Government Investments – Guidance from the former Office of the Deputy Prime Minister
CIPFA Prudential Code in November 2009
Communities and Local Government – Changes in the Capital Finance System

TREASURY MANAGEMENT – HALF YEAR REVIEW FOR 2012/13

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), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

b) Statutory Instrument (SI) 3146 2003 develops the controls and powers within the Act;

c) The SI requires the Fire Authority to undertake any borrowing activity with regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities;

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

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

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

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

1.4 This report sets out information on:

a) A summary of the strategy agreed for 2012/13 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;
c) The performance to date of the Prudential Indicators which relate to the Treasury Management function and compliance within the limits; and
d) Treasury Management advice received.

2. 2012/13

2.1 Strategy for 2012/13

2.1.1 At its meeting on 2 February 2012, the Fire Authority agreed its treasury management strategy for 2012/13, taking into account the economic scene including forecast levels of interest rates. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Fire Authority.

2.1.2 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. This list is reviewed regularly to ensure that the Fire Authority is able to invest in the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained.

2.1.3 When the strategy for 2012/13 was drawn up earlier in the year, the money markets were still volatile with Banks reluctant to lend to each other. In this climate, ensuring the security of investments continued to be difficult and extreme caution has to be taken on where surplus funds can be invested.

2.1.4 At the same time, the Treasury Management Policy Statement was agreed for 2012/13 as set out below:

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

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

2.1.6 Our opportunities to reschedule debt had been monitored, but have not arisen as yet. The PWLB increased all of its lending rates by 1% in October 2010 (the Government's Comprehensive Spending Review). However, it did not increase the rate of interest used for repaying debt so that not only had the cost of our future borrowing increased, but the opportunity to restructure our debt when market conditions allow had been significantly reduced.

Investment

2.1.7 When the strategy was agreed in February of this year, the advice given to us by our advisors, Sector, was that short term rates were expected to remain on hold for a considerable time. Economic forecasting remained troublesome with so many extermal influences weighing on the UK. There was consensus among analysts that the economy would remain weak and whilst there was still a broad range of views as to potential performance, they were all downgraded throughout 2011. Key areas of uncertainty included:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both; stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

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

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

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

2.1.11 The strategy going forward was to continue with the policy of ensuring minimum risk but will also need to deliver secure investment income of at least bank rate on the Fire Authority's cash balances. (The actual target is bank rate plus 0.4%).

2.1.12 As will be clear from the events globally and nationally over the last three years, it would be impossible, in practical terms, to eliminate all credit risk. The Fire Authority seeks to be as prudent as possible.

Strategy agreed for 2012/13

2.1.13 The strategy ensured that, in the economic climate, a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Authority's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield. The strategy continued with this prudent approach and no change was proposed from the revised strategy for 2011/12.

2.1.14 It was also recognised that movements within the money markets happen with no notice and the Treasurer may have to amend this strategy in order to safeguard Fire Authority funds. As in the past, any such actions would be reported to the next Fire Authority meeting.

2.1.15 It was not expected that any new external borrowing would be undertaken in 2012/13. However the limits set out in the Authorised Limit allowed such borrowing. External borrowing will only take place if the rates available were so low that the long term benefits will significantly exceed the short term cost.

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

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

(A) UK Investment Without Government Equity Holding

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

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

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

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

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

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

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

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

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

Bank
Lloyds/HBOS
Nat West/RBS

Only banks which met the following minimum rating criteria for at least two of the designated agencies were to be used. The banks would not be used if the UK Sovereign rating falls below AAA.

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

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

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

2.2 **Economic factors affecting the Strategy in 2012/13 (commentary supplied by our advisors Sector).**

Sector (our Treasury Management advisors) have set out the Economic factors affecting the Strategy in the first six months of 2012/13 and the outlook for the next six months.

