EAST SUSSEX FIRE AUTHORITY

POLICY & RESOURCES PANEL

THURSDAY 3 NOVEMBER 2016 at 10:45

MEMBERS

East Sussex County Council

Councillors Barnes, Howson, Lambert, Pragnell and Scott

Brighton and Hove City Council

Councillors O'Quinn and Theobald

You are requested to attend this meeting to be held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, at 10:45 hours, or at the conclusion of the meeting of the Scrutiny & Audit Panel, whichever is the later.

AGENDA

Item No.	Page No.	
027.	1	In relation to matters on the agenda, seek declarations of any disclosable pecuniary interests under Section 30 of the Localism Act 2011.
028.	1	Apologies for Absence.
029.	1	Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items. (Any Members wishing to raise urgent items are asked, wherever possible, to notify the Chairman before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgently).
030.	3	Non-confidential Minutes of the last Policy & Resources Panel meeting held on 7 July 2016 (copy attached).

Item No.	Page No.	
031.	2	Callover. The Chairman will call the item numbers of the remaining items on the open agenda. Each item which is called by any Member shall be reserved for debate. The Chairman will then ask the Panel to adopt without debate the recommendations and resolutions contained in the relevant reports for those items which have not been called.
032.	7.	Revenue Budget and Capital Programme Monitoring 2016/17 – joint report of the Chief Fire Officer and Assistant Director Resources / Treasurer (copy attached).
033.	21.	Treasury Management – Half Year Review for 2016/17 – report of the Assistant Director Resources / Treasurer (copy attached).
034.	39.	Contributions from Development Schemes – report of the Deputy Chief Fire Officer (copy attached).
035.	2.	Exclusion of the Press and Public. To consider whether, in view of the business to be transacted or the nature of the proceedings, the press and public should be excluded from the remainder of the meeting on the grounds that, if the public and press were present, there would be disclosure to them of exempt information. **NOTE:** Any item appearing in the confidential part of the Agenda states in its heading the category under which the information disclosed in the report is confidential and, therefore, not available to the public. A list and description of the exempt categories are available for public inspection at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, and at Brighton and Hove Town Halls.

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

Agenda Item No. 030

EAST SUSSEX FIRE AUTHORITY

Minutes of the meeting of the POLICY & RESOURCES PANEL held at East Sussex Fire & Rescue Service Headquarters, 20 Upperton Road, Eastbourne, at 10.00 hours on Thursday 7 July 2016.

Members Present: Councillors Barnes, Howson (Chair), Lambert and Pragnell.

Councillor Taylor was in attendance and was invited to sit at the table during the meeting.

In attendance:
Mr. G. Walsh (Chief Fire Officer), Ms. D Whittaker (Deputy Chief Fire Officer), Mr. M. Andrews (Assistant Chief Fire Officer), Miss L. Woodley (Deputy Monitoring Officer), Mr. D. Savage (Assistant Director Resources / Treasurer), Mrs L. Ridley (Assistant Director Planning & Improvement) and Mrs. K. Ward (Clerk).

019. **DISCLOSABLE PECUNIARY INTERESTS**

019.1 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.

020. **ELECTION OF CHAIRMAN**

020.1 **RESOLVED** – That Councillor Howson be elected Chairman of the Panel for the year.

021. **APOLOGIES FOR ABSENCE**

021.1 Apologies were received from Councillor O'Quinn.

022. **ANY OTHER NON-EXEMPT ITEMS CONSIDERED URGENT BY THE CHAIRMAN**

022.1 There were none.

023. **NON-CONFIDENTIAL MINUTES OF THE POLICY & RESOURCES PANEL MEETING HELD ON 26 MAY 2016**

023.1 **RESOLVED** – That the minutes of the meeting held on 26 May 2016 be approved as a correct record and signed by the Chairman. (Copy in Minute Book).

024. **CALLOVER**

024.1 Members reserved the following item for debate:

025. Emergency Services Collaboration Programme – Integrated Transport Function – Fuel Project

025. **<u>EMERGENCY SERVICES COLLABORATION PROGRAMME – INTEGRATED TRANSPORT FUNCTION – FUEL PROJECT</u>**

025.1 The Panel considered a report of the Chief Fire Officer that updated Members on the integrated fuel collaboration project and sought support to progress with the development of this project through the Integrated Transport Function (ITF) of the Emergency Services Collaboration Programme (ESCP). (Copy in minute book).

025.2 The emergency services partners (East Sussex Fire & Rescue Service, West Sussex Fire & Rescue Service, Surrey Fire & Rescue Service, Surrey and Sussex Police) across Surrey and Sussex were working together across a wide range of activities, and the integrated transport function to improve the efficiency and effectiveness of operations was the first of a number of projects to emerge.

025.3 In order to facilitate this, and as a first step, the Panel was asked to agree to ESFRS becoming part of an integrated vehicle fuel system process across partners, funded by £0.4m from the Fire Transformation Fund grant. This would enable ESFRS vehicles to access bulk fuel across Sussex and Surrey partner sites, realising savings against the costs of purchasing fuel from commercial forecourts.

025.4 The proposals were put forward with a view to maintaining or enhancing resilience, which would include maintaining sufficient reserve stock levels, enabling 24/7 access at more sites, and enhancing chain management.

025.5 Councillor Barnes asked whether the savings would offset the costs. The Treasurer advised that the proposals had come about at a timely moment as the funding from the Fire Transformation Fund would support the one-off costs of the project and running costs in the first two years. This would cover the cost of the replacement of all of the Authority's existing fuel tanks which would, in principle, allow us to release the funding included for a similar scheme in the Capital Programme. The business case identified a small increase in revenue costs for the Authority from year 3 but there was an agreement in principle that no partner would be worse off as a result of the ITF. In reality, the Authority would likely have incurred a higher ongoing revenue cost if it had moved to digital dispensing on its own.

025.6 Councillor Lambert felt the proposal was a sensible one but enquired as to whether the savings ratio had been determined. Officers advised that, although the details had been agreed in principle, more discussions were required to work out the finer detail.

