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NOTICE OF MEETING

Meeting	**Hampshire and Isle of Wight Fire and Rescue Authority**	*Clerk to the Hampshire & Isle of Wight Fire and Rescue Authority* ***CFO Neil Odin***
Date and Time	**Tuesday 15th February, 2022 10.30 am**	*Fire & Police HQ Leigh Road, Eastleigh Hampshire SO50 9SJ*
Place	**Room X/Y - Hampshire & IOW Fire & Police HQ, Eastleigh**	
Enquiries to	**members.services@hants.gov.uk**	

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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 - 10)

To receive and approve the minutes from the Full Authority meeting that took place on 14 December 2021.

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**

To receive any updates from Members of the Authority.

7 **BUDGET AND PRECEPT REQUIREMENT 2022/23 INCLUDING MEDIUM TERM FINANCIAL PLAN** (Pages 11 - 84)

To consider a report from the Chief Financial Officer, which presents the 2022/23 forward budget to the Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) for approval as well as details on the Medium Term Financial Plan (MTFP).

8 **ISLAND ESTATE INVESTMENT (YEAR 2)** (Pages 85 - 94)

To consider a report of the Chief Fire Officer, which seeks further funding of £1.7 million to deliver the second year of priority estate improvement works in the 2022/23 financial year.

9 **HEALTH, SAFETY AND WELLBEING STATEMENT OF INTENT** (Pages 95 - 100)

To consider a report of the Chief Fire Officer, which seeks approval for the revised Health, Safety and Wellbeing (HSW) Statement of Intent for the Hampshire and Isle of Wight Fire and Rescue Service (HIWFRS) on the 1st April 2022.

10 **HAMPSHIRE AND ISLE OF WIGHT FIRE AND RESCUE SERVICE SAFETY PLAN YEAR 3 ACTIVITIES** (Pages 101 - 108)

To consider a report from the Chief Fire Officer, which seeks approval for the Hampshire and Isle of Wight Fire and Rescue Service (HIWFRS) Safety Plan Year 3 activities.

11 **MEMBERS ALLOWANCES** (Pages 109 - 114)

To consider a report from the Monitoring Officer, which summarises discussions and proposals of the Member Allowances Working Group with regard to the agreement of a new Scheme from April 2022.

12 **EXCLUSION OF PRESS AND PUBLIC**

To resolve that the public be excluded from the meeting during the following items of business, as it is 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 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 outweighs the public interest in disclosing the information, for the reasons set out in the reports.

13 **EXEMPT MINUTE FROM THE 14 DECEMBER 2021 HIWFRA MEETING**

To approve the exempt minute from the 14 December 2021 Full Authority meeting.

ABOUT THIS AGENDA:

This agenda is available through the Hampshire & Isle of Wight Fire and Rescue Service website (**www.hantsfire.gov.uk**) and can be provided, on request, in alternative versions (such as large print, Braille or audio) and in alternative languages.

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AT A MEETING of the Hampshire and Isle of Wight Fire and Rescue Authority of held at Fire & Police HQ, Eastleigh on Tuesday 14th December, 2021

Chairman:
* Councillor Rhydian Vaughan MBE

* Councillor Roz Chadd
* Councillor Liz Fairhurst
* Councillor Jason Fazackarley
* Councillor David Fuller
* Councillor Derek Mellor
* Councillor Jonathan Glen
* Councillor Roger Price
* Councillor David Harrison
* Councillor Gary Hughes
* Councillor Ian Stephens

Also present with the agreement of the Chairman: Luke Stubbs, Deputy Police and Crime Commissioner

49. **APOLOGIES FOR ABSENCE**

All Members were present. Apologies were received from Donna Jones, the Police and Crime Commissioner and the Deputy Police and Crime Commissioner, Luke Stubbs, attended on her behalf.

50. **DECLARATIONS OF INTEREST**

Members were mindful to disclose at 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.

51. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed.

52. **DEPUTATIONS**

There were no deputations for the meeting.

53. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman confirmed that the HIWFRS Prince's Trust Team's service delivery has been graded as 'outstanding' for the third year in a row and that details of upcoming events would be sent out to Members. An update was also provided on Remembrance Day activities as well as the recruitment of new On-Call firefighters. The Authority also learned that the Hampshire and Isle of Wight Fire and Rescue Service had signed up to the Dying to Work Charter, a national initiative designed to support employees diagnosed with a terminal illness.

54. **MEMBER DEVELOPMENTS**

Councillor Roz Chadd had attended the Passing Out parade of the Gosport Cadets and also requested that a progress report on cadets come to a future meeting.

Councillor Roger Price had attended a Pensions Committee meeting and also a Fire Service Management committee meeting.

Councillor David Harrison had attended a high rise exercise at a Portsmouth fire station and shared how well the drill had been handled and how beneficial an experience it had been to his role on the Fire Authority.

Councillor Jonathan Glen had visited Cosham Fire Station and had also attended an LGA Workshop on Governance & Leadership. He had also had two meetings in his Champion role on Performance.

Councillor Gary Hughes had also attended meetings in his capacity as the Carbon Reduction Champion and looked forward to improvement projects commencing in 2022-23.

The Chief Fire Officer also confirmed that the Fire Minister had asked for volunteers to assist with delivering vaccination boosters and the Service would continue to work closely with teams and support people however they could. The Authority congratulated and thanked officers for their work on the vaccination programme to date.

55. **BUDGET UPDATE REPORT**

The Authority considered a report from the Chief Financial Officer (item 7 in the minute book) which set out a budget update setting of the budget for 2022/23, the medium term financial position for the Fire Authority based on the announcements made as part of the Autumn Budget on 27th October 2021 and pensions matters.

The report was summarised and Members were reminded that the government funding outcome had not yet been received and that the report therefore included many assumptions.

Members queried whether a breakdown of employee costs could be provided and it was confirmed that this would be provided. It was also confirmed that more focus was put on reductions and efficiencies rather than relying on an increase in council tax. Regarding the driver training costs detailed on page 23 of the pack, this was a new national driving standard issued that increased the length of the course but unfortunately there was no central additional funding provided to cover this expense.

The Authority was reassured that the Fire Service remained in a strong position and proposals going forward were focussed on ensuring that this remained as such. Any substantial changes to projects or financial impacts would go through the Authority and so they would be regularly updated as the budget position became clearer.

RESOLVED

1. The financial principles in Appendix A were approved by the HIWFRA Full Authority

2. The budget monitoring position was noted by the HIWFRA Full Authority

3. The increase to the cost cap envelope was approved by the HIWFRA Full Authority.

4. The Delivery Pressures set out in Appendix B were approved by the HIWFRA Full Authority for inclusion in the 2022/23 budget subject to affordability

5. The mid-year review of treasury management activities set out in Appendix C were approved by the HIWFRA Full Authority

6. The updated LGPS Discretions Policy set out in Appendix D was approved by the HIWFRA Full Authority

56. **APPOINTMENTS REPORT AND MINOR CONSTITUTIONAL UPDATES**

The Authority considered a report from the Monitoring Officer (item 8 in the minute book), which invited the Authority to appoint Substitute Members to its Committees to ensure that political groups were adequately represented as well as approve minor updates to the Constitution.

It was confirmed that Councillor Liz Fairhurst would continue as the Chairman of Standards & Governance for the remainder of the financial year.

Members fully endorsed having deputies available for meetings to ensure full representation.

RESOLVED

1. The Authority appointed one substitute member from the Conservative Group and one substitute member from the Liberal Democrat group to the Standards and Governance Committee and to the 3SFire Stakeholder Committee as follows:

Sub-Committee	Liberal Democrat deputy	Conservative deputy
Standards & Governance Committee	Cllr Roger Price	Cllr Derek Mellor
Stakeholder Committee	Cllr David Harrison	Cllr Gary Hughes

2. The Authority approved the minor changes to Standing Orders set out at Appendix 1.

57. **ANNUAL STATEMENT OF EQUALITY AND EQUALITY OBJECTIVES**

The Authority considered a report from the Chief Fire Officer (item 9 in the minute book), which included highlights of some of the activity and actions taken within the last 12 months and provided an opportunity to share the new HIWFRS equality objectives for 2022 – 2026, as well as the governance and monitoring arrangements for the delivery.

It was the first publication of the objectives, which set a benchmark and Members were pleased to learn that there had been a 50/50 split of men and women during the last round of recruitment and a 10% increase in applicants from ethnic minority backgrounds.

The Deputy Police and Crime Commissioner (DPCC) felt that it was important that all roles be promoted equally and encouraged Fire Authority Members to support an additional recommendation to adopt similar recruitment policies in other areas of the Service, such as Human Resources, which had a higher ratio of female employees. The DPCC clarified that this was his personal opinion on the matter.

Officers confirmed that no one was excluded from applying for any role and the Authority agreed the report was a positive step forward for the Service.

RESOLVED

1. The Annual Statement of Equality (Workforce Demographics) was approved by Hampshire and Isle of Wight Fire and Rescue Authority.

2. The new equality objectives and positive action statement was approved by Hampshire and Isle of Wight Fire and Rescue Authority.

58. **MID-YEAR PERFORMANCE REPORT**

The Committee received a report from the Chief Fire Officer (item 10 in the minute book), which explained how the Service had performed over the last six months against the core purpose of making life safer.

Members queried the number of co-responder and calls to road traffic collisions and whether calls could be better categorised, and it was confirmed that this would be further investigated for discussion at a future APAG along with local stress points.

The Authority was pleased to learn that the Service was focussed on putting measures in place to ensure critical cover throughout the winter with many lines of resilience in place.

It was agreed that the information would be beneficial to Councillors across Hampshire and the Isle of Wight and would be circulated to them.

RESOLVED

1. The Mid-Year Performance Report 2021/22 was noted by the HIWFRA Full Authority

2. The progress of the Safety Plan Year 2 Improvements was noted by the HIWFRA Full Authority

59. GRENFELL TOWER PROGRESS REPORT DECEMBER 2021

The Authority received a report from the Chief Fire Officer (item 11 in the minute book), which provided assurance on the wide range of activity and positive improvements in public safety that had been made following the Phase 1 Inquiry report findings and recommendations.

Members were reassured that all but one high-rise building had been inspected and completed and the one remaining would be finished by the end of the calendar year.

Officers were thanked for their continuing hard work on the project.

RESOLVED

The report was noted by the HIWFRA Full Authority

60. MINUTES FROM THE STANDARDS AND GOVERNANCE COMMITTEE - 29 SEPTEMBER 2021

The minutes were presented to the Full Authority and there were no questions.

61. MINUTES OF THE STANDARDS AND GOVERNANCE COMMITTEE MEETING - 16 NOVEMBER 2021

The minutes were presented to the Full Authority and the recommendation was summarised. Members were happy with the proposals and there were no questions.

RESOLVED

The HIWFRA agreed to opt-in to the Public Sector Audit Appointments (PSAA) national scheme for the appointment of external auditors for HIWFRA for the 5-year period from April 2023.

62. 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 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 reports.

63. EXEMPT MINUTES OF THE PREVIOUS MEETING - 14 SEPTEMBER 2021

The minutes were presented to the Full Authority and there were no questions.

64. PRINCIPAL OFFICER LOCAL PAY AWARD (GOLD BOOK) - MEMBERS ONLY

The Authority considered an exempt report from the Director of People and Organisational Development (item 16 in the minute book) [SEE SUMMARY OF EXEMPT MINUTE]

Chairman,

HIWFRA Full Authority

Purpose: Approval

Date: **15 February 2022**

Title: **BUDGET and PRECEPT REQUIREMENT 2022/23 including MEDIUM TERM FINANCIAL PLAN**

Report of the Chief Financial Officer

SUMMARY

1. This report presents the 2022/23 forward budget to the Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) for approval. The report also includes the Medium Term Financial Plan (MTFP) covering the period 2022/23 – 2024/25. Paragraphs 18 – 48 cover the budget and precept requirements for 2022/23. Paragraphs 49 – 75 discuss the medium term position.

2. The headline position is that the setting of a balanced budget is proposed. A detailed breakdown of the budget by area and type of spend is included as **Appendix A**.

3. 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 financial pressures set out in this report council tax is increased by the maximum level of £5 (7.10%) for 2022/23.

4. The report also contains information about in year spend against budget for 2021/22. The forecast year end position is an underspend of £0.871m.

5. The Government announced a further one year funding settlement in December 2021. Despite the lack of a medium term financial settlement, a Medium Term Financial Plan (MTFP) has been produced, covering the period 2022/23 to 2024/25. This is set out in **Appendix B**. It is important to note that a series of prudent assumptions have been used to build the plan due to the lack of concrete information.

6. The report contains some recommendations on pensions matters and the continued suspension of the Immediate Detriment Framework.

7. The capital programme for 2021/22 onwards and the funding of this are set out in this report, with details at **Appendix C**, and are recommended for approval.

8. A Reserves Strategy is presented for approval in this report at **Appendix D**, which includes details of the current level of reserves, the reason for holding each reserve and plans for future usage.

9. The Treasury Management Strategy is presented for approval at **Appendix E.**

10. The Capital and Investment Strategy is presented for approval at **Appendix F.**

11. Appendix G contains the section 25 report of the Chief Financial Officer, covering the adequacy of the Authority's reserves position.

BACKGROUND

12. This report builds on the position presented to the Fire Authority in December in the Budget Update report. Since that report was presented, detailed information about the Local Government Financial Settlement has been published.

2021/22 BUDGET MONITORING – QUARTER 3

13. The forecast position for 2021/22 is an underspend of £0.871m, which is largely in line with what was reported to the Authority in December 2021 (Q2 underspend of £0.897m).

14. The table below shows the budget monitoring for 2021/22 as at 31st December 2021:

2021/22 budget monitoring at 31 December 2021	2021/22 Budget	2021/22 Forecast	2021/22 Over / (Under) spend
	£'000	£'000	£'000
Wholetime Firefighters	37,648	37,365	(283)
On-call Firefighters	8,030	7,660	(370)
Staff	14,187	13,896	(291)
Other employee costs	2,416	2,434	19
Premises	8,569	8,675	106
Transport	1,803	1,956	153
Supplies and services	9,996	9,862	(134)
Third party payments	2,493	2,488	(5)
Expenditure	*85,142*	*84,336*	*(806)*
Income	(3,665)	(3,818)	(153)
Net current expenditure	*81,477*	*80,519*	*(958)*
Funding	(81,477)	(81,390)	87
Over / (under) spend	**0**	**(871)**	**(871)**

15. The overall position is a net underspend of £0.871m. This is mainly driven by underspend in staff costs due to reducing reliance on the use of Fixed

Term Contracts and the impact of some difficulties in filling specialist roles, particularly in IT.

16. There are pressures in premises and transport mainly driven by reactive maintenance and increased fuel costs.

17. Within the position, there are £0.575m of costs associated with Covid-19, but these have been offset by Covid-19 grant carried forward from 2020/21. Covid-19 grant funding is largely fully committed.

2022/23 BUDGET AND PRECEPT

Council Tax

18. The Budget Update report assumed council tax base growth of 1%. Final figures from the district councils show council tax base growth of 1.42%, representing a modest increase in expected base growth.

19. In the Budget Update report there was an assumption that the council tax increase for Fire Authorities would be limited to a maximum of 1.99% (£1.40) for a band D property. The Local Government Financial Settlement provided additional flexibility for the eight Fire Authorities with the lowest council tax rates to increase council tax by £5 (7.10%) for a band D property. As the Authority with the 7th lowest council tax rate, HIWFRA has the flexibility to do this. This flexibility has been granted for a single year only.

20. The table below sets out the impact of a £1.40 / 1.99% and a £5.00 / 7.10% council tax increase for each band:

	1.99% / £1.40	7.10% / £5.00
	£ per annum	£ per annum
Band A	0.93	3.33
Band B	1.09	3.89
Band C	1.25	4.44
Band D	1.40	5.00
Band E	1.71	6.11
Band F	2.02	7.22
Band G	2.34	8.33
Band H	2.80	10.00

21. The additional flexibility to increase council tax brings in a potential additional £2.512m in council tax income during 2022/23. Coupled with an increase due to the final council tax base position of £0.246m, the council tax income for 2022/23 would be £2.758m higher than forecast in the

Budget Update report, if the flexibility to increase council tax by the maximum rate were to be exercised.

22. The benefits of increasing council tax by the maximum allowable amount are set out throughout this report and become particularly clear in the MTFP section, which looks forward to future years. The risks of not taking the maximum increase are also articulated as part of the MTFP. All figures in this report assume that a £5 increase is applied as recommended by the Chief Financial Officer.

23. The figures below show the council tax rates for the year beginning 1st April 2022 for the properties in each band, based on a £5 increase:

Band A:	£50.29	Band E:	£92.20
Band B:	£58.67	Band F:	£108.96
Band C:	£67.05	Band G:	£125.72
Band D:	£75.43	Band H:	£150.86

24. 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 2022/23.