<u>The first six months of 2012/13</u>

2.2.1 Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

2.2.2 With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East and China.

2.2.3 In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably, growth has also fallen in the last year. The UK's recovery from the initial 2008 recession has been difficult and slow and has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased substantially in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

2.2.4 On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the European Central Bank (ECB) bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

Outlook for the rest of 2012/13

2.2.5 The risks in economic forecasts continue unabated from the previous treasury strategy. There are concerns about the Chinese economy and America is hit by political deadlock which prevents a positive approach to countering weak growth. In September, the Federal Reserve announced a stimulus programme for the US economy and stated that it was unlikely that there would be any increase in interest rates until at least mid-2015.

2.2.6 Eurozone growth will remain weak as austerity programmes in various countries curtail economic recovery. Greece and Spain have remained in the spotlight with no improvement in their economies. In September, the European Central Bank (ECB) announced that it would purchase unlimited amounts of shorter term bonds of Eurozone countries which have formally agreed the terms for a bailout. Importantly, this support would be subject to conditions (which have yet to be set) and include supervision from the International Monetary Fund. This resulted in a surge in confidence that the Eurozone has, at last, put in place the framework for adequate defences to protect the Euro. Despite this measure, the crisis is far from being resolved as yet. The immediate aftermath of the announcement was a rise in bond yields in safe haven countries, including the UK. However, this could prove to be as short lived as previous 'solutions' to the Eurozone crisis.

2.2.7 The Bank of England Quarterly Inflation Report in August pushed back the timing of the return to trend growth and also lowered its inflation expectations. Concern remains that the Bank's forecasts of a weaker and delayed robust recovery may be over optimistic given the world headwinds the UK economy faces. Weak export markets, consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears are the main issues. The Coalition Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

2.2.8 The overall balance of risks is, therefore, weighted to the downside:

- We expect low growth in the UK to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.
- This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then Bank Rate is likely to be depressed for even longer than in this forecast.

2.3 Interest on short term balances

2.3.1 Base interest rate has stayed at 0.5% in 2012/13 to date. The rate is the lowest ever and has remained unchanged for the longest period on record. The last change was on 5 March 2009.

2.3.2 There have been continued uncertainties in the markets during the year to date as set out in the previous paragraphs.

2.3.3 Additional market information including Sovereign ratings, Credit Default Swaps, equity prices, the Sector security and liquidity model and the CIPFA National treasury risk model as well as media updates etc. have been used to assess the relative security of differing investment counterparties.

2.3.4 The strategy for 2012/13, agreed in February 2012, continued the prudent approach and ensured that all investments were only to the highest quality rated banks and only up to a period of one year. No changes to this strategy have been required, but a more prudent approach than was set out in the strategy has been adopted because of uncertainties in the market. Investments in all banks continued to be on call (overnight only).

2.3.5 The total amount received in short term interest for the six months to 30th September 2012 was £49,329 at an average rate of 0.67%. This was above the average of base rates in the same period (0.5%) but fell short of the aim to secure investment income of at least base rate plus 0.4% on the Fire Authority’s general cash balances. This is against a backdrop ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk.

2.3.6 The reason for the reduction in return from June was because of the transfer of our investment in Money Market Funds (MMFs) from “Cash Type” to “Treasury Type” which has funds in Government Securities only and into the safe haven of the Government’s Debt Management Account Deposit Facility (DMADF). The interest rate received on all MMFs has reduced during the first six months and the “Treasury Type” MMFs and the DMADF rates received are less than received on “Cash Type” MMFs. The reason for these changes was the continued major concerns in the market due to the problems with European countries and the Euro and these have been set out above in paragraphs 2.2.1 to 2.2.8 above. The changes to the investments held comply with our Treasury Management Strategy and the Fire Authority has continued to follow an extremely prudent approach with security and liquidity as the main criteria before yield.

2.4 **Long term borrowing**

2.4.1 The Fire Authority borrows long term to finance its Capital Programme. The Public Works Loan Board (PWLB) is a body set up by the Government that makes sums available for local authorities to borrow long term for capital spending and to refinance existing loans. Their rates were generally the cheapest available in the market on a like-for-like basis until last October (the day of the Government’s Comprehensive Spending Review) when it increased all of its lending rates by 1%. There is now only a marginal difference between the PWLB and market loans.