025.7 **RESOLVED** –That

(i) agreement for ESFRS to join the next stage of the ITF fuel project by becoming part of an integrated vehicle fuel system be approved;
(ii) the implementation and first two years of maintenance costs to be covered by the use of a proportion of the DCLG Fire Transformation Fund grant funding received by the ESCP be noted and approved;

(iii) the maintenance costs from Year 3 onwards, based on the agreement within the ESCP that any negative impact on an individual Service's budget would be mitigated wherever possible by redistribution of the savings achieved by some, or all, of the other partners, be noted and accepted; and

(iv) the equipment, once installed through a transfer of assets procedure, be accepted.

026. **EXCLUSION OF PRESS AND PUBLIC**

026.1 There were no items that, in view of the business to be transacted or the nature of the proceedings, would result in disclosure of exempt information, and which required the exclusion of the press and public.

The meeting concluded at 10.15 hours.

Signed Chairman

Dated this 3rd day of November 2016

Agenda Item No. 032

EAST SUSSEX FIRE AUTHORITY

Panel: Policy & Resources

Date: 3 November 2016

Title of Report: Revenue Budget and Capital Programme Monitoring 2016/17

By: Chief Fire Officer and Assistant Director Resources / Treasurer

Lead Officer: Warren Tricker – Finance Manager

Background Papers: None

Appendices:

Appendix 1: 2016/17 Revenue Budget – Objective Analysis
Appendix 2: 2016/17 Revenue Budget – Safer Communities Analysis
Appendix 3: 2016/17 Capital Budget Monitoring
Appendix 4: All Years Capital Budget Monitoring (to 2020/21)
Appendix 5: 2016/17 Reserves Projections
Appendix 6: Monitoring of Savings 2016/17 – 2018/19
Appendix 7: Investment as at 30 September 2016

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 issues arising from the monitoring of the 2016/17 Revenue Budget and Capital Programme as at 30 September 2016.

EXECUTIVE SUMMARY

The Revenue Budget is forecast to be underspent by £262,000 (previously £47,000 underspent). This significant movement is mainly due to the combination of a revised forecast following the devolution of firefighter pay and pension employer's contributions and the acknowledgement that the establishment of the Programme Management Office has slipped.

The overall Capital Programme is projected to be £13,000 underspent (as previously reported), however, there is a risk that the current year's spending profile may slip for some schemes (Appendices 3 and 4).

The Authority maintains Earmarked and General Reserves in order to assist it in managing its spending plans across financial year (Earmarked Reserves) and making provisions for the financial risks it faces (General Reserves). A summary of the current planned use of Reserves can be found at Appendix 5.

A summary of the savings, £1,864,000, already taken from the 2016/17 budget, is set out in Appendix 6.

RECOMMENDATION

The Panel is asked to note:
(i) the risks to and the projected Revenue Budget underspend;
(ii) the projected underspend in the Capital Programme;
(iii) the use of reserves;
(iv) the monitoring of savings taken in 2016/17; and
(v) the current year investments.

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1. **INTRODUCTION**

1.1 The financial information contained in this report is based upon enquiries as at 30 September 2016. The report discloses the main risks, issues and material variances.

	Last CFA report	This P&R report	Movement
	£'000	£'000	£'000
Revenue (see paragraph 2)	(47)	(262)	(215)
Capital in year (see para 5)	(27)	(27)	0

1.2 This is the first report to the Policy & Resources Panel for 2016/17; the first Revenue Budget and Capital Monitoring report for 2016/17 went to the Fire Authority meeting on 8 September 2016. With more data available, projections can begin to be made with increased confidence. Wholetime pay and pensions budgets are delegated to the functional area and work is continuing at the detailed level in conjunction with budget holders and HR managers.

1.3 This report highlights risks to the 2016/17 Revenue Budget that may result in significant change to the projections. While certainty increases as the year progresses, circumstances change and new risks arise and this report considers the risks faced. There may be elements, both internal and external, that will influence the final position.

2. REVENUE BUDGET COMMENTARY

2.1 **Safer Communities:** a projected underspend of £203,000 (previously £130,000 underspend) following an in-depth analysis carried out by the acting Assistant Director Safer Communities, with support from finance and HR, on all the Wholetime budgets and associated Firefighters' pension employers contributions. Members requested an analysis of the Safer Communities budget and this is included at Appendix 2.

2.1.1 **Borough Commanders:** There is a projected underspend of £62,000, comprising a projected overspend on overtime (based on 5 months' data) of £56,000 and wholetime pay of £132,000 and a projected underspend on firefighters' pension employer's contributions of £250,000. Work continues with the acting AD Safer Communities to review planned operational strength for the remainder of the financial year, including the delivery of Riding at Standard savings and the impact of long term absences and internal secondments. This will enable a more robust forecast to be reported for 2016/17, and any impact on the 2017/18 budget to be clearly identified and reported.

2.1.2 **Retained Duty System pay:** This budget is projected to be underspent in the region of £46,000 (previously £130,000 underspent). The projection is based on 5 months' of activity and takes into account the previously agreed budget transfers for the Lewes RDS Support Officer and vehicle and now allows for the settlement of Prevention of Less Favourable Treatment Regulations 2000 for RDS public holiday pay. It has to be noted that this budget is demand-led and has the potential to be volatile.

2.1.3 **Community Safety:** This budget is forecast to be underspent by £73,000. The underspend relates to vacant posts.

2.1.4 **Business Safety:** This budget is forecast to be underspent by £22,000. The underspend is due to unfilled vacant posts and takes into account the additional costs relating to business safety investigation work.

2.2 **Operational Support and Resilience:** This Directorate is forecast to be £153,000 overspent (previously £68,000 overspent). The projected overspend relates to SCC £89,000 (see paragraph 2.2.1 below), and a number of pressures on the staffing budget, £64,000.