Basingstoke and Deane Borough Council	£5,115,919
East Hampshire District Council	£3,915,476
Eastleigh Borough Council	£3,648,802
Fareham Borough Council	£3,319,116
Gosport Borough Council	£2,048,241
Hart District Council	£3,154,170
Havant Borough Council	£3,150,814
Isle of Wight	£4,064,161
New Forest District Council	£5,440,170
Portsmouth City Council	£4,315,328
Rushmoor Borough Council	£2,473,749
Southampton City Council	£4,989,393
Test Valley Borough Council	£3,872,425
Winchester City Council	£3,888,725
Total	**£53,396,489**

25. During 2021/22 the Council Tax Collection Fund was in deficit. For 2022/23 there is a forecast surplus on the collection fund of £465,000. This is against an assumption of neither a surplus or deficit in the Budget Update Report.

Business Rates

26. The Authority receives a top up grant for 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.

27. There has been no increase to the top up grant, which remains £9.043m for 2022/23.

28. The level of locally retained business rates for 2022/23 is expected to be consistent with 2021/22 at £7.492m. In years prior to the Covid 19 pandemic this funding has generally increased year on year. At the time of writing this is based on estimates from billing authorities. The continued local economic impact of Covid-19 and the complexities around business rates reliefs provided by Government mean that this position is still subject to change.

29. Section 31 grant compensates authorities for lost income as a result of Government reliefs. At this stage we are assuming a slight increase in grant to counteract the impact of additional Government reliefs, with the total assumed to be £1.882m. This figure is also still subject to change.

30. The business rates collection fund position relating to 2021/22 is also not complete at this point in time and based on the figures received to date an assumption of no surplus or deficit has been made. This assumption will be updated once more information becomes available.

Government Grant

31. The previous Budget Update report assumed that Revenue Support Grant (RSG) would increase by inflation, assuming a total RSG of £8.424m for 2022/23.

32. The provisional local government financial settlement provided an RSG figure for the new CFA of £8.528m. The additional increase is a result a higher rate of inflation used to update RSG than forecast.

33. In addition, the settlement announced an additional one-off allocation of Services Grant, totalling £1.131m in 2022/23. This is a new grant that is

currently for 2022/23 only. In part it is in recognition of the cost of the rise in National Insurance contributions to the Authority. This grant was not expected and therefore not included in the position presented in the Budget Update report.

34. Notifications of grants received from the Home Office have yet to be received, so this report has been produced on the basis that there is no change to any of these grants.

Delivery Pressures

35. As part of the annual budget setting process, a number of essential delivery pressures were identified. These were presented to the HIWFRA in the December Budget Update report and were agreed to be included within the budget, subject to affordability.

36. The settlement means that these delivery pressures are now affordable, if the recommendations in this report are accepted, so have been incorporated within the proposed budget for 2022/23. The delivery pressures totalled £0.592m.

37. In addition, the Budget Update report flagged the need to increase ICT reserve contributions by £0.218m to support a timely refresh of ICT equipment. The proposal was to fund this from one-off resources in 2022/23. Council tax flexibility means that this is now affordable from 2022/23 so it is recommended that this delivery pressure is also built into the base budget. This will mean that sufficient resources to enable an efficient and timely refresh of ICT equipment are secured.

Efficiency measures

38. The budget update report proposed efficiencies of £1.362m during 2022/23 with the potential for further efficiencies in later years. Since that report, the Executive Group have carried out further work on high-level plans for delivering these efficiencies. Work to deliver the efficiencies will complete during financial year 2022/23. However, the timing of this work means that the full year effect of the savings will not be realised until 2023/24. Therefore, the efficiency target included within the 2022/23 budget is £0.800m, with the remaining £0.592m moving to 2023/24.

39. The change in the phasing of the efficiencies means that the service will have time to balance the need to develop efficiency measures alongside other priorities, particularly providing assistance to partners in the on-going response to the Covid-19 pandemic.

Contingency

40. The budget update report provided for a specific non-pay inflation contingency of £300,000 to be managed centrally to address the risk presented by exceptional levels of inflation in some categories of spend.

41. Inflation continues to be a challenge. In particular, energy prices have reached historically high levels and market conditions mean that price increases are likely to continue into the next financial year. The UK Exit from the EU and the on-going impact of the Covid-19 pandemic are factors which may impact price inflation during the next financial year. These pressures may impact on the capital programme as well as the revenue budget.

42. Therefore, it is recommended to include an additional contingency of £500,000 within the base budget. This will allow the service to manage inflationary pressures as well as any service delivery pressures that may emerge during this period of continuing uncertainty. The £5 council tax increase allows the introduction of this prudent measure into the budget.

43. It is worth noting that the £0.5m contingency included within the base budget for 2021/22 was needed in full to contribute towards an unbudgeted pay award. Had the contingency not been included, this would have become a significant pressure on the 2021/22 revenue budget.

Isle of Wight Estate

44. As covered in a paper coming to this Fire Authority meeting, there is a need for a further investment in the Isle of Wight Estate. This is year 2 of a three year investment programme. The funding required for year 2 is £1.7m. It is recommended that this funding is approved from the revenue budget in 2022/23, utilising the remaining one-off Services Grant allocation and collection fund surplus.

Overall 2022/23 Budget Position

45. **Appendix A** outlines the base budget for 2022/23 compared to the base budget for 2021/22 by cost type and by area of spend.

46. A comparison against the position from the Budget Update report shows that the position has moved from a forecast deficit of £1.333m prior to the announcement of the detailed funding settlement, to a balanced position. The major factor in this improved position is the impact of council tax flexibility.

Changes since Budget Update report	**£'000**
Forecast deficit in December 2021 Budget Update report	1,333
<u>Changes since Budget Update report:</u>	
Council tax increase	(2,758)
Collection fund increase	(465)
Services grant	(1,131)
Other grant changes	(32)
Recommended additional contingency	500
Efficiencies to 2023/24	562
Bring forward ICT reserve contribution	218
One off contribution to Capital Payments Reserve	73
Isle of Wight Estate – Year 2	1,700
Proposed budget (surplus)/deficit	**-**

47. This illustrates the importance of making use of council tax flexibility to the 2022/23 budget position. This flexibility allows for continued necessary investment in our infrastructure and the inclusion of a prudent additional contingency. The additional funding does not mean that efficiencies are not required or will not be delivered. Rather it allows for a rephasing of the initial efficiencies and the time to develop a further plan as set out in the MTFP.

48. The budget report indicated that the plan for addressing the £1.333m deficit was to spend the entire balance of the Grant Equalisation Reserve (GER) and to utilise a proportion of the 2021/22 underspend to bridge the gap. This is no longer required so the GER balance can be retained to smooth the funding position in later years as set out in the MTFP.

MEDIUM TERM FINANCIAL PLAN 2022/23 – 2024/25

49. As outlined above, the Local Government financial settlement for 2022/23 was once again a single year settlement. Due to the number of single year settlements, a full Medium Term Financial Plan (MTFP) has not been produced for several years. Despite the lack of certainty about the medium term position, the production of an MTFP is now essential. The plan is based on the single year settlement with prudent assumptions about future funding.

50. The plan has been prepared in line with the financial principles adopted by the Fire Authority at the December 2021 meeting. The MTFP takes the position outlined in the main Budget and Precept Report and looks forward to future years. It sets out assumptions about funding and expenditure, including the capital programme and reserves.

51. An update to the MTFP will be provided annually. A full update to the MTFP will be provided when a multi-year funding settlement is announced.

52. Appendix B sets out a high level, indicative position for funding and expenditure for the period 2022/23 – 2024/25.

Funding

53. Council tax is the most significant funding stream for the Fire Authority. The MTFP is built on the assumption that the Authority use the flexibility offered to HIWFRA as a low tax Authority to increase council tax by £5 (7.10%) for a band D property.

54. The ability to raise council tax by more than 1.99% has only been offered to low tax authorities and there is no stated intention to offer this flexibility in future years. Given the uncertainty surrounding the medium term position, it would be an extremely high risk strategy to delay implementing a higher rise this year with the intention of implementing a higher rise in future years.

55. The MTFP assumes that after the £5 rise this year, the referendum limit of 1.99% holds for the remainder of the period. The MTFP also assumes an increase of 1% in the council tax base per year over the period. This is a realistic assumption but could be an overestimate if the economic climate worsens over the period.

56. The system of business rates is complex, with locally retained business rates, business rates top-up grant and section 31 grants to compensate for reliefs. Business rates income is impacted by the wider economy to a

greater extent than council tax. These factors make estimating business rates income challenging. For the purposes of the MTFP an assumption of flat cash for business rates has been made i.e.no increase from current levels.

57. It is assumed that the council tax and business rate collection funds return to a position of neither surplus nor deficit from 2023/24. This is prudent given the mixture of surplus and deficit over recent years.

58. Government grant is assumed to continue as flat cash over the period of the MTFP with two exceptions:

    (a) Revenue Support Grant is assumed to increase in line with inflation, estimated at 2% for the period

    (b) Services Grant is a new one-off grant for 2022/23. The grant was received in part to compensate Fire Authorities for the on-going impact of the national insurance rise so it is hoped that some funding will be made available for this in future years. However, as the grant is one-off it has been treated as such in the MTFP.

Delivery pressures

59. The Fire Authority receives no funding for capital priorities. Major station investments at Cosham and Redbridge were approved by the Fire Authority and work on these important schemes is underway. The schemes are funded from prudential borrowing and the majority of the impact of servicing this borrowing is reflected in the MTFP by 2024/25, with a remaining £0.270m in 2025/26. This is a major source of pressure on the revenue budget during the period of the MTFP.

60. Borrowing may be needed for future capital schemes, including implementing the agreed design principles retrospectively across our existing estate and addressing the impacts of the carbon reduction surveys approved by the Fire Authority in July 2021. It is likely that spend will be incurred towards the end of the MTFP period. Funding for additional schemes will be addressed as part of reports or business cases presented to the Authority. The ongoing implications of this borrowing will be factored into updates of the MTFP and may result in the need to deliver further efficiencies.

61. In line with our financial principles, the MTFP assumes that growth in ongoing spend is limited to essential requirements. However, provision for a modest increase of £250,000 per annum is included. This is to recognise necessary investment that may be needed due to external requirements

such as Fire Standards or to enable positive change with the Service. Delivery pressures will be scrutinised annually by the Executive Group and brought to the Fire Authority for approval. Should additional delivery pressures in excess of this amount be identified it will be necessary to prioritise these within available funding or find efficiencies elsewhere to fund the reinvestment.

62. Both pay and non-pay inflation are currently difficult to estimate. Pay inflation has been capped at modest levels over the last few years. The state of the wider public finances mean that this is likely to continue. However, cost of living pressures are affecting all parts of society so it is likely that pressure for higher pay rises to match inflation will grow. In light of the uncertainty it has been assumed that pay increases for both green and grey book staff will be 2% per annum for the period of the MTFP.

63. As noted previously, non-pay inflation is currently significantly higher than it has been in recent years. Some areas, such as energy, are experiencing even higher levels of price growth. Additional budget for non-pay price growth has been included in the 2022/23 budget. The MTFP assumes that non-pay inflation returns to 2% per annum for the remainder of the MTFP.

64. In addition to these pressures, a one-off draw from the Transformation Reserve of £0.250m is requested to support the delivery of the Safety Plan Year 3 objectives.

Efficiency measures

65. Public Value is at the core of our service and so we will always seek to deliver a more efficient service to our communities. Significant efficiencies have been delivered over recent years, which have allowed budget gaps to be addressed or reinvestment in improved services. Efficiencies of £1.3m are planned for delivery during the first two years of the MTFP. The slightly longer phasing of these efficiencies will allow for the successful delivery of these measures while balancing the other demands currently facing the service.

66. During subsequent financial years, efficiencies will be sought to allow for reinvestment in service delivery. These will be identified and reported to the Authority during the annual budget setting process, with progress on delivery reported throughout the year.

67. Planning for further efficiencies will be an integral part of the development of the Authority’s Community Risk Management Plan, which will take effect from financial year 2025/26. There is an excellent opportunity to fully align

the Authority's financial planning with the development of the CRMP, leading to a new MTFP from 2025/26.

68. If there were to be a multi-year financial settlement that provided greater insight into the medium term funding position of the Authority then these plans may need to be revisited.

<u>Overall position</u>

69. An MTFP is included as **Appendix B.** The table presents incremental changes to the budget for a three year period starting with 2022/23. This illustrates that in both financial years 2023/24 and 2024/25 there is a forecast modest budget deficit. This will be managed using draws from the Grant Equalisation Reserve (GER), a reserve held for this purpose.

70. The starting point for the MTFP is the recurring deficit of £0.778m brought forward from 2021/22. The changes outlined in the budget report are reflected in table, resulting in a balanced position for 2022/23.

71. In subsequent years a deficit emerges, largely as a result of the impact of the borrowing to fund the schemes already approved as part of the Station Investment Programme. If the assumptions around cost pressures and funding are borne out, it will be necessary to be prepared to implement an efficiency programme to address the emerging budget deficit to deliver savings from 2025/26.

72. The MTFP shows the vital importance of taking the opportunity to raise council tax by the maximum allowable amount during 2022/23. This increase brings in an additional £2.512m, ignoring the impact of base changes. Over the three year period of the plan this would mean a reduction in Authority resources of £7.536m if the increase were not to be approved.

73. If the council tax rise were capped at 1.99% it would mean that:

(a) It would not be possible to include recommended contingency levels that would allow the Authority to respond to the risk of significant price rises and other unforeseen cost pressures over the period of the plan

(b) It is likely that investment in the Isle of Wight Estate may need to be funded via prudential borrowing, leading to greater revenue pressures in the future.

(c) The Authority would be facing a significant recurring deficit in the region of £3.5m by 2024/25 over the period of the plan, meaning that options for service reduction would need to be explored over the coming year. Reserves committed for other purposes would have needed to be used to balance the position in the intervening years.

74. When considering the position set out in Appendix B, it is important to remember that the forward projections of funding are not based on any information from Government about funding plans but rather on prudent assumptions. The risks inherent in this approach are covered in detail later in this report. However, it is important to remember that the funding estimates are unlikely to be totally accurate, meaning that the position could be materially better or worse than expected.

75. Similarly, the current economic climate makes the estimation of inflation particularly challenging.

CAPITAL PROGRAMME

76. The proposed capital programme for 2021/22 to 2025/26, including spend to date and the proposed financing, is set out at **Appendix C** of this report.

77. The only addition to the capital programme since last year is the allocation for electric vehicle charging points, approved by the Authority in July 2021 as part of the Carbon Reduction Pathway. This spend is funded from the Capital Payments Reserve. A number of other schemes are making good progress and significant spend is expected in the coming financial year.

78. Delays in the Vehicle Replacement Programme (VRP) have continued during 2021/22, with particular challenges around the whole supply chain. However, the service has been working proactively to address these issues, including providing firm commitments to purchase a significant number of vehicles. During 2022/23 deliveries will commence, with significant spend expected over the coming two financial years.

79. The inflationary pressures outlined previously are also impacting on the schemes that form the capital programme. Project managers are working to manage these pressures within approved budgets. This approach means that schemes are currently forecast to be delivered within approved budgets. Any issues will be flagged to the Authority during regular updates on the approved capital programme or by exception as required.

80. The Budget Update report in December 2021 explained the range of upcoming capital priorities. The Isle of Wight Estates Year Two work was identified as the most pressing priority, and the funding for this has been covered elsewhere in the report.

81. Funding for the final year (year three) of the Isle of Wight Estate (likely to be around £1.4m) will be addressed as part of the setting of the 2023/24 budget. It is still necessary to determine the level and source of funding needed for the works identified following surveys approved as part of the Carbon Reduction Pathway. This will also be carried out as part of the 2023/24 budget setting process and will include the identification of any efficiency savings these works may deliver.

82. In the medium term plans will be developed to retrospectively introduce the Authority's design principals to existing buildings. This work will focus on fireground decontamination and inclusive facilities. The funding for this work will need to be identified.

83. Finally, further SIP schemes at Fareham and Gosport, East Cowes and Newport are under consideration. These schemes would be subject to a full business case approved by the Authority which would also consider funding.

RESERVES

84. The Authority holds specific reserves to provide for future planned spending as part of its medium term financial planning.

85. An updated Reserves Strategy which outlines the purpose of the reserves that we hold is provided in **Appendix D.** Details of the expected balance on each of the specific reserves and the general balance over the period 2021/22 to 2025/26 are set out within the appendix.

86. Forecast reserve balances at the end of this financial year remain high. The main reason for this is the delay in the Vehicle Replacement Programme, which is funded entirely from the Capital Payments Reserve. Despite the current high balance, this reserve is fully committed over the period of the plan.

87. Other reserves are held for the replacement of ICT and operational equipment. Funding is contributed annual to allow the refresh of equipment to be planned to achieve value for money.

88. As well as ensuring that the service has sufficient resources to invest for the medium term, the reserve contributions also allow the Authority to respond to short term pressures if they arise.

89. A contribution from the Isle of Wight Council reserves will be made following the closure of accounts for the current financial year. At this stage, a contribution of £0.900m has been included, although this is subject to final confirmation. This one-off contribution has been added to the Capital Payments Reserve to fund future investment.