2.4.2 No borrowing was undertaken in the first six months of 2012/13.

2.4.3 The total outstanding loan debt at 30 September 2012 is £11,123,000 which did not change from 31 March 2012. The interest rate remains at 4.617%.

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

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

2.5 **Short term borrowing**

2.5.1 No borrowing has been undertaken on a short-term basis during 2012/13 to date to cover temporary overdraft situations.

3. PRUDENTAL INDICATORS AND LIMITS RELATING TO TREASURY MANAGEMENT ACTIVITIES

3.1 The limits set for 2012/13

The Strategy Report for 2012/13 set self-imposed prudential indicators and limits. There are on an annual basis and monitored. They comprise:

- Authorised limit for borrowing (See 3.2 below)
- Interest rate exposure (See 3.3 below)
- Maturity structure of debt (See 3.4 below)
- Compliance with the treasury management code of practice (See 3.5 below)
- Interest on Investments (See 3.6 below)
- Maturity structure of investments (See 3.7 below)

3.2 Authorised limit for borrowing

3.2.1 The table below sets out the actual 2011/12, original estimate and projected outturn in 2012/13 for borrowing.

	2011/12 Actual £000	**2012/13 Original Estimate £000**	**2012/13 Projected Outturn £000**
Opening CFR	**11,449**	**11,177**	**11,059**
Capital Investment	1,483	4,808	5,100
Sources of Finance	(1,203)	(3,853)	(4,879)
MRP	(458)	(447)	(419)
MRP – Finance Leases	(212)	(186)	(186)
Movement in year	**(390)**	**322**	**(384)**
Closing CFR	**11,059**	**11,499**	**10,675**
less Finance Lease Liability	(580)	(394)	-
Underlying Borrowing Requirement	**10,479**	**11,105**	**10,675**
Actual Long Term Borrowing	**11,123**	**11,123**	**11,123**
Over / (Under) Borrowing	644	18	448
Operational Boundary	**10,170**	**11,550**	**11,550**
Authorised Limit	**12,590**	**13,982**	**13,982**

3.2.2 The reasons for borrowing in advance of need have been set out in previous Strategy, Stewardship and Half Year reports.

3.2.3 The borrowing limits set in each year include capacity to borrow in advance of need.

3.2.4 The Capital Financing Requirement less the liability for operational leasing gives the Underlying Borrowing Requirement and this can be used as a comparison to the Long Term Borrowing.

3.2.5 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.

3.2.6 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 sufficient additional 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.

3.2.7 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 2013 of £11,123,000 is under the Authorised Limit set for 2012/13 of £13,982,000.

3.3 **Interest rate exposure**

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

Borrowing	2012/13 Estimate	2012/13 Actual To date
Fixed Rate Exposure		
Upper Limit	100%	100%
Lower Limit	100%	
Variable Rate Exposure		
Upper Limit	0%	0%
Lower Limit	0%	

No new borrowing undertaken in 2012/13 to date and unlikely for the rest of the year.

Lending	2012/13 Estimate	2012/13 Actual To date
Fixed Rate Exposure		
Upper Limit	100%	53%
Lower Limit	0%	
Variable Rate Exposure		
Upper Limit	100%	47%
Lower Limit	0%	

All lending at fixed rates

Borrowing and Lending combined	2012/13 Estimate	2012/13 Actual To date
Fixed Rate Exposure		
Upper Limit	100%	73%
Lower Limit	49%	
Variable Rate Exposure		
Upper Limit	51%	27%
Lower Limit	0%	