2.2.1 **Sussex Control:** The Sussex Control Centre budget remains under pressure as a result of the continued operation of two mobilising systems, and the previous year's overall overspend of £126,000 can be expected to be replicated. Current projections support this with the East Sussex share of the 2016/17 position estimated as an overspend of £89,000 (previously £68,000 overspent). The budget continues to be under pressure on the staff and staff-related costs budget with some underspending in ICT budgets.

2.3 **Training and Assurance:** This budget is projected to be £9,000 underspent. Surrey FRS has previously used the Service Training Centre for training, for which a charge of £25,000 per year was made. Surrey have reviewed their position and have chosen to withdraw from this arrangement this financial year, meaning that the income will not be received. Whilst we are currently reporting a small underspend, the spend profile over a number of years has seen a spike in the last quarter, therefore, there is a risk that the position may change.

2.4 **Resources/Treasurer:** This budget is projected to be £5,000 overspent (previously £40,000 overspent). There is a projected overspend of £40,000 on the uniforms budget (as previously reported) and £50,000 projected underspend on the expected charge from East Sussex County Council for Financial Services and SAP. There is a surplus on income from the Home Office FireLink Grant of £10,000, and a shortfall of £25,000 on Mast Rental income.

2.5 **Planning and Improvement:** The budget manager has reported an underspend of £183,000 (previously £25,000 underspent). The underspend comprises £49,000 on the IRMP budget; £11,000 has been committed for this year's consultation plan (previously £25,000 underspent) which is due to the phasing of the IRMP. The review of attendance standards and subsequent staff and public consultation will take place in year 1 of the plan and a carry forward of £25,000 will be requested to meet this commitment going forward. There is a forecast £134,000 underspend on the PMO budgets, with an appointment now expected to be made in quarter 3.

2.6 **Corporate Contingency:** This budget is intended to provide some flexibility for CMT to manage in year budget pressures and was set at £270,200 for 2016/17. With £51,000 already transferred out, and £379,000 added as a result of the in-year savings from the Senior Management Restructure and overprovision for pay awards, the uncommitted budget currently stands at £383,000. It is highlighted that for this forecast the Corporate Contingency is assumed to be spent in full.

3. REVENUE BUDGET RISKS

3.1 **New Dimensions Grant:** Following the transfer from DCLG to the Home Office only the first six months of the grant has been confirmed. Informal indications have been given that the whole year will be honoured but this does indicate that future years may not be secure. The full year value of this grant is £47,586 in 2016/17.

3.2 **IMD:** Work will now commence on the IMD budget to reflect the financial model for the new outsourced delivery contract and assess a number of pressures relating to staffing costs and support for IMD Transformation, and this will be reflected in the next report to Members. As agreed by the Urgency Panel, funding to support the costs of IMD Transformation will be drawn down from the earmarked reserves.

3.3 **Estates:** The Estates Manager has advised that the favoured structure for the disposal of 20 Upperton Road will result in agents' fees of approximately £30,000; CMT has agreed to use the Corporate Contingency to absorb this cost pressure.

4. MONITORING OF SAVINGS

4.1 Appendix 5 shows the savings required to be made in 2016/17 and the following two financial years. This illustrates the levels of savings that need to be achieved in those years, rather than the cumulative savings including those already achieved.

4.2 The overall number of wholetime firefighters (including those employed in all Directorates) continues to be above the budgeted level. The expected number of operational officers is budgeted to fall from 376 at the start of the financial year (including the reductions from Hove) to 345 by the end of the year. The table below shows the number of wholetime firefighters paid from April to date, allowing for the five seconded officers where costs are fully recovered:

Month	Number paid
April	388
May	373
June	374
July	369
August	369
September	364

4.3 Following further work with the Assistant Director Safer Communities it is anticipated that the reduction of 14 posts for the Riding at Standard savings can be achieved by the year end. Clearly there remain other pressures on the operational establishment (see paragraph 2.1.1 above).

5. CAPITAL PROGRAMME COMMENTARY

5.1 Service HQ relocation: The Project Board has considered a report that identifies that the initial cost estimates may be exceeded. The position cannot be forecast with any certainty until contracts are let so, at this stage, the potential overspend of circa £50,000 remains a risk.

5.2 All other schemes remain as previously reported.

6. RESERVES

6.1 The table in Appendix 4 shows the planned use of reserves for 2016/17; it takes into account the 2015/16 unaudited underspend. The planned transfer into the Improvement & Efficiency (I&E) earmarked reserve is the 2016/17 Transition Grant.

6.2 To date, the following have been transferred into the Revenue Budget: Preston Circus feasibility studies £25,000, Safe & Well Practitioners £61,000, Volunteers' Funding £80,000, Wealden Road Safety £12,700 and £25,000. Now that the Support Service Review Phase 1 is complete, £25,000 will be transferred from the I&E earmarked reserve to fund this Review.

6.3 At the Fire Authority meeting on 8 September 2016, Members agreed to use the I&E earmarked reserve to fund the IECR pilot start-up costs, and the IMD Transformation earmarked reserve for the ICT costs associated with the HQ relocation.

6.4 At this point there is no indication of any other changes in the planned use of reserves, other than should the Capital Programme underspend in 2016/17 the use of the Capital Receipts Reserve will decrease in the same period.

7. BORROWING AND INVESTMENT

7.1 As at 30 September 2016, the Authority held cash balances of £23.1m which were invested as set out in Appendix 6 in accordance with the Treasury Management Strategy. Following the reduction in the base rate to 0.25% we have seen reductions in the rates earned on both our bank deposits and money market funds, with some advisers expecting to see further reductions during the year. This makes it difficult to accurately forecast the outturn on the Treasury Management budget but, at this stage, we expect a surplus over budget of £25,000.

7.2 The investment table, Appendix 7 shows an investment of £3,100,000 with Deutsche Bank who, it has been reported in the news, the United States authorities may issue large fines to. ESFRS has no direct investment with Deutsche Bank but uses a Money Market Fund (MMF) which is completely ring fenced from the bank. Deutsche Bank has no call on the investments held within the MMF which, overall, stands at circa £8bn.

