

## NOTICE OF MEETING

<i>Meeting</i>	<b>Hampshire Fire and Rescue Authority</b>	<i>Clerk to the Hampshire Fire and Rescue Authority</i> <b>John Coughlan CBE</b>
<i>Date and Time</i>	<b>Wednesday, 20th February, 2019 10.30 am</b>	<i>The Castle, Winchester Hampshire SO23 8UJ</i>
<i>Place</i>	<b>Room X/Y - HFRS HQ, Eastleigh</b>	
<i>Enquiries to</i>	<b><u><a href="mailto:members.services@hants.gov.uk">members.services@hants.gov.uk</a></u></b>	

The Openness of Local Government Bodies Regulations are in force, giving a legal right to members of the public to record (film, photograph and audio-record) and report on proceedings at meetings of the Authority, and its committees and/or its sub-committees. The Authority has a protocol on filming, photographing and audio-recording, and reporting at public meetings of the Authority which is available on our website. At the start of the meeting the Chairman will make an announcement that the meeting may be recorded and reported. Anyone who remains at the meeting after the Chairman's announcement will be deemed to have consented to the broadcast of their image and anything they say.

## Agenda

1 **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

2 **DECLARATIONS OF INTEREST**

To enable Members to disclose to the meeting any disclosable pecuniary interest they may have in any matter on the agenda for the meeting, where that interest is not already entered in the Authority's register of interests, and any other pecuniary or non-pecuniary interests in any such matter that Members may wish to disclose.

3 **MINUTES OF PREVIOUS MEETING** (Pages 5 - 8)

To confirm the minutes of the previous meeting

4 **DEPUTATIONS**

Pursuant to Standing Order 19, to receive any deputations to this meeting

5 **CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6 MEMBER DEVELOPMENTS AND COMMENTS**

To receive any updates from Members of the Authority

**7 BUDGET AND PRECEPT REQUIREMENT 2019/20 (Pages 9 - 62)**

To consider a report from the Treasurer, which sets out details of the precept increase, showing the level of precept and increase for each Council Tax band and details the 2018/19 revised budget and the 2019/20 forward budget.

**8 MARINE INCIDENTS (Pages 63 - 68)**

To consider a report from the Chief Fire Officer, which asks Hampshire Fire and Rescue Authority to declare its' position regarding marine incidents.

**9 FIRE SAFETY ADVICE POLICY POSITION (Pages 69 - 76)**

To consider a report from the Chief Fire Officer regarding a policy position for HFRA to fulfil its duty for fire safety information and advice.

**10 BLUE LIGHT COLLABORATION (Pages 77 - 84)**

To receive a report from the Chief Fire Officer, which updates the Full Authority on the progress of collaboration for which HFRS are a key part of in Hampshire.

**11 MINUTES OF THE APPOINTMENT COMMITTEE - WEDNESDAY 23 JANUARY (Pages 85 - 86)**

To receive the minutes of the Appointment Committee, which took place on 23 January.

**12 MINUTES OF THE STANDARDS AND GOVERNANCE MEETING - THURSDAY 31 JANUARY 2019 (Pages 87 - 92)**

To receive the minutes of the Standard and Governance Committee meeting, which took place on the 31 January.

**ABOUT THIS AGENDA:**

This agenda is available on the Hampshire Fire and Rescue Service website ([www.hantsfire.gov.uk](http://www.hantsfire.gov.uk)) and can be provided, on request, in alternative versions (such as large print, Braille or audio) and in alternative languages.

**ABOUT THIS MEETING**

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact [members.services@hants.gov.uk](mailto:members.services@hants.gov.uk) for assistance.

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# Agenda Item 3

AT A MEETING of the Hampshire Fire and Rescue Authority of HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Thursday, 24th January, 2019

Chairman:

\* Councillor Christopher Carter

- |                                |                                  |
|--------------------------------|----------------------------------|
| * Councillor Liz Fairhurst     | * Councillor Sharon Mintoff      |
| * Councillor Roz Chadd         | * Councillor Roger Price         |
| * Councillor Jason Fazackarley | * Councillor David Simpson       |
| * Councillor Jonathan Glen     | * Councillor Rhydian Vaughan MBE |
| * Councillor Geoffrey Hockley  |                                  |

\*Present

Also present with the agreement of the Chairman:  
Councillor Tig Outlaw – Isle of Wight Council  
Michael Lane – Police and Crime Commissioner  
James Payne – Chief Executive - OPCC

## 148. **APOLOGIES FOR ABSENCE**

All Members were present and no apologies were noted.

## 149. **DECLARATIONS OF INTEREST**

Members were mindful of their duty to disclose at the meeting any disclosable pecuniary interest they had in any matter on the agenda for the meeting, where that interest was not already entered in the Authority's register of interests, and their ability to disclose any other personal interests in any such matter that they might have wished to disclose.

## 150. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed.

## 151. **DEPUTATIONS**

There were no deputations received for this meeting.

## 152. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman congratulated the newly appointed Deputy Chief Fire Officer, Steve Apter, following a national recruitment campaign. A full handover would be organised ahead of Andy Bowers' retirement in June. Chief Fire Officer Neil Odin shared that there had been a good response to the advert, which proved that Hampshire Fire and Rescue Service was held in high regard and he looked forward to working with Steve Apter, who was highly experienced.

Cllr Rhydian Vaughan was congratulated for being made a Member of the British Empire for his public and political services. Deputy Chief Fire Officer Andy Bowers and Firefighter Jasper Taylor were also recognised for their dedication with the Queen's Fire Service Medal for Distinguished Service.

The Chairman announced that a 'Dying To Work' protocol had been signed at Hampshire Fire and Rescue Service, which was focussed on giving appropriate support to employees and their families who were terminally ill. The Fire Authority all sent its condolences to Firefighter David Barker's family, after David's recent passing.

The Chairman confirmed that future meetings of the Hampshire Fire and Rescue Authority would take place at Service Headquarters, Eastleigh, in the new building and a tour for Members would take place in due course. An official opening was planned for later in the year.

### 153. **MEMBER DEVELOPMENTS AND COMMENTS**

Cllr Vaughan confirmed that an initial meeting regarding performance management had taken place with Shantha Dickinson and another was arranged for February.

### 154. **PROPOSED CREATION OF A NEW COMBINED FIRE AUTHORITY (CFA) TO INCLUDE THE LOCAL AUTHORITY AREAS OF HAMPSHIRE, ISLE OF WIGHT, PORTSMOUTH AND SOUTHAMPTON**

The Authority considered a report from the Chief Fire Officer (item 7 in the Minute Book) regarding the proposed creation of a new combined fire authority for the Isle of Wight, Portsmouth, Southampton and Hampshire. The proposals followed a business case put forward to the Authority on the 14 June 2018 and a subsequent twelve week consultation across all of the authorities areas.

The consultation had resulted in 311 responses, 300 of which were from individuals. Whilst this was a proportionally low response, representing circa. 0.015% of the areas population, it was seen as reassuring that there was apparent little concern from the public regarding the proposals. All views submitted had been analysed and considered, and 53% of the responses were in support of the proposals.

The Chief Fire Officer emphasised that whilst the concerns raised were proportionally low, all had been addressed within the report and the majority were a result of a lack of understanding as to the arrangements proposed.

Discussion pertaining Paragraph 24 in the report summarised the risks and benefits to the proposed combined fire authority, but emphasised the top priority for officers was to protect the public and maintain an effective Fire Service, with efficiency and effectiveness being immediate benefits.

The Chief Finance Officer took Members through the finance section of the report and highlighted the fourth bullet point in paragraph 37, which confirmed

just over £4m of liabilities that would need addressing over the next five years. This had reduced by £1m from previously presented figures due to further work on the vehicle programme. The liabilities are what was expected and whilst the business case would need updating for 2019/20, most positions would stay the same with no material impact. Should the proposals be agreed, the Home Office would be approached regarding funding to cover the transitional arrangements.

The possible governance and proportionality arrangements were addressed in paragraph 49 of the report, and Members were reassured that this was something that would be managed at a later date, in consultation with the Home Office. All views would be taken into account and nothing was yet affirmed regarding the proportionality.

In debate, some Members shared their concerns regarding the finance aspects of the proposals and the impacts these would have on Hampshire Fire and Rescue Service (HFRS), as HFRS had good budgets and reserves for work and improvements to Hampshire stations. It was questioned whether the money Hampshire tax payers had paid should be spent on stations on the Isle of Wight that needed more urgent attention. The Chief Finance Officer reassured the Authority that technically no money was explicitly put aside for station improvements, and this was currently covered by borrowing built into the Medium Term Financial Plan. It was hoped that the Home Office would be able to offer upfront financial support, but formal talks could not take place until a proposal was approved and ready to take forward.

The concerns raised by the Fire Brigades Union (FBU) on page 84 of the pack were highlighted and it was confirmed that meetings with the FBU since the consultation document had been composed were very positive and the concerns listed had been addressed. Subsequently, the FBU were now in support of the proposals.

Members agreed that approaching the Home Office for funding was very important and something that should be incorporated into the recommendations should the proposals be approved.

The Chairman welcomed comments from Cllr Tig Outlaw, Isle of Wight Council and Michael Lane, the Police and Crime Commissioner.

Cllr Outlaw told the Authority how the staff that had been met with understood the benefits of having a CFA and agreed that it was the right way forward. He echoed concerns regarding proportionality but was assured that the new Authority would represent the whole area equally and there would be no segregation as a result of proportionality. The Isle of Wight had £700k of reserves to contribute towards the plans, which was a significant amount for the Authority and would look financial contributions to be more equal going forward in the long term.

Michael Lane emphasised the importance of keeping people safe, and felt that this was the most effective way to continue for both Authorities and in the public's best interest. The Police and Crime Commissioner welcomed being

involved in the meeting and thanked Hampshire Fire and Rescue Service and the Fire Authority for their work.

Geoff Howsego and his team were also thanked for their hard work during the business case and consultation process to date.

RESOLVED:

Hampshire Fire and Rescue Authority:

- A) Noted the outcomes of the consultation exercise that did not suggest significant public concern or a statistically significant view for or against proposed CFA; and
- B) Agreed to proceed with the submission of a proposal to the secretary of state for the creation of a new Combined Fire Authority covering the Hampshire, Isle of Wight, Portsmouth, and Southampton area on the basis of the previously published business case. The Authority delegated authority to prepare and submit the formal submission, along with an application to the Home Office for transitional funding, to the Chief Fire Officer in consultation with the Chairman of the Authority, the Chief Finance Officer and the Monitoring Officer.

**155. EXCLUSION OF PRESS AND PUBLIC**

There was no need to exclude press and public at the meeting, but had it been required, this would have been done due to the likeliness, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public had been present during this item there would have been disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, for the reasons set out in the minute.

**156. EXEMPT MINUTE FROM THE 5 DECEMBER FULL AUTHORITY MEETING**

The Minute from the 5 December 2018 Full Authority meeting was approved in open session.

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Chairman,



Purpose: Approval

Date 20 February 2019

Title **Budget and Precept Requirement 2019/20**

Report of Treasurer



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

## EXECUTIVE SUMMARY

1. In September 2018, the Authority was presented with an update of the Medium Term Financial Plan (MTFP), which laid out the expected financial position to 2021/22. This was followed by a brief update in December, which provided an update of changes to the assumptions that had occurred since the initial MTFP.
2. The detail has now been refined, with the 2018/19 revised budget and the 2019/20 forward budget being presented in this report.
3. The Government have confirmed that the referendum limit will be set at 3%, as had been assumed within the MTFP.
4. This report sets out details of the precept increase, showing the level of precept and increase for each Council Tax band. It is recommended that due to the uncertainties surrounding local government finance after 2019/20 and the need to close the budget gap in future years that the council tax is increased by 2.99% for 2019/20, as assumed in the MTFP.
5. The government accepted the efficiency plan put forward by Hampshire Fire and Rescue Authority (HFRA) and have agreed a four year settlement. The grant figure announced is therefore in line with the provisional figures stated by the government in December 2015.
6. The capital programme for 2019/20 and the funding of this is set out in this report and are recommended for approval.
7. Approval is also sought for funding to implement the new Combined Fire Authority, approved by the Hampshire Fire & Rescue Authority and the Isle of Wight Council at their meetings on 24 January 2019.

## BACKGROUND

8. 2019/20 is the final year of the four-year settlement agreement which the Government announced in 2015. This settlement agreement has provided a level of stability which has enabled savings plans to be made and implemented in time for a balanced budget to be set for each of those years without any need to use reserves or other short-term measures.
9. Not only has this been achieved, but during this period of funding reductions we have been able to build the level of contributions to reserves, both capital and revenue, which has set us in good stead for the future.
10. The MTFP reported that savings from the Service Delivery Redesign (SDR) programme would not be sufficient to cover the full funding reduction in year, as some of the savings would not be achieved until 2020/21. The expected deficit at that time was £0.7m, with an expected increase to the council tax base which would result in £0.2m increase in precept to partially offset that.
11. The SDR programme, however, is now very close to completion and the majority of the savings will be available for the 2019/20 budget. This will allow the full amount of the planned Revenue Contribution to Capital Outturn (RCCO) to be budgeted for in 2019/20, with additional funding being transferred to the Transformation Reserve to allow future savings plans to be implemented.

## 2018/19 BUDGET MONITORING – QUARTER 3

12. The forecast position for 2018/19 is showing a surplus of £2.647m, which is higher than that reported to the Authority in December 2018.
13. The table below shows the budget monitoring for 2018/19 as at 31<sup>st</sup> December 2018.