RISKS AND MITIGATIONS

90. Financial planning uncertainty has been a risk on our organisational risk register for several years. The single year settlement means that this risk is still current. The duration of settlements is outside of the control of the Authority, although the Service continues to make the case for longer term financial planning information to Government.

91. However, the ability to raise council tax by £5 has improved our financial position and strengthened some of our mitigations. There are two main risks around the medium term financial position of the Authority:

    (a) The risk of reduced central government funding
    (b) The risk of increased costs

92. Both of these risks would result in a financial pressure on the Authority. Although these risks remain current, mitigations mean that the Authority is in a strong position to deal with the impact, should these risks emerge.

93. The impact of reduced central Government funding would be worse if little notice was given of an intention to reduce funding. Proposed reviews of local Government funding make reduced central Government funding more likely. The finance team and the wider Executive Group use links with national groups to ensure that they are up to date with Government plans and are able to factor these into the MTFP. Prudent assumptions are made about future funding.

94. If a short notice cut were to be announced, if would be possible to draw from the Grant Equalisation Reserve in the first instance to balance the budget. Once this reserve was exhausted, revenue contributions to reserves, particularly the Capital Payments Reserve, could be temporarily reduced to balance the budget. This would lead to pressures in future years so is a last resort, but would give the Authority time to address the budget deficit via planned savings.

95. Budget management activities are undertaken throughout the service and these would give an early indication of areas where cost pressures were emerging. The service would then be able to make decisions about whether it was possible to manage pressures by reducing activity or delaying plans. The next step would be to consider allocating contingencies. These have been added during the budget setting process and have strengthened the mitigation of this risk. Finally, actions similar to those outlined above could be considered in the event of a longer term pressure.

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY

96. The Treasury Management Strategy and Investment Strategy are attached at **Appendix E** and require approval on an annual basis. This document includes the Treasury Management Indicators.

97. The report recommends that the following be approved:
    - That the Treasury Management Strategy (TMS), including the Annual Investment Strategy for 2022/23, (and the remainder of 2021/22) is approved; and
    - That authority is delegated to the Chief Financial Officer to manage the Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

98. The strategy also takes into account the fact that the Authority will be taking out significant prudential borrowing as part of the funding of the Station Investment Programme. This is also reflected in the Capital and Investment Strategy.

CAPITAL AND INVESTMENT STRATEGY

99. A new reporting requirement was introduced for the 2019/20 budget in respect of a Capital and Investment Strategy. This has been updated for 2022/23 and is included as **Appendix F** to this report. The Strategy gives a high-level overview of how capital expenditure, capital financing, and treasury management and investment 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. This document includes the Prudential Indicators required by the Prudential Code and the statement on Minimum Revenue Provision.

100. The Capital and Investment Strategy and the Treasury Management Strategy collectively take into account the requirements of the Prudential and Treasury Management Codes as well as MHCLG investment and MRP guidance.

SECTION 25 REPORT

101. 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. This is included as **Appendix G** of this budget report**.**

102. The Authority is required to take this report into account in setting the budget and council tax for 2022/23.

INSURANCE STRATEGY

103. 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 twelve Fire and Rescue Authorities. FRIC was set up to provide indemnity for its Members against risks normally fully covered by a traditional insurance company. Members work together to improve risk management by following best practice and sharing learning, with any financial savings being used for the benefit of the Member authorities, rather than going to an insurer.

104. There has been an increase in our 2021/22 contribution of approximately 5% (excluding Isle of Wight elements for 2020/21). This is due to various factors including our claims experience, emerging risks and other external factors. The global insurance market continues to harden as a result of political and economic issues including Covid which is affecting the stability of the insurance market. However, the FRIC model does help protect Members from these external cost issues.

105. 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. Increases are due to asset numbers on the engineering aspect and increase in payroll for the additional covers.

106. There has been an adjustment to the 2020/21 costs following the onboarding of the Isle of Wight elements to the protection cover from 1 April 2021.

107. The charges to date are shown in the table below:

Contribution/Premium	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
FRIC Contribution	£522,066	£500,667	£516,402 (£14,089 Non-FRIC Covers)	£541,826 (£12,558 Non-FRIC Covers)	£615,738 (£15,877.94 Non-FRIC Covers)	£647,250 (£19,183 Non-FRIC Covers)
Additional Covers	£92,867	£96,088	£76,035	£80,473	£80,958	£84,719
FRIC Contribution for IOW elements (period of cover 01/04/21 – 31/10/21)					£32,587 (£590 Non-FRIC Covers)	

PENSIONS MATTERS – IMMEDIATE DETRIMENT FRAMEWORK

108. The Authority, via the Standards and Governance Committee as pension scheme manager, took the decision to adopt the Immediate Detriment Framework at its 16th November meeting. This framework was developed between the Local Government Association and the Fire Brigades Union as a way to implement the Court of Appeal's judgment in the McCloud and Sergeant cases. These cases established that the changes made by Government to public service pension schemes in 2014 and 2015 caused discrimination on grounds of age by only providing protections for older members. The Immediate Detriment Framework was a mechanism for allowing firefighters to access the benefits of their legacy pension scheme prior to the introduction of legislation to remedy the discrimination, which is expected to be fully in force by October 2023.

109. Since the adoption of the Immediate Detriment Framework, the Home Office has withdrawn its informal Immediate Detriment guidance. This was based on a change in interpretation of section 61 of the Equality Act 2010. The Treasury now believe that Section 61 may not be sufficient to allow immediate detriment cases to be processed.

110. The Treasury's current view is that immediate detriment cases cannot be processed before the legislation is in place without considerable risk, uncertainty and administrative burden to individuals, schemes and employers.

111. This new information fundamentally changes the risks of adopting the Immediate Detriment Framework and therefore undermines the basis on which Standards and Governance made their decision. This information was not available at the time that the original decision was made.

112. In light of this new information the Chief Financial Officer took an urgent decision to suspend the framework in December 2021 until the Standards and Governance Committee meeting in February 2022. Due to a change in timing of the Standards and Governance Committee, a further decision was taken to extend the suspension until the Fire Authority meeting in February.

113. The position on Immediate Detriment remains unclear and further national updates are expected, including from the Local Government Association and the Fire Brigades Union. Officers are working to understand the possible options and the risks of different courses of action and will be incorporating any further national guidance into this analysis. A full report including an update on the position and if possible, further recommendations will be brought to the May Standards and Governance committee. It is recommended that the suspension of the framework remains in place until this meeting.

114. The Pension Board has been consulted on this approach. The board heard representation about the issues and risks to both the Authority as an employer and of pensioners and current employees about the continued uncertainty and delay and the difficult situations that are being faced by some firefighters when considering their retirement options. However, due to the continuing high levels of uncertainty and risks for both the Fire Authority and individuals, the Board was supportive of the continued suspension of the framework while more information is sought.

115. This is a fast moving situation and a timely resolution of the immediate detriment issue is in the interests of both the Fire Authority and individuals. The Fire Authority is therefore asked to delegate authority to the Chief Financial Officer in consultation with the Chairman of the Authority, the Chairman of Standards and Governance Committee and the Chief Fire Officer to make decisions about immediate detriment in advance of the May Standards and Governance Committee meeting, should the current position change. This would include delegated authority to apply immediate detriment in very exceptional circumstances where significant hardship could be caused by not applying it (for example in the case of a terminally ill firefighter).

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

116. This report sets out how the available funding will be directed to the priority areas within the new Combined Fire Authority and supports a continuing strong financial position.

CONSULTATION

117. The proposals in this report have also been the subject of consultation with the representative bodies and the business community and any comments or issues will be reported back verbally to the Authority.

RESOURCE IMPLICATIONS

118. The report covers the overall financial position for 2022/23 for revenue spending and seeks approval to the budget and council tax levels, it also provides an update on the capital programme and reserves.

IMPACT ASSESSMENTS

119. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation and do not change any policies.

LEGAL IMPLICATIONS

120. The proposals in this report meet the Authority's legal requirement to set a balanced budget and council tax for the next financial year prior to 1 March.

OPTIONS

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

RECOMMENDATIONS

The Authority is recommended to approve:

122. The additional delivery pressure of £0.218m per annum for contributions to ICT reserves.

123. The one-off Transformation Reserve draw of £0.250m to support the delivery of the Safety Plan year 3 objectives.

124. That the Authority agrees to continue the suspension of the Immediate Detriment Framework until the Standards and Governance Committee meeting currently scheduled for May 2022.

125. That the Authority delegates authority to the Chief Financial Officer in consultation with the Chairman of the Authority, the Chairman of Standards and Governance and the Chief Fire Officer to make necessary decisions about Immediate Detriment in the interim, including decisions to apply immediate detriment in very exceptional circumstances where significant hardship could be caused by not applying it.

126. The Revenue Budget, as set out in Appendix A.

127. The Medium Term Financial Plan, as set out in Appendix B.

128. The Capital Programme and funding as set out in Appendix C.

129. The Reserves Strategy as set out in Appendix D.

130. The Treasury Management Strategy as set out in Appendix E, including the Annual Investment Strategy for 2022/23, (and the remainder of 2021/22).

131. Delegated authority to the Chief Finance Officer to manage the Fire and Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

132. The Capital and Investment Strategy as set out in Appendix F for 2022/23, (and the remainder of 2021/22).

133. The Section 25 Report as set out in Appendix G which should be taken into account by the Authority in agreeing the budget and council tax.

134. The council tax requirement for the Authority for the year beginning 1st April 2022 of £53,396,489.

135. That the Authority's council tax be increased by £5 (7.10%) for the year beginning 1st April 2022 and for the properties in each band to be increased by 7.10%, as set out in para 18 of this report:

Band A:	£50.29	Band E:	£92.20
Band B:	£58.67	Band F:	£108.96
Band C:	£67.05	Band G:	£125.72
Band D:	£75.43	Band H:	£150.86

136. That the precepts set out in para 24 of this report, totalling £53,396,489 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, in proportion to the tax base of each billing authority's area as determined by them.

APPENDICES ATTACHED

137. Appendix A – 2022/23 detailed Budget
138. Appendix B – Medium Term Financial Plan
139. Appendix C – Proposed Capital Programme and Funding
140. Appendix D – Reserves Strategy
141. Appendix E – Treasury Management Strategy 2022/23 – 2024/25
142. Appendix F – Capital and Investment Strategy 2022/23 - 2024/25
143. Appendix G – Section 25 Report

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2022/23 Budget

Subjective:

	2021/22 Original Budget £'000	2021/22 Revised Budget £'000	Realignment £'000	Base budget adjustments £'000	Funding increases £'000	Inflation £'000	Delivery pressures £'000	Efficiencies £'000	One off £'000	2022/23 Budget £'000
Whole Time Firefighters	35,918	35,924	(190)	523		818				37,075
Retained Firefighters	7,890	7,840	150	109		153	15			8,267
Staff	13,279	13,427	58	268		362	316			14,430
Other employee costs	2,242	2,246	(97)							2,149
	59,329	**59,437**	**(79)**	**900**	**0**	**1,332**	**331**	**0**	**0**	**61,921**
Premises	6,198	6,187	18			91			1,700	7,996
Transport	1,702	1,700	14							1,714
Supplies & Services	7,952	7,828	23			431	27			8,309
Third Party Payments	1,878	1,895	11			46	80			2,032
Contingencies	500	500		(500)		500				500
Savings								(800)		(800)
	77,559	**77,547**	**(13)**	**400**	**0**	**2,400**	**438**	**(800)**	**1,700**	**81,672**
Income	(2,744)	(2,732)	13	0	0					(2,719)
	(2,744)	**(2,732)**	**13**	**0**	**0**	**0**	**0**	**0**	**0**	**(2,719)**
Revenue contributions to capital	3,965	3,965							73	4,038
Equipment reserve	950	950					65			1,015
Grant equalisation reserve	(153)	(153)		778						625
Transformation reserve	250	250								250
ICT reserve	500	500					307			807
	5,512	**5,512**	**0**	**778**	**0**	**0**	**372**	**0**	**73**	**6,735**
Net Cost of Service	**80,327**	**80,327**	**0**	**1,178**	**0**	**2,400**	**810**	**(800)**	**1,773**	**85,688**
Capital Financing	949	949		580						1,529
Investment income	(210)	(210)								(210)
Budget Requirement	**81,066**	**81,066**	**0**	**1,758**	**0**	**2,400**	**810**	**(800)**	**1,773**	**87,007**
Funded by:										
Precept	(49,158)	(49,158)			(4,238)					(53,396)
Revenue Support Grant	(8,275)	(8,275)			(253)					(8,528)
Business Rates Top-Up Grant	(9,043)	(9,043)								(9,043)
Locally Retained Business Rates	(7,492)	(7,492)								(7,492)
Pension grant	(3,771)	(3,771)								(3,771)
Council Tax Support Grant	(695)	(695)			695					0
Government Grant for Covid losses	(94)	(94)			94					
CT Collection Fund Balance	171	171			(636)					(465)
BR Collection Fund Balance	59	59			(59)					0
S31 grants	(2,768)	(2,768)			(412)					(3,180)
Services grant	0	0			(1,132)					(1,132)
Funding Gap / (Surplus)	**0**	**0**	**0**	**1,758**	**(5,941)**	**2,400**	**810**	**(800)**	**1,773**	**0**

2022/23 Budget

Objective:

	2022/23 Budget
	£'000
People & Organisational Development	4,886
Operations	43,073
Policy Planning and Assurance	4,976
Enabling	22,406
Finance	3,612
Reserve Transfers	6,735
Net Cost of Service	**85,688**

	2022/23	2023/24	2024/25
	£'000	£'000	£'000
Starting deficit / (surplus)	**778**	**-**	**189**
Council tax	(4,238)	(1,604)	(1,652)
Other funding	(1,703)	1,261	(174)
Net impact of 2021/22 unbudgeted pay award	400		
National insurance increase	354		
Pay inflation	978	1,240	1,264
Non-pay inflation	568	377	384
Contingency	500		
Delivery pressures	810	250	250
SIP borrowing	580	1,000	500
Isle of Wight Year 2 Estate	1,700	(1,700)	
Contribution to CPR	73	(73)	
Efficiencies	(800)	(562)	
Budget deficit / (surplus)	**-**	**189**	**761**
Draw from GER	***-***	***(189)***	***(761)***

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Appendix C - Proposed Capital Programme and Funding

Project Details:	Approved Spend £'000s	Previous Years' Spend £'000s	2021/22 £'000s	Annual Spend Forecasts: 2022/23 £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s	Latest Estimate £'000s	Balance Over / Under (-) £'000s
Basingstoke Fire Station	6,955	6,832	1	122				6,955	0
Fire Control System	729	671	58					729	0
Estates Transformation - HQ Phase 2	4,660	4,519	141					4,660	0
Vehicles	40,157	4,898	1,393	12,943	10,748	6,181	3,994	40,157	0
Live Fire (Training Facility)	3,500	0	350	2,625	525			3,500	0
Fleet Maintenance Centre - Sprinkler Installation	400	0		400				400	0
Electric Vehicle Charging points	940	0		940				940	0
Station Improvement Programme:									0
Cosham	20,450	0	800	14,691	4,792	167		20,450	0
Gosport (land purchase)	200	0		200				200	0
Bishops Waltham	3,700	107	300	3,044	249			3,700	0
Redbridge	24,100	12	700	6,928	10,438	5,753	269	24,100	0
Revenue investments	2,866		2,866					2,866	0
Total Programme Cost	**108,657**	**17,039**	**6,609**	**41,893**	**26,752**	**12,101**	**4,263**	**105,791**	**0**
Financed by:									
Capital Payments Reserve		14,858	5,009	20,274	11,522	5,831	3,994	60,803	
Prudential Borrowing		12	1,500	21,619	15,230	5,920	269	44,538	
Revenue Grant Unapplied Reserve								0	
Capital Receipts		1,669				350		350	
Capital Grant								0	
Partner Contributions		500	100					100	
Total financing		**17,039**	**6,609**	**41,893**	**26,752**	**12,101**	**4,263**	**105,791**	

Hampshire and Isle of Wight Fire and Rescue Authority Reserves Strategy

1. Introduction and Background

1.1 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies and risks.

1.2 Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties. In contrast to this the Covid-19 pandemic starkly highlights why a prudent approach to reserves is needed in order to deal with unexpected financial shocks.

1.3 In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy can form part of the Medium Term Financial Plan (MTFP) or be a stand-alone document.

1.4 The Reserves Strategy sets out details of current and future planned reserve levels over the period covered by the MTFP. It covers both resource and capital reserves and sets out where reserves are earmarked for planned spend and where they are held as a general contingency or to meet other expenditure needs in accordance with sound principles of good financial management.

2. Strategic Context

2.1 There are a number of reasons why Authorities might hold reserves, these include to:

a) Mitigate potential future risks such as increased demand and costs;
b) Help provide for the costs of future liabilities;
c) Temporarily plug a funding gap should resources be reduced suddenly or as part of an agreed medium term financial plan;
d) Enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax;
e) Spread the cost of large scale projects which span a number of years.