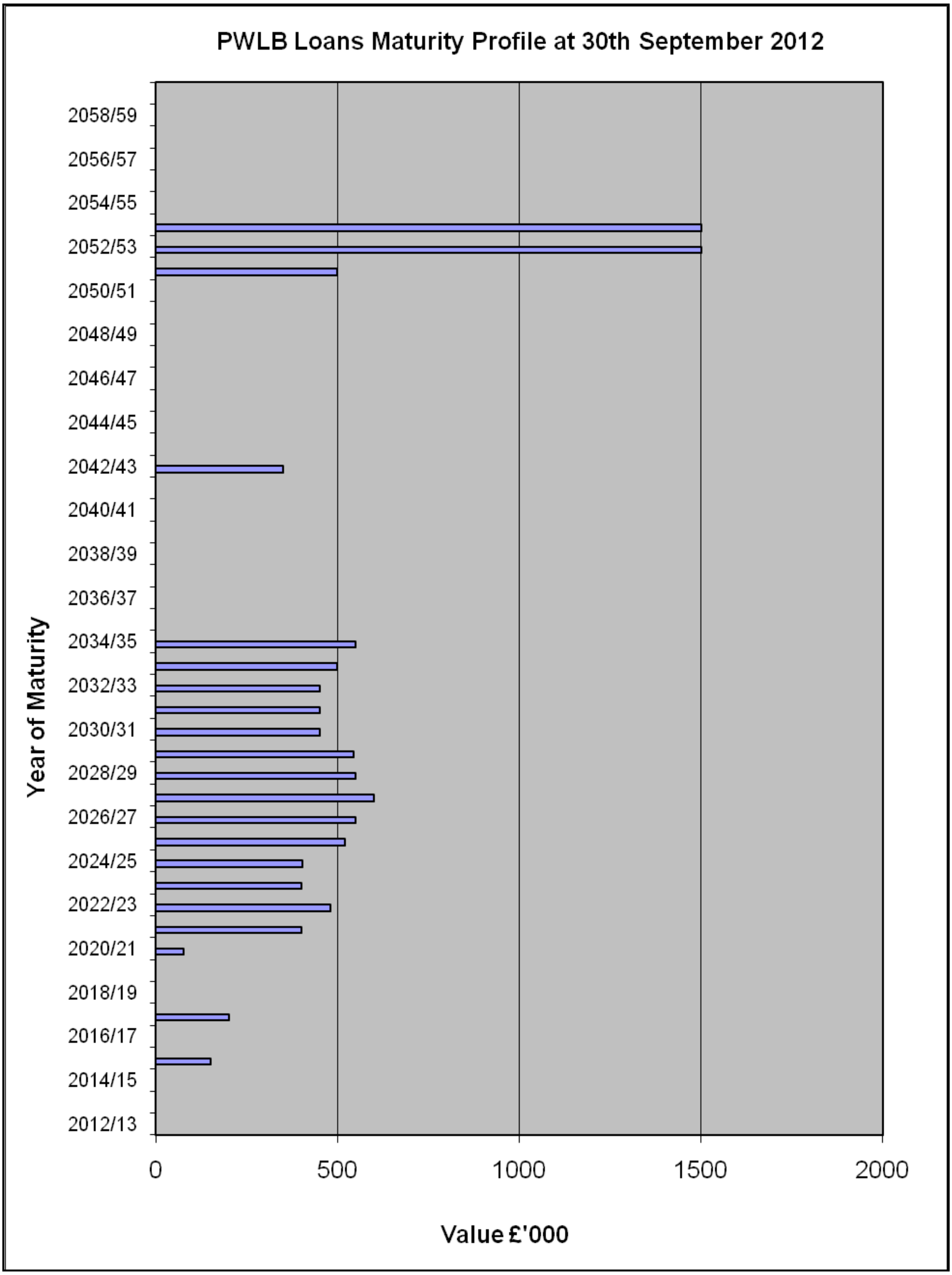
No new borrowing undertaken and all lending at fixed rates

3.4 **Maturity structure of debt**

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

	Estimated Lower Limit	Estimated Upper Limit	Current
Under 12 months	0%	25%	0%
12 months and within 24 months	0%	40%	0%
24 months and within 5 years	0%	60%	1%
5 years and within 10 years	0%	80%	6%
10 years and within 20 years	0%	80%	44%
20 years and within 30 years	0%	80%	14%
30 years and within 40 years	0%	80%	8%
Over 40 years	0%	80%	27%

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 2012/13 to date. The following graph shows when the debt will mature.