Appendix 1

East Sussex Fire Authority
2016/17 Revenue Budget – Objective Analysis

	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance last report £'000
Training and Assurance	2,049	2,032	2,023	(9)	(0.4)	
Resources / Treasurer	7,585	7,631	7,636	5	0.1	40
Planning and Improvement	1,157	1,132	949	(183)	(16.2)	(25)
Total Deputy Chief Fire Officer	**10,791**	**10,795**	**10,608**	**(187)**	**(1.7)**	**15**
Human Resources and O D	868	907	907	0	0	
Safer Communities	19,472	19,463	19,260	(203)	(1.0)	(130)
Operational Support	3,583	3,628	3,781	153	4.2	68
Total Assistant Chief Fire Officer	**23,923**	**23,998**	**23,948**	**(50)**	**(0.2)**	**(62)**
CFO Staff	831	729	729	0		
Treasury Management	1,368	1,368	1,343	(25)	(1.9)	
Non-Delegated costs	402	401	401	0		
Corporate Contingency	270	498	498	0		
Transfers to Reserves	847	847	847	0		
Transfer from Reserves	0	(204)	(204)	0		
Total Corporate	**3,718**	**3,639**	**3,614**	**(25)**	**(1.4)**	**0**
Total Net Expenditure	**38,432**	**38,432**	**38,170**	**(262)**	**(0.7)**	**(47)**
Financed By:						
Council Tax	(24,280)	(24,280)	(24,280)	0		
Business Rates	(7,273)	(7,273)	(7,273)	0		
Revenue Support Grant	(6,196)	(6,196)	(6,196)	0		
Transition Grant	(97)	(97)	(97)	0		
S31 Grants	(217)	(217)	(217)	0		
Collection Fund Surplus / Deficit Council Tax	(369)	(369)	(369)	0		
Total Financing	**(38,432)**	**(38,432)**	**(38,432)**	**0**	**0.0**	**0**
Total Over / (Under) Spend	**0**	**0**	**(262)**	**(262)**	**(0.7)**	**(47)**

Appendix 2

East Sussex Fire Authority
2016/17 Revenue Budget – Safer Communities Analysis

	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance last report £'000
AD Safer Communities	109	108	115	7	6.5	
Hastings and Rother	4,738	4,701	4,657	(44)	(0.9)	(30)
Eastbourne and Wealden	5,110	5,084	5,027	(57)	(1.1)	(100)
The City	5,324	5,304	5,305	1	0.0	
Lewes	1,953	1,996	1,981	(15)	(0.8)	
Business Safety	1,365	1,359	1,337	(22)	(1.6)	
Community Safety	873	911	838	(73)	(8.0)	
Total Safer Communities	**19,472**	**19,463**	**19,260**	**(203)**	**(1.0)**	**(130)**

Appendix 3

East Sussex Fire Authority
2016/17 Capital Budget Monitoring

Capital Scheme	Original Budget as agreed CFA Feb 2016	Revised Budget	Projected Outturn	Variance	Variance	Variance Last Report
	£'000	£'000	£'000	£'000	%	£'000
Property Major Schemes						
Newhaven Fire Station	49	49	49	0		
Service HQ Relocation	624	624	624	0		
Subtotal	**673**	**673**	**673**	**0**	**0.0**	**0**
Property General Schemes						
General Schemes	705	733	733	0		
Breathing Apparatus Chambers	0	300	300	0		
Sustainability	155	197	197	0		
Subtotal	**860**	**1,230**	**1,230**	**0**	**0.0**	**0**
Information Management						
IMD Strategy SCC	**607**	**607**	**607**	**0**	**0.0**	**0**
Fleet and Equipment						
Fire Appliances	935	995	898	(97)	(9.7)	(97)
Ancillary Vehicles	556	513	513	0		
Cars and Vans	185	226	296	70	31.0	70
BA and Ancillary Equipment	750	750	750	0		
Subtotal	**2,426**	**2,484**	**2,457**	**(27)**	**(1.1)**	**(27)**
Total	**4,566**	**4,994**	**4,967**	**(27)**	**(0.5)**	**(27)**

Appendix 4

East Sussex Fire Authority
2016/17 – 2020/21 Capital Budget Monitoring

Capital Scheme	Original Budget as agreed by CFA Feb 2016 £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000	Variance %	Variance last Report £'000
Property Major Schemes						
Newhaven Fire Station	3,560	3,560	3,560	0		
Service HQ Relocation	650	650	650	0		
Subtotal	**4,210**	**4,210**	**4,210**	**0**	**0.0**	**0**
Property General Schemes						
General Schemes	2,976	2,976	2,853	(123)	(4.1)	(123)
Breathing Apparatus Chambers	0	300	300	0		
Replacement Fuel Tanks	220	220	220	0		
Sustainability	420	420	420	0		
Subtotal	**3,616**	**3,916**	**3,793**	**(123)**	**(3.1)**	**(123)**
Information Management						
IMD Strategy SCC	**2,027**	**2,027**	**2,027**	**0**	**0.0**	
Fleet and Equipment						
Fire Appliances	5,165	5,225	5,265	40	0.8	40
Aerial Appliances	680	680	680	0		
Ancillary Vehicles	1,457	1,397	1,397	0		
Cars and Vans	1,321	1,338	1,408	70	5.2	70
BA and Ancillary Equipment	750	750	750	0		
Subtotal	**9,373**	**9,390**	**9,500**	**110**	**1.2**	**110**
Total	**19,226**	**19,543**	**19,530**	**(13)**	**(0.1)**	**(13)**