2.2 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium term financial plan.

2.3 Long-Term Sustainability - Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing year on year price rises and pressures and uncertainty over the medium term. Due to the fact that funding for future capital projects is held as an earmarked reserve, the overall level of reserves held by the Authority is currently still relatively high but will reduce as the capital programme progresses.

2.4 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget and capital programme and provide an adequate contingency for financial risks.

2.5 There are two different types of reserve, and these are:

Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs. Generally, this is deemed to be a reserve of 'last resort' and the Authority has never been required to use its General Reserve.

3. Determine the Adequacy of the General Reserve

3.1 A well-managed Fire Authority will strive to maintain as low a level of General Reserve as possible, whilst still covering its financial risks. As a single-purpose authority, HIWFRA has no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, its General Reserve may be slightly higher than for a multi-purpose authority.

3.2 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the Local Government Employers and Government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

3.3 A number of years ago, the Authority agreed to increase the General Reserve to £2.5m to reflect the increased risk in the budget as a result of the period of austerity and year on year grant reductions. At the same time the Authority was also receiving 4 year grant settlements which significantly helped in planning for future financial sustainability, even during a period of grant reductions. The continuing uncertainty over public sector finances and the lack of a multi-year settlement would indicate that keeping the General Reserve at the same level is sensible at this time.

3.4 At the start of 2022-23, the General Reserve will represent around 2.9% of the Authority's net revenue budget, which is considered adequate to mitigate the risks that it faces. Whilst this may be below the percentage level of General Fund Reserves of other Authorities, this also takes into account the fact that the base revenue budget has nearly £6.8m a year for contributions to reserves built in (equivalent to 8% of the net revenue budget) and this therefore offers a very significant mitigation to any potential unexpected spending before use of the General Reserve is required.

3.5 The level and adequacy of reserves is assessed annually by the Chief Financial Officer in preparing the Section 25 report (Appendix G) that Members must take into account in setting the annual budget and precept.

4. Earmarked Reserves

4.1 The Authority has a number of earmarked reserves which have been established for specific purposes where there have been emerging risks, future cost pressures or as part of sensible medium term financial planning.

4.2 The relevance of, and balance in, each of these is reviewed annually as part of the update of the MTFP and the Authority is informed of the latest plans for the balances held in such reserves over the medium term via the Reserves Strategy.

4.3 The Earmarked Reserves for the Authority are presented and analysed as outlined below.

5. Transformation Reserve

5.1 This is used to help deliver value for money improvements, implement change programmes and to 'pump-prime' improvement initiatives. Budget surpluses or underspends may be transferred to this reserve at the end of the year, depending on the level of the reserve and plans for future usage.

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Opening Balance	-2,467	-655	-1,020	-1,020	-770
Draws	2,062	756	250	500	250
Contributions	-250	-1,121	-250	-250	-250
Closing Balance	-655	-1,020	-1,020	-770	-899

5.2 In recent years the reserve has been used to provide extra funding for the improvements identified in the Safety Plan. Funding for future years is currently limited to the annual contribution but may be supplemented by any underspend for the current financial year. The position above assumes that the 2021/22 underspend is contributed to this reserve.

6. Capital Payments Reserve

6.1 This provides an essential resource for the capital programme and helps to reduce the need for borrowing. This is essential as no capital grant is now received from government and no bidding processes for capital have been announced. Regular contributions are now made to the reserve from the base budget, set at the amount required to fund the vehicle replacement programme with some additional resources used for other schemes.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Opening Balance	-25,782	-25,738	-9,502	-1,945	-79
Draws	5,009	20,274	11,522	5,831	3,994
Contributions	-4,965	-4,038	-3,965	-3,965	-3,965
Closing Balance	-25,738	-9,502	-1,945	-79	-50

6.2 There has been significant slippage in the vehicle replacement programme and the majority of this spend is now forecast to happen in 2022/23 and 2023/24. There have been unavoidable delays in the delivery of chassis from the supplier, however, agreement has been reached that from July 2022, two chassis a month will be delivered, so the vehicle programme has been reprofiled on that basis. The other main projects being funded from this reserve are Bishop's Waltham Fire Station (part of the Station Investment Programme) and the Live Fire training facility. Most costs for redevelopment of the other stations in the Station Investment Programme will be funded through Prudential Borrowing.

6.3 Over the period of the Programme most of the available funding in the Capital Payments Reserve is used up, which limits the flexibility available to commit to new capital investment priorities.

7. Equipment and ICT Reserves

7.1 Information and Communications Technology (ICT) and other equipment purchases are not often spread evenly across years. This makes it difficult to budget for replacement within the annual revenue budget. Reserves have therefore been set up for both ICT and other equipment to allow larger items to be purchased whilst retaining a constant contribution from the revenue budget.

Equipment	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Opening Balance	-797	-1,241	-46	-559	-1,303
Draws	506	2,210	502	217	204
Contributions	-950	-1,015	-1,015	-1,015	-1,015
Closing Balance	-1,241	-46	-559	-1,303	-2,114

ICT	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Opening Balance	-575	-293	-65	343	50
Draws	1,000	1,035	1,215	514	424
Contributions	-718	-807	-807	-807	-807
Closing Balance	-293	-65	343	50	-333

The contributions from the revenue budget have been increased to both reserves from 2022/23. This is to reflect the additional equipment and ICT required for the Isle of Wight.

8. Grant Equalisation Reserve

8.1 In October 2019 the results of the Hampshire Local Government Pension Scheme (LGPS) revaluation and de-grouping exercise were announced. The revaluation has indicated that the scheme is now almost 100% funded and therefore the annual deficit contribution is no longer required. Against this, there has been a small increase in the future service contribution rate for HIWFRS, leaving a net saving of around £625,000.

8.2 Given the uncertainty around all pension schemes and the fluctuating nature of all changes of this type, it was agreed at the December 2019 HFRA meeting that this saving should be transferred to reserves in the interim 3 year period to provide funding to protect against unexpected grant changes in the future. This retains the provision within the budget which will be reviewed once the results of the 2022 valuation are known and could be used at that point to protect against future swings in the pension scheme charges.

8.3 In the absence of a multi-year settlement, retaining this contribution to reserves for the present time is a prudent measure. It is currently forecast that in future years contributions from this reserve may be needed to balance the budget. When the medium term position becomes clearer the contributions to and planned use of this reserve can be reviewed.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Opening Balance	-625	-472	-1,097	-1,533	-1,377
Draws	153	0	189	781	0
Contributions	0	-625	-625	-625	0
Closing Balance	-472	-1,097	-1,533	-1,377	-1,377

Treasury Management Strategy and Investment Strategy 2022/23 to 2024/25

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 and Isle of Wight Fire and Rescue Authority has adopted the CIPFA Treasury Management Code. 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, including the Annual Investment Strategy for 2022/23, (and the remainder of 2021/22) is approved; and**

1.5. **That authority is delegated to the Chief Financial 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 Treasury Management Strategy Statement (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 ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-EU Exit, will be major influences on the Fire & Rescue Authority's treasury management strategy for 2022/23.

3.3. The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895bn. Within this announcement the Monetary Policy Committee (MPC) noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the BoE also considered the UK economy to be evolving in line with expectations, however due to the increased uncertainty and risk to activity that the new variant presents, the Bank revised down its estimates for Quarter 4 of 2021 Gross Domestic Product (GDP) growth. The BoE projects that inflation will be higher than previously forecast, with the Consumer Price Index (CPI) likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4%, but notes that Omicron could potentially weaken the demand for labour.

Credit outlook

3.4. Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. CDS prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.

3.5. The generally improved economic outlook during 2021 helped UK banks' profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

3.6. The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

3.7. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Fire & Rescue Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Fire & Rescue Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast

3.8. The Fire & Rescue Authority's treasury management adviser Arlingclose forecast that Bank Rate will continue to rise in Quarter 1 of 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

3.9. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets.

3.10. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

3.11. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

4. Balance Sheet Summary and Forecast

4.1. On 31 December 2021, the Fire & Rescue Authority held £7.1m of borrowing and £34.0m 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.

Table 1: Balance sheet summary and forecast

	31/03/21 Actual £m	**31/03/22 Estimate £m**	**31/03/23 Forecast £m**	**31/03/24 Forecast £m**	**31/03/25 Forecast £m**
Capital Funding Requirement pre IFRS 16	10.3	11.4	32.6	47.0	49.9
Add: impact of IFRS 16 - Leases	N/A	N/A	0.4	0.4	0.4
New Capital Funding Requirement	**10.3**	**11.4**	**33.0**	**47.4**	**50.3**
Less: Other debt liabilities*					
- Leases**	N/A	N/A	(0.4)	(0.4)	(0.4)
Loans CFR	**10.3**	**11.4**	**32.6**	**47.0**	**49.9**
Less: External borrowing***:					
- Public Works Loan Board	(7.1)	(6.7)	(5.9)	(5.6)	(5.2)
Total debt	**(7.1)**	**(6.7)**	**(5.9)**	**(5.6)**	**(5.2)**
Internal borrowing	**3.2**	**4.7**	**26.7**	**41.4**	**44.7**
Less: Balance sheet resources:					
- Allowance for working capital	6.3	6.3	6.3	6.3	6.3
- Usable reserves	(35.8)	(31.2)	(15.4)	(8.3)	(7.3)
New borrowing (or treasury investments)	**(26.3)**	**(20.2)**	**17.6**	**39.4**	**43.7**

* leases that form part of the Fire & Rescue Authority's debt

** IFRS 16 requires the Fire & Rescue Authority to change how it recognises its leases from 1 April 2022

*** shows only loans to which the Fire & Rescue Authority is committed and excludes optional refinancing.

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 its investments below their underlying levels, sometimes known as internal borrowing.

4.3. The Fire & Rescue Authority has an increasing CFR due to increased spending on the capital programme, but expects to be unable to fund this fully from its investment balances and therefore will be required to externally borrow over the forecast period. The increase in the Loans CFR is due to the major building works associated with the Station Investment Programme. The total CFR also includes the impact of the introduction of the new accounting standard for leases (IFRS 16) which changes the way the Authority accounts for leases but does not affect the overall revenue budget. The overall Capital Programme is detailed in Appendix C and shows that capital expenditure will predominantly be funded through borrowing and the use of reserves.

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 2022/23.

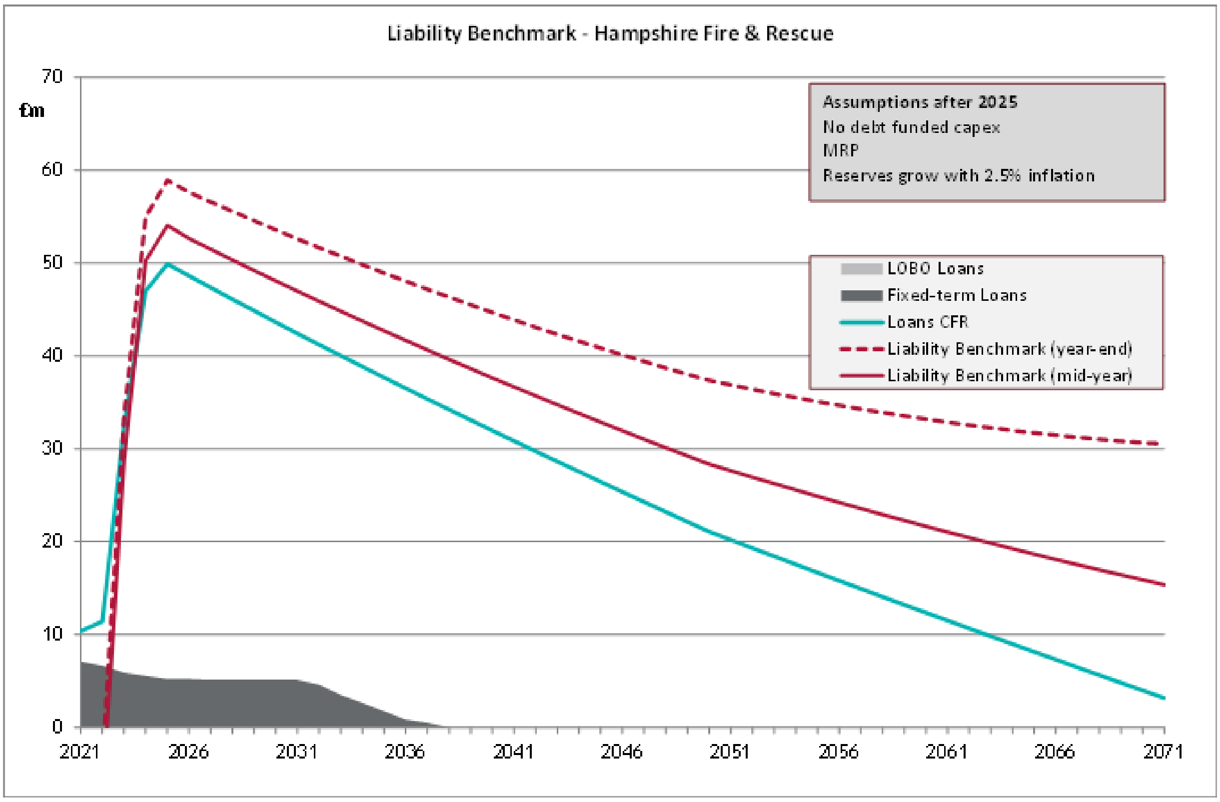
Liability benchmark

4.5. To compare the Fire & Rescue Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31/03/21 Actual £m	**31/03/22 Estimate £m**	**31/03/23 Forecast £m**	**31/03/24 Forecast £m**	**31/03/25 Forecast £m**
Loans CFR	10.3	11.4	32.6	47.0	49.9
Less: Balance sheet resources	(29.5)	(24.9)	(9.1)	(2.0)	(1.0)
Net loans requirement	**(19.2)**	**(13.5)**	**23.5**	**45.0**	**48.9**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**(9.2)**	**(3.5)**	**33.5**	**55.0**	**58.9**

4.6. At the start of the period, 31 March 2021, the Fire & Rescue Authority had a Loans CFR of £10.3m and a liability benchmark of -£9.2m. The difference of £3.2m between the CFR and external borrowing is internal borrowing which is where the Fire & Rescue Authority has used its own resources to fund its borrowing requirement.



4.7. The liability benchmark is the lowest level of debt the Fire & Rescue Authority could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The Fire & Rescue authority expects a negative liability benchmark across the first two years of the forecast period, which means that currently there is not a requirement to borrow during this period.

4.8. It is expected that during 2022/23 the CFR will rise as the balance sheet resources continue to drop which is expected to result in a positive liability benchmark as at 31 March 2023, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.

4.9. The Fire & Rescue Authority has existing borrowing of £5.9m at 31 March 2023, so therefore based on current estimates it is expected that there will be a further borrowing requirement of £27.6m in the year to 31 March 2023, with the net borrowing requirement further increasing to £53.7m by 31 March 2025. Therefore further borrowing will be considered by the Chief Financial Officer over the coming months, if required.

4.10. A limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon and so as time passes, the requirement to borrow may change and either may not be therefore the whole period or alternatively cash flow requirements that are not known about today may become present later which may require the Fire & Rescue Authority to take additional external borrowing in the future.

5. Borrowing Strategy

5.1. The Fire & Rescue Authority held £7.1m of loans as at 31 December 2021, which is £1.0m lower than the previous year, as part of its strategy for funding previous years' capital programmes. The reduction in borrowing balances of £1.0m reflects the repayment of maturing Public Works Loan Board (PWLB) debt, which has not been replaced. The balance sheet forecast in Table 1 shows that the Fire & Rescue Authority may decide to borrow in 2022/23 to fund capital programme requirements. The Fire & Rescue Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £42.9m.

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, 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, it is likely to be more cost effective in the short term to use internal resources where possible or to borrow short term loans to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.4. 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 and this will be used to help determine whether the Fire & Rescue Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.5. The Fire & Rescue Authority has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. New PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Fire & Rescue Authority intends to avoid this activity, and so will retain its access to PWLB loans.

5.6. The Fire & Rescue Authority may also arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.7. 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

5.8. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments
- 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 the 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

5.9. 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

Short-term and variable rate loans

5.10. 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 at Section 7 of this appendix.

Debt rescheduling

5.11. 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. Currently the cost of premiums charged by the PWLB for repaying loans prior to maturity outweighs the cost of repaying at maturity.

6. Treasury 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 treasury investment balance has ranged between £23.3m and £42.4m, however it is expected that balances will fall between now and 31 March 2023 as shown in Table 1.

6.2. The reduction in investment balances predicted are as a result of the planned funding of the transformation programme, as well as due to the normal pattern of expected income and expenditure whereby the largest balances are expected in August following the receipt of the annual pension grant in July. The reduction in balances will be lower than it otherwise would have been, as employer's LGPS pension contributions were paid in advance for the period to March 2023 by the Fire and Rescue Authority in April 2020.