	<b>2018/19 Current Budget</b>	<b>2018/19 Forecast as at end Quarter 3</b>	<b>Variance Underspend / (Overspend)</b>
Employee Costs	52,828	49,299	3,529
Premises	5,737	6,041	-304
Transport	1,794	1,901	-107
Supplies & Services and Third Party Payments	10,792	11,326	-534
	<b>71,151</b>	<b>68,567</b>	<b>2,584</b>
Income	-3,943	-3,985	42
Specific Grant	-1,915	-1,935	20
Contribution from Transformation Reserve	-4,048	-4,048	0
	<b>61,245</b>	<b>58,599</b>	<b>2,646</b>
Revenue Contributions to Capital	2,276	2,276	0
Interest payable / (receivable)	185	184	1
Net Cost of Service	<b>63,706</b>	<b>61,059</b>	<b>2,647</b>

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14. The majority of the underspend relates to employee costs, particularly wholetime firefighters. The increase of £1.1m in the projected underspend since the quarter 2 forecast is mainly due to the lower than anticipated firefighter pay awards for 17/18 and 18/19, which have now been confirmed. This is partially offset by pressures in non-pay areas, particularly ICT and property.
- (a) **Wholetime Firefighters** – the forecast position is an underspend of £2.688m. In addition to the impact of the pay awards mentioned above, this underspend is due to the removal of posts in preparation for the SDR savings required for financial year 2019/20. Currently some posts required to achieve SDR savings are occupied by fixed term contract firefighters covering long term sickness. Within this underspend there is a forecast pressure of £240,000 relating to staff bank.
  - (b) **Retained Firefighters** - the forecast position for retained firefighters is on budget. In the year to date, payments for turnout and attendance have been significantly higher than in previous years, but these have been offset by vacancies during the year. The forecast assumes that the exceptionally high amounts of activity do not continue for the remaining months.
  - (c) **Staff** - the forecast position on staff is an underspend of £853,000. This mainly relates to staff vacancies across the service, particularly within Corporate Services and a small saving on the staff pay contingency as the pay award was lower than budgeted.
  - (d) **Premises** – The budget for professional fees has been low historically and this has now been adjusted from 2019/20 but has led to an overspend in 2018/19. Reactive maintenance has been higher than budgeted again this financial year and measures are being taken to try to limit the overspend as far as possible. Both of these items have been reported previously.
  - (e) **Supplies & Services** - the forecast position is an overspend of £240,000. This mainly relates to pressures within the Operations function, particularly in the Specialist Response and post-SDR workstream teams, which have been reported previously.
  - (f) **Third Party Payments** – the forecast position is an overspend of £294,000. This overspend primarily relates to the misallocation of grant income in 2017/18. The Emergency Services Mobile Communications Programme (ESMCP) control rooms grant was incorrectly applied to Network Fire Service Partnership (NFSP) activity. There is also higher demand of Hampshire County Council (HCC) provided legal services due to specific activity during the year.

## 2019/20 BUDGET AND PRECEPT

### Council Tax

15. The MTFP included an estimated increase to the Council Tax Base of 1.0%, equating to £412,000. The Districts and Boroughs have now confirmed their bases for 2019/20, which now gives an overall increase of 1.48%, giving additional funding of £202,100.
16. The referendum limit had been assumed at 3% in the MTFP and this has now been confirmed by Government. In overall council tax terms, the Fire Authority element is relatively small and the table below shows the impact if all authorities set their increases to the maximum permissible (Test Valley has been used as an example District Council):

	<b>2018/19 Actual £</b>	<b>Maximum Increase %</b>	<b>Maximum Increase £</b>	<b>2019/20 Total £</b>
Hampshire County Council	£1,200.96	2.99%	£35.91	£1,236.87
Hampshire Police and Crime Commissioner	£177.46	13.52%	£24.00	£201.46
Test Valley Borough Council	£141.41	2.99%	£4.23	£145.64
Hampshire Fire & Rescue Authority	£65.74	2.99%	£1.97	£67.71
	<b>£1,498.81</b>	<b>5.73%</b>	<b>£85.86</b>	<b>£1,584.67</b>

17. Whilst HFRA is currently in a fairly healthy financial position, there are a number of factors which still make the future financial position less certain, namely:
- No grant figures are available after 2019/20;
  - We do not know what future council tax referendum limits after 2019/20 might be;
  - Future capital plans for our estate could require new prudential borrowing;
  - By 2021/22 we were predicting a budget gap of at least £4.0m which still needs to be addressed;
  - The increased costs of pensions following the 2018 actuarial review of Firefighter pensions is still uncertain after 2019/20.
18. Given this uncertain position, the fact that HFRA froze council tax for five consecutive years and the clear policy direction set by the Government for increasing council tax, it is recommended that the council tax be increased by 2.99% for 2019/20. All figures in this report assume that this level of increase is applied.
19. The figures below show the council tax rates for the year beginning 1st April 2019 for the properties in each band, based on a 2.99% increase:

Band A:	£45.14	Band E:	£82.76
Band B:	£52.66	Band F:	£97.80
Band C:	£60.19	Band G:	£112.85

Band D: £67.71

Band H: £135.42

20. Combining the council tax base increase and the precept increase, the table below shows the precept funding due from each precepting authority for the year 2019/20.

Basingstoke and Deane Borough Council	£4,453,205
East Hampshire District Council	£3,416,775
Eastleigh Borough Council	£3,104,748
Fareham Borough Council	£2,905,409
Gosport Borough Council	£1,825,204
Hart District Council	£2,756,075
Havant Borough Council	£2,756,359
New Forest District Council	£4,812,448
Portsmouth City Council	£3,864,575
Rushmoor Borough Council	£2,122,858
Southampton City Council	£4,398,374
Test Valley Borough Council	£3,315,488
Winchester City Council	£3,338,609
<b>Total</b>	<b>£43,070,127</b>

21. The Council Tax Collection Fund surplus has now been confirmed at £374,060, which is an increase of £62,100 on the figure included within the MTFP.

#### Business Rates

22. The Authority receives a top up grant in respect of business rates from the Government, together with a proportion of retained business rates collected by District and Unitary Councils in the County. In addition to this, following reliefs and business rate caps introduced by the Government, Section 31 grant is paid to the authority for lost business rate income it would otherwise have earned.
23. As per the four year settlement offered by the Government a top up grant of £7,561,380 was originally notified to the Authority. The actual top up grant announced is £7,463,616, which is £97,402 lower than expected.
24. An additional one-off grant has been announced by the government to distribute a surplus in the business rates levy account. This equates to £219,902 for Hampshire and more than offsets the shortfall on the top up grant.
25. Within the MTFP, the 2019/20 locally retained business rate figure was assumed to be the 2018/19 figure inflated by 1.00%. This would have given the authority a £7,108,000 share of business rates. Billing authorities have now confirmed the authority's share of business rates will be £7,056,800. This is a reduction of

£51,200 against forecast and is disappointing for the authority as it represents a reduction to the baseline on an ongoing basis.

26. However, Section 31 grant amounting to £243,214 will be provided in compensation for the 2% cap, and £842,673 will be provided for other business rates relief schemes, which is significantly higher than had been forecast.
27. The billing authorities have now confirmed that there is a small overall surplus on their business rates collection fund and the authority's share will be £27,276 in 2019/20. This will be one-off funding to the Authority in 2019/20, in the same way that the council tax collection fund operates.

#### Government Grant

28. 2019/20 is the final year of a four-year funding settlement agreed by the Government. This has given stability and enabled improved budget planning.
29. The grant of £7,215,207 initially forecast by the Government has now been confirmed for 2019/20 within the settlement.

#### Budget Pressures

30. Within the MTFP a number of budget pressures were identified and the budget was increased to cover these.
31. Since the MTFP it came to light that the ICT Department will require additional funding to maintain the security and efficiency of IT systems. This was detailed in the December 2018 Budget Update report and the approved growth has now been included within the 2019/20 budget.
32. Over recent months, work has been undertaken by the National Joint Council (NJC) who have realigned the staff pay scales ahead of the increases for the National Living Wage. This has an effect on pay for a significant number of HFRS employees and is likely to result in pay increases for a number of staff. Work is still on-going, but it is expected that the additional cost of this will be around £50,000 - £100,000, so this has been incorporated into the 2019/20 budget.
33. This increase has been partially offset in the 2019/20 budget by the lower than anticipated pay award for Firefighters in 2018, although it is expected that future years could be higher.

#### Efficiencies

34. Service Delivery Redesign is the only remaining project from the current efficiency plans that still has savings to deliver. The programme is wide reaching and was due to be implemented over the years 2017/18 to 2020/21. The first tranche of savings were removed for the 2017/18 budget, with the remainder expected to be split over 2019/20 and 2020/21.
35. Due to the changes being implemented earlier than anticipated, the majority of savings have now been made and therefore the 2019/20 budget has been reduced in line with this.

36. As part of the budget setting process, a zero based budget exercise was also undertaken. This has resulted in the requirement for inflation being reduced and further budget reductions being achieved without the need for changes to service levels. These savings have, however, been used to adjust for some historic under budgeting in certain areas which was outlined in the December 2018 finance update report.

#### Changes to the Medium Term Position

37. This table summarises the adjustments to the 2019/20 budget position as previously reported in the MTFP.

<b>Gap from Sept 2018 MTFP</b>		<b>699,700</b>
SDR Savings	-619,600	
Change in inflation provision and ZBB Adjs	-254,200	
Budget Pressure – ICT	236,700	
Additional provision for pension increases	2,718,200	
Specific Grant to fund pension increase	-2,950,200	
Increase in Council Tax Base	-202,100	
Change in RSG	-200	
Change in Collection Fund Balances	-56,000	
Increase in Business Rates	-71,300	
Increase in S31 Grant	-725,100	
Contribution to Transformation Reserve	1,224,100	
Total Changes		-699,700
<b>2019/20 Balanced Budget</b>		<u><u><b>0</b></u></u>

38. The table shows that we have been able to make a contribution to the Transformation Reserve of £1,224,100, in addition to the £250,000 included within the base budget for the year, as a result of the changes applied as part of the final budget setting process. This will give a total contribution to the Transformation Reserve of £1,474,100 in 2019/20. Not all of these changes will be recurring, and the net impact will be reflected in the next update of the MTFP. **Appendix A** outlines the base budget for 2019/20 by both cost type and function.

#### Capital Programme

39. The proposed capital programme for 2019/20 is set out at **Appendix C** and the proposed financing of this and all continuing capital works can be found at **Appendix D**. **Appendix E** provides an update of the current capital programme, including spend to date.
40. The Vehicle Replacement Programme (VRP) has been updated to reflect changing needs following the Service Delivery Redesign (SDR) programme.

41. The changes to operational delivery as part of the SDR programme have had a significant effect on the numbers and types of some vehicles required. A number of vehicle purchases have been put on hold for the past few years, until the exact details of the requirements could be confirmed.
42. Although purchases are now being made for most vehicles, the hold on purchasing has resulted in a significant underspend over the past few years. This funding has been carried forward and will be used to fund the purchase of the SDR vehicle requirements over the coming years. This has been built into the capital programme.
43. During 2015/16 and into 2016/17, work was undertaken to transform the Eastleigh Headquarters site into a joint strategic headquarters with Hampshire Constabulary. The final phase of this work is now underway, with completion expected early in 2019/20.

### Reserves

44. The Authority also has specific reserves to provide for future spending. These are:
  - 'Transformation Reserve'. This is used to help generate savings, deliver value for money improvements and to 'pump-prime' environmental improvement initiatives.
  - 'Capital Payments Reserve'. This provides an essential resource for the capital programme and helps to reduce the need for borrowing. This will put the Authority in a more secure position as government funding for capital is no longer received.
  - 'Revenue Grants Reserve'. This reserve holds grants that have been awarded to the authority for specific projects or programmes of work that may fall across more than one financial year.
45. Details of the expected balance on each of the specific reserves and the general balance over the period 2017/18 to 2021/22 are set out in **Appendix B**.
46. Due to the early implementation of SDR and favourable changes notified as part of the final budget setting process, there is a surplus on the budget for 2019/20. This will only occur for one financial year, so it is proposed that the surplus of £1,224,100 be transferred to the Transformation Reserve so that it can be used to fund future efficiency programmes and other one off spend, in line with existing policy.

### Combined Fire Authority

47. On 24 January 2019, both Hampshire Fire and Rescue Authority and the Isle of Wight Council approved proposals for a new Combined Fire Authority (CFA) for Hampshire and the Isle of Wight and agreed to submit a business case to the Secretary of State.
48. The development of the business case together with the forecast implementation costs associated with creating a new CFA are expected to be in the region of



£600,000 to £800,000 as outlined in the January report, although at this stage this still represents a high level estimate subject to further detailed work being undertaken on a range of different factors.

49. This report seeks approval to spend up to £800,000 on the implementation costs to be met from the Transformation Reserve in the first instance, albeit that further contributions from the Isle of Wight are expected towards these costs both in the form of a direct contribution and through a share of reserves that will be transferred to the new CFA upon its inception.

#### TREASURY MANAGEMENT STRATEGY STATEMENT

50. The Treasury Management Strategy Statement which incorporates the Investment Strategy is attached at **Appendix F** and requires approval on an annual basis. This document includes the Prudential Indicators and statement on Minimum Revenue Provision.
51. The Treasury Management Strategy Statement for 2019/20 has been updated to take into account the changes required in the 2017 Prudential and Treasury Management Codes.
52. The Authority's strategy for investing surplus monies was changed a number of years ago to target some higher yielding investments that were considered low risk and involved minimal administration. These tended to be in pooled funds and to date the Authority has £3.5m invested in these types of assets as outlined in Appendix F.
53. No formal limit or target was set for these investments, but given the positive impact they have had on the interest earned and the forecast level of balances for the Authority over the next few years, it is now recommended that a target level of higher yielding investments of £7m be set, which will be invested in line with the proposed investment strategy.
54. The report recommends that the following be approved:
  - (a) That the Treasury Management Strategy Statement, including the Annual Investment Strategy for 2019/20, (and the remainder of 2018/19) is approved;
  - (b) That a target level for high yield investments of £7m is set for the Authority; and
  - (c) That authority is delegated to the Chief Finance Officer to manage the Fire & Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

#### CAPITAL AND INVESTMENT STRATEGY

55. A new reporting requirement has been introduced for the 2019/20 budget which is included as **Appendix G** of this report. The appendix provides information about the Authority's strategy regarding use of assets and how they help to support the overall financial position. Some of these elements were previously included within the Treasury Management Strategy and have been split out into this separate document to ensure that we comply with the code.

## SECTION 25 REPORT

56. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to give an independent view on the robustness of the estimates and adequacy of reserves to the Authority at the time it is setting its budget and council tax. In previous years this has been covered within the body of the budget report but given the enhanced focus on financial management within the public sector, this has been included as a separate paper in this budget report attached at **Appendix H**.
57. The Authority is required to take this report into account in setting the budget and council tax for 2019/20.

## INSURANCE STRATEGY

58. In previous years a separate report has been presented to the Authority providing an update on our insurance arrangements. This report does not vary significantly from year to year whilst the current arrangements are in place and therefore, to help improve efficiency, a summary has been included within this report instead.
59. The Fire Authority became a member of a mutual, the Fire and Rescue Indemnity Company (FRIC), on 1 November 2015. FRIC is made up of a group of nine Fire and Rescue Authorities. FRIC was set up to provide indemnity for its Members against risks normally fully covered by a traditional insurance company.
60. There has been a slight increase in our 2018/19 contribution, however, this continues to remain below the 2016/17 contribution. This was partly due to the inclusion of non-mutual insurance premiums (such as Terrorism and uninsured loss recovery) and the addition of project fees.
61. In the last year the number of liability claims made against the Service has remained low, most were as a result of minor injuries. The Service and its insurer have successfully contested a number of claims where it was felt we were not at fault.
62. Additional covers consisting of Business Travel, Personal Accident, Engineering Insurance and Engineering Inspection are still obtained through Zurich Municipal' and to date, we have not made any claims under these additional policies. We are currently awaiting confirmation on final 2018/19 premiums, however, we do not expect this to increase significantly.
63. The charges to date are shown in the table below:

<b>Contribution/Premium</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
FRIC Contribution	£507,022	£522,066	£500,667	£516,402
Additional Covers	£88,881	£92,867	£96,088	Awaited

## SUPPORTING OUR SERVICE PLAN AND PRIORITIES

64. This report sets out how the available funding will be directed to the priority areas within HFRS and supports a continuing strong financial position.