Appendix 5

East Sussex Fire Authority
2016/17 Reserves Projections

Description	Opening Balance 01/04/16 £'000	2016/17 Planned Transfers In £'000	2016/17 Planned Transfers Out £'000	2016/17 Forecast Transfers In £'000	2016/17 Forecast Transfers Out £'000	Projected Closing Balance 31/03/2017 £'000
Earmarked Reserves						
Improvement and Efficiency	1,804	97	(797)	97	(797)	1,105
Sprinklers	187		(113)		(113)	74
Insurance	249					249
Community Fire Safety	145		(145)		(145)	0
Breathing Apparatus	750		(750)		(750)	0
Mapping Solution	69					69
ESN Health Check	15		(15)		(15)	0
Safer Business Training	140		(52)		(77)	63
IMD Transformation	2,000		(600)		(950)	1,050
Capital Programme Reserve	4,631	750		750		5,381
Total Earmarked Reserves	**9,990**	**847**	**(2,472)**	**847**	**(2,847)**	**7,991**
General Fund	3,142					3,142
Total Revenue Reserves	**13,132**	**847**	**(2,472)**	**847**	**(2,847)**	**11,133**
Capital Receipts Reserve	6,438	515	(2,564)	515	(2,564)	4,389
Total Capital Reserves	**6,438**	**515**	**(2,564)**	**515**	**(2,564)**	**4,389**
Total Usable Reserves	**19,570**	**1,362**	**(5,036)**	**1,362**	**(5,411)**	**15,522**

Appendix 6

East Sussex Fire Authority

Monitoring of Savings 2016/17 – 2018/19												
Summary showing Changing the Service Phases 1 and 2 and other operational savings												
	Budget				**Current Forecast**				**Variance**			
	2016/17	**2017/18**	**2018/19**		**2016/17**	**2017/18**	**2018/19**		**2016/17**	**2017/18**	**2018/19**	
	£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	
Phase 2 Savings												
Removal of a pump from Hove	(932)	0	0		(932)	0	0		0	0	0	
Riding at Standard	(280)	(560)	(280)		(280)	(560)	(280)		0	0	0	
Total Phase 2 Savings	**(1,212)**	**(560)**	**(280)**		**(1,212)**	**(560)**	**(280)**		**0**	**0**	**0**	
Total Facing the Challenge	**(75)**	**(73)**	**0**		**(75)**	**(73)**	**0**		**0**	**0**	**0**	
Total non-operational savings	**(439)**	**(376)**	**(173)**		**(439)**	**(376)**	**(173)**		**0**	**0**	**0**	
Total additional savings	**(138)**	**0**	**0**		**(138)**	**0**	**0**		**0**	**0**	**0**	
Total all other savings	**(652)**	**(449)**	**(173)**		**(652)**	**(449)**	**(173)**		**0**	**0**	**0**	
Total Savings	**(1,864)**	**(1,009)**	**(453)**		**(1,864)**	**(1,009)**	**(453)**		**0**	**0**	**0**	

N.B. Above table shows in-year savings, not cumulative

Appendix 7

East Sussex Fire Authority

Investment as at 30 September 2016

Counterparty	Type	Amount	Term	Rate
		£'000		**%**
Lloyds/HBOS	Fixed	2,000	Fixed term to 17/10/16	0.65
Lloyds/HBOS	Notice	2,000	175 days	0.55
Santander	Notice	4,000	95 days	0.65
Barclays	Notice	4,000	100 days	0.44
Standard Life	MMF	4,000	Instant access	0.27
Insight	MMF	4,000	Instant access	0.35
Deutsche Bank	MMF	3,100	Instant access	0.37
Total Current Investments		**23,100**		

Agenda Item No. 033

EAST SUSSEX FIRE AUTHORITY

Panel	Policy & Resources
Date	3 November 2016
Title of Report	Treasury Management – Half Year Review for 2016/17
By	Assistant Director Resources / Treasurer
Background Papers	Fire Authority: 16 June 2016 – Agenda Item 926: Treasury Management Stewardship report for 2015/16 11 February 2016 – Agenda Item 909: Treasury Management Strategy for 2016/17 CIPFA Treasury Management in the Public Services code of practice and cross sectional 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 2016/17. The report includes an update on the first half year of Prudential Indicators which relate to the treasury activity.

EXECUTIVE SUMMARY	The Fire Authority has complied with its approved Treasury Management Strategy and Prudential Indicators during the first six months of the year. In challenging economic conditions the average rate of interest received through Treasury Management activity was 0.60%. This reflected the Fire Authority's continuing prioritisation of security and liquidity over yield. The Bank of England (BOE) cut bank base interest rates from 0.50% to 0.25% on 4 August 2016. This reduction will have significant impact on investment returns. At this point in time further cuts to just above or even zero cannot be discounted which will mean a longer lower interest rate environment than previously forecast. No new borrowing has been undertaken in 2016/17 to date. The next loan repayment is not due until 31 December 2017 (£200k) with the Public Works Loan Board (PWLB). On 30 September 2016 total PWLB loan debt outstanding was £10.973m at an average interest rate of 4.61%. There have been no beneficial opportunities to reschedule debt so far during the year. The projected outturn of the Fire Authority's Capital Financing Requirement (CFR), a measure of the underlying need to borrow, is £10.973m.
RECOMMENDATION	The Panel is asked to note the treasury management performance for the first half year of 2016/17.

1. **INTRODUCTION**

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

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

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

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

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

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

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

1.4 This report sets out information on:

a) A summary of the strategy agreed for 2016/17 and the economic factors affecting the strategy in the first six months of this year; and
b) The Fire Authority's treasury activity during the first six months on borrowing and short term investments.

2. **<u>2016/17</u>**

2.1 **Original Strategy for 2016/17**

2.1.1 At its meeting on 11 February 2016, the Fire Authority agreed its treasury management strategy for 2016/17, taking into account the economic scene, including forecast levels of interest rates. At the same time, the Treasury Management Policy Statement was agreed for 2016/17 as set out below.

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

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

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

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

Borrowing

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

2.1.4 Opportunities to reschedule debt have been monitored but have not yet arisen. The PWLB increased all of its lending rates on 20 October 2010 (the day of the Government's Comprehensive Spending Review) by 1% on all rates. However, it did not increase the rate of interest used for repaying debt so that, not only had the cost of our future borrowing increased, but the opportunity to restructure our debt when market conditions allow had been significantly reduced.