Objectives

6.3. The CIPFA Code requires the Fire & Rescue Authority to invest its treasury 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

6.4. The Covid-19 pandemic increased the risk that the Bank of England would set its Bank Rate at or below zero, which would likely to have fed through to negative interest rates on all low risk, short-term investment options, and in some instances negative interest rates were being seen. As the Bank of England has started to raise Bank Rate this eventuality is now not an immediate concern, however in the event of negative rates, since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. 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

6.5. Given the increasing risk and very low returns from short-term unsecured bank investments, the Fire and Rescue Authority aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

6.6. Approximately 57% of the Fire & Rescue Authority's investment balances as at 31 December 2021 was invested so that it was not subject to bail-in risk, as it was invested in Government investments, pooled property, equity and multi-asset funds, and secured bank bonds. Of the 43% of investment balances subject to bail-in risk, 50% was held in overnight money market funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, 19% was held in overnight bank call accounts for liquidity purposes. In addition 24% was held in short term bank notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 100-day maximum recommended by Arlingclose and the remainder was invested in short term certificates of deposit which are saleable.

6.7. Unfortunately, the availability of appropriate longer term investment opportunities has been reduced in comparison to previous years due to an uncertain economic market, very low interest rates and the local authority market has been much reduced due to the amount of funding that has been supplied to the sector from Central Government in relation to the pandemic.

6.8. The Fire & Rescue Authority made a payment of £3.94m on 1 April 2020 to prepay its employer's LGPS pension contributions for three years. By making this payment in advance the Fire & Rescue Authority was able to generate an estimated saving of £0.26m over the period on its pension contributions.

6.9. Further detail is provided at Annex B. This diversification represents a continuation of the strategy adopted in 2015/16.

Business models

6.10. Under the new IFRS 9 standard, the accounting for certain investments depends on the ‘business model’ for managing them. The Fire & Rescue Authority aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Investments targeting higher returns

6.11. In order to minimise the risk of receiving unsuitably low investment income, the Fire and Rescue Authority has continued to invest a proportion of steady core balances in externally managed pooled funds, investing in pooled property, equity and multi-asset funds, as part of its higher yielding strategy. This allows diversification into asset classes other than cash without the need to own and manage the underlying assets.

6.12. The funds operate on a variable net asset value (VNAV) basis and offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer the potential for enhanced returns over the longer term but are likely to be 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.

6.13. The CIPFA Code requires the Fire and Rescue Authority to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the Fire and Rescue Authority’s investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the Fire and Rescue Authority’s investments.

6.14. The Fire and Rescue Authority’s investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. This recovery means these investments are now worth more in aggregate than the initial sums invested, as shown in Table 3, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the Fire and Rescue Authority is not a forced seller at the bottom of the market.

Table 3: Higher yielding investments - market value performance

	Amount invested	Market value at 31/12/2021	Gain/fall in capital value Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	3.25	3.50	0.25	0.38
Pooled equity funds	2.00	2.24	0.24	0.29
Multi-asset funds	1.75	1.78	0.03	0.08
Total	**7.00**	**7.52**	**0.52**	**0.75**

6.15. Money can usually be redeemed from pooled funds at short notice however these investments must be viewed as long-term investments from core balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the Fire and Rescue Authority will not be a forced seller and will not crystalise capital losses.

6.16. The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

6.17. The Fire and Rescue Authority's long-term investments in pooled funds are expected to bring benefits to the revenue budget through higher yields than can be achieved on cash investments. As shown in Table 4, without the allocation to pooled funds the weighted average return of the Fire & Rescue Authority's cash investments would have been 0.09% pa. By investing in pooled funds, the weighted average return at 31 December 2021 was 1.01% pa, meaning the allocation to higher yielding investments has added 0.92% pa to the average interest rate earned by the remainder of the portfolio.

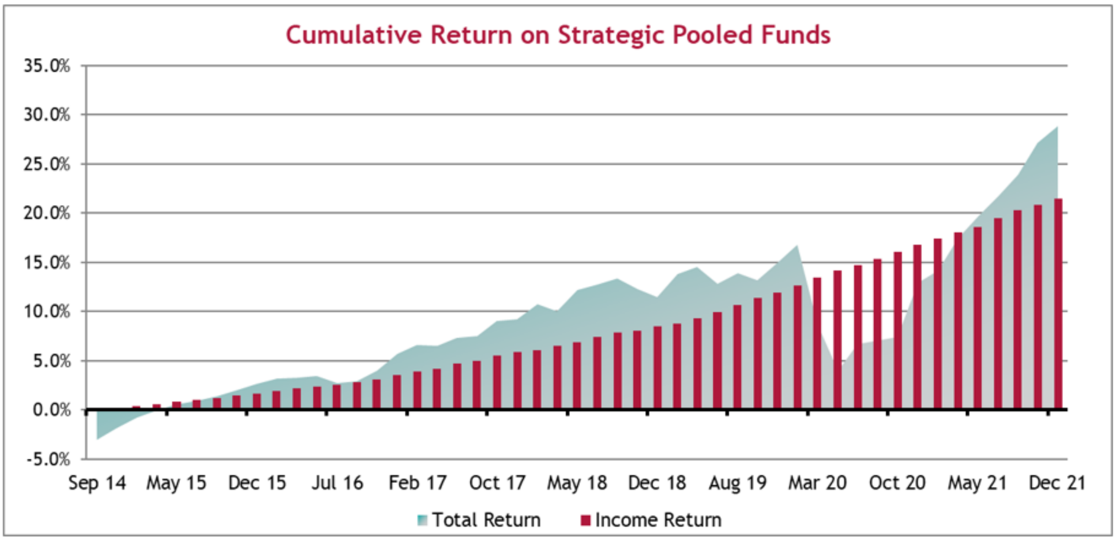
6.18. This benefit to the revenue budget is demonstrated indicatively in Table 4, using cash balances and average returns at 31 December 2021. It should be noted however that this is a snapshot at a particular point in time and balances and returns do not remain constant over the course of a year. The Fire and Rescue Authority has taken a prudent approach in forecasting its income from pooled funds for 2022/23 and has been advised by Arlingclose on this.

Table 4: Estimated annual income returns

	Cash balance at 31/12/2021	Weighted average return	Estimated annual income return
	£m	%	£m
Short-term and long-term cash investments	27.0	0.09	0.02
Investments targeting higher yields	7.0	4.58	0.32
Total	**34.0**	**1.01**	**0.34**

6.19. The performance of these investments and their suitability in meeting the Fire & Rescue Authority's investment objectives are monitored regularly and discussed with Arlingclose.

6.20. The cumulative total return from the Fire & Rescue Authority's investments in pooled equity, property and multi-asset funds since purchase is shown in the graph below. This highlights that despite volatility in the capital value of the funds over 2021, these pooled funds have delivered strong and steady income returns and a positive capital increase to date.



Investment limits

6.21. The maximum that will be lent to any one organisation (other than the UK Government) will be £6m, which is an increase in comparison to the previous TMSS due to the possibility of temporarily increased investment balances. Although over the longer term it is expected that the Fire & Rescue Authority's cash balances will reduce and new external borrowing will need to be taken, due to world supply issues the delivery of elements of the agreed capital programme has been delayed, which may result in raised investment balances for a short time. In addition, the opportunity for the Fire & Rescue Authority to potentially take advantage of low interest rates when borrowing could mean that the Authority could borrow slightly in advance of expenditure, which may also result in raised investment balances for a short time.

Increased limits allow the flexibility to ensure that all of the Fire & Rescue Authority's cash can be invested in accordance with this TMSS.

6.22. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 5.

Table 5: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£6m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£12m per manager

Approved counterparties

6.23. The Fire & Rescue Authority may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown.

Table 6: Sector and counterparty limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£6m	Unlimited
Secured investments *	25 years	£6m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£6m
Registered providers (unsecured) *	5 years	£3m	£6m
Money market funds *	n/a	£6m	Unlimited
Strategic pooled funds	n/a	£6m	£24m
Real estate investment trusts	n/a	£3m	£6m
Other investments *	5 years	£3m	£6m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

6.24. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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 known factors including external advice will be taken into account.

6.25. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government

6.26. 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 Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

Secured investments

6.27. Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured)

6.28. 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.

Registered providers (unsecured)

6.29. 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 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.

Money market funds

6.30. Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Fire &

Rescue Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

6.31. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the Fire & Rescue Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic 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)

6.32. 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.

Other investments

6.33. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Fire & Rescue Authority's investment at risk.

Operational bank accounts

6.34. The Fire & Rescue Authority may incur operational exposures, for example though 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

6.35. 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.

6.36. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) 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

6.37. 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.

6.38. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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 likely lead to investment returns falling but will protect the principal sum invested.

Liquidity management

6.39. 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, capital payments, 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.

6.40. The Fire & Rescue Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Fire & Rescue Authority will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

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 Fire & Rescue Authority's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 7: Interest rate risk indicator

	31 December 2021 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	34.0	+/-0.3
Borrowing	(0.0)	+/-0.0

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 8: Refinancing rate risk indicator

	Upper	Lower
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 9: Price risk indicator

	2022/23	2023/24	2024/25
Limit on principal invested beyond a year	£12m	£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

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 Advisers

8.2. Arlingclose Limited is appointed as treasury management advisers and provides specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Operations' staff and Arlingclose.

Markets in Financial Instruments Directive

8.3. The Fire & Rescue Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without 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 Financial Officer believes this to be the most appropriate status.

9. Financial Implications

9.1. The budget for investment income in 2022/23 is £0.21m, whilst the budget for debt interest paid in 2022/23 is £0.82m, which is based on the expected expected fixed interest costs of the current debt portfolio. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

10. Other Options Considered

10.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 10.

Table 10: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2021

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official Gross Domestic Product (GDP) data indicates that growth was weakening into Quarter 4 of 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The Consumer Price Index (CPI) rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the Monetary Policy Committee (MPC) to raise Bank Rate to 0.25% at the December 2021 meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – activity for Quarter 4 of 2021 and Quarter 1 of 2022 could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the Bank of England (BoE) and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Quarter 1 of 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.

- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 31 December 2021

Treasury investment position

Investments	30/09/2021 Balance £m	Net movement £m	31/12/2021 Balance £m	31/12/2021 Income return %	31/12/2021 Weighted average maturity (years)
Short term investments					
Banks and building societies:					
- Unsecured	7.33	(0.01)	7.32	0.06	0.07
- Secured	5.00	2.00	7.00	0.10	0.39
Government:					
- DMADF	3.00	(1.50)	1.50	0.07	0.34
- Treasury Bills	-	1.00	1.00	0.20	0.34
- Local authorities	2.00	-	2.00	0.09	0.31
Money Market Funds	13.15	(5.97)	7.18	0.05	0.01
	30.48	**(4.48)**	**26.00**	**0.08**	**0.18**
Long term investments					
Banks and building societies:					
- Secured	2.00	(1.00)	1.00	0.43	1.28
	2.00	**(1.00)**	**1.00**	**0.43**	**1.28**
Long term investments - higher yielding strategy					
Pooled funds:					
- Pooled property*	3.25	-	3.25	3.97	N/A
- Pooled equity*	2.00	-	2.00	5.72	N/A
- Pooled multi-asset*	1.75	-	1.75	4.43	N/A
	7.00	**-**	**7.00**	**4.58**	**N/A**
TOTAL INVESTMENTS	**39.48**	**(5.48)**	**34.00**	**1.01**	**0.23**

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2021 based on the market value of investments 12 months earlier.

Treasury management position

	31/12/2021 Balance £m	31/12/2021 Rate %
External Borrowing - PWLB	(7.10)	(4.68)
Investments - Total Investments	34.00	1.01
NET INVESTMENTS	**26.90**	

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Capital and Investment Strategy 2022/23 to 2024/25

1. Introduction

1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing, and treasury management and investment 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.

1.2 This Strategy covers:

- Governance arrangements for capital investment
- Capital expenditure forecasts and financing
- Prudential indicators for capital expenditure, external debt and affordability
- Minimum Revenue Provision (MRP) statement
- Treasury Management definition and governance arrangements
- Pooled fund investments
- Utilising property assets
- Opportunities to work with partners and contractors to generate a return
- Knowledge and skills
- Chief Financial Officer's conclusion on the affordability and risk associated with the Capital and Investment Strategy
- Links to the statutory guidance and other information

2. Governance

2.1 The Authority's Medium Term Financial Plan (MTFP) ensures that it continues to invest wisely in existing assets and the delivery of a programme of new ones in line with overall priorities and need. Capital investment priorities are kept under review by the Executive Team, chaired by the Chief Fire Officer. Identified priorities are reported to the Authority and the capital programme is presented to the Authority in February each year. Any in year changes must be reported to the Authority and approval obtained for any increases to the plans.

2.2 The Authority is aware of the need for a sustained reduction in its impact on the environment. This is partly driven by the Government Climate Change Act but is predominantly due to the need to protect local communities and reduce the consequences of inaction, given that the Fire and Rescue Service acts as a first responder to extreme weather events. The Carbon Reduction Pathway was approved by the Authority in July 2021, setting the strategic direction for alignment with the UK National Target of being Net Zero by 2050. Key opportunities for carbon reduction relate to the electrification of the fleet; building fabric and heating works within the estate; carbon reduction by design; and behavioural change and staff engagement.

3. Capital Expenditure and Financing

3.1 Capital expenditure is spending by the Authority on assets that will be used for more than one year, such as land, property or vehicles. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance 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 considered in determining the funding available for the capital programme.

3.3 Capital expenditure may be funded from capital receipts, capital grants and contributions from other bodies. It may also be funded directly from revenue and the Authority makes a regular annual contribution to capital from the revenue budget. General pressures on the Authority’s revenue budget and council tax levels, however, limit the extent to which this can be used as a source of capital funding.

3.4 Prudential borrowing provides another option for funding additional capital development and the Authority has agreed to use this source of funding for the Station Investment Programme. Prudential borrowing results in ongoing revenue costs and given anticipated future pressures on the revenue budget, the Authority will only use prudential borrowing where there are clear service or financial benefits. The Authority will not borrow to invest primarily for financial return.

3.5 Expenditure flows in 2021/22 and the following three years will result from works in progress (schemes started in 2021/22 and earlier years) plus those arising from the proposed programme for 2022/23 to 2024/25. Estimated capital expenditure flows are shown in Table 1:

Table 1: Estimates of capital expenditure (Prudential Indicator 1)

	2021/22 £’000	**2022/23 £’000**	**2023/24 £’000**	**2024/25 £’000**
Estimates of capital expenditure flows	3,743	41,893	26,752	12,101

3.6 The most significant elements of the Authority’s capital programme relate to the Station Investment Programme, other developments to the estate, and the investment in vehicles. Further details can be found in Appendix C to the Budget and Precept report.

3.7 All capital expenditure must be financed, either from external sources, the Authority's own resources, or debt. Debt is only a temporary source of funding and is replaced over time by other financing, usually from revenue through annual Minimum Revenue Provision (MRP) charges. External debt will also incur interest costs. The Authority's borrowing strategy is summarised in Section 6 and forms part of its Treasury Management Strategy.

3.8 The resources to fund the capital expenditure flows set out in Table 1 are shown in Table 2.

Table 2 - Resources to Fund Capital Expenditure

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Prudential borrowing	1,500	21,619	15,230	5,920
Capital receipts	0	0	0	350
Contributions from other bodies	100	0	0	0
New Resources in the Year	**1,600**	**21,619**	**15,230**	**6,270**
Draw From / (Contribution to) the Capital Payments Reserve:	2,143	20,274	11,522	5,831
Total Resources Available	**3,743**	**41,893**	**26,752**	**12,101**

3.9 In addition to the draws from the Capital Payments Reserve above, there are forecast further draws to fund major revenue investments of £2.866m in 2021/22.

4. Prudential Indicators

4.1 The Authority is required to set and monitor against Prudential Indicators in accordance with the Prudential Code. These indicators cover capital expenditure, external debt and affordability and are presented in Tables 1, 3, 4 and 5. Further indicators on treasury management are contained within the Treasury Management Strategy.

4.2 The Authority's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts used to replace debt.

4.3 In order to ensure that over the medium term debt will only be for capital purposes, 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 and is shown in Table 3.

Table 3: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	31/03/22 Revised £M	31/03/23 Estimate £M	31/03/24 Estimate £M	31/03/25 Estimate £M
CFR	**11.4**	**33.0**	**47.4**	**50.3**
External debt				
Borrowing	6.7	29.0	43.9	47.6
Lease Liabilities	n/a	0.4	0.4	0.4
Total external debt	**6.7**	**29.4**	**44.3**	**48.0**

4.4 Total external debt is expected to remain below the CFR during the forecast period. The estimates for CFR and external debt reflect the introduction of IFRS 16 (the new accounting standard for leases) from April 2022.

4.5 External debt is expected to remain below the CFR because of the Authority's borrowing strategy, whereby it has used internal borrowing (the use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources on the advice of its treasury management advisors Arlingclose. The Authority is expecting to undertake new external borrowing in future to fund the Station Investment Programme and the forecasts in Table 3 assume new external borrowing from 2022/23 onwards for those projects to be funded by borrowing. The timing and source of actual borrowing will be determined in line with the Authority's borrowing strategy within its Treasury Management Strategy.