## CONSULTATION

65. The Authority undertook a major consultation process during 2015 that sought residents and stakeholders' views about the proposed changes arising from the Risk Review as well as other issues around budgets and council tax levels. The majority of respondents were happy to see a rise in council tax in order to protect services provided by the Authority.
66. The proposals in this report have been the subject of consultation with the Representative Bodies and the Business Community and no issues of concern were raised. Any further comments or issues will be reported back verbally to the Authority.

## RESOURCE IMPLICATIONS

67. This report does not specifically request additional funding over and above those items that have been included within the budget for approval. It covers the overall financial position for 2019/20, on revenue, capital and reserves.

## LEGAL IMPLICATIONS

68. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation and do not change any policies. They meet the Authority's legal requirement to set a balanced budget and council tax for the next financial year prior to 1 March.

## PEOPLE IMPACT ASSESSMENT

69. The proposals in this report are considered compatible with the provisions of equality and human rights legislation.

## OPTIONS

70. There are no options for consideration within the report, although budget setting and forecasting by its very nature mean that assumptions are made around a number of variables that can change over time.

## RISK ANALYSIS

71. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant which have affected the available funding over the past 9 years.
72. The current savings programme has progressed according to plan, but development and implementation of a new savings programme will need to be kept under review over the coming years.

73. There continues to be a real risk of a budget deficit in future years which will require reductions across the Service and increases in council tax. The Service has begun early planning to identify how a shortfall could be overcome, however as a backstop position, the Authority has sufficient reserves to meet the gap in the short term, thereby mitigating the risk.

#### CONCLUSION

74. It is recommended that the Authority approve the proposals made within this report, including a 2.99% increase in the precept for 2019/20.

RECOMMENDATIONS

- 75. That the revenue budget as set out in Appendix A be approved by Hampshire Fire and Rescue Authority.
- 76. That the Capital Programme as set out in Appendix C and the funding of this as set out in Appendix D be approved by Hampshire Fire and Rescue Authority.
- 77. That a total of £1,474,100 is budgeted to be transferred to the Transformation Reserve in 2019/20.
- 78. That funding of up to £800,000 for the new Combined Fire Authority implementation is approved from the Transformation Reserve.
- 79. That the Treasury Management Strategy Statement including the Investment Strategy (Appendix F), and the Capital and Investment Strategy (Appendix G) for 2019/20, (and the remainder of 2018/19) are approved.
- 80. That a target level for high yield investments of £7m is set for the Authority.
- 81. That authority is delegated to the Chief Finance Officer to manage the Fire & Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
- 82. That the Section 25 Report from the Chief Finance Officer as set out in Appendix H be taken into account by the Authority in setting the budget and precept for 2019/20.
- 83. That the budget requirement for the general expenses of the Authority for the year beginning 1<sup>st</sup> April 2019 of £66,512,500 be approved by Hampshire Fire and Rescue Authority.
- 84. That the council tax requirement for the Authority for the year beginning 1<sup>st</sup> April 2019 of £43,070,127 be approved by Hampshire Fire and Rescue Authority.
- 85. That the Authority's council tax be increased by 2.99% for the year beginning 1<sup>st</sup> April 2019 and for the properties in each band, as set out below, be approved by Hampshire Fire and Rescue Authority:

Band A:	£45.14	Band E:	£82.76
Band B:	£52.66	Band F:	£97.80
Band C:	£60.19	Band G:	£112.85
Band D:	£67.71	Band H:	£135.42

- 86. That the precepts set out in paragraph 20 of this report, totalling £43,070,127 are issued on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them and previously notified to the Authority.
- 87. That in accordance with the set of principles set by the Minister for Housing, Communities and Local Government for the year, it is determined that the relevant basic amount of council tax for 2019/20 is not excessive.

## APPENDICES ATTACHED

- Appendix A – 2019/20 proposed budget in subjective and objective format
- Appendix B – Reserves
- Appendix C – Proposed Capital programme
- Appendix D – Capital Funding
- Appendix E – Current Capital Programme and Spend
- Appendix F – Treasury Management Strategy & Investment Strategy 2018/19 –  
2020/21
- Appendix G – Capital and Investment Strategy 2019/20 - 2021/22
- Appendix H – Section 25 Report of the Chief Finance Officer

## Proposed Budget 2019/20 - Subjective

2018/19 Original Budget £'000	2018/19 Revised Budget £'000		2019/20 Proposed Budget £'000
30,273	31,116	Whole Time Firefighters	32,115
6,036	6,034	Retained Firefighters	6,279
9,098	10,019	Staff	11,328
1,094	1,094	Net cost of pensions	1,087
754	754	Employers LGPS contribution re pension deficit	763
813	831	Other Employee Costs	611
<b>48,069</b>	<b>49,848</b>		<b>52,184</b>
4,298	4,806	Premises	4,891
1,697	1,788	Transport	1,512
7,919	9,661	Supplies & Services	8,515
<b>61,983</b>	<b>66,103</b>		<b>67,101</b>
-2,443	-2,686	Income	-3,047
-1,149	-1,149	Specific Grant	-4,099
150	-2,559	Transformation Reserve Funding	1,474
<b>58,541</b>	<b>59,709</b>		<b>61,429</b>
3,699	3,699	Revenue contributions to capital	3,905
1,889	1,459	Contingency	0
<b>64,129</b>	<b>64,867</b>	<b>Net Cost of Service</b>	<b>65,334</b>
184	184	Interest payable / (receivable)	184
414	414	Provision for debt repayment	395
0	-739	Contribution to / (from) reserves	600
<b>64,727</b>	<b>64,727</b>	<b>Budget Requirement</b>	<b>66,513</b>
-41,209	-41,209	Precept	-43,070
-8,118	-8,118	Revenue Support Grant	-7,215
-722	-722	Other Non-Specific grants	-1,086
-7,296	-7,296	Business Rates Top-Up Grant	-7,684
-7,037	-7,037	Locally Retained Business Rates	-7,057
-312	-312	CT Collection Fund Balance	-374
-33	-33	BR Collection Fund Balance	-27
<b>-64,727</b>	<b>-64,727</b>		<b>-66,513</b>
<b>0</b>	<b>0</b>	<b>Funding Gap / (Surplus)</b>	<b>0</b>

**Proposed Budget 2019/20 - Objective**

<b>2018/19 Original Budget £'000</b>	<b>2018/19 Revised Budget £'000</b>		<b>2019/20 Proposed Budget £'000</b>
761	768	Policy and Planning	982
41,184	43,942	Operations	39,966
4,670	5,134	Performance and Assurance	5,015
9,710	10,661	Staff Office	10,926
217	-85	Finance	4,166
1,094	1,094	Net Cost of Pensions	1,087
754	754	Employers LGPS contribution re pension deficit	763
150	-2,559	Transformation Reserve Funding	1,474
<b>58,541</b>	<b>59,709</b>		<b>64,379</b>
3,699	3,699	Revenue contributions to capital	3,905
1,889	1,459	Contingency	0
0	0	Specific Grant	-2,950
<b>64,129</b>	<b>64,867</b>	<b>Net Cost of Service</b>	<b>65,334</b>
184	184	Interest payable / (receivable)	184
414	414	Provision for debt repayment	395
0	-739	Contribution to / (from) reserves	600
<b>64,727</b>	<b>64,727</b>	<b>Budget Requirement</b>	<b>66,513</b>
<b>Funded By:</b>			
-41,209	-41,209	Precept	-43,070
-8,118	-8,118	Revenue Support Grant	-7,215
-722	-722	Other Non-Specific grants	-1,086
-7,296	-7,296	Business Rates Top-Up Grant	-7,684
-7,037	-7,037	Locally Retained Business Rates	-7,057
-312	-312	CT Collection Fund Balance	-374
-33	-33	BR Collection Fund Balance	-27
<b>-64,727</b>	<b>-64,727</b>		<b>-66,513</b>
<b>0</b>	<b>0</b>	<b>Funding Gap / (Surplus)</b>	<b>0</b>



Specific reserves and general balance 2017/18 to 2021/22

	Transformation Reserve	Capital Payments	Earmarked Underspendings	Revenue Grants	Capital Grants	Capital Receipts	General Balance	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Actual balance 31.3.18</b>	<b>-3,754</b>	<b>-23,266</b>	<b>-196</b>	<b>-616</b>	<b>0</b>	<b>0</b>	<b>-2,500</b>	<b>-30,332</b>
budgeted addition in year	-1,200	-3,699				-1,500		-6,399
Used in year	4,106	4,022	67			1,500		9,695
<b>Estimated balance 31.3.19</b>	<b>-848</b>	<b>-22,943</b>	<b>-129</b>	<b>-616</b>	<b>0</b>	<b>0</b>	<b>-2,500</b>	<b>-27,036</b>
budgeted addition in year	-318	-3,905						-4,223
Used in year	517	11,554						12,071
<b>Estimated balance 31.3.20</b>	<b>-649</b>	<b>-15,294</b>	<b>-129</b>	<b>-616</b>	<b>0</b>	<b>0</b>	<b>-2,500</b>	<b>-19,188</b>
budgeted addition in year	-1,474	-3,905						-5,379
Used in year		6,756						6,756
<b>Estimated balance 31.3.21</b>	<b>-2,123</b>	<b>-12,443</b>	<b>-129</b>	<b>-616</b>	<b>0</b>	<b>0</b>	<b>-2,500</b>	<b>-17,811</b>
budgeted addition in year		-3,905						-3,905
Used in year		900						900
<b>Estimated balance 31.3.22</b>	<b>-2,123</b>	<b>-15,448</b>	<b>-129</b>	<b>-616</b>	<b>0</b>	<b>0</b>	<b>-2,500</b>	<b>-20,816</b>

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## Proposed capital programme 2019/20 to 2021/22

Scheme	Total	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
<b>2019/20 starts</b>				
Vehicles (including carry-forward from 18/19)	6,240	586	5,654	
Technical Services Collaboration (from 2017/18)	393	393		
Mobile Burns Unit and cutting rig	43	43		
Retained station replacement programme - Accumulated annual allocations 2014/15 to 2019/20	2,615		2,615	
<b>2020/21 starts</b>				
Vehicles	5,483		5,483	
Retained station replacement programme	450		450	
<b>2021/22 starts</b>				
Vehicles	6,306			6,306
Retained station replacement programme	450			450
	<b>21,980</b>	<b>1,022</b>	<b>14,202</b>	<b>6,756</b>

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**Financing of existing & proposed capital programme**

	2018/19	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000	£'000
Payments: existing schemes	5,257	5,332	0	0	10,589
Payments: proposed programme 2019/20 to 2021/22	0	1,022	14,202	6,756	21,980
<b>Total payments</b>	<b>5,257</b>	<b>6,354</b>	<b>14,202</b>	<b>6,756</b>	<b>32,569</b>
<b>Financed by:</b>					
Capital payments reserve	3,199	6,354	14,082	6,756	30,391
Revenue Grant unapplied reserve	58	0	120	0	178
Capital receipts	1,500		0	0	1,500
Partner contributions	500		0	0	500
<b>Total financing</b>	<b>5,257</b>	<b>6,354</b>	<b>14,202</b>	<b>6,756</b>	<b>32,569</b>

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## Capital Commitments

Project Details	Approved spend	Pre 2018/19	2018/19	2019/20	2020/21	2021/22	Latest Estimate	Balance Over(-) Under
	£000	£000	£000	£000	£000	£000	£000	£000
<b>2012/13 starts</b>								
Basingstoke Fire Station	6,875	6,685	190	0	0	0	6,875	0
Fire control system	729	671	58	0	0	0	729	0
<b>2014/15</b>								
Estates Transformation - Ringwood Station	210	193	17	0	0	0	210	0
Solar photovoltaic panels	1,076	1,053	23	0	0	0	1,076	0
<b>2015/16</b>								
Transforming on call arrangements	1,112	1,004	54	54	0	0	1,112	0
Breathing apparatus telemetry	560	4	0	556	0	0	560	0
Thermal imaging cameras	350	22	164	164	0	0	350	0
<b>2016/17</b>								
Fire ground radios	503	487	16	0	0	0	503	0
<b>2017/18</b>								
VEHICLES	279	250	29	0	0	0	279	0
USAR Relocation	271	258	13	0	0	0	271	0
Estates Transformation -HQ Phase 2	4,583	1,146	3,337	100	0	0	4,583	0
<b>2018/19</b>								
VEHICLES	5,801	30	1,313	4,458	0	0	5,801	0
Pr Philip Barracks: Mobile Burn unit & cutting r	43	0	43	0	0	0	43	0
<b>Totals</b>	<b>22,392</b>	<b>11,803</b>	<b>5,257</b>	<b>5,332</b>	<b>0</b>	<b>0</b>	<b>22,392</b>	<b>0</b>

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## Appendix F – Budget and Precept Requirement Report 2019/20

### Treasury Management Strategy Statement 2019/20 to 2021/22

#### 1. Summary

- 1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) require authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.
- 1.2. As per the requirements of the Prudential Code, Hampshire Fire and Rescue Authority adopted the CIPFA Treasury Management Code at its meeting in February 2012. This report fulfils the Fire & Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3. **This Report recommends:**
- 1.4. **That the Treasury Management Strategy Statement, including the Annual Investment Strategy for 2019/20, (and the remainder of 2018/19) is approved;**
- 1.5. **That a target level for high yield investments of £7m is set for the Authority; and**
- 1.6. **That authority is delegated to the Chief Finance Officer to manage the Fire & Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.**

#### 2. Introduction

- 2.1. Treasury management is the management of the Fire & Rescue Authority's cash flows, borrowing and investments, and the associated risks. The Fire & Rescue Authority has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Fire & Rescue Authority's prudent financial management.
- 2.2. Treasury risk management at the Fire & Rescue Authority is conducted within the framework of the CIPFA Code which requires the Fire & Rescue Authority to approve a TMSS before the start of each financial year. This report fulfils the Fire & Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.3. Investments held for service purposes or for commercial profit are considered in a different report, the Capital and Investment Strategy.

### **3. External Context**

- 3.1. The following paragraphs explain the economic and financial background against which the TMSS is being set.

#### **Economic background**

- 3.2. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Fire and Rescue Authority's TMSS for 2019/20.
- 3.3. UK Consumer Price Inflation for October was up 2.4% year-on-year, slightly below the consensus forecast and broadly in line with the Bank of England's (BoE) November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, this means real wages grew by 1.0%, a level still likely to have little effect on consumer spending.
- 3.4. The rise in quarterly GDP growth to 0.6% in Quarter 3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Quarter 1. At 1.5%, annual Gross Domestic Product growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.
- 3.5. Following the BoE's decision to increase Bank Rate to 0.75% in August 2018, no changes to monetary policy have been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in the Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee (MPC) continues to reiterate that any further increases will be at a gradual pace and limited in extent.