3.5 Compliance with the treasury management code of practice

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

3.6 **Interest on Investments**

The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect the interest rates available in the market, the reduced term of the investment to an overnight (on call) policy and limitation in the use of counterparties.

Month	Amount £	Monthly rate	Margin over Base rate	Margin against Base plus 0.4%
April	9,528	0.88%	0.38%	-0.02%
May	9,758	0.86%	0.36%	-0.04%
June	7,789	0.72%	0.22%	-0.18%
July	7,431	0.58%	0.08%	-0.32%
August	7,485	0.54%	0.04%	-0.36%
September	7,338	0.54%	0.04%	-0.36%
First six months of 2012/13	**49,329**	**0.67%**	**0.17%**	**-0.23%**

3.7 **Maturity structure of investments**

The total amount received in short term interest for the six months to 30th September 2012 was £49,329 at an average rate of 0.67%. This was above the average of base rates in the same period (0.5%) but below the aim to secure investment income of at least base rate plus 0.4% on the Fire Authority's cash balances whilst ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk.

The reason for the reduction in return from June was because of the transfer of our investment in Money Market Funds (MMFs) from 'Cash Type' to 'Treasury Type' which has funds in Government Securities only and into the safe haven of the Government's Debt Management Account Deposit Facility (DMADF). The interest rate received on all MMFs have reduced during the first six months and the 'Treasury Type' MMFs and the DMADF rates received are less than received on 'Cash Type' MMFs. The reason for these changes was the continued major concerns in the market due to the problems with European countries and the Euro and these have been set out above in paragraphs 2.2.1 to 2.2.8. The changes to the investments held comply with our Treasury Management Strategy and the Fire Authority has continued to follow an extremely prudent approach with security and liquidity as the main criteria before yield.

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

3.8 **Minimum Revenue Provision Statement**

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

3.8.1 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.

3.8.2 The Fire Authority approved the Capital Finance Requirement projections for 2012/13 in its Strategy approved in February. These are in the original estimate below:

	2011/12 Actual £000	**2012/13 Original Estimate £000**	**2012/13 Projected Outturn £000**
Opening CFR	11,449	11,177	11,059
Closing CFR	11,059	11,499	10,675
Movement in CFR	**(390)**	**322**	**(384)**
Movement in CFR represented by:			
Net financing	280	955	221
MRP	(458)	(447)	(419)
Reduction in Finance Lease Liability	(212)	(186)	(186)
Movement in year	**(390)**	**322**	**(384)**

3.8.3 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.

3.8.4 The Fire Authority has implemented MRP guidance and will assess the MRP for 2012/13 in accordance with the main CLG Regulations contained within the guidance issued by the Secretary of State under section 21 (1A) of the Act. A variety of options are provided to authorities, so long as there is a prudent provision. The major proportion of the MRP for 2012/13 will relate to the more historic debt liability for capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

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

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

Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).

4. TREASURY MANAGEMENT ADVISER

4.1 The Strategy for 2012/13 explained that the Fire Authority uses Sector 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 investme 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 remained with the Authority. This service remains subject to regular review.

4.3 Sector is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market-leading treasury management service to their clients and better those offered by competitors. The advice will continue to be monitored regularly to ensure an excellent level of service provided to our 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. This report confirms the Authority has continued to follow an extremely prudent approach with the main criteria of security and liquidity before yield. The current emphasis must continue to be able to react quickly if market conditions worsen.

Agenda Item No.850

EAST SUSSEX FIRE AUTHORITY

Panel:	**Policy & Resources**
Date:	**15 November 2012**
Title:	**Members' Allowances Scheme – Independent Review**
By:	**Chief Fire Officer & Chief Executive**
Purpose of Report:	**To advise Members of the arrangements for carrying out an independent review of the Members' Allowance Scheme**

RECOMMENDATION: Members are asked to endorse the arrangements for carrying out an independent review of the Members' Allowances Scheme.