Investment

2.1.5 When the strategy was agreed in February of this year, the advice given to us by our advisors, Capita Asset Service, was that short term rates were expected to remain on hold for a considerable time. The economic outlook and structure of market interest rates and government debt yields had several key treasury mangement implications:

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

b) Investment returns are likely to remain relatively low during 2016/17 and beyond; and

c) Borrowing interest rates have been decreasing over the period. The policy of avoiding new borrowing by running down spare cash balances has served us well over the last few years. There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Investment and Borrowing Strategy agreed for 2016/17

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

2.1.7 The Authority will make use of the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moodys and Standard & 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.

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

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

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2 years	*Up to 2 years*	*Up to 1 year*	*Up to 1 year*	*Up to 6 months*	*Up to 100 days*	*No Colour*

2.1.9 Officers regularly review the investment portfolio, counterparty risk and construction, market data, information on government support for banks, and the credit ratings of those 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.

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

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

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

2.1.11 The use of Non Specified Investments – the Fire Authority does not have any Non Specified Investments which are ones of more than one-year maturity or with institutions which have a lesser credit quality.

2.1.12 The net borrowing requirement within Table 3.2.1 below shows that, based on current estimates, the Authority does not need to take out any new borrowing to support the capital programme. However, any future new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts set out above. The Assistant Director Resources / Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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

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

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

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

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

2.2 Economic factors affecting the Strategy in 2016/17 (commentary supplied by our advisors Capita Asset Services)

Economic performance to date and outlook

2.2.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8%, although it still remained one of the leading rates among the G7 countries. Growth was +0.4% in quarter 1 and +0.6% in quarter 2, (first estimate), but forward looking indicators point to a sharp slowdown in the second half of 2016 as a result of the Brexit vote. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum. However, since the peak in November 2015, sterling has fallen in value, especially after the referendum result, which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016. He has also said he will do 'whatever is needed' to stimulate growth which could mean fiscal policy action e.g. cutting taxes, increasing investment allowances for businesses, etc., and / or increasing government expenditure on infrastructure, housing, etc.

2.2.2 The Bank of England August Inflation Report included a sharp reduction in forecasts for growth for 2017 @ +0.8% and for 2018 @ 1.8%, though 2016 was kept at 2.0%. While this does not indicate the economy could go into recession in the second half of 2016, growth is expected to be minimal during that period.

2.2.3 The August Bank of England Inflation Report forecast also included a sharp upward revision to the forecasts for inflation rising up above the MPC's 2% target in 2018 to about 2.3% due to the recent fall in the value of sterling, etc. However, the MPC is likely to look through that and take a longer term view in order to give time for economic growth to recover.

2.2.4 The American economy had a patchy 2015: quarter 1 – 0.6% (annualised), quarter 2 – 3.9%, quarter 3 – 2.0%, and quarter 4 – 1.4% in, leaving growth in 2015 as a whole at 2.4%. Quarter 1 of 2016 came in at a weak 0.8% (annualised) and quarter 2 at 1.2% (first estimate). While these overall figures were disappointing, they were depressed by a significant run down in inventories which masked an underlying strength in consumer demand; forward indicators are, therefore, pointing towards a pickup in growth for the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, caused a re-emergence of caution over the timing and pace of further increases. However, in recent weeks, increases in non-farm payroll figures have again boosted confidence that the economy is on a strong upward trend and have renewed expectations of at least one increase in the Fed. rate in 2016.

2.2.5 In the Eurozone, in March 2015, the ECB commenced its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and an initial start to some improvement in economic growth. GDP growth rose by 0.6% in quarter 1 of 2016 (1.7% y/y) but disappointed in quarter 2 with a reversal to only 0.3% (1.6% y/y). The ECB is also struggling to get inflation up from near zero towards its target of 2%.

Interest Rate Outlook

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

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

2.2.7 Capita Asset Services undertook its last review of interest rate forecasts on 8 August, shortly after the quarterly Bank of England Inflation Report and the MPC cutting Bank Rate from 0.50% to 0.25% and launching various quantitative easing measures. This action was prompted by concerns that the UK economy would slow down sharply as a result of the Brexit vote. It is widely expected that the MPC could cut Bank Rate further to nearly zero, probably at the November quarterly inflation report meeting. Since the Brexit vote on 23 June, gilt yields and PWLB rates have fallen sharply. Investment rates also fell after the cut in Bank Rate.

2.2.8 The above forecast includes a very tentative first increase in Bank Rate in June 2018. The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

2.2.9 There are also concerns that weak growth in the UK, Eurozone, China and Japan is only being achieved by monetary policy being highly aggressive. While such policies undoubtedly help to stimulate growth, there is substantial doubt that without additional aggressive fiscal action by national governments to stimulate growth and inflation, (and also fundamental economic and political reforms in some countries), then many countries are likely to have a prolonged struggle to return to both strong growth, and inflation rising to around 2%, within the next few years.

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

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

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

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

2.3 **Interest on short term balances**

2.3.1 Base interest rates were cut on 4 August to 0.25%, their lowest ever rate.

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 2016/17, agreed in February 2016, continued the prudent approach and ensured that all investments were only to the highest quality rated banks and only up to a period of one year.

2.3.4 The total amount received in short term interest for the six months to 30 September 2016 was £66k, at an average rate of 0.60%. This was above the average of base rates in the same period (0.42%) and succeeded in the aim to secure investment income of at least base rate on the Fire Authority's general cash balances. It should be noted that the next six months will see decreased investment returns as markets are pricing in further interest rate cuts and a longer lower interest rate environment.

2.3.5 In July, the authority placed a £2m 3-month fixed term deposit with Lloyds/HBOS at 0.65%; these funds are due to mature in mid-October. Funds are invested across notice accounts with Lloyds/HBOS, Barclays and Santander, their margins are priced over base rate between 0.19%-0.40% 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 an extremely prudent approach with security and liquidity as the main criteria before yield.