#### **Credit outlook**

- 3.6. The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.
- 3.7. European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of

parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

### Interest rate forecast

- 3.8. Following the increase in Bank Rate to 0.75% in August 2018, the Fire & Rescue Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The BoE's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.
- 3.9. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the EU and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (at the time of writing this commentary in early December). As such, the risks to the interest rate forecast are considered firmly to the downside.
- 3.10. A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Annex A**.

## 4. Balance Sheet Summary and Forecast

- 4.1. On 30 November 2018, the Fire & Rescue Authority held £8.4m of borrowing and £28.0m of investments. This is set out in further detail at **Annex B**. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

**Table 1: Balance sheet summary and forecast**

	<b>31/03/18</b>	<b>31/03/19</b>	<b>31/03/20</b>	<b>31/03/21</b>	<b>31/03/22</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Financing Requirement	11.7	11.2	10.8	10.3	9.9
Less: External borrowing					
- Public Works Loan Board	(8.4)	(8.4)	(8.3)	(7.1)	(6.7)
<b>Internal (over) borrowing</b>	<b>3.3</b>	<b>2.8</b>	<b>2.5</b>	<b>3.2</b>	<b>3.2</b>
Less: Working capital	1.5	1.5	1.5	1.5	1.5
Less: Usable reserves	(30.3)	(27.0)	(18.9)	(16.0)	(19.0)
<b>New borrowing or</b>	<b>(25.5)</b>	<b>(22.7)</b>	<b>(14.9)</b>	<b>(11.3)</b>	<b>(14.3)</b>

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**(investments)**

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- 4.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Fire & Rescue Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 4.3. The CFR is predominantly for major building works, including Strategic Headquarters. There is an on-going requirement for vehicles and other equipment that will need to be replaced over the coming years. Reserves will mainly be used to fund the Transformation programme and roll out of the new Personal Protection Equipment (PPE) uniform.
- 4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Fire & Rescue Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Fire & Rescue Authority expects to comply with this recommendation during 2019/20.

## **5. Borrowing Strategy**

- 5.1. The Fire & Rescue Authority currently holds £8.4 million of loans, which represents no change since the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Fire & Rescue Authority does not expect to need to borrow in 2019/20. The Fire & Rescue Authority may however, borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £18.2 million.

### **Objectives**

- 5.2. The Fire & Rescue Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Fire & Rescue Authority's long-term plans change is a secondary objective.

### **Strategy**

- 5.3. Given the significant cuts to public expenditure and in particular to local government funding, the Fire & Rescue Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the Fire & Rescue Authority does need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 5.4. By internally borrowing, the Fire & Rescue Authority would be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. If borrowing is required, the benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring

additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Fire & Rescue Authority with this 'cost of carry' and breakeven analysis.

- 5.5. In addition, the Fire & Rescue Authority may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

### **Sources of borrowing**

- 5.6. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body;
  - Any institution approved for investments (see below);
  - Any other bank or building society authorised to operate in the UK;
  - Any other UK public sector body;
  - UK public and private sector pension funds (except Hampshire Pension Fund);
  - Capital market bond investors;
  - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

### **Other sources of debt finance**

- 5.7. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Leasing;
  - Hire purchase;
  - Private Finance Initiative;
  - Sale and leaseback.
- 5.8. The Fire & Rescue Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

### **Short-term and variable rate loans**

- 5.9. These loans leave the Fire & Rescue Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

### **Debt Rescheduling**

- 5.10. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Fire & Rescue Authority may take advantage of this and

replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## **6. Investment Strategy**

- 6.1. The Fire & Rescue Authority holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Fire & Rescue Authority's investment balance has ranged between £20.8m and £34.9m, however, it is planned that balances will fall significantly between now and 31 March 2020 as shown in Table 1.

### **Objectives**

- 6.2. The CIPFA Code requires the Fire & Rescue Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Fire & Rescue Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

### **Negative interest rates**

- 6.3. If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

### **Strategy**

- 6.4. Given the increasing risk and very low returns from short-term unsecured bank investments, the Fire & Rescue Authority aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £10m that is available for longer-term investment. Approximately 73% of the Fire & Rescue Authority's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, pooled property and equity funds, secured bank bonds and corporate bonds. Whilst the remaining cash is subject to bail-in risk, 61% is held in overnight money market funds which are subject to a reduced risk of bail-in, 13% is held in certificates of deposit which can be sold on the secondary market and 26% is held in overnight bank call accounts for liquidity purposes. Further detail is provided at Annex B. This diversification will represent a continuation of the new strategy adopted in 2015/16.
- 6.5. The Fire & Rescue Authority's investments in pooled property and equity funds allow the Fire & Rescue Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds, which are operated on a variable net asset value (VNAV) basis, offer

diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Fire & Rescue Authority's pooled fund investments are in the funds' distributing share classes which pay out the income generated.

- 6.6. Although money can be redeemed from the pooled funds at short notice, the Fire & Rescue Authority's intention is to hold them for at least the medium term. Their performance and suitability in meeting the Fire & Rescue Authority's investment objectives are monitored regularly and discussed with Arlingclose.
- 6.7. As shown in Annex B, without this allocation the weighted average return of the Fire & Rescue Authority's cash investments would have been 0.90%; the allocation to high yielding investments has added 0.50% (£0.14m based on the cash balance at 30 November 2018) to the average interest rate earned by the remainder of the portfolio.

**Table 2: High yield investments capital value**

	<b>Principal invested £m</b>	<b>Market value 30/11/2018 £m</b>	<b>Capital yield (per annum) %</b>
Pooled Property Funds	2.0	2.2	2.64
Pooled Equity Funds	1.5	1.6	(0.09)
<b>Total</b>	<b>3.5</b>	<b>3.8</b>	

- 6.8. To date, the Authority has not set a target value for the high yield investments, but taking into account the predicted levels of reserves it is recommended that a formal target of £7.0m for high yield investments be set, albeit that this represents an upper limit and will be subject to appropriate products becoming available for investment.

**Investment limits**

- 6.9. The maximum that will be lent to any one organisation (other than the UK Government) will be £4m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers and investments in pooled funds.

**Table 3: Investment limits**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£4m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Registered providers and registered social landlords	£6m in total
Money Market Funds	50% in total
Real estate investment trusts	£6m in total

## Approved counterparties

6.10. The Fire & Rescue Authority may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 4: Approved investment counterparties and limits**

Credit Rating	Banks		Government	Corporates	Registered Providers	
	Unsecured	Secured			Unsecured	Secured
UK Govt	n/a	n/a	£ Unlimited 30 years	n/a	n/a	n/a
AAA	£2m 5 years	£4m 20 years	£4m 30 years	£2m 20 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years	£2m 10 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£4m 5 years	£4m 15 years	£2m 5 years	£2m 10 years	£2m 10 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years	£2m 4 years	£2m 10 years	£2m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years	£2m 3 years	£2m 5 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years	£2m 2 years	£2m 5 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years	£2m 25 years
None	£1m 6 months	n/a	£4m 25 years	n/a	£2m 5 years	£2m 5 years
<b>Pooled funds and real estate investment trusts</b>	£4m per fund					

This table must be read in conjunction with the notes below

### Credit rating

6.11. Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.



### **Banks unsecured**

- 6.12. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

### **Banks secured**

- 6.13. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

### **Government**

- 6.14. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 30 years.

### **Corporates**

- 6.15. Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

### **Registered providers**

- 6.16. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

### **Pooled funds**

- 6.17. Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 6.18. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Fire & Rescue Authority

to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classed as capital expenditure. Because pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Fire & Rescue Authority's investment objectives will be monitored regularly.

### **Real estate investment trusts (REITs)**

- 6.19. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

### **Operational bank accounts**

- 6.20. The Fire & Rescue Authority may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Fire & Rescue Authority's operational bank account is with National Westminster, and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Fire & Rescue Authority maintaining operational continuity.

### **Risk assessment and credit ratings**

- 6.21. Credit ratings are obtained and monitored by the Fire & Rescue Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made;
  - any existing investments that can be recalled or sold at no cost will be; and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 6.22. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

### **Other information on the security of investments**

- 6.23. The Fire & Rescue Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and

analysis and advice from the Fire & Rescue Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

- 6.24. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Fire & Rescue Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Fire & Rescue Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

#### **Liquidity management**

- 6.25. The Fire & Rescue Authority has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Fire & Rescue Authority's medium term financial position (summarised in Table 1) and forecast short-term balances.

### **7. Treasury Management Indicators**

- 7.1. The Fire & Rescue Authority measures and manages its exposures to treasury management risks using the following indicators.

#### **Interest rate exposures**

- 7.2. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

**Table 5: Interest rate risk indicator**

	<b>30 November 2018</b>	<b>Impact of +/-1% interest rate change</b>
Sums subject to variable interest rates		
Investment	£23.5m	+/-£0.24m
Borrowing	(£0.0m)	+/-£0.0m

### **Maturity structure of borrowing**

- 7.3. This indicator is set to control the Fire & Rescue Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

**Table 6: Refinancing rate risk indicator**

	<b>Upper</b>	<b>Lower</b>
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and above	100%	0%

- 7.4. Time periods start of the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

### **Principal sums invested for periods longer than a year**

- 7.5. The purpose of this indicator is to control the Fire & Rescue Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

**Table 7: Price risk indicator**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Limit on principal invested beyond a year	£10m	£10m	£10m

## **8. Related Matters**

- 8.1. The CIPFA Code require the Fire & Rescue Authority to include the following in its treasury management strategy.

### **Financial derivatives**

- 8.2. In the absence of any explicit legal power to do so, the Fire & Rescue Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

### **Investment training**

- 8.3. The needs of the Fire & Rescue Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

- 8.4. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 8.5. CIPFA's Code of Practice requires that the Fire & Rescue Authority ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 27 November 2018, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2019.

#### **Markets in Financial Instruments Directive**

- 8.6. The Fire & Rescue Authority has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a greater range of services but with out the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Fire & Rescue Authority's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

**Annex A – Arlingclose Economic & Interest Rate Forecast October 2018****Underlying assumptions:**

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.
- Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.
- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.
- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

**Forecast:**

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

## Annex A

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.17
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.65
<b>3-mth money market rate</b>														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.80	1.00	1.10	1.20	1.30	1.30	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.17
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.68
<b>1-yr money market rate</b>														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.05	1.25	1.35	1.40	1.50	1.45	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.37
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.69
<b>5-yr gilt yield</b>														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.15	1.20	1.25	1.35	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
<b>10-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55
<b>20-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.90	1.95	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.98
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43
<b>50-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.80	1.85	1.85	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.88
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

## Annex B - Existing Investment &amp; Debt Portfolio Position at 30 November 2018

## Investment Position (Treasury Investments)

	30/09/2018 Balance £m	Movement £m	30/11/2018 Balance £m	30/11/2018 Rate %	30/11/2018 WAM* years
<b>Investments</b>					
Short term investments					
- Banks and Building Societies					
- Unsecured	4.72	(1.75)	2.97	0.72	0.18
- Secured	7.00	-	7.00	1.04	0.29
- UK Treasury Bills	1.00	(1.00)	-	-	-
- Money Market Funds	2.92	1.65	4.57	0.73	0.01
- Local Authorities	6.00	(2.00)	4.00	0.78	0.47
- Corporate Bonds	2.00	-	2.00	0.86	0.31
	23.64	(3.10)	20.54	0.86	0.25
Long term investments					
- Banks and Building Societies					
- Secured	3.00	-	3.00	1.03	2.38
- Local Authorities	1.00	-	1.00	1.30	2.57
	4.00	-	4.00	1.10	2.43
High yield investments					
- Pooled Property Funds**	2.00	-	2.00	4.26	n/a
- Pooled Equity Funds**	1.50	-	1.50	5.82	n/a
	3.50	-	3.50	4.93	n/a
<b>TOTAL INVESTMENTS</b>	<b>31.14</b>	<b>(3.10)</b>	<b>28.04</b>	<b>1.40</b>	<b>0.56</b>

\* Weighted average maturity

\*\* The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 30 November 2018.

## Treasury Management position

	30/11/2018 Balance £m	30/11/2018 Rate %
External Borrowing		
- PWLB	(8.35)	(4.71)
Investments		
- Total Investments	28.04	1.40
<b>NET INVESTMENTS</b>	<b>19.69</b>	



## **Capital and Investment Strategy 2019/20 to 2021/22**

### **1 Introduction**

1.1 This report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. Hampshire Fire & Rescue Authority has previously reported these matters in separate reports of the revenue budget, capital programme and the medium term financial plan (MTFP). In line with the latest statutory guidance, these inter-related issues are brought together in this one Capital and Investment Strategy.

1.2 This strategy covers:

- Governance arrangements for capital investment;
- Capital expenditure forecasts and financing;
- Prudential indicators;
- Minimum revenue provision;
- Treasury Management definition and governance arrangements;
- Investments for service purposes, linked to the Authority's commercial strategy;
- Links to the statutory guidance and other information.

### **2 Governance**

2.1 The Authority's medium term financial plan (MTFP) ensures that we continue to invest wisely in our existing assets and deliver a programme of new ones in line with overall priorities and need. This is kept under review by the Authority, with updates being provided on an annual basis for the MTFP.

2.2 The final capital programme is presented to the Authority in February each year. Any in year changes must be reported to the Authority and approval obtain for any increases to the plans.

### **3 Capital expenditure and financing**

3.1 Capital expenditure is where the Authority spends money on assets, such as land, property, or vehicles, that will be used for more than one year. In

local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

- 3.2 The estimated level of capital expenditure (or 'payment') flows each year, together with forecasts of financing resources, are two of the factors taken into account in determining the funding available within the capital programme.
- 3.3 Capital expenditure may be funded directly from revenue, with a regular, annual contribution to capital currently being made from the revenue budget. However, the general pressures on the Authority's revenue budget and council tax levels limit the extent to which this may be exercised as a source of capital funding in future.
- 3.4 Prudential borrowing does provide an option for funding additional capital development but one which then results in costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.
- 3.5 Given the pressure on the Authority's revenue budget in future years, prudent use could be made of this discretion to progress schemes in cases where there are clear service or financial benefits. Such schemes focus on clear priorities for investment in new or existing assets, and those that generate revenue benefits in future financial years, in the form of clear and measurable revenue savings or longer term income generation either directly or through council tax or business rate yield.
- 3.6 Expenditure flows in 2018/19 and the following three years will result from works in progress (schemes started in 2018/19 and earlier years) plus those arising from the proposed programme for 2019/20 to 2021/22, as Table 1 below shows.