MAIN ISSUES

1. The Policy & Resources Panel has within its remit the responsibility for monitoring the Members' Allowance Scheme and other CFAs' schemes on an annual basis between formal review periods to ensure that it remains equitable and fair.

2. The current Members' Allowance Scheme was approved by the Fire Authority on 3 June 2010 following an independent review by the Independent Remuneration Advisory Group. The scheme provides for the rates of basic, special responsibility and co-optees allowances to be upgraded for the years 2011/12, 2012/13, and 2013/14 by using the national headline increase applied to Local Government Support (LGS) staff. The Fire Authority has agreed that no increases should be applied for 2011/12 and 2012/13 (min no 527 – 3/2/11 and min no 626 – 2/2/12).

3. As an indexation has been applied, the Authority is required to review the scheme after a 4-year period. Consequently, an amended scheme will need to be brought into operation with effect from 1 April 2014.

4. The Fire Authority is not required to establish an Independent Review Group to review the Members' Allowance Scheme, although it is required to consider the Schemes in operation at East Sussex County Council and Brighton & Hove City Council. However, Members have previously agreed that their preferred way of determining the appropriate allowances is through an independent group, with a scheme that has been developed in a publicly independent and transparent way.

5. Arrangements need to be in place to give the Independent Advisory Remuneration Group sufficient time to give due consideration to the review so that a robust scheme is in place by 1 April 2014 that has the confidence of Members.

6. Any new scheme which involves additional costs, recommended by IRAG and subsequently approved by the Fire Authority, would need to be absorbed by the Revenue Budget via compensatory savings. Conversely, IRAG may recommend a scheme which could deliver efficiency savings, subject to Fire Authority approval.

Des Prichard
CHIEF FIRE OFFICER & CHIEF EXECUTIVE
22 October 2012

Background Papers: Policy & Resources Panel: September 2009, November 2009; Fire Authority: 3 June 2010, 3 February 2011, 2 February 2012.

1. INTRODUCTION

1.1 Arrangements need to be put in place for an independent review of the Members Allowances Scheme to ensure that a revised scheme is brought into operation with effect from 1 April 2014.

1.2 The Fire Authority has previously established an Independent Remuneration Advisory Group (in 2005/06 and 2009/10) to advise the Authority on what would be an appropriate basis and range of remuneration for Members and Independent Persons serving on the Standards Panel having regard to a number of issues such as:

- The role of the Fire Authority and the importance of effective democratically accountable local government and community leadership taking into consideration the approved Member structures of the Fire Authority and its leadership arrangement;
- The scale and complexity of the Fire Authority's legislative responsibilities, wider partnership agenda and service activities;
- The time and commitment required from Members to enable both the Authority and individual Members to be effective in their various roles having regard to the changes taking place in the various roles that Members are expected to fulfil, and the particular responsibilities attaching to such roles;
- The importance of encouraging people from all backgrounds and circumstances to service in local government;
- The implications of the prevailing Regulations applicable to Fire Authority Members' Allowances Scheme in terms of scope and nature of the contents of any scheme and any recommended best practices;
- Comparative information from other similarly structured fire and rescue authorities; and
- The relative merits of establishing allowances over a period of up to four years, indexed as appropriate in order to ensure review arrangements are commensurate with the level of Allowances paid and numbers of members involved so as to avoid the need, if possible, for annual reviews.

2. ARRANGEMENTS FOR APPOINTING AN INDEPENDENT REMUNERATION ADVISORY GROUP

2.1 In 2009, 3 independent persons were engaged to carry out an independent review. Given their prior knowledge of the working arrangements of the Fire Authority and experience, they have been contacted and all have indicated that they would be willing to carry out a further review on similar terms and conditions as previously offered.

2.2 The approval of a Members Allowance Scheme cannot be delegated to a Panel and will be required to be approved by the full Fire Authority in December 2013.