Affordable Borrowing Limit

4.6 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 the 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 (Prudential Indicators 3 and 4)

	2021/22 Revised £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M
Authorised Limit:				
Borrowing	21.7	42.9	57.3	60.2
Leases	5.0	5.4	5.4	5.4
Authorised Limit	**26.7**	**48.3**	**62.7**	**65.6**
Operational boundary:				
Borrowing	16.6	37.8	52.1	55.0
Leases	5.0	5.4	5.4	5.4
Operational Boundary	**21.6**	**43.2**	**57.5**	**60.4**

Ratio of Financing Costs to Net Revenue Stream

4.7 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue (in aggregate known as financing costs). It is important that the revenue implications of capital projects are closely controlled and monitored. Any decision to take out new borrowing to fund capital expenditure is considered and approved by the full Authority and includes an assessment of the impact and affordability on the revenue budget.

4.8 Table 5 shows estimated financing costs for the existing and proposed capital programme. It identifies the proportion of the Authority’s net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the Authority’s capital programme.

Table 5: Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 5)

	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio	1.1%	1.8%	2.9%	3.4%

4.9 A low proportion is forecast, demonstrating that the cost of financing is minimised and the proportion of the revenue budget available for delivering services is maximised. The estimated increase through to 2024/25 is the result of projected additional prudential borrowing related to the Station Investment Programme.

5. Minimum Revenue Provision (MRP) Statement

5.1 Where the Authority finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. The Local Government Act 2003 requires the Authority to have regard to proper practice issued by Government. The Department for Levelling Up, Housing and Communities is currently consulting on proposed changes to the relevant regulations to ensure that all authorities make adequate revenue provision. Until that is concluded, the relevant guidance is that issued by the (former) Ministry of Housing Communities and Local Government (MHCLG) in 2018.

5.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefit 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 guidance requires the Authority to approve an Annual MRP Statement each year, and whilst it provides a range of options for the calculation of MRP, the guidance also notes that other options are permissible provided that they are fully consistent with the statutory duty to make prudent revenue provision.

5.4 The four provided options are:

- Option 1: Regulatory Method
- Option 2: CFR Method (4% of the CFR)
- Option 3: Asset Life Method
- Option 4: Depreciation Method

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

5.6 The Authority will continue to apply Option 2 in respect of supported capital expenditure funded from borrowing with an MRP charge equal to 4% of the CFR balance in respect of that expenditure.

5.7 The Authority will continue to apply Option 3 in respect of unsupported capital expenditure funded from borrowing by charging MRP over the expected useful life of the relevant asset in equal instalments.

5.8 For assets acquired by leases, MRP will be determined to be equal to the element of the rent or charge that goes to write down the balance sheet liability.

5.9 The adoption of the accounting standard for leases (IFRS 16) means former operating leases have been brought onto the balance sheet on 1 April 2022. Where this is the case annual MRP charges will be set so that the total charge to revenue remains unaffected by the new accounting standard.

5.10 Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24.

5.11 Based on the Authority's latest estimate of its CFR on 31 March 2022 and the impact of the new accounting standard for leases, the budget for MRP has been set as follows:

Table 6: MRP Budget

	31/03/2022 Estimated CFR £'000	**2022/23 Estimated MRP £'000**
Supported Capital Expenditure	9,803	392
Unsupported Capital Expenditure After 31/03/2008	1,622	33
Leases	0	7
Total General Fund	**11,425**	**433**

6. Treasury Management

6.1. 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.

6.2. The Authority has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's Treasury Management Strategy (TMS).

6.3. The 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 Authority's long-term plans change, is a secondary objective.

6.4. The 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. It therefore invests its funds prudently and has regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

6.5. The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

6.6. The Authority's TMS, included as Appendix E to this report, is and approved by the Authority each year. Actual performance is reviewed by the Authority at mid-year and the end of each financial year.

7. Pooled Fund investments

7.1. The Authority holds reserves for a number of purposes, which are explained in more detail in the Reserves Strategy (Appendix D). Where the Authority holds surplus cash, it is invested until it is required, in accordance with the Authority's Treasury Management Strategy. This includes allocating a proportion to investments in pooled funds and the Authority has made investments totalling £7m into pooled property, equity, and multi-asset funds.

7.2. These investments help the Authority to mitigate interest rate and inflation risks as part of its treasury management strategy. They also present a number of risks which must be carefully managed, including the risk of loss of capital, illiquidity, entry and exit fees, and volatility of returns.

7.3. The principal 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 Authority's most stable cash balances. The allocation of £7m forms part of the Authority's forecast future minimum balance.

7.4. The selection of investments in pooled funds is carefully managed with the assistance of Arlingclose, the Authority's treasury management advisor, who recommend that the Authority diversifies its investments in pooled funds between asset classes. This is 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.

7.5. The 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 investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building.

8. Utilising property assets

8.1. The Authority primarily uses its property estate for the delivery of frontline services, with asset management conducted by the Property and Facilities team within the Corporate Services directorate.

8.2. Where practical and without having an operational impact, the Authority will look to use property assets to reduce the annual revenue cost of the estate and to maximise the potential for income generation, for example through the use of vacant space.

9. Opportunities to work with partners and contractors to generate a return

9.1. 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 by sharing buildings.

10. Knowledge and skills

10.1. Through the Hampshire Shared Services Partnership, the Authority is advised by professionally qualified and experienced staff in senior positions supporting 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.

10.2. Staff attend training courses, seminars and conferences provided by the Chartered Institute of Public Finance and Accountancy (CIPFA), Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

10.3. 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 2021, which gave an update of treasury matters. A further Arlingclose workshop has been planned for 2022.

Investment Advisers

10.4. As part of the Hampshire Shared Services Partnership, Hampshire 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 Director of Corporate Operations for Hampshire County Council, their staff and Arlingclose.

11. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy

11.1. This Capital and Investment Strategy has been developed alongside the TMS (Appendix E) and the Reserves Strategy (Appendix D). 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.

11.2. The forward planning of capital investment and its 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 around the forward capital programme.

11.3. The Station Investment Programme significantly increases prudential borrowing and brings with it associated annual revenue costs over the longer term. The Authority and Service are aware of the impact of this new borrowing and it has been taken into account in setting the Medium Term Financial Plan alongside the revenue budget for 2022/23 and the forward capital programme.

11.4. The Chief Financial Officer has concluded that the 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:

- Ministry of Housing, Communities & Local Government (MHCLG) - Local Government Investment* MHCLG Investment.
- CIPFA's Prudential Code
- CIPFA's Treasury Management Code

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

12.2. The Authority includes its non-treasury management Investment Strategy within this Capital Strategy. The TMS is a separate document reported to the Fire Authority (Appendix E).

12.3. The CIPFA Prudential Code was revised in December 2021 to reflect developments since it was last updated in 2017 and became applicable with immediate effect, however an exception was made to allow the deferral of revised reporting requirements until 2023/24. The revised reporting requirements relate to the capital strategy, prudential indicators and investment reporting. The Treasury Management Code was also revised at the same time.

12.4. The proposed Capital Programme is included at Appendix C within this report.

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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 continued lack of a multi-year settlement, this report considers not only the short term position but also the position beyond 2022/23.

Robustness of Estimates in the Budget

The budget setting process within the Fire 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. For the 2022/23 process, necessary increases to budgets resulting from delivery pressures were identified and robustly challenged by the Executive Group, before being presented to the Fire Authority for initial approval. These pressures are a mixture of strengthening resources in key areas and ensuring that reserve contributions are sufficient to allow for the timely refresh of assets.

The Executive Group also considered the ability of the service to deliver efficiencies, to manage the budget gap and ensure value for money in service delivery. The phasing of these plans has subsequently been reconsidered to ensure that they can be delivered to time while balancing other service pressures. Achievement of these efficiencies will be monitored by Executive Group and reported to the Authority during the next financial year. The rephasing ensures that the efficiency estimates within the budgets are robust and achievable.

Inflation rates are currently significantly higher than they have been for several years and some categories, such as energy costs, are even higher. Price rises are also affecting the capital programme. Inflation at “normal” levels has been allocated to service areas with a central contingency retained for responding to exceptional price rises.

At the end of September 2021 we received the formal audit opinion for 2020/21, which gave an unqualified opinion for the accounts and a positive conclusion for the value for money assessment.

As Chief Financial Officer for the Authority I have a close involvement in 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 2022/23

The biggest financial risks relate to the uncertain medium term financial position of the Authority and the risk that Government funding may reduce. In addition, pay and price inflation remain significant risks to the financial position of the Authority. Although the immediate financial risk presented by Covid-19 has reduced, the risk of the impact of further waves and the medium term economic impact remain.

a) **Government Funding and Policy.** The provisional local government settlement was announced in December 2021 and included a small ongoing increase and a more significant one-off increase in the funding for Fire Authorities. This is reflected in this report and was slightly better than had been included in the December Budget Update report.

   Any other significant changes in year would need to be covered by contingencies or general balances, but generally grants do not change once the settlement has been announced, so for this year this is not an area of concern.

b) **Council Tax.** The Government have granted additional flexibilities to the eight Fire Authorities with the lowest council tax rates. An increase of the maximum amount (£5 or 7.10%) is recommended. This increase allows continued investment in assets and the inclusion of a prudent level of contingency. Along with the efficiencies being delivered it allows the budget gap to be closed, leaving only a modest gap in future years based on prudent assumptions about future costs and funding.

   Were the opportunity to raise Council Tax by £5 not taken, it would be necessary to explore options for savings, including potential service reductions.

c) **Pay and Price Risk. This** risk is greater than normal as price inflation has increased significantly in recent months. A specific price inflation contingency has been built into the budget to mitigate this risk. Budgets for estimated green and grey book pay awards for next financial year have been built into the budget. If pay awards exceed assumed amounts then this will become a pressure on the revenue budget. Price inflation is also impacting on the capital programme. To respond to these greater risks, an additional contingency of £0.5m has been included within the budget.

   In light of these mitigations it would take a major departure from the Authority's assumptions to create a financial problem that we could not deal with.

d) **Treasury Risk.** ~The Authority has limited exposure to interest rate risk as most long term borrowing is undertaken on a fixed rate basis. As a result of the significant prudential borrowing required for the Station Investment

Programme, the Authority will need to start borrowing externally. Decisions on when best to take out this borrowing will need to be considered to limit the ongoing revenue liabilities that this will create.

Sufficient allowances for the costs of this additional borrowing have been built into the budget for the coming year.

On the investment 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 most of the medium term investments are in projects that should return a stable income yield each year.

There is a further risk relating to the fact that negative interest rates are now a feature of the financial markets but the treasury management strategy has been amended to cover this risk. In any event the relative level of investment returns compared to the overall budget make this a very minimal risk.

e) **Covid-19.** The financial impact of the Covid-19 pandemic on the Authority has been limited, with additional costs currently covered by grant funding. Grant funding is now largely exhausted so there is a risk that further costs may need to be covered from existing resources. However, indications are currently that the costs of further support to partners will be covered either by the partner or by additional grant.

At the time of writing, Council Tax income has held up although Business Rate income is still based on estimates as billing authorities have not yet provided full information. The full economic impact of the pandemic is not yet clear so this remains a concern for future years.

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 2.87% of net expenditure at the beginning of 2022/23 and it is considered that this remains a comfortable level. It is worth noting that the authority has never needed to dip into its general fund balance.

The Authority has two 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 accumulation of funds to be used for the Vehicle Replacement Programme which has experienced delays over recent years.

The Transformation Reserve receives regular one off contributions from underspends in the year as well as a regular contribution built into the base budget and is used to pay for transformation and change that achieves further savings and efficiencies.

More recently the Authority has also set up reserves in respect of equipment and ICT replacement in order to provide funding for and to smooth the impact of high cost replacement and refresh in these areas. This change only further strengthens the Authorities financial resilience.

Similarly, following savings arising from the pension contributions towards past deficits in the Hampshire Local Government Pension Scheme Pension Fund, a contribution of £625,000 per annum is being put into a Grant Equalisation Reserve. This was used to balance the budget in 2021/22 and there is a planned use of this reserve to balance the budget in future years as set out in the MTFP.

As outlined elsewhere in this report, despite the uncertain financial position in the medium term, the Authority is well placed to mitigate the risks that this creates due to the high level of revenue contributions built into the base budget (currently nearly £6.7m).

Budget 2022/23 – Conclusion

Provided that the Authority considers the above factors and accepts the budget recommendations, especially the recommendation to increase Council Tax by the proposed maximum allowable amount, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2022/23.

The Position Beyond 2022/23

Given the announcement of a further one year spending round for 2022/23 the Authority is still in the position of not knowing what its financial prospects are beyond a one year planning horizon.

We still await the outcome of the Fair Funding Review and the decision about any potential revision of the Fire funding formula. It is not known what the impact of these may be on resource levels and distribution methodology is going forward. The ongoing economic impact of the Covid-19 pandemic and impact of this on the public finances is still unclear.

Efficiencies have been planned as part of the budget setting for 2022/23 and the MTFP. Further efficiencies are likely to be required in the medium term.

Whilst there are risks within the Medium Term Financial Plan these have been mitigated as far as possible and it would take a significant change in the funding regime to create a scenario which the Authority could not cope with.

Rob Carr
Chief Financial Officer
1 February 2022

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HIWFRA Full Authority

Purpose: Approval

Date: **15 FEBRUARY 2022**

Title: **ISLAND ESTATE INVESTMENT (YEAR 2)**

Report of Chief Fire Officer

SUMMARY

1. Following the approval of £1.1 million investment in the island estate by the Hampshire & Isle of Wight Fire Authority (HIWFRA) in September 2020, this report seeks further funding of £1.7 million to deliver the second year of priority estate improvement works in the 2022/23 financial year.

2. This funding will meet the criteria set out by the estate asset management plan to provide all our people with ***'safe, secure and sealed buildings... meeting all HSE & building regulations criteria for an occupied building'*** in line with the Corporate Services Strategic Plan 2020-25 which stipulates that our estate will be fit for continued operational use in line with the Service Safety Plan 2020-25.

BACKGROUND

3. Estate condition surveys were commissioned in 2018 to understand the physical condition of the built environment on the island.

4. These surveys provided a snapshot of the condition of the island estate and recommended investment areas for the next ten years to maintain statutory compliance, functionality of components and address health and safety within buildings.

5. The calculation of the Alternative Notional Amount demonstrates the challenges faced by the Isle of Wight Council (IWC) in supporting the island estate to the same level as mainland comparators whilst at the same time being challenged to fund other key statutory services such as those for children, adult social care and homelessness. The improvement of the Isle of Wight estate was also flagged as a key issue within the business case

that was submitted to and approved by Government for the Combined Fire Authority (CFA).

6. The physical condition of fire service buildings on the island are considerably below the standard of those on the mainland. As with many public organisations, including Hampshire & Isle of Wight Fire & Rescue Service (HIWFRS), the IWC risk assesses its estate condition to prioritise investment. Given the variety and profile of the IWC building stock, this has resulted in several years where fire service buildings have not been the priority.

7. This inability for direct investment over several years has led to a reduction in the standard of the physical built environment from which the fire service operates. Having now delivered the first year of investment, key issues have been addressed, but the overall condition remains below the standard of the mainland estate.

8. In September 2018, the Fire Authority approved five Estate Design Principles as part of the Estates Strategy. Since the combination of the Hampshire and Isle of Wight services, these Design Principles are now being adopted across the island estate, with all estate investment works helping achieve these principles, which are:

   (a) Support Core Service functionality

   - Our estate will be located strategically to provide efficient operational mobilisation and specialist training facilities. Our buildings will provide flexible/drop in office space for all our staff to utilise.

   (b) Enable Partnerships and Income Generation

   - Our estate will support and enable partnership working with blue light, local authority, charity and commercial partners while providing opportunity to generate income for the Service.

   (c) Provide a Healthy and Inclusive Workplace

   - Our estate will support the health and wellbeing of our people by providing clean and safe zoning to manage fireground contamination risk, inclusive rest and wellbeing spaces and by supporting a diverse workforce with the provision of gender neutral and individualised welfare facilities.

(d) Physically Secure

- Our estate will be physically secure by design while supporting community use and engagement with accessible and flexible spaces.

(e) Simple, Robust and Sustainable

- Our estate will be efficiently managed, developed and maintained using simple, robust yet sustainable construction technologies, materials and finishes. Our buildings will be as energy efficient as possible and will embed fire safety and carbon reduction technology.

9. A comprehensive list of priority remedial and building project work has been identified based on the condition surveys and a gap analysis of the Design Principles.

10. As outlined in the September 2020 report, these project works have been prioritised over a four-year period, with the most urgent works having been delivered in year one. Upon further assessment of the condition of the estate during 2021, along with a better understanding of the condition of the buildings since taking ownership in April 2021, this programme now seeks funding approval for the year two asset upgrades.

11. As with the paper submitted for the year one investment, any further investment needs will be brought to the Fire Authority for consideration at a later date.