**Table 1 – Forecast capital expenditure flows**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Works in progress at 31 March 2018 and schemes starting in 2018/19	5,257	5,332	0	0
Programmes starting in 2019/20, 2020/21 and 2021/22		1,022	14,202	6,756
<b>Total expenditure flows</b>	<b>5,257</b>	<b>6,354</b>	<b>14,202</b>	<b>6,756</b>

- 3.7 In practice, expenditure flows in the years after 2018/19 may vary from those shown in Table 1 if further external contributions become available to fund additional capital schemes, or if prudential borrowing is used to fund the Station Investment Programme.

**Table 2 - Resources to fund capital expenditure**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Contributions from other bodies including developers	500	0	0	0
Capital receipts	1,500	0	0	0
Contributions from reserves				
Revenue contributions to capital	3,699	3,905	3,905	3,905
New resources in the year	5,699	3,905	3,905	3,905
Use of the capital reserve: added to the reserve (-), or taken from the reserve (+)	-442	2,449	10,297	2,851
Total resources available	5,257	6,354	14,202	6,756

#### **4 Prudential Indicators**

- 4.1 Prudential borrowing is only used by the Authority on a case by case basis as such there is no specific prudential framework in existence for HFRA. The current capital programme does not rely on prudential borrowing for funding and it is many years since the Authority took out any new borrowing.
- 4.2 As the loan repayments and interest charges have to be financed by the Authority from its own resources, it is important that the use of prudential borrowing is very closely controlled and monitored. Any decision to take out any new borrowing to fund capital expenditure (for example for the Station Investment Programme) will have to be considered and approved by the full Authority itself and would include an assessment of the impact and affordability on the revenue budget.
- 4.3 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). In order to ensure that, over the medium term, debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

**Table 3 – Ensuring borrowing is only for capital purposes**

	<b>31/03/19 Revised</b>	<b>31/03/20 Estimate</b>	<b>31/03/21 Estimate</b>	<b>31/03/22 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>CFR</b>	<b>11.2</b>	<b>10.8</b>	<b>10.3</b>	<b>9.9</b>
<b>Debt</b>				
Borrowing	8.4	8.3	7.1	6.7
<b>Total Debt</b>	<b>8.4</b>	<b>8.3</b>	<b>7.1</b>	<b>6.7</b>

4.4 Total debt is expected to remain below the CFR during the forecast period.

#### **Affordable borrowing limit**

4.5 The Authority is legally obliged to set an authorised limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'operational boundary' is also set as a warning level should debt approach the limit. The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

**Table 4 – Affordable borrowing limits**

	<b>2018/19 Revised</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Authorised limit:				
Borrowing	18.7	18.2	17.8	17.4
Other Long-term Liabilities	5.0	5.0	5.0	5.0
<b>Total Authorised limit</b>	<b>23.7</b>	<b>23.2</b>	<b>22.8</b>	<b>22.4</b>
Operational boundary:				
Borrowing	15.0	14.5	14.1	13.7
Other Long-term Liabilities	5.0	5.0	5.0	5.0
<b>Total operational boundary</b>	<b>20.0</b>	<b>19.5</b>	<b>19.1</b>	<b>18.7</b>

### Ratio of Financing Costs to Net Revenue Stream

- 4.6 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

**Table 5 – Ratio of Financing costs to Revenue Budget Requirement**

	2018/19 Revised	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	%	%	%	%
Ratio	1.03	1.00	0.95	0.90

### Incremental Impact of Capital Investment Decisions

- 4.7 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed for the next three years.

**Table 6 - Incremental Impact of Capital Investment Decisions**

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£	£	£
General Fund - increase in annual band D Authority Tax	0.33	0	0

## 5 Minimum Revenue Provision for debt repayment

- 5.1 Where the Fire & Rescue Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Fire & Rescue Authority to have regard to guidance issued by the Ministry of Housing, Communities and Local Government on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2017.
- 5.2 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

5.3 The MHCLG Guidance requires the Fire & Rescue Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The four MRP options available are:

- Option 1: Regulatory Method;
- Option 2: CFR Method;
- Option 3: Asset Life Method;
- Option 4: Depreciation Method.

## 6 MRP in 2019/20

6.1 Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) capital expenditure funded from borrowing. Methods of making prudent provision for unsupported capital expenditure include Options 3 and 4 (which may also be used for unsupported capital expenditure if the Fire & Rescue Authority chooses).

6.2 The Fire & Rescue Authority will apply Option 1/Option 2 in respect of supported capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported capital expenditure funded from borrowing.

6.3 MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

6.4 Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

6.5 Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2018, the budget for MRP has been set as follows:

	<b>31.03.2019 Estimated CFR £'000</b>	<b>2019/20 Estimated MRP £'000</b>
Supported capital expenditure before 01.04.2008	11,081	443
Unsupported capital expenditure after 31.03.2008	131	3
<b>Total General Fund</b>	<b>11,211</b>	<b>446</b>

## 7 Treasury Management

7.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while

managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

- 7.2 The Authority's Treasury Management Strategy (contained at Appendix F of this report) is scrutinised and approved by the Authority each year. Actual performance is reviewed by the Authority on a six monthly basis.

## **8 Investments for Service Purposes**

### **Utilising Property Assets**

- 8.1 The Authority's Strategic Property & Estates Plan (SPEP) was approved by the Finance & General Purposes Committee of Hampshire Fire Authority in November 2016. The document sets the strategic direction for the estate until 2020. The strategy sets out seven core principles which are used to govern the management of the estate.

- 8.2 The principles are:

1. All our properties are recognised as HFRS corporate assets. This approach allows decisions to be made centrally with strategic overview.
2. The prime 'customer' of our properties are our operational and support teams which deliver our services. As far as possible, decisions are made recognising these primary users of our buildings.
3. We have a strategy to retain the current service provision across Hampshire. This may result in retaining and/or re-providing fire stations to meet the changing needs of the organisation and of the communities we service.
4. We will seek to wholly own our estate.
5. We will ensure our estate remains fit for the organisation's purposes, through continued investment in maintenance, improvements and replacement where this is deemed necessary.
6. The estate needs to work harder for the Service and be cost effective to maintain and operate. Where possible, we should maximise the potential use of land and buildings, generating income and implementing cost recovery.

7. Our environmental and energy strategies will set out approach to reduce risks, increase resilience and take advantage of opportunities presented by a changing climate in Hampshire.

- 8.3 These principles aim to ensure that a fit for purpose estate is maintained at all times in the most cost-effective way. Principles 4 and 6 specifically relate to the Capital and Investment Strategy, with the aim of using assets to reduce the annual revenue cost of the estate and to maximise the potential for income generation, where appropriate.
- 8.4 This is a deliberate outcome of the overall strategy and has been achieved through the pursuit of a range of initiatives targeting increased income generation but without over exposing the Authority to excessive risk or considering radical changes that take the Authority into areas that are not its core business or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.

#### **Pooled Funds**

- 8.5 Higher yields can be accessed through investments in assets other than cash, such as equities and property. The Fire & Rescue Authority has made investments in pooled property and equities funds.
- 8.6 The principle mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long-term investments the amounts invested need to be taken from the Fire & Rescue Authority's most stable cash balances, and the proposed target allocation of £7.0m forms part of the Fire & Rescue Authority's forecast future minimum balance.
- 8.7 The selection of investments to target higher yields is carefully managed with the assistance of Arlingclose, the Fire & Rescue Authority's treasury management advisor, who recommend that the Fire & Rescue Authority diversifies its investments targeting a higher return between asset classes. This is in order to mitigate the loss of capital value, so that there is no over exposure to an event that impacts the value of investments in a particular asset class, such as a fall in property prices.
- 8.8 The Fire & Rescue Authority utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select the particular investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building.



### **Developing joint ventures that yield additional income or generate a return**

- 8.9 The Authority is pursuing a number of opportunities either through its land holdings or through the relationship it has with partners or contractors that look at new and innovative ways of generating a financial return. To date the Authority has formed partnerships with other emergency services, both by sharing building space and through operational changes.

### **9 Knowledge and skills**

- 9.1 Through the Hampshire Shared Services Partnership, the Authority is advised by professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 9.2 Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 9.3 CIPFA's Code of Practice requires that the Authority ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose in November 2018, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2019.

### **Investment Advisers**

- 9.4 As part of the Hampshire Shared Services Partnership, the County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the County Council's Deputy Chief Executive and Director of Corporate Resources, her staff and Arlingclose.

### **10 Chief Finance Officers conclusion on the affordability and risk associated with the Capital and Investment Strategy**

- 10.1 This Capital and Investment Strategy has been developed alongside the Treasury Management Strategy (Appendix F) and the Reserves forecast (Appendix B). Together, they form an integrated approach adopted by the Authority to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on

the revenue budget whilst recognising and managing risk to an acceptable level.

- 11** The forward planning of capital funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Chief Financial Officer that the proposed capital programme is prudent, affordable and sustainable.

**12 Links to statutory guidance and other information**

- 12.1 The Local Government Act 2003, section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:

- MHCLG - Local Government Investment\* [MHCLG Investment](#)
- CIPFA's Prudential Code 2017
- CIPFA's Treasury Management Code 2017

\* Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of a separate document.

- 12.2 The Authority's Strategic Property & Estates Plan can be found at the following the link [Full SPEP](#).
- 12.3 Details of the 7 Core Principles can be found at [Core Principles](#) .
- 12.4 The proposed capital programme is included at Appendix C within this report.

## **Section 25 Report from the Chief Financial Officer**

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Authority when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The Authority is required to have regard to this report in approving the budget and council tax. Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. Given the significance of the funding reductions announced to the end of the decade and the uncertainty surrounding the outcome of the next Comprehensive Spending Review (CSR), this report considers not only the short term position but also the position beyond 2020 in the context of the Authority's Medium Term Financial Plan (MTFP).

### **Robustness of Estimates in the Budget**

The budget setting process within the Authority has been operating effectively for many years and is based on increasing the budgets each year allowing for pay and price inflation and other marginal base changes in the cost or levels of service. Each year a zero based budgeting exercise is also carried out to review whether or not there are elements of the budget that do not reflect the current activity or need. In more recent years adjustments have also been made to the budgets to reflect the savings that have been implemented in order to balance the budget in the face of Government grant reductions.

Appropriate provisions for pay and price inflation are included within each successive MTFP and these are then refined by the Chief Financial Officer in rolling forward the detailed budget for the next financial year.

In general terms, the forecasting for the MTFP is undertaken on a very prudent basis, particularly in respect of allowances for pay and price inflation and increases in the council tax base and business rate income.

Growth pressures are considered corporately and agreed by the Authority and are factored in to future budgets on a recurring basis. In the main, these growth pressures have been absorbed within the bottom line of the budget without the need to increase future years savings targets, this is as a result of the prudent approach to forecasting.

Budget management within the Authority remains strong as demonstrated by the outturn position each year since funding reductions began and as reflected in the annual opinion of the External Auditors who has given an unqualified opinion on the annual accounts and in securing value for money / financial resilience.

As Chief Financial Officer for the Authority I have a close involvement with the budget setting process and I am content that the estimates are robust based on the knowledge we have available to us at this time.

## Risks in the Budget 2019/20

In some respects, the significant changes to local government finance since 2010 have changed the profile of risk faced by most public sector organisations. In reality, the biggest financial risks now relate purely to reductions in government funding and government policy. As a Fire and Rescue Authority we do not face demand pressures in the same way as those with social care responsibilities and therefore key cost risks tend to be around pay and price inflation and the impact of pensions. These items together with other traditional risks are outlined below:

- a) **Government Funding and Policy** – The MTFP includes the announced reductions in government grant over the current CSR period and plans are in place to deliver a balanced budget by 2019/20 based on the phase 2 and 3 savings programmes that were put in place.

Following acceptance by the then Department for Communities and Local Government (DCLG) of the Authority's Efficiency Plan for the period to 2019/20, the expectation was for minimal change for 2019/20 when the Provisional Local Government Finance Settlement was announced in December; which was the case for general grant income, although there was some additional one off grant provided through the redistribution of the business rate levy.

Other significant changes to funding or policy during the year would have to be covered by contingencies or general balances, but generally once grant levels have been set in the final settlement due in January they do not change.

- b) **Council Tax** – The Government have increased the limit for the core council tax to 3% in 2018/19 and 2019/20 (increased from 2%) without the need to hold a referendum. Increases in council tax form a key part of closing the predicted budget deficits over time and this report therefore recommends that an increase of 2.99% is applied in 2019/20 in line with the assumptions in the MTFP, particularly given the uncertainty of the funding position post 2019/20.
- c) **Pay and Price Risk** – The MTFP contained provision of 2.5% per annum for increases in fire fighter pay. Recent awards have been less than this provision and are reflected in the detailed budgets set out in this report. National policy changes on the role of the fire fighter will be something to consider in future MTFP updates.

The impact of price inflation has been considered in setting the budget and it would take a major departure from the Authority's assumptions to create a financial problem that we could not deal with.

- d) **Employers Pension Risk** – Changes to the actuarial assumptions applied by the Government Actuary Department resulted in significant increases to employers pension contributions for 2019/20, which were not budgeted for within the MTFP.

The Government has now announced that it will meet the increased costs through a one off grant in 2019/20 which completely mitigates this risk for the Authority. However, the future funding position will not be decided until the next Spending Review is completed and this therefore remains a significant risk to the Authority going forward.

- e) **Treasury Risk** – The Authority has limited exposure to interest rate risk as most long term borrowing is undertaken on a fixed rate. At the present time we are not undertaking any new long term borrowing as the capital programme does not

require it. However, if the Authority were to approve future investment for the Station Investment Programme, this is likely to require significant prudential borrowing and decisions on when best to take out this borrowing would need to be considered.

On the investments side, the Authority has a very prudent approach to forecasting its investment returns and they also represent a very small part of the overall funding for the budget. The investment strategy protects capital ahead of yield and even some of the medium term investments are in products that should return a stable income yield each year.

### **The Adequacy of Reserves**

The Authority's policy on general balances is to hold a minimum prudent level which is currently set at £2.5m. This was increased significantly at the beginning of the period of austerity to reflect the potential volatility caused by grant reductions and the need to implement savings programmes. The projected level of general fund balances will be 3.65% of net expenditure at the beginning of 2019/20. It is worth noting that the Authority has never needed to dip into its general fund balance.

The Authority has two key earmarked reserves that it uses to effectively manage its medium term financial position. The Capital Payments Reserve receives contributions each year and is the major source of funding for the capital programme. The balance on the account mainly reflects the timing differences between planning for capital spend and the profile of capital spend which can be over several years for major projects.

The Transformation Reserve receives regular one off contributions from underspends in the year and is used to pay for transformational change that achieves further savings. Significant resources have been channelled into the Service Delivery Re-Design project but this was to achieve ongoing savings of over £4m a year, which represents an excellent return on investment.