2.4 **Long term borrowing**

2.4.1 The cost of new borrowing is now well in excess of the rate achievable on our investments. No new PWLB borrowing has taken place since January 2008 and is unlikely in the current climate unless long term PWLB rates reach a very low level (where the long term benefit would exceed the short term costs).

2.4.2 The average interest rate of all debt at 30 September 2016 (£10.973m) was 4.61% and will be unchanged at 31 March 2017 as long as no new loans are taken and no beneficial rescheduling of debt is available.

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

3. PRUDENTIAL INDICATORS AND LIMITS RELATING TO TREASURY MANAGEMENT ACTIVITIES

3.1 The limits set for 2016/17

The Strategy Report for 2016/17 set self-imposed prudential indicators and limits. These are on an annual basis and monitored. They comprise:

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

None of the limits has been exceeded in 2016/17 to date.

3.2 Authorised limit for borrowing

3.2.1 The table below sets out the actual 2015/16 original estimated and projected outturn in 2016/17 for borrowing:

	2015/16 Actual	2016/17 Original Estimate	2016/17 Projected Outturn
	£'000	**£'000**	**£'000**
Opening CFR	**11,123**	**10,973**	**10,973**
Capital Investment Sources of Finance MRP	3,241 (2,946) (445)	3,867 (3,428) (439)	4,967 (4,528) (439)
Movement in year	**(150)**	**-**	**-**
Closing CFR	**10,973**	**10,973**	**10,973**
less Finance Lease Liability	-	-	-
Underlying Borrowing Requirement	**10,973**	**10,973**	**10,973**
Actual Long Term Borrowing Over / (Under) Borrowing **Operational Boundary** **Authorised Limit**	**10,973** - **11,441** **13,831**	**10,973** - **11,441** **13,831**	**10,973** - **11,441** **13,831**

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

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

3.2.4 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The estimated long term borrowing at 31 March 2017 of £10,973,000 is under the Authorised limit set for 2016/17 of £13,831,000.

3.3 **Interest rate exposure**

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

Interest Rate Exposure	2016/17 Upper	2017/18 Upper	2018/19 Upper
Limits on fixed interest rates based on net debt*	100%	100%	100%
Limits on variable interest rates based on net debt*	0%	0%	0%

*Net debt is borrowings less investments

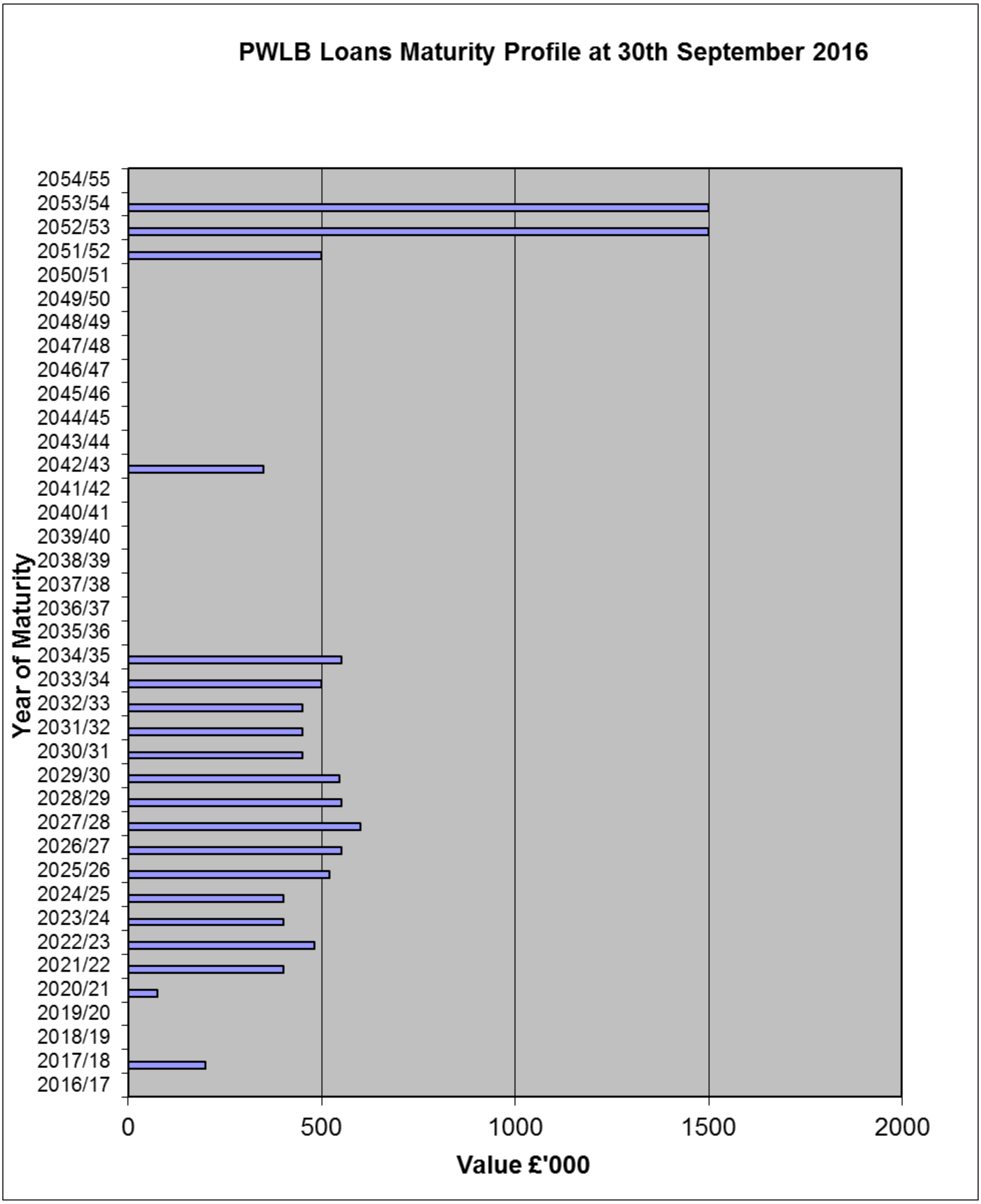
No new borrowing undertaken and all lending at fixed rates

3.4 **Maturity structure of debt**

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

	Estimated Lower Limit	Estimated Upper Limit	Current
Under 12 months	0%	25%	0%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	4%
5 years and within 10 years	0%	80%	17%
10 years and within 20 years	0%	80%	42%
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 2016/17 to date. The following graph shows when the debt will mature.