12. The works identified will support and align with the recently approved Authority Carbon Reduction Pathway which commits the organisation to reduce carbon emissions across our estate and be net zero by 2050.

<u>SUPPORTING OUR SAFETY PLAN AND PRIORITIES</u>

13. ***Public Value:*** *We plan over the longer term to ensure our decisions and actions deliver efficient and effective public services.*

    (a) Targeting investment in the HIWFRA estate will reduce reactive maintenance burden of the estate, reactively managing the estate will cost more in the long term and is not an efficient approach to estate management. Equally, the approach outlined within this report will allow economies of scale by bundling works together, ultimately reducing the overall cost.

14. ***Our People:*** *We look after each other by creating great places to work and promoting the health, wellbeing and safety of our people*.

(a) Whilst targeting investment in the HIWFRA estate and aligning works to our Design Principles, we hope to achieve a positive impact for our people and building users, contributing to the Service being a forward thinking and great place to work.

COLLABORATION

15. Currently, across our island fire stations there are existing partnerships in place which align with HIWFRS strategic priorities, driving multi-agency working ‘hubs’ whilst providing valuable income generation to the Service.

16. The fire stations on the island have potential to attract further partnership agencies, given that the estate is mainly a retained estate with large lecture rooms and multi-use spaces. However, in their current condition they would not attract the required occupation interest and income that the sites on the mainland do.

17. Making the buildings more robust and sustainable, improving the physical appearance and evidencing key investment over all sites will increase partner and community interest in the estate, allowing the Service to increase site usage and income to the organisation not only to our external communities but by winning over the hearts and minds of island-based teams.

PROGRESS OF ESTATE WORKS ON THE ISLAND

18. Following the approval by the Authority for the year one works, several projects have now been successfully delivered across the island. These projects have met our Design Principles and Carbon Reduction strategy:

    (a) Newport has had asbestos walls removed and new appliance bay doors installed to the workshops. This has removed two potential health and safety risks to staff.

    (b) Newport, East Cowes, Ryde, Bembridge, Shanklin, Ventnor, Freshwater & Yarmouth have all received fire alarm system upgrades which are now fully integrated with our alarm monitored system, supporting early indication of fires on site.

    (c) All ten sites on the island have had local vehicle extract ventilation (LEV) systems installed for appliance bay contamination control.

    (d) Newport & Ryde have had power generators replaced to improve resilience.

(e) Shanklin, Ventnor & Yarmouth have had pedestrian doors and windows replaced, increasing security and the thermal efficiency of the sites.

(f) Sandown, Shanklin & Yarmouth have had roof replacements to prevent historic water ingress to the buildings. This has improved building infrastructure, thermal efficiency and protects the fabric of the building long term.

(g) In addition to this, Yarmouth has had an upgraded kitchenette and carpeted lecture room as the site has been requested by the Coast Guard to occupy, this in turn will increase our income generation.

<u>PROPOSED NEXT PHASE OF ESTATE WORKS ON THE ISLAND</u>

19. Should approval be given to the next phase of investment, the following works have been allocated to be delivered next year to further support our island stations:

(a) **All Sites,** electrical infrastructure upgrades to replace obsolete and failing incoming electrical distribution equipment, modernise the systems and prepare for the future with 25% additional capacity added to main low voltage distribution boards.

(b) **Shanklin,** appliance bay door upgrade to improve security and support Carbon Reduction Pathway by improving thermal efficiency.

(c) **All Sites,** topographical and drainage surveys, to bring island stations in line with mainland sites for records and repairs to underground infrastructure, as well as plan any future mitigation for how we use the site, eg, washing of vehicles.

(d) **Newport, Cowes, Bembridge, Ventnor, Freshwater,** roof replacements to support building infrastructure and Carbon Reduction Pathway by improving thermal efficiency.

(e) **Newport, Ryde, Bembridge, Sandown, Shanklin, Freshwater,** kitchen upgrades to support our colleagues and also to attract partners to these locations and increase our income generation.

(f) **Bembridge,** accommodation/dormitory installation to create up to four individual sleeping quarters and a shared wash area. This will allow staff travelling to the island and/or working on duty to stay on site at no cost to the Service; maximise the use of our estate.

RESOURCE IMPLICATIONS

20. Existing budgets are insufficient to carry out the continued investment necessary on the island given the scale. Utilising existing budgets will result in the cancellation of the majority of planned maintenance work across the mainland estate during 2022/23 which would not be a recommended asset management approach and will likely increase reactive maintenance costs.

21. Providing additional funding, as recommended within this report, will ensure that targeted investment in the mainland estate can continue alongside works on the island.

22. To manage the scale of work required across the estate, works have been grouped into common programmes across the sites, allowing greater economies of scale for procurement and a streamlined approach for resource allocation.

23. The in-house Property & Facilities team will manage the programme of works, however the £1.7m investment will include consultancy fees for technical support for the projects.

24. As originally stated in the September 2020 report, the condition surveys of the estate on the island identified further investment required in future years, following the initial 2021/22 year.

25. The programme outlined in the September 2020 report identified a circa £4.2 million of estates investment required on the island. With £1.1 million delivered during 2021/22 and a further £1.7 million sought within this report, it is estimated that a further £1.4 million is required during the 2023/24 year. For the current recommendation, the £1.7m funding sought will be allocated from one-off revenue resources in 2022/23 as set out in the Budget Report.

26. In addition to this maintenance investment, the Service is actively working with partners on the island, notably Hampshire Constabulary and the Office of the Police & Crime Commissioner (OPCC) to identify opportunities for collaborative estate investment. This work is particularly focussed on the Newport area of the island. Any required investment would be subject to a full business case and brought to the Fire Authority for consideration at a later date.

IMPACT ASSESSMENTS

27. An Impact Assessment has not been conducted at this stage. Following the usual approach of Impact Assessments for estates projects, it is the recommendation that, should funding be approved, an overarching Impact Assessment for the entire programme of works will be completed.

28. This approach has been agreed with the internal Organisational Assurance team, meaning Stage 1 and 2 impact assessments are carried out with a consistent approach once the more detailed project impacts are identified.

<u>LEGAL IMPLICATIONS</u>

29. There are no identified legal implications in the work that is proposed. All Construction Design Management (CDM) and Health & Safety regulations will be adhered to as expected for works of this nature.

30. All works will be carried out in accordance with approved procurement frameworks.

<u>OPTIONS</u>

31. **OPTION 1 (Recommendation)** – Allocate a budget of £1.7 million to be spent on identified priority asset repairs across the island fire stations:

    (a) Associated risks relating to this approach would be the possibility of running buildings that already have end of life systems, such as flat roofs degrading to a point of failure before the associated project commences.

    (b) As additional resilience, the reactive maintenance contract is in place for the island stations which will pick up ad hoc repairs in year as and when they fail.

32. **OPTION 2** – Do not approve the additional funding request, requiring all identified works to be funded from existing revenue budgets.

    (a) Incorporating the scale of the repairs for the island stations into the current estate revenue programme and risk assessing all 62 sites, targeting key areas for investment will increase pressure on the revenue budget and will cause further spend on reactive budgets as items already at end of life start to fail. This runs the risk of uncontrollable annual overspend on reactive budgets.

    (b) Teams on the island would see little impact on their buildings, losing the hearts and minds of the staff due to continued lack of investment reducing the attractiveness of recruiting staff to the service due to outdated estate facilities.

    (c) The only mitigation for this option is to increase the reactive maintenance budget year on year to deal with increasing failures of end-of-life infrastructure to help us patch repair to the point a project can be funded from the revenue budgets.

RISK ANALYSIS

33. Overarching risks associated with each option have been outlined in the previous section of this report to provide clarity on each option to aid decision making.

34. Linked risks for the delivery of the programme centre around the unpredictable nature of inflation and the impact on the project costs in future years, hence a proportional allowance being made.

35. A recent study by the University of Portsmouth has identified that the Isle of Wight's physical segregation from the mainland has an impact on the delivery of public services in several ways, including the increase in costs to deliver services and works on the Island. This 'Island Premium' results due to the size of the market, limited numbers of suppliers and additional fixed (eg, transport) costs which can lead to relatively higher prices being charged by or for the supply of goods and services when compared with mainland authorities.

36. Given the context of paragraph 35, best efforts will be made to group works to achieve the most cost-effective delivery, however an element of increased costs due to the Island geography has been made in the cost estimates.

37. The UK Exit from the EU continues to have the possibility of impacting project delivery and cost; however, an allowance has been made within the requested funding to help mitigate this.

38. The COVID-19 pandemic continues to have an impact on work delivery in terms of availability of resources (both labour and materials) and varying costs for standard materials. The projects have been carefully packaged to support economies of scale and to provide a more attractive package to potential tendering companies as well as provide value for money for the Service.

EVALUATION

39. When evaluating the success of delivery of the projects identified in the programme, there will be two success factors. Firstly, the increased efficiency/sustainability of the buildings for future years and how they support organisational needs whilst reducing reactive costs. Secondly, the perception of the Service by our staff and local communities as a modern, forward leaning organisation.

40. There will be no changes to policy or approach as a result of this paper and the estate will, as currently, be a corporately managed estate working on the remit of being fit for the needs and requirements of the organisation.

CONCLUSION

41. The Fire Authority Design Principles are central to the Estate Strategy and are key in ensuring that our buildings support our people, our operational need and our local communities. The continued investment in the island estate provides an unprecedented opportunity for the Service to continue to move forward with a clear and proactive approach to corporate estate asset management.

42. Maintaining and proactively investing in the whole estate ensures that our buildings are fit for purpose and meet the needs of a modern fire and rescue service.

43. The recommendation is to align the condition of the built environment across the mainland and island estates to allow us to work from a single baseline of condition and provide facilities which support our people and the work we undertake.

RECOMMENDATION

44. That **Option 1** be approved by the Hampshire & Isle of Wight Fire & Rescue Authority and £1.7 million funding to deliver works across the island estate in 2022/23 financial year is allocated from one-off revenue resources in 2022/23 as set out in the Budget Report.

BACKGROUND PAPERS

45. This paper continues the programme of investment works first raised in the Shadow Authority submitted paper “CFA/IWFRS ESTATES IMPROVEMENT” tabled in September 2020.

46. This paper furthers the detail and expands the actions of Corporate Services, identified in the initial business case for the new Combined Fire Authority published on the 22 March 2018. Public Link to this document is here: https://democracy.hants.gov.uk/documents/s13742/Report.pdf

47. In addition, the above paper was built around a previous document written on the 21 February 2017 which also identified the need to invest within the island estate. Public Link to this document is here: https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=179&MId=509&Ver=4

48. University of Portsmouth Study on the ‘Island Factor’. Public Link to this document is here: https://www.iow.gov.uk/documentlibrary/view/island-factor-report-by-university-of-portsmouth-phase-1

Contact:

Matt Robertson, Director of Corporate Services, 07918 887532, matt.robertson@hantsfire.gov.uk,

HIWFRA Full Authority

Purpose: Approval

Date: **15 February 2022**

Title: **HEALTH, SAFETY AND WELLBEING STATEMENT OF INTENT**

Report of Chief Fire Officer

SUMMARY

1. This report seeks approval for the revised Health, Safety and Wellbeing (HSW) Statement of Intent for the Hampshire and Isle of Wight Fire and Rescue Service (HIWFRS) on the 1st April 2022.

2. The HSW Statement of Intent (Appendix A) is reviewed on an annual basis. The current Statement of Intent has been subject to a full review and illustrates our commitment to HSW, encouraging engagement and accountability.

BACKGROUND

3. The Health and Safety Executive guidance confirms that a Statement of Intent should state your general policy on health and safety at work, including your commitment to managing health and safety and your aims. As the employer or most senior person in the company, you should sign it and review it regularly.

4. The HSW Statement of Intent is the pledge of the Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) and demonstrates an ongoing and determined commitment to supporting and improving health, safety and wellbeing at work. It confirms we will continue to provide and implement a process of continual improvement to ensure a safe and healthy working environment.

5. The HSW Statement of Intent will be prominently displayed within every workplace to demonstrate a service wide commitment to HSW leadership at our highest level.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

6. The statement of intent and its supporting policies and procedures ensure that all staff are aware of and are committed to health, safety and wellbeing. It is directly linked to the delivery of our priorities, specifically supporting our people, and learning & improving and it also fits with our core values.

7. Our people – supports clear strategic intent to ensure we look after each other by creating great places to work and promoting the health, wellbeing and safety of our people.

8. High performance – provides clarity that our teams are skilled and feel equipped to deliver a leading fire and rescue service today and into the future.

9. Learning and improving – supports a learning culture of learning from ourselves and others.

CONSULTATION

10. Hampshire and Isle of Wight FRS encourages a culture of cooperation in its management of health and safety. The service promotes the use of the guidance within the TUC Safety Representatives and Safety Committees Code of Practice (also referred to as the 'Brown Book') where appropriate.

11. Trade unions (Representative Bodies) have always played a vital role in ensuring that our people go home safe and well from their work. We will proactively consult with our trade union health and safety representatives. Engaging representative bodies (RBs)in decisions about health and safety provides opportunities to encourage a culture of good health, safety and welfare which is achieved through trust and consensus. This is also recognised by our health and safety laws which set down legal obligations on employers to work with recognised trade unions in the belief that this is the best way to develop a positive health and safety culture in the workplace.

12. HSW Statement of Intent has been shared with Representative Bodies through the Joint Trade Union meeting, chaired by Director POD.

13. HSW Statement of Intent design has been assured and approved by HIWFRS Communications and Insight team.

RESOURCE IMPLICATIONS

14. There are no specific financial implications from the contents of this paper, as HSW policies and procedures are already operating within our service.

IMPACT ASSESSMENTS

15. There are no specific impact assessment implications from the contents of this report. As impact assessment should be completed for every new policy, procedure and guidance document, where new PPG with HSW implications is developed and/or reviewed a specific impact assessment for that PPG will take place.

LEGAL IMPLICATIONS

16. Approving this report will demonstrate compliance with Health and Safety Executive guidance on HSW Statement of Intent.

OPTIONS

17. Option 1 (Recommended) – That HIWFRA approve the HSW Statement of Intent for display from the 1st April 2022.

18. Option 2 – That HIWFRA do not approve the HSW Statement of Intent for display from the 1st April 2022.

19. Option 1 will demonstrate compliance with Health and Safety Executive guidance on HSW Statement of Intent for HIWFRA. Option 2 will remove that compliance with Health and Safety Executive guidance on HSW Statement of Intent from 1st April 2022.

RISK ANALYSIS

20. There are no specific risk implications from the recommended option within this paper.

EVALUATION

21. HSW Statement of Intent will continue to be reviewed every year and updated based on new learning or any HSW legislative changes.

CONCLUSION

22. By approving the adoption of the revised HSW Statement of Intent, HIWFRA will demonstrate compliance with Health and Safety Executive guidance on

HSW Statement of Intent. In addition, the Service will be able to continue developing our culture of accountability and engagement with respect to all Health, Safety and Wellbeing matters.

RECOMMENDATION

23. That the HSW Statement of Intent is approved by HIWFRA for display from the 1st April 2022.

APPENDICES ATTACHED

24. Appendix A – Health, Safety and Wellbeing Statement of Intent 2022

25. Contact: Shantha Dickinson DCFO HIWFRS
shantha.dickinson@hantsfire.gov.uk 07918887986

Health, Safety and Wellbeing - Statement of Intent

Hampshire & Isle of Wight Fire and Rescue Service (HIWFRS) and Hampshire & Isle of Wight Fire and Rescue Authority (HIWFRA) are committed to providing the highest level of Health, Safety and Wellbeing (HSW) for all employees and anyone who may be affected by our work activities, HSW is at the heart of everything we do.

We recognise that operational incidents present the highest risk encountered by our staff. Whilst there is a degree of risk foreseeability it is acknowledged that each incident will have its own specific hazards and associated risk due to unique and unforeseeable environmental factors. To manage this risk to firefighters, the Service endorses and promotes the HSW Framework for the Operational Environment and the Safe Person principles contained within.

Our HSW Statement and Intentions

We have agreed key HSW Statements that explain the way in which we intend to approach HSW.

We will demonstrate the strategic importance of HSW by the provision of visible leadership, and the empowerment of all staff across HIWFRS.

We recognise our moral and legal requirements and will always strive to achieve the best possible HSW standards

We will define responsibilities at each organisational level, providing direction on how to manage HSW in our workplaces.

We will employ competent staff and provide training and support as necessary to develop staff to enable them to work safely - and we will provide access to competent HSW Advice

We will report and investigate all HSW Events to identify and implement improvements and share this learning.

We understand that prevention of injury and illness is an indispensable part of our organisational culture.

Our staff are reminded that there is a legal requirement for them to co-operate and take care of their own HSW and that of others affected by their activities.

We will empower our staff to carry out their work in a competent and diligent manner, and to report and where possible rectify any unsafe act or condition

We will provide and maintain safe plant and equipment, ensuring that we have competent staff to operate and maintain them.

We will set strategic HSW direction, providing systems to measure performance through review, inspection and audit.