As grant reductions and savings programmes impact on the level of budgets, the ability to make contributions to the Transformation Reserve will be restricted and to mitigate this, the MTFP includes a recurring contribution to the Reserve each year that increases over time, and should therefore provide sufficient funding for future change programmes.

The Authority does however need to be cognisant of the rate of spend on transformation programmes and the extent to which these could be resourced by existing capacity rather than through additional new spending.

### **Budget 2019/20 – Conclusion**

Given the details outlined above, provided that the Authority considers the above factors and accepts the budget recommendations, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2019/20.

### **The Position Beyond 2020**

The latest MTFP was approved by the Authority in September last year and considered a planning horizon to 2021/22. The next CSR is due to take place this year and will set the framework for public spending over the next four years.

Local government and Fire Authority finances will be impacted over this period not only as a result of the total amount of funding that will be made available but also as a result of the Fair Funding Review and the extension of Business Rate Retention, on which consultation papers were published in December last year as part of the provisional settlement.

In keeping with its previous planning cycle, the Authority has identified a budget gap of £4m that must be closed by 2021/22 and key to the planning for this will be the review of the Integrated Risk Management Plan due to be reviewed and updated this year.

In addition to the general uncertainty around the funding of public services, there are two further items that could impact on the Authority over the medium term. Firstly, the increase in employers pension contributions, which without separate recurring funding from the Government will place a very heavy burden on all Fire Services from 2021/22 onwards and secondly, but more locally, the decision of both Authorities to move ahead with the submission of a business plan to the Secretary of State for a new Combined Fire Authority will clearly impact the financial landscape going forward.

At this stage however, in the absence of the outcome of the CSR and other changes to the local government finance regime, the Authority must focus on planning for the next major savings programme and I believe it is well placed to do that underpinned by the reserves that are already in place.

Rob Carr

Chief Financial Officer

25 January 2019



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

Purpose: Approval

Date: 20 February 2019

Title: **Marine Incidents**

Report of Chief Fire Officer

## SUMMARY

1. Hampshire Fire and Rescue Authority (HFRA) have a statutory duty to attend only some types of fire incidents involving marine vessels.
2. The capability to attend all types of fire incidents in marine vessels has been maintained for many years. The arrangements have changed from being supported by Government departments, to now being a capability which is declared only by those Fire and Rescue Authorities (FRAs) which decide to provide it independently.
3. Significant risks exist within the Solent area which HFRA will naturally be expected to have an expertise in responding to, both by the public and by marine professionals.
4. HFRS has a current capability to attend fires in marine vessels regardless of location.
5. The purpose of this report is for HFRA to consider marine incidents and declare its' position.

## BACKGROUND

6. Marine incidents fall into two areas
  - a) Fires in vessels moored alongside; and
  - b) Fires in vessels at sea.
7. Fires in vessels moored alongside are part of HFRA's statutory duty under the Fire and Rescue Services Act 2004. The Fire and Rescue Authority must make provision for extinguishing fires, protecting life and property in its area. This requirement includes vessels and structures that are secured to the shore. In Hampshire, this means that the Hampshire Fire and Rescue Service (HFRS) has a duty to respond to incidents on vessels moored at or alongside Southampton and Portsmouth ports and the many marinas on the south coast of Hampshire.

8. This duty does not extend below the mean low water mark and therefore, does not extend to any vessel deemed afloat and not moored alongside.
9. The Fire and Rescue Authority may consider action it considers appropriate in a situation where individuals may die, become injured or ill or where there is harm to the environment, and this power to act may be exercised by an Authority outside of its Authority area (Fire and Rescue Services Act 2004, Section 11). This power may be exercised at sea (Fire and Rescue Services Act 2004, Section 20).

## HISTORY

10. From 2006 to 2011, HFRA authorised HFRS to be part of a national response to fires at sea as part of the Maritime Incident Response Group (MIRG). This response was funded and co-ordinated by the Maritime and Coastguard Agency (MCGA).
11. In 2011, the Department for Transport (DfT) decided to withdraw the MIRG arrangements. They cited that the capability was not required and could be sourced through other arrangements supplied by marine salvors.
12. Based on the risk presented within the Hampshire and Solent area, HFRA made a decision to maintain the capability in Hampshire.
13. The National Fire Chiefs Council (NFCC) maintain a connection with a group of Fire and Rescue Services (FRS) who maintain this 'at sea' capability called the Fire and Rescue Maritime Response group (FRMR). The number of FRS providing this capability is six.
14. In recent years, HFRS has deployed teams to vessels on fire at sea (MV Courage and MV Honor). Both vessels received a Maritime Response Team (MRT), to assist the safe navigation of the vessel into Southampton Port, where a full firefighting response was enabled when securely moored alongside.
15. Since 2016, the MCGA have requested a UK FRS response on 14 separate occasions nationally. HFRS have continued to engage in discussions for the DfT and MCGA to clarify the position and needs with regards fires on vessels at sea.

## RISK IN THE SOLENT AREA

16. There is a significant life risk present within the Solent. Passengers are present on ferries to and from the Isle of Wight and Europe. Southampton is the UK's main cruise terminal with up to seven ships in daily in the high season. Additionally, the Solent is the busiest stretch of water in the UK for sailing and pleasure craft.
17. Hotel accommodation is located on Napoleonic Forts isolated within the Solent. The continued response to these structures can only be maintained by maintaining our "at sea" capability.



18. Financially, both Southampton and Portsmouth ports contribute significantly to the local economy. ABP Southampton contributes circa. £5.6 billion to local economy directly (Solent LEP).
19. HFRS recognises the risk presented by the maritime industry. There is a public expectation that HFRS can respond to fire incidents in the Solent.
20. The Solent Harbour Masters expect a HFRS capability to provide professional expertise and assessment prior to accepting a casualty vessel.

#### HFRS CAPABILITY

21. Fire incidents in marine vessels is part of the HFRS maintenance of competence scheme. All HFRS crews are trained to respond to a fire in a vessel alongside.
22. Nominated stations close to the coast have enhanced training to respond to fires alongside to improve our capability. They have also been trained to provide a seaborne response to cover the Solent area.
23. HFRS have a Maritime Response Team (MRT). These are Firefighters and Officers whom have been trained specifically in fire incidents at sea. They may be deployed as an airborne or seaborne response as part of FRMR. They are a designated national asset and currently may respond to incidents at sea outside the Authority's area and are not restricted to the territorial sea of the United Kingdom.
24. The MRT provide an assessment team to establish the exact nature of the incident and its associated risk, and provide liaison with the vessels' crews. This response has proved to demonstrate good communication with UK authorities such as MCGA and port authorities. It also allows for thorough tactical planning in preparation of firefighting when the ship is moored alongside. This reduces firefighter risk and makes firefighting operations more effective and shorter.

#### SUPPORTING OUR SERVICE PLAN AND PRIORITIES

25. Providing response to incidents at sea supports our Service Plan and Priorities in the following ways:
  - a) "Responding to Incidents" Service priority, the aim of which is to continue to improve the way we respond to and support incidents;
  - b) "Creating safer communities". Recognising the risk to members of the public travelling through the Solent area;
  - c) "Blue Light collaboration". Working with other response agencies such as the Ministry of Defence Police; Coastguard and Ambulance Service to provide maritime response.
26. The proposal also supports the National Framework Document objectives of:

- a) Making appropriate provision for fire prevention and protection activities and response to fire and rescue related incidents;
- b) Identify and assess the full range of foreseeable fire and rescue related risks their areas face;
- c) Collaborate with emergency services and other local and national partners to increase the efficiency and effectiveness of the service they provide;
- d) Be accountable to communities for the service they provide.

#### CONSULTATION

27. Consultation has been ongoing as part of HFRS pre-planning and Local Resilience Forum (LRF) planning process. The current response protocols have been developed with the MCGA, NFCC FRMR, RNLI; Hampshire Constabulary; Ministry of Defence Marine Unit (Portsmouth); Southampton, Portsmouth Port and Cowes Harbour Masters; Queens Harbour Master (Portsmouth) and numerous shipping lines and agents.

#### COLLABORATION

28. Working within the Blue Light Collaboration partnership, HFRS continues to seek effective and efficient ways for all agencies to respond to incidents at sea. This is particularly relevant to methods of transportation and training which is an ongoing project within the partnership.
29. HFRS also continues to collaborate with the National Fire Chiefs Council (NFCC), FRMR and the MCGA to ensure effective and efficient response protocols whilst also working with the local maritime industry to identify and enhance effective working practices.

#### RESOURCE IMPLICATIONS

30. The current budget allocated to maintain this capability is sufficient and no additional resource requirements are required as a result of this paper. The budget is allocated and managed within the HFRS Operations budget.

#### ENVIRONMENTAL AND SUSTAINABILITY IMPACT ASSESSMENT

31. An impact assessment has been carried out and positive impacts identified through the potential to reduce environmental issues through early intervention and resolution of incidents.

#### LEGAL IMPLICATIONS

32. There is a potential threat from litigation when responding to incidents outside of the FRS statutory duty (e.g. where HFRS officers cause damage to third parties' property or are injured themselves). FRS' have a statutory duty to respond to vessels alongside but are not required to respond to vessels at sea.
33. HFRS have protection cover through the Fire and Rescue Indemnity Company (FRIC) which covers public and employee liability up to a £50m limit, which is deemed as sufficient protection.

## EQUALITY IMPACT ASSESSMENT

34. An impact assessment has been made and the proposals in this report are considered compatible with the provisions of the equality and human rights legislation. There are no impacts identified.

## OPTIONS

35. A number of options have been considered and presented in this paper. These options refer exclusively to the activities of the Authority which are not statutory duties. Where a duty has been identified, the paper assumes HFRS will continue with this capability.
36. The options in respect of non-statutory duties are:
- a) HFRS discontinues the capability and provision to respond to incidents at sea;
  - b) HFRS continues to provide a capability for incidents within the Solent area. This will use the enhanced skills of our stations and respond to the main life risk elements;
  - c) HFRS provides the capability of responding to vessels en route to a Hampshire Port. It is likely that any vessel leaving a Hampshire Port will also return. This provides HFRS an enhanced capability once alongside;
  - d) HFRS maintains a nationally declared capability which can be deployed outside of the area. This option would only be possible on the authorisation of the Brigade Manager and following an in-depth risk assessment.

## RISK ANALYSIS

37. There is a potential risk of litigation from the marine industry, particularly if HFRS are working outside its statutory responsibility. However, HFRA has appropriate protection cover for these risks.
38. The option of no response would be detrimental to HFRA reputation.
39. Early intervention to vessels at sea will reduce the social, environmental and economic impacts of incidents. It will also reduce risk of political criticism.
40. Adoption of the maritime response strategy will also reduce risk to vessels and crew/passengers as identified in Corporate and Local Resilience Forum Risk Registers.

## CONCLUSION

41. HFRA fulfils its' statutory duty to respond to fires in vessels moored alongside.
42. For many years, HFRA has maintained and used the capability of responding to vessels on fire at sea, legally, but outside of its' statutory duty.

43. Significant life and economic risks exist in the Solent area. A reputational risk exists with HFRA not having the capability to respond to a fire in this region.
44. HFRS currently maintains the capability to respond to risks.

#### RECOMMENDATION

45. That Options b, c and d be approved by Hampshire Fire and Rescue Authority, specifically that:
  - b) HFRS continues to provide a capability for incidents within the Solent area. This will use the enhanced skills of our stations and respond to the main life risk elements.
  - c) HFRS provides the capability of responding to vessels on route to a Hampshire Port. It is likely that any vessel leaving a Hampshire Port will also return. This provides HFRS an enhanced capability once alongside.
  - d) HFRS maintains a nationally declared capability which can be deployed outside of the area. This option would only be possible on the authorisation of the Brigade Manager and following an in-depth risk assessment.
46. That maintenance of the appropriate resources to facilitate the approved capability be approved by Hampshire Fire and Rescue Authority.
47. It be approved by Hampshire Fire and Rescue Authority, that procedures formed to deploy outside of HFRA's statutory duty, be delegated to the Chief Fire Officer.

Contact: Stewart Adamson, Assistant Chief Fire Officer [Stew.adamson@hantsfire.gov.uk](mailto:Stew.adamson@hantsfire.gov.uk), 07918887596



HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY

Purpose: Approval

Date: 20 February 2019

Title: **Fire Safety Advice Policy Position**

Report of Chief Fire Officer

## SUMMARY

1. Hampshire Fire and Rescue Authority (HFRA), has a duty to consider the extent that it considers reasonable to provide information and advice for the purposes of fire safety. This is set out within The Fire and Rescue Act 2004, Section 6.
2. Hampshire Fire and Rescue Service (HFRS) carries out fire safety activities in many ways. These activities differ in domestic dwellings and non-domestic premises.
3. The purpose of this paper is to consider a policy position for HFRA to fulfil its duty for fire safety information and advice.

## BACKGROUND

4. The Fire and Rescue Act 2004 is the primary legislation setting out the provisions for a Fire and Rescue Authority (FRA) and the functions of it.
5. Part 2 deals with the functions of a FRA and Section 6 sets out the functions with specific regard to "Fire Safety".
6. Section 6 states:
  - (a) *(1) A Fire and Rescue Authority must make provision for the purposes of promoting Fire Safety.*
  - (b) *(2) In making provision under subsection (1) a fire and rescue authority must **in particular to the extent that its considers reasonable to do so**, make arrangements for –*
    - (a) the provision of information, publicly and encouragement in respect the steps to be taken to prevent fires and death and injury by fire;*
    - (b) the giving of advice, on request about –*

- (i) how to prevent fires and restrict their spread in buildings and other property;*
- (ii) the means of escape from buildings and other property in case of fire.*

(Fire and Rescue Services Act 2004, Section 6)

7. This paper considers the section in bold above to establish the extent HFRA considers it reasonable to provide Fire Safety information and advice on request as set out above.
8. HFRS have current strategies for the provision of Fire Safety advice. These strategies vary for domestic and non-domestic premises.

#### DOMESTIC PREMISES

9. Domestic premises present the people in Hampshire most at risk from fire. HFRA do not have any other legislation to assist with making people in domestic premises safer from fire.
10. HFRS target those most vulnerable due to personal characteristics or health needs and work extensively with other agencies to provide fire safety advice, directly to the person or those who care for them. This strategy is known as “Safe and Well” in Hampshire.
11. HFRS provide bespoke information to those not most vulnerable, through the use of the online tool “Safe and Sound”. This is accessed on request by members of the public, and through regular safety marketing campaigns. This provides bespoke advice regarding preventing a fire, fire spread advice and evacuation plan.
12. Through the HFRS website, generic advice is presented regarding fire safety. Periodically fire safety campaigns, specific to a particular issue, are also conducted by HFRS.
13. It is proposed that HFRA consider it reasonable to provide specific and targeted advice to those most vulnerable in their home as described in paragraph 10.