PWLB Loans Maturity Profile at 30th September 2016
2054/55
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
2019/20
2018/19
2017/18
2016/17
Year of Maturity
0
500
1000
1500
2000
Value £'000

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

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

3.6 **Maturity structure of investments**

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

3.7 **Minimum Revenue Provision Statement**

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

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

3.7.2 The Fire Authority approved the Capital Finance Requirement projections for 2016/17 in its Strategy approved in February. These are in the original estimate below:

	2015/16 Actual £'000	**2016/17 Original Estimate £'000**	**2016/17 Projected Outturn £'000**
Opening CFR	11,123	10,973	10,973
Closing CFR	10,973	10,973	10,973
Movement in CFR	**(150)**	**-**	**-**
Movement in CFR represented by:			
Net financing	295	439	439
MRP	(445)	(439)	(439)
Movement in year	**(150)**	**-**	**-**

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

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

4 TREASURY MANAGEMENT ADVISORS

4.1 The Strategy for 2016/17 explained that the Fire Authority uses Capita Asset Services as its treasury management consultant through the contract that exists with East Sussex County Council. The company has provided a range of services which have included:

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

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

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

5 CONCLUSION

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

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

Agenda Item No. 034

EAST SUSSEX FIRE AUTHORITY

Panel:	Policy & Resources
Date:	3 November 2016
Title of Report:	Contributions from Development Schemes
By:	Deputy Chief Fire Officer
Lead Officer:	

Background Papers	Government planning guidance documents for the Growth and Infrastructure Act 2013: including the use of planning obligations and Section 106 funding and Community Infrastructure Levy

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Appendices	Accompanying Framework document

Implications

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

EQUALITY IMPACT ASSESSMENT
The consideration of any equality impacts will vary depending on the specific schemes the framework is applied to; key will be ensuring that no community is disadvantaged in the provision of the FRS services by the impacts of growth

PURPOSE OF REPORT	To present a framework document for approval that will ensure future local authority development plans consider the needs of Fire & Rescue Service provision of service as part of schemes that deliver growth in houses, commercial buildings and infrastructure.

EXECUTIVE SUMMARY	Government plans require every local authority to assess growth and development plans as part of the delivery of suitable and sufficient housing. This was a manifesto commitment.

This means that, in East Sussex, the need for in excess of 20,000 additional homes and associated employment and associated infrastructure has been identified.

Local planning authorities are at various stages of development and delivery of these plans and, to date, East Sussex Fire & Rescue Service (ESFRS) has not presented a requirements framework to these authorities for impacts of growth to be considered as part of growth development plans.

RECOMMENDATIONS:

The Panel is asked to:

1. consider the accompanying draft framework document for ESFRS;
2. subject to any amendments, to agree the circulation of the framework to all local planning authorities before the end of November 2016; and
3. agree that officers use the basis of the framework to seek contributions from future development schemes.

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1. **INTRODUCTION**

1.1 The Government made a manifesto pledge to ensure that more adequate and affordable housing would be available in the UK. This has resulted in a requirement for every local authority to present local development plans to the Government by March 2017.

1.2 In East Sussex the City, District and Borough councils and, to a limited extent, the County Council, are the planning authorities and they are at various stages in the development of their local development plans; some are still to be presented, some are out for consultation and, in some areas, development options are underway.

1.3 In East Sussex as a whole, including the City of Brighton & Hove, it is estimated that the requirement will be in excess of 20,000 new homes, a proportion of which will be affordable housing.

1.4 The topography and areas where there are various restrictions in place in the county mean that there are limitations as to where new houses can be built; this has the impact of creating some areas of fairly intense development, for example between Polegate and Hailsham.

2. **CONTRIBUTIONS TO THE FIRE AUTHORITY**

2.1 Whilst to date the Fire Authority has not had a framework document for consideration, the level of potential growth in housing and businesses over the medium term is likely to have an impact on the services and resources of ESFRS.

2.2 The attached framework document attempts to set out considerations for developers and local planning authorities, but also offers "trade off" opportunities, for example the Fire Authority has offered to not seek the same level of contributions if developers install fire suppression systems such as sprinklers into buildings; the ultimate aim being that all communities are safe and that their safety is not disadvantaged by the impacts of housing development and growth.

2.3 A framework ensures that there is clarity and consistency applied to all developments and that all local planning authorities have clear information to use in negotiations with developers on behalf of the Service.

3. **NEXT STEPS**

3.1 If agreed, the Framework will be sent to all local planning authorities by the end of November 2016 with an introductory letter.

3.2 The Framework will also be made available on the Service website and become part of the Service policy framework.

4. **IMPLICATIONS**

Category	Detail	Action
CORPORATE RISK	Service delivery could be affected if the Fire Authority does not have a clear framework for seeking contributions for managing growth.	Framework in place and negotiation with local authorities.
FINANCIAL	As above and future impacts on revenue and business rate implications to be considered.	Framework in place and negotiation with local authorities. Separate assessment of MTFP.
POLICY	The Fire Authority should have a clear policy in place in relation to seeking contributions.	Framework in place and considered as part of service policy framework.
POLITICAL	The Fire Authority is only one of the organisations with interest and there will be competing demands for both inclusion in planning obligations and for access to Section 106 funding and Community Infrastructure Levy (CIL) where it exists.	There will need to be separate negotiation with local authorities and other stakeholders, and Fire Authority members need to be aware of potential for conflicts of interest where they also represent their local authority on planning issues.