#### NON-DOMESTIC PREMISES

14. In non-domestic premises, HFRA has another piece of legislation – The [Regulatory Reform \(Fire Safety\) Order 2005](#) (FSO), to assist with making people; in non-domestic premises, safer from fire. HFRA are the enforcing authority for the FSO in Hampshire.
15. The FSO specifically places a duty on the Responsible Person (RP) of a building to conduct a risk assessment and to put in place arrangements to

ensure the safety of people in and around the building. HFRA does **not** provide premises specific information such as a fire risk assessment.

16. HFRS target those buildings most likely to present a risk to people. These buildings will be visited by trained fire safety inspectors, where fire safety issues will be identified. These issues will be remedied using the enforcement powers of the Authority, provided by the FSO. This is the HFRS Risk Based Inspection Programme (RBIP).
17. HFRS provide tailored workshops to those types of buildings most likely to present fire risks or when requested by the RP of a type of building. These workshops are marketed to the responsible persons of the particular type of building. The content includes:
  - (i) The legislation (FSO);
  - (ii) Responsibilities of a RP;
  - (iii) Common shortfalls in the building type;
  - (iv) Auditor's and Enforcer's expectations of this building type;
  - (v) Protecting businesses by promoting business continuity.
18. HFRS freely gives telephone advice to RP on request. Questions are also accepted through a specific area of the HFRS website.
19. The HFRS website also contains information intended for RP to understand their obligations. The web-based information also signposts to government guidance and documents so that all information relevant to their building or premises is available.

#### SUPPORTING OUR SERVICE PLAN AND PRIORITIES

20. The HFRA approach to both domestic and non-domestic buildings support our aim stated within the service plan:

*“To reduce risk across Hampshire by creating pioneering partnerships that target the most vulnerable people and places. Sharing knowledge and skills is at the heart of our Service’s future. Our approach helps us to meet the wide range of societal and demographic changes that affect daily life, ensuring people are safer at home, work, travelling and socialising.”*

#### CONSULTATION

21. This report follows two presentations and debate by members of HFRA at the Authority Policy Advisory Group (APAG) in September and November 2018.
22. This is formalising current practise in Hampshire. With no significant changes proposed, this has not been considered for public consultation.

## RESOURCE IMPLICATIONS

23. Fire Risk Assessments are significantly different from auditing work of HFRA inspectors. Additional training and investment would be required to upskill inspectors to conduct Fire Risk Assessment, should this option be implemented.
24. The recommendation best fits with the current resources and which were consulted upon during the last IRMP. Any changes to the recommendation will have an impact on the number of resources required.

## ENVIRONMENTAL AND SUSTAINABILITY IMPACT ASSESSMENT

25. No additional impacts have been identified for this policy position or its implementation.

## LEGAL IMPLICATIONS

26. The Fire and Rescue Act 2004 section 6, requires that HFRA must consider what is reasonable in terms of providing information and giving advice on request with regards fire safety.
27. There is no provided definition or expectation guiding the term “reasonable”.
28. By HFRA considering the options at both APAG meetings and within this report, and concluding a position, HFRA will have fulfilled its legal requirement set out in the Fire and Rescue Act 2004 section 6.

## EQUALITY IMPACT ASSESSMENT

29. An impact assessment has been carried out.
30. The proposals in this report are considered compatible with the provisions of equality and human rights legislation.

## OPTIONS

31. Domestic dwellings house Hampshire’s most vulnerable people. It is proposed that HFRA consider it a reasonable option to provide specific and targeted advice to those most vulnerable in their home as described in paragraph 10.
32. There are two proposed options for non-domestic buildings:
  - (a) HFRA provide information and give advice on request with regards fire safety and means of escape in the form of:
    - Web-based information and link to HM Government documentation;
    - Focussed workshops;



- Telephone advice;
  - Through campaigns.
- (b) HFRA provide the full fire safety information and advice including specific advice known as Fire Risk Assessment (FRA).

### RISK ANALYSIS

33. The [FSO](#) was introduced in October 2006. Fire and rescue authorities have a duty to enforce fire safety in non-domestic premises. HFRA has this duty in Hampshire.
34. The FSO primary objective is to provide minimum fire safety standards, following a Fire Risk Assessment. There is a potential for conflict of interest where HFRS complete the Fire Risk Assessment where the Authority is the enforcing authority.
35. There is a potential to confuse responsible persons, whose duty it is to conduct a Fire Risk Assessment, if HFRS complete a Fire Risk Assessment. This may lead to less Fire Risk Assessments being completed in Hampshire premises.

### CONCLUSION

36. The Fire and Rescue Act 2004, Section 6 makes a specific requirement for HFRA to consider to what extent it deems reasonable to provide information and advice with regards to fire safety.
37. Fire safety information and advice is delivered differently for domestic dwellings and non-domestic premises.
38. HFRA enforce the FSO, which applies solely to non-domestic premises. The RP of a non-domestic premises has a duty to complete a Fire Risk Assessment and provide minimum fire safety standards.
39. HFRS provide a number of different options to the public for providing information and advice on fire safety. This report sets out a proposal for what is deemed reasonable for HFRA to provide within the scope of its' duty.

### RECOMMENDATION

40. That specific and targeted advice to those most vulnerable in their home is approved by Hampshire Fire and Rescue Authority, as what is reasonable to provide within the scope of its' duty, for domestic dwellings, under The Fire and Rescue Act 2004, Section 6.

41. That Option (a) is approved by Hampshire Fire and Rescue Authority, as what is reasonable to provide within the scope of its' duty, for non-domestic premises, under the Fire and Rescue Act 2004, Section 6.

APPENDICES ATTACHED

42. Appendix A – Hampshire Fire and Rescue Authority Position Statement – Fire Safety Advice

Contact: Stewart Adamson, Assistant Chief Officer, 07918887596  
stew.adamson@hantsfire.gov.uk



## Appendix A

### **Hampshire Fire and Rescue Authority Position Statement – Fire Safety Advice**

Hampshire Fire and Rescue Authority, considers it reasonable for Hampshire Fire and Rescue Service to provide the following information and advice for the purposes of fire safety, as set out within The Fire and Rescue Act 2004, Section 6.

Hampshire Fire and Rescue Authority believe the most vulnerable people should be targeted for its' advice. We will actively target vulnerable people to deliver this advice, whether they be in domestic premises or non-domestic premises.

#### DOMESTIC PREMISES

Domestic premises present the people in Hampshire most at risk from fire.

- 1.Hampshire Fire and Rescue Service will target those most vulnerable - due to personal characteristics or health needs, and work extensively with other agencies to provide fire safety advice. This will be delivered directly to the person or those who care for them, in their home.
- 2.Hampshire Fire and Rescue Service will provide bespoke information to those not the most vulnerable, using means such as marketing campaigns and online tools.
- 3.Through the Hampshire Fire and Rescue Service website, generic fire safety advice will be accessible to all.

#### NON-DOMESTIC PREMISES

Hampshire Fire and Rescue Authority are the enforcing authority for the [Regulatory Reform \(Fire Safety\) Order 2005](#), in Hampshire. This places a duty

on the Responsible Person of a building to conduct a risk assessment and to put in place arrangements to ensure the safety of people in and around the building

1. Hampshire Fire and Rescue Service will not provide premises specific information such as a fire risk assessment in non-domestic buildings as part of its statutory duties.
2. Hampshire Fire and Rescue Service will target those buildings most likely to present a risk to people. Trained fire safety inspectors will visit these buildings and will advise where fire safety issues are identified. This is Hampshire Fire and Rescue Service's Risk Based Inspection Programme (RBIP).
3. Hampshire Fire and Rescue Service will provide tailored workshops to those types of buildings most likely to present fire risks or when requested. The advice may include:
  - The legislation (FSO)
  - Responsibilities of a RP
  - Common shortfalls in the building type
  - Auditor's and Enforcer's expectations of this building type
  - Protecting businesses by promoting business continuity.
4. Hampshire Fire and Rescue Service will give freely telephone and online fire safety advice on request and will signpost government fire safety guidance.



**HAMPSHIRE  
FIRE AND  
RESCUE  
AUTHORITY**

Purpose: Noted

Date: 20 February 2019

Title: **BLUE LIGHT COLLABORATION**

Report of Chief Fire Officer

## SUMMARY

1. This report summarises the progress Hampshire Fire and Rescue (HFRS) has made in collaborating with our Blue Light partners. Success in collaboration has occurred when we have had shared, vision, trust and understanding between our Blue Light partner organisations.
2. The Police and Crime Act 2017 placed a duty on Emergency Services to keep collaboration under review in the interest of efficiency and effectiveness. Hampshire has a now, well established programme of collaboration involving Hampshire Fire and Rescue Service (HFRS), Hampshire Constabulary (HC) and South Central Ambulance Service (SCAS).
3. The purpose of this report is to update the Hampshire Fire and Rescue Authority (HFRA) on the progress of collaboration for which HFRS are a key part of in Hampshire.

## BACKGROUND

4. The Policing and Crime Act 2017 introduced a new duty on Police Forces, Fire and Rescue Services and Ambulance Services to keep collaboration opportunities under review where it is in the interests of efficiency or effectiveness, and to put those collaboration opportunities into practice. The duty is deliberately broad to allow for local discretion so that the emergency services themselves can decide how best to collaborate for the benefit of their own communities.
5. Demand on Blue Light Services is changing, and collaboration provides us with a real opportunity to create innovative responses to these challenges whilst strengthening future resilience, effectiveness and efficiency.
6. Collaboration is well established in Hampshire. Numerous examples have been delivered during the past decade and Hampshire is well regarded with collaboration; evidenced within national summary documents and at national events.
7. Examples include:

- (a) Sharing of estates by Fire, Police and Ambulance;
  - (b) Sharing of strategic HQ site by Fire and Police;
  - (c) Arson Task Force;
  - (d) Co-responding;
  - (e) Shared Services, with Fire and Police joining County Council colleagues.
8. Primarily, collaboration in Hampshire emergency services exists between HFRS, HC and SCAS. However, work also extends to:
- (a) Other Fire and Rescue Services such as with Isle of Wight FRS and our Networked Fire Services Partnership (NFSP) partners Dorset and Wiltshire FRS and Devon and Somerset FRS;
  - (b) Police Forces such as Thames Valley Police and their Joint Operations Unit with HC;
  - (c) Ambulance Services such as South East Coast Ambulance Service (SECAMB).

#### PROGRESS AND PERFORMANCE

9. The Hampshire Blue Light Collaboration programme has developed the relationship to further both strategic and operational opportunities.
10. The following items set out the current working opportunities which are at various stages including conceptual, through developing to business as usual for HFRS. Each opportunity is annotated with their business stage in the title:
11. Co-responder crewing model Emergency Medical Response. (Full partnership agreement in place)
- a. In 2004 HFRS set up a Co-responder Scheme with Hampshire Ambulance Service which later became South Central Ambulance Service NHS Foundation Trust (SCAS). This crewing model uses dedicated response cars in specific rural localities where, due to geographical locations, the Ambulance Service were encountering difficulty in achieving the eight-minute government response target time.
  - b. The Co-Responder partnership has been running for more than 14 years and accounts for 40 percent of all Co-Responder calls across the UK. There are currently 19 co-responder vehicles operating from 22 on call fire stations across Hampshire.
12. Gaining entry to patients for the Ambulance Service and the Police Force. (Full partnership agreement in place)
- a. Our gaining entry work sees HFRS being deployed instead of Hampshire Constabulary to assist SCAS and SECAMB, as we have specialist

equipment and expertise which are more readily available. This builds and extends the ad hoc deployments to rescue people.

- b. HFRS have proven a quicker response to these types of calls providing better care to patients. Most notably, by using HFRS equipment and expertise, there has been a dramatic reduction in boarding up costs following 'gained entry' processes.

13. Assisting Police with searching for High Risk Missing Persons. (Full partnership agreement in place)

- a. Every year Hampshire Constabulary receive numerous calls relating to incidents where there is a concern for the safety of an individual, where that person/s have gone missing and are vulnerable.
- b. HFRS assist the Police in searching for vulnerable High Risk Missing Persons using the existing skills of our people and the equipment we carry. This formalises our rescue work in this area.

14. Non-Injury Mechanical Falls. (Pilot Memorandum of Understanding (MOU) in place)

- a. HFRS and SCAS have implemented a 6-month trial, utilising 3 front-line fire engines, to respond to Non-Injury Mechanical Falls incidents. These are falls where people are not injured but are too weak to get themselves up.
- b. In the pilot, HFRS have successfully responded to 105 people who have had a non-injury fall, improving the patient outcome by delivering a faster response.

15. Shared Estates. (Agreements and contracts in place)

- a. HFRS have leased available space to Blue Light partners. This move is part of the Police and Crime Commissioner's wider Estate Strategy to replace some Police premises with modern fit for purpose buildings at no extra cost to the tax payer. It is the first time in the country that a senior police team have moved into a fire headquarters.

16. Data Sharing and Demand Profiles. (Memorandum of Understanding (MOU) in place)

- a. This work will seek to establish a common picture of the people which HC, SCAS and HFRS attend, sometimes together, sometimes separately. This analysis will feed the prevention work stream of the programme to consider the actions taken and seek to reduce risk to high users. It is likely the type of person we all interact with has the same “vulnerable qualities”.

17. Joint Services Marine Unit. (Developing business case)

- a. The Solent remains one of the busiest waterways in the UK, with Southampton the leading deep-sea cargo port on the English Channel and Portsmouth naval base is home to two-thirds of the Royal Navy's surface ships. The Solent also contains 3 forts which HFRS must be able to deploy to if a fire occurs. Additionally, the arrangements with the Isle of Wight Fire and Rescue Service means officers need to rely on being able to transfer to the Isle of Wight three-hundred and sixty five (365) days per year.
- b. A feasibility study has identified a number of proposals for a shared Marine capability between Hampshire Constabulary, HFRS and the Ministry of Defence Police.

18. Drone Procurement and Operations. (Developing business case)

- a. HFRS and Hampshire Constabulary are seeking joint procurement, training and deployment of Drone capabilities across Hampshire and Thames Valley (TVFRS).
- b. Drones may be used to support live fire and rescue operations to provide:
  - i. Dynamic Risk Assessments at an incident;
  - ii. Identification and reassessment of hazards;
  - iii. Survey of incident ground/operating area;
  - iv. Identification of appropriate entry control locations;
  - v. Access/Egress Planning;
  - vi. Locating High Risk Missing Persons;
  - vii. Supporting implementation of operational plans.

19. Cardiac Arrest response. (Operationally ready awaiting Formal agreements)

- a. HFRS are working with SCAS, preparing to respond to Cardiac Arrest calls on fire engines using HFRS Immediate Emergency Care skills, equipment and defibrillator to significantly increase a patient's chance of survival by providing a faster response.

20. Automatic Vehicle Location System (AVLS). (Operationally ready, awaiting formal agreements)

- a. HFRS and SACS have implemented sharing of HFRS fire appliance



automatic vehicle locations (AVLS) from the HFRS fire control system to South Central Ambulance Service control system.

21. Trauma Risk Management. (TRiM) (MOU in place)

- a. All three emergency services in Hampshire use the critical diffusion methodology of Trauma Risk Management (TRiM). The teams communicate and train together and have the resilience of each other to cope with any peak in demand. HFRS and Hampshire Constabulary regularly carry out joint training and CPD events, share TRiM staff handbooks and promotional materials.

22. Prohibition Notices Served under Article 31 of the Regulatory Reform (Fire Safety) Order. (MOU in place)

- a. This work achieves a structured joint agency approach in relation to safeguarding the community following the serving of a Prohibition Notice on behalf of HFRA under the Regulatory Reform (Fire Safety) Order 2005. This joint working keeps those identified as most vulnerable from serious harm from fire safer.

23. Crime Hot Spots. (MOU being developed)

- a. This initiative is being developed where information is shared by Hampshire Constabulary with HFRS regarding areas of known criminal activity. HFRS fire crews ensure high visibility patrols take place; with fire engines, showing a presence in the area after incidents, during community safety activities and training events, and will build upon our Environmental Visual Audit (EVA) work to safeguard areas of Hampshire.

24. Community Safety. (MOU being developed)

- a. **Volunteers** – HFRS and Hampshire Constabulary are currently reviewing the Volunteer model used by the Lancashire Volunteer Partnership as part of the Blue Light Collaboration's long-term aspirations to jointly recruit and manage volunteers. A Public volunteer platform will be discussed with the Office of the Police and Crime Commissioner (OPCC) for review and feedback.
- b. **Children and Young People** – HFRS and Hampshire Constabulary are currently seeking joint opportunities which includes all CYP activities. This includes governance, policies, procedures and peer review. The future goal is to share instructors and resources.
- c. **Community Safety** – HFRS and Hampshire Constabulary have engaged in a job shadowing experience using a Police Community Support Officer and Community Safety Officer to identify areas of synergy. Community Safety management teams will begin sharing an

office at the joint Strategic Police and Fire Headquarters to aid collaboration across the Community safety work, joint messaging and resource management.

- d. **Road Safety** – This joint initiative is in the early stages and will link with Hampshire Road Safety Partnership.

#### SUPPORTING OUR SERVICE PLAN AND PRIORITIES

- 25. This work underpins our Risk Review proposals and fully supports our Service Delivery Priorities as set out in the Service Plan 2015 – 2020, especially with regards building pioneering partnerships.
- 26. This work aligns to the priorities of the Fire and Rescue National Framework document and the duty to keep collaboration with emergency services under review to increase the efficiency and effectiveness of the service they provide.

#### COLLABORATION

- 27. All work within the Blue Light Collaboration Programme is collaborating with our blue light and health partners in the interests of efficiency and effectiveness and to put those collaboration opportunities into practice.

#### RESOURCE IMPLICATIONS

- 28. The HFRA agreed specific funding to develop and lead Blue Light Collaboration in 2017. This has significantly helped to develop the programme in Hampshire.
- 29. Blue Light Collaboration will now form part of normal business under the accountability of the Director of Operations. The resource model and funding for this are being developed by the Director of Operations.

#### LEGAL IMPLICATIONS

- 30. The Policing and Crime Act 2017 introduced a new duty on the Police Forces, Fire and Rescue Services and Ambulance Services to keep collaboration opportunities under review where it is in the interests of their efficiency or effectiveness.
- 31. Section 1, paragraph 1 of The Policing and Crime Act 2017 describes the formation of collaboration agreements, setting out how organisations work together. The Hampshire Blue Light Collaboration programme fulfils this agreement within the executive terms of reference.

#### EQUALITY IMPACT ASSESSMENT

- 32. Each project is subject to an impact assessment. These impact assessments are managed and monitored by the Hampshire Blue Light Collaboration Executive Board.

33. The proposals in this report are considered compatible with the provisions of the equality and human rights legislation.

#### RISK ANALYSIS

34. The risks associated within the Blue Light Collaboration are managed by the Hampshire Blue Light Collaboration Executive Board.

#### CONCLUSION

35. The Hampshire Blue Light Collaboration Programme is well developed and has proved successful in delivering more efficient and effective outcomes for the public of Hampshire.

36. HFRS continue to drive the collaboration work in Hampshire. A programme of projects has been developed and are at various stages of normal business.

37. The Hampshire Blue Light Executive Group comprises of Chief Officers from HFRS, HC and SCAS, whom set strategic direction and manage the risks and opportunities which are presented.

#### RECOMMENDATION

38. That the Hampshire Blue Light Collaboration Programme is noted by Hampshire Fire and Rescue Authority, as delivering better services to the people of Hampshire.

Contact: Stewart Adamson, Assistant Chief Fire Officer  
[Stew.adamson@hantsfire.gov.uk](mailto:Stew.adamson@hantsfire.gov.uk), 07918887596

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AT A MEETING of the HFRA Appointment Committee of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Wednesday, 23rd January, 2019

Chairman:

- \* Councillor Christopher Carter
- \* Councillor Roz Chadd
- \* Councillor Liz Fairhurst
- \* Councillor Sharon Mintoff
- \* Councillor Roger Price

## 1. **APOLOGIES**

There were no apologies for the meeting.

## 2. **DECLARATIONS OF INTEREST**

Members were mindful of their duty to disclose at the meeting any disclosable pecuniary interest they had in any matter on the agenda for the meeting, where that interest was not already entered in the Authority's register of interests, and their ability to disclose any other personal interests in any such matter that they might have wished to disclose.

## 3. **DEPUTATIONS**

There were no deputations for the meeting.

## 4. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

## 5. **EXCLUSION OF PRESS AND PUBLIC**

It was resolved that the public be excluded from the meeting during the following items of business, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraph 1 and Paragraph 2 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

## 6. **APPOINTMENT OF A DEPUTY CHIEF FIRE OFFICER**

The Committee considered the appointment of a new Deputy Chief Fire Officer. Following extensive testing and interviews, two very strong candidates remained and members agreed that both had a lot to offer Hampshire Fire and Rescue Service.

Members agreed that awareness of community risk and engagement was a crucial part of the role, along with a good strategic understanding going forward. Both of the final candidates interviewed that day had many strengths in different areas and Members were pleased to see such a high calibre of applicants from different areas and organisations.

RESOLVED:

The Appointment Committee:

- a) Unanimously agreed to appoint Deputy Commissioner Steve Apter as the new Deputy Chief Fire Officer for Hampshire Fire and Rescue Service
- b) Agreed that details relating to the start date and handover arrangements be delegated to the Chief Fire Officer.

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Chairman,

# Public Document Pack Agenda Item 12

AT A MEETING of the HFRA Standards and Governance Committee held at Fire and Police HQ, Eastleigh on Thursday 31st January, 2019

Chairman:

\* Councillor Liz Fairhurst

\* Councillor Jonathan Glen

\* Councillor Roger Price

\* Councillor Geoffrey Hockley

\* Councillor Sharon Mintoff

\*Present

Also present with the agreement of the Chairman:  
Councillor Chris Carter, Chairman of the Fire Authority

## 48. **APOLOGIES FOR ABSENCE**

All Members were present and no apologies were noted.

## 49. **DECLARATIONS OF INTEREST**

Members were mindful of their duty to disclose at the meeting any disclosable pecuniary interest they had in any matter on the agenda for the meeting, where that interest was not already entered in the Authority's register of interests, and their ability to disclose any other personal interests in any such matter that they might have wished to disclose.

## 50. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed, and signed by the Chairman.

## 51. **DEPUTATIONS**

There were no deputations for this meeting.

## 52. **CHAIRMAN'S ANNOUNCEMENTS**

There were no Chairman's announcements.

**53. EXTERNAL AUDIT PLANNING REPORT AND ANNUAL AUDIT LETTER**

The Committee received the External Audit Planning Report and Annual Audit Letter (Item 6 in the Minute Book), presented by Ernst and Young. The representative from Ernst and Young, Martin Young was welcomed to the meeting.

Key issues in relation to the External Audit Planning report were drawn to the Committee's attention. The identified audit risks as detailed in section one of the audit planning report (page 17 of the agenda pack) were highlighted to Members and it was explained that there was no change in risk or focus for pension liability valuation or valuation of land and buildings, and these were both consistent with the previous year. Members heard that a new inherent risk had been identified which related to two new accounting standards that would apply from 1 April 2018. This would determine whether standards had been appropriately implemented by the Authority.

Members noted the typing error on page 5 of the Audit Planning report (page 17 of the agenda pack). It was noted that the 'Change from PY' column should read 'No change in risk or focus' in relation to the risk/area of focus - 'Misstatements due to fraud or error' and 'Pension Liability Valuation'.

It was highlighted that although the planned external audit fee for 2018/19 had reduced by 23% from the previous year as set out at page 28 of the Audit Planning Report (page 40 of the agenda pack), Members were reassured that this would not result in a change to the scope of the audit, and external audit would continue to seek required assurances before presenting their opinions.

Members of the Committee thanked Ernst and Young for their thorough work.

RESOLVED:

The Standards and Governance Committee:

- a) Received and considered the External Audit Plan for 2018/19
- b) Noted the Annual Audit Letter for 2017/18

**54. INTERNAL AUDIT PROGRESS REPORT 2018/19**

The Committee received a report of the Chief Internal Auditor updating the Committee on the progress of internal audit work for the period ending January 2019 (Item 7 in the Minute Book).

The Committee welcomed Beverley Davies to the meeting who worked with Karen Shaw as the Audit Manager, and would be attending some future Committee meetings. The report was introduced and it was heard that this report kept the Committee up to date on the delivery and progress of the internal audit plan, which would then be picked up in the annual opinion report to be brought to Committee in July. Members heard that there was one report on



Contract Management for the period which had a limited opinion, and this had been brought before senior managers to agree actions, and these would be tracked until completion.

A query was raised about the training for Contract Management as detailed at the bottom of Section 5 (page 78 of the agenda pack), and it was explained that there had been an element of training support for procurement, and further training needs would be examined. Officers highlighted that management actions for these were signed off internally so detail around training wouldn't necessarily be included in the report, but assured Members that these were on track.

It was noted that there were agreed actions for each risk, and assessments would measure whether the actions were effective in mitigating each risk. The ongoing tracking of these could be viewed in Section 4 (page 76 of the agenda pack) of the report which detailed the status of "Live" reports and reports closed. It was highlighted that Officers would examine some of the overdue actions listed from 2015/16, but it was noted that the high risk items shown in brackets had been addressed.

RESOLVED:

That the progress in delivering the internal audit plan for 2018/19 and the outcomes to date is noted by the Standards and Governance Committee.

## **55. INTERNAL AUDIT RECOMMENDATIONS PROGRESS REPORT**

The Committee received a report of the Chief Fire Officer which provided an overview of the work to oversee the implementation of internal audit recommendations (Item 8 in the Minute Book).

It was explained that this recorded medium and high priority recommendations and actions relating to safeguarding and information governance were highlighted as detailed on page 87 of the agenda pack. Members noted that in relation to safeguarding as a high priority, a wider piece of analysis work had been undertaken since September 2018 to determine which roles within HFRS required Disclosure and Barring Service (DBS) checks, and at what level. Members also noted that an Information Governance policy had been written and would be published in line with a new process being implemented across the Service.

It was queried as to whether there would be any slippage on achieving safeguarding actions by the revised date of March 2019, and Officers were confident that this deadline would be achieved, but were by no means complacent about ensuring the timely completion and recording of outstanding checks. It was also noted that a further piece of work to compile a compliance report on DBS was currently being worked on with partners.

Officers confirmed that an update on the completion of these actions would be brought to a future meeting of the Committee.

RESOLVED:

That the progress made towards the implementation of the internal audit management actions is noted by Standards and Governance Committee.

**56. HMICFRS REPORT**

The Committee received a report of the Chief Fire Officer regarding the inspection of Hampshire Fire and Rescue Service by her Majesty's Inspectorate (HMI) of Constabulary, Fire and Rescue Service (Item 9 in the Minute Book).

Officers set out the background to the report from HMI which was published on the 14 December 2018, and Members heard that the next step was to formulate a required action plan in response to the recommendations identified in the HMI report within 56 working days. It was noted that every Fire and Rescue organisation would be inspected by HMI and Hampshire performed well as one of the first inspected organisations.

Some Members were concerned with some points raised in the report by HMI, and wanted reassurance that these issues would be addressed in the action plan. Officers explained that since receipt of the report, analysis has been undertaken and a detailed action plan would be completed in response to this.

After discussions on the formulation of the action plan, Members wanted to ensure that all Fire Authority Members would have the opportunity to be briefed by Officers and analyse the plan before this was sent to HMI. It was noted that Officers would take this forward and schedule a further meeting.

RESOLVED:

That the HMI report is noted by the Standards and Governance, and it is noted that the Fire Authority will be briefed on the associated action plan to ensure that measurable steps are taken to address any issues raised by HMI.

**57. INFORMATION SECURITY UPDATE**

The Committee received a report of the Chief Fire Officer providing an update on information security and the cyber-attack on Hampshire Fire and Rescue Service (HFRS) in August 2018 (item 10 in the Minute Book).

Members were taken through the report and it was heard because of the new requirement by organisations under General Data Protection Regulations (GDPR), HFRS was now required to report such data breaches within 72 hours of the organisation becoming aware of the incident.

It was confirmed that as a result of the data breach, action was taken to shut down access to HFRS systems, reinforce cyber security and force password changes on all accounts. The root cause of the breach has since been identified, and infrastructure to ensure higher security standards going forward was being reviewed. It was noted that the Information Commissioner's Office (ICO) would investigate these actions to ensure they were sufficient, and the

possibility that HFRS could be fined by the ICO as a result of this incident was highlighted.

Members queried the effectiveness of security, and it was heard that firewalls were monitored daily, and there had not been another successful breach of the system.

RESOLVED:

That the report is noted by the Standards and Governance Committee.

#### 58. **PHYSICAL DATA BREACH**

The Committee received a report of the Chief Fire Officer notifying Members of a physical data breach (Item 11 in the Minute Book).

It was heard that the data breach was an isolated incident that occurred the week commencing 22 October 2018, and a bag containing a number of sensitive documents had been reported missing. It was explained that following guidelines, the incident was reported to the ICO.

Members heard that actions had been implemented as a result of the data breach to ensure that protocols for dealing with sensitive data within that specific team would be followed. Members heard that only a small proportion of the overall HFRS workforce dealt with sensitive information as part of their role, but across the organisation the importance of complying with GDPR was regularly enforced.

It was noted that since the report was written, the ICO had confirmed that it would be taking no further action on this specific case.

RESOLVED:

That the report is noted by the Standards and Governance Committee.

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Chairman,

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