Hampshire & Isle of Wight Fire and Rescue Authority have overall responsibility for the HSW of all staff in the Hampshire & Isle of Wight Fire and Rescue Service and others who may be affected by our activities.

Signed:

Chairman of HIWFRA
Rhydian Vaughan
Date: March 2022
For and on behalf of HIWFRA

Signed:

Chief Fire Officer
Neil Odin
Date: March 2022
For and on behalf of HIWFRS

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Hampshire & Isle of Wight Fire & Rescue Authority

Purpose: Approval

Date: **15 February 2022**

Title: **HAMPSHIRE AND ISLE OF WIGHT FIRE AND RESCUE SERVICE SAFETY PLAN YEAR 3 ACTIVITIES**

Report of Chief Fire Officer

SUMMARY

1. This report seeks approval for the Hampshire and Isle of Wight Fire and Rescue Service (HIWFRS) Safety Plan Year 3 activities (Appendix A).

2. The HIWFRS Safety Plan 2020-2025 discharges the Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) statutory requirement to produce and maintain an Integrated Risk Management plan (IRMP).

3. This report presents the third HIWFRA update of our Service annual cycle of continual strategic activities to improve our organisation and services we deliver to the public.

BACKGROUND

4. IRMPs are a statutory requirement set out in the Fire and Rescue National Framework for England 2018. Our IRMP sets out how HIWFRA intends to identify, evaluate, assess and plan to control foreseeable risks across the geography of Hampshire and Isle of Wight, and the communities which it serves.

5. The Safety Plan incorporates the IRMP requirement and the annual Service Plan into a single document which is updated annually to ensure it remains current. This approach to managing risk in our communities will ensure the Service is able to report on how effective its risk reduction activities are.

6. The Safety Plan outlines the activities the Service will undertake in support of the IRMP, while also setting out how our teams using our Values will work to deliver on our five strategic priorities;

   (a) Our Communities
   (b) Our People
   (c) Public Value
   (d) High Performance
   (e) Learning and improving.

7. These priorities identify the strategic direction for our Service and are translated into measurable actions against which the Service is held to account. The measurable actions are known as our annual Safety Plan improvement activities.

8. Safety Plan year 3 has been identified as a significant year for the Service. At the mid-point of the life of this Safety Plan, the Service must adjust to ensure that public safety outcomes are being delivered through the Safety Plan and supporting details plans, learn from organisational experiences in the initial waves of the pandemic and start to reconsider the risk environment dominating our society and how these manifest on a local level. It is also the year in which the Service will have an increased level of public scrutiny through the Round 2 inspection by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) and the delivery of the key Fire Standards compliance.

9. The year 3 Safety Plan improvement activities have been developed based on two broad categories, a maturation of activity initiated previously in the life of the Safety Plan, or to remain agile, a placeholder for an activity that we must plan for delivering within the 2022/23 period.

10. Activities that are on the Safety Plan are strategic in nature. Underpinning activities that contribute towards progression of the Safety Plan are recorded at directorate plan level. This report deliberately does not review the progression of our current Year 2 Safety Plan improvements, as this is undertaken via alternate performance and assurance reporting.

<u>SUPPORTING OUR SAFETY PLAN AND PRIORITIES</u>

11. The Safety Plan sets out the strategic direction for a five-year period and establishes our priorities. The activities to deliver them are embedded within the Safety Plan as annual improvements.

12. This document ensures that the HIWFRA meets its statutory duty to have an IRMP in place which suitably addresses identified risks within the communities it serves and demonstrates how it makes the best use of its available resources to help mitigate them.

CONSULTATION

13. As a public body, in designing the original Safety Plan we had both a legal and moral obligation to listen to the opinions of those whom we serve. We also believe that ongoing dialogue and consultation with our stakeholders will add considerable insight to our future direction, ultimately assuring the quality and suitability of our Safety Plan.

14. The findings from the consultation process were considered and influenced the content of the Safety Plan. The Consultation Institute quality assured the process to ensure that every part of our formal consultation met best practice standards. Representative Bodies were engaged with throughout the Safety Plan development.

15. The Year 3 improvement activities have been developed within directorates and Chief Officers Group to inform dedicated Executive Group workshops and are presented in Appendix A.

RESOURCE IMPLICATIONS

16. The Year 3 Safety Plan improvement activities will be subject to specific individual budget processes and will inform and align with the medium-term financial plan, agreed by the Authority.

IMPACT ASSESSMENTS

17. The Safety Plan was developed undertaking the following phases; Strategic Assessment of Risk, Co-production and Engagement, Development, Appraisal and Consultation.

18. There are no specific impact assessment implications from the contents of this report, as an impact assessment should be completed for all Year 3 Safety Plan improvement activities. This ensures that all future improvements will be compliant with legislative requirements, Health and Safety, People Impact Assessments and aid informed cost benefit and environmental decision making.

LEGAL IMPLICATIONS

19. Fire and Rescue Authorities have a legal obligation to produce an Integrated Risk Management Plan to ensure appropriate management of risk and discharge of their duties. The Safety Plan meets that duty.

20. This report is seeking approval on non-statutory aspects within the Safety Plan, namely the annual improvement plan for the continual development of our Service.

21. The HIWFRS Safety Plan and annual improvement update is subject to the governance and approval arrangements placed upon HIWFRA, thereby ensuring that HIWFRS have an IRMP to cover at least a three-year period and that it is reviewed and revised as often as necessary.

OPTIONS

22. Option 1 (Recommended) – That HIWFRA approve the Year 3 Safety Plan improvement activities which will allow a go live from 1 April 2022.

23. Option 2 – To not approve the Year 3 Safety Plan improvement activities. This would require a redesign of the Year 3 Safety Plan, which would create a high risk of being unable to be completed in advance of April 2022.

RISK ANALYSIS

24. There are no specific risk implications from the recommended option within this paper. There is a time bound risk of not accepting the recommended option.

EVALUATION

25. The successful delivery of the Safety Plan will be regularly monitored by the Chief Fire Officer and wider Executive Group for HIWFRS.

26. As per previous years, progress on Year 3 Safety Plan will be routinely reported to the HIWFRA to ensure appropriate accountability is maintained for the discharge of duties under the Safety Plan.

CONCLUSION

27. The report and appendix propose HIWFRA approval of the new Year 3 Safety Plan improvements to provide the Service's strategic direction for 2022/23.

RECOMMENDATION

28. That HIWFRA approve the Year 3 Safety Plan improvements.

APPENDICES ATTACHED

29. Appendix A - Hampshire and Isle of Wight Fire and Rescue Safety Plan 2020-25 Year 3 improvements.

Contact: Shantha Dickinson, Deputy Chief Fire Officer,
shantha.dickinson@hantsfire.gov.uk, 02382140017

SAFETY PLAN YEAR 3 IMPROVEMENT ACTIVITIES – APPENDIX A

Priority	Activity	Risk mitigation rationale – why do we need to undertake this activity
Our Communities	Identify and describe the risks in our different communities, using sector best practice.	Understanding our internal and external risks to our communities is a critical activity for the Service and is enshrined in the Fire and Rescue national framework for England 2018, and in our Risk Management Policy and Procedure. This activity will also further support our already strong position using best practice of the Community Risk Management Process (CRMP) Standard, to continue to provide the most effective holistic response to our communities, by fully understanding their needs.
	Engage with emerging Integrated Care System to understand the challenges we all face and work together to protect our communities.	There is a duty placed upon Emergency Services for "collaboration" as defined within the Policing and Crime Act 2017. Working together as emergency services is key to our understanding and mitigation of community risk. We can be more efficient and effective through identifying areas where collaboration opportunities are suitable for an agreement. The challenges we face as individual services often involve the same communities, and by working together we can achieve more than we can in isolation.
	Deliver electric vehicle charge points at HQ and key fire stations.	Climate change is a significant risk to both the Service and our communities, both in terms of the risk to our own assets, and the operational pressures from increasingly frequent incidents such as wildfires, flooding, and Road Traffic Collisions (RTCs) caused by adverse conditions. Therefore, it is vital that we provide public value, support our communities, and play our part to reduce our carbon output, as well as strategically adapting as new legislation is brought in by the UK Government to reduce emissions.
Our People	Development of a single contract, pay and conditions for on-call firefighters in Hampshire and the Isle of Wight.	Our On-call and Retained Duty System (RDS) Firefighters make up most of our operational staff. Following the Combination of our service in 2021 we are undertaking a review of how our On-call and RDS teams' work. We will consider contracts, pay and conditions and work-life balance to ensure HIWFRS delivers a valuable service to our communities.
	Develop a broadened set of health and wellbeing services and support for example,	HIWFRS recognise that positive employee wellbeing is linked to increased resilience, better employee engagement, reduced sickness absence and higher

	financial wellbeing, enhanced health surveillance and psychological screening.	performance. We use several information sources to measure employee wellbeing, such as sickness absence data. However, we need to continue to engage with our staff to get an insight into the underlying factors that impact on their wellbeing. This also demonstrates the Service's commitment to understanding the wellbeing of our employees and what could be done differently or better. Wellbeing is also a key part of the HMICFRS's people focus and of the National Fire Chiefs' Council (NFCC) maturity model.
	Invest in facilities to better manage fireground contamination and improve inclusive facilities for our people.	The provision of estate improvements mitigates the risk that we do not comply with our estate design principles. It also mitigates potential risks to staff health and wellbeing, helps to promote and support equality, diversity and inclusion across the Service and supports our environmental goals. Ensuring HIWFRS is a great place to work, supporting our ongoing recruitment and retention of staff.
	Embed our Service Behaviours within our recruitment and promotion processes, and within our leadership and management development.	Our Values have previously been embedded into these processes and across the workforce to support our people and high-performance priorities. Our newly developed Behaviours now also need to be embedded. Our Service Behaviours, underpin our Values and are aligned to the NFCC Core Code of Ethics. Reiterate our desire to be a great place to work demonstrating what type of organisation we are. The way we act (both towards each other and our communities) ultimately impacts the quality of our service and the wellbeing of people.
	We will deliver the year 2 maintenance programme for our Isle of Wight estate, adopting the five estate design principles.	The provision of estate improvements mitigates the risk that we do not comply with our estate design principles. It also mitigates potential risks to staff health and wellbeing, and helps to promote and support equality, diversity and inclusion across the Service and supports our environmental goals. Ensuring HIWFRS is a great place to work, supporting our ongoing recruitment and retention of staff.
High Performance	We will deliver and progress activity to support our EDI strategy to achieve the objectives set by the FRA.	In the creation and delivery of our Equality Diversity and Inclusion strategy, we will ensure that the Organisation complies with its statutory obligations under the Equalities Act. There will be appropriate Service governance and reporting of our progress, which will be reported back to the HIWFRA on an annual basis.

		HIWFRS will ensure it is an ethical employer and understands its communities to assist in ensuring equality of access to our services for all and to be as diverse a workforce as our communities.
	Improve communities’ ability to access our services and our ability to protect them.	Our communities must be able to access our services despite their diverse needs. We must provide clear and accessible pathways to our services for all our communities.
	Review the systems we use, including removing any barriers, to continue to enable the best applicants in our communities to join our organisation.	As identified in our Safety Plan, diversity (in its broadest sense) plays an important role in ensuring high performance across the Service. The Service use a range of recruitment practices as well as positive action to ensure we attract a talented and diverse range of applicants.
Public Value	Develop an efficiency and effectiveness plan for the Service.	A financial plan to support the continue effective and efficient operation of a public sector organisation, that mitigates any long-term financial risk forecasts.
	Conclude the crewing trials to create consistency for our teams.	Facilitates the development to sustainably provide efficient and effective use of our resources.
	Continue value for money (VFM) exercises with FRS partners and supporting a community of best practice.	Benchmarking to support the assurance of an effective and efficient public sector organisation, that supports learning to mitigate any long-term financial risk forecasts.
Learning and improving	Across all our Directorates, progress our maturity and compliance within Fire Standards and other national guidance.	Recognising that fire standards and guidance are sector best practice written by the sector, implementing will mitigate against the risk of Judicial reviews, inquires and litigation.
	Define the leadership and management responsibilities and expectations for supervisory and middle managers in respect of people activities, based on the employee lifecycle.	Leadership of people and human resource management activity is a key part of manager’s roles and play a critical role in embedding people activities across the organisation. Ensuring they understand their responsibilities is key to them being successful in their roles, as is developing aligned leadership and management training to ensure they have the right skills and knowledge.
	Begin to implement the findings of the reviews we did in Y2 and our 2022 inspection by HMICFRS.	Awaiting HMICFRS outcomes

HIWFRA Full Authority

Purpose: Approval

Date: **15 FEBRUARY 2022**

Title: **MEMBERS ALLOWANCES**

Report of Monitoring Officer

SUMMARY

1. This report summarises discussions and proposals of the Member Allowances Working Group with regard to the agreement of a new Scheme from April 2022.

BACKGROUND

2. The Local Authority (Members Allowances) (England) Regulations 2003 require local authorities, including fire and rescue authorities, to make a scheme providing for the payment to members of basic allowance and any other specified allowances the Authority intends to make in respect of each year commencing 1 April. The scheme must be made by the Authority before it comes into force. Under the provisions of the Members' Allowances Regulations, it is possible for the Fire and Rescue Authority to make a scheme for an annual adjustment of allowances to be ascertained by reference to an index specified by the Authority, for a maximum of four years.

3. Before making a scheme, county and district councils are required to have regard to the recommendations of an independent remuneration panel. The position is slightly different for fire and rescue authorities, who are required to have regard to any recommendation of independent remuneration panels established by those authorities by whom its members are nominated. In this case, those authorities are Hampshire County Council, Isle of Wight Council, Portsmouth City Council and Southampton City Council.

4. At the February 2021 Hampshire and Isle of Wight Fire and Rescue Authority (Shadow Authority) meeting, the Member Allowance Scheme for the Fire & Rescue Authority was approved for 2021/22 and it was agreed that a Member Working Group be established to review the Scheme and make recommendations on a new scheme ahead of its implementation in

April 2022.

5. HIWFRA is not itself required to appoint an Independent Remuneration Panel, however in accordance with the Regulations, in reaching a decision it should have regard to the recommendations made by any independent remuneration panels in relation to any Authority by which any of its members are nominated (i.e. the IRPs of the Constituent Authorities). Since the report to the Full Authority in February 2021, the Independent Renumeration Panel at Hampshire County Council has reviewed the County Council's Member Allowances Scheme in September 2021, and the report and outcomes can be found here: Agenda for Independent Remuneration Panel on Wednesday, 29th September, 2021, 2.00 pm | About the Council | Hampshire County Council (hants.gov.uk). The IRP at Portsmouth City Council also met on 5 March 2021, and it was agreed that no changes would be made to the existing scheme: Item 7 - Members Allowances Remuneration Panel Recommendations.pdf (portsmouth.gov.uk)

6. At the 2021 HIWFRA AGM, the Members' Allowances Working Group was established comprising Councillors Fairhurst, Chadd and Harrison. The Working Group met on 9 December 2021.

Member Allowances Working Group

7. At the meeting on the 9 December, Members reviewed the existing Scheme in light of the changing responsibilities of the Fire and Rescue Authority, specifically the new combination to include the Isle of Wight. It was felt that Members' roles and workloads had not been significantly impacted and that there was no compelling reason to propose an adjustment of either basic or special responsibility allowances.

8. With regard to Special Responsibility Allowances (SRAs) payable to Members appointed to specific roles, it was highlighted that these were originally based on a formula to connect them directly with the basic allowance. It was agreed to recommend that this formula continue to be applied to SRAs in the new Scheme.

9. The option of identifying an index by which allowances would be adjusted each year of a multi-year scheme was considered. It was noted that previously the local government pay award had been adopted for this purpose. Members recognised the financial constraints in place, but agreed that not increasing allowances at a sustainable level would result in greater pressure for increases in future years. With regards to the duration of the Scheme, it was noted that this had previously been set at four years. A longer duration would be possible, however in accordance with the regulations the index would require review after four years. It was therefore agreed to recommend that a Scheme be set for four years, to be increased in line with any local government pay award in each respective year,

including any pay increase in 2022/23. It was clarified that the pay award percentage applied should be equal to that for the majority of local government officers, excluding any increased award for those on the lowest pay bands.

10. A Members' Allowances Scheme may allow for other expenses such as travel and subsistence costs to be re-claimed in certain circumstances. It was noted that all Members of the Fire Authority were appointed by their respective constituent local authority to the position and therefore when engaged on Fire Authority business were considered to be undertaking an approved duty with regards to the constituent local authority Members' Allowances Scheme. The Working Group acknowledged the administrative benefits of the longstanding arrangement of Fire Authority Members reclaiming travel expenses from their local authority on this basis and agreed to recommend that this approach should continue unchanged.

11. It was noted that the Authority's Independent Persons are in receipt of an annual allowance, which is also set by the Authority, but in accordance with different legislation and therefore does not form part of the Members' Allowances Scheme. It was recommended that for completeness the value of the Independent Persons' allowance be noted.

12. For reference, the allowances being recommended to the Full Authority for the 2022/23 – 2025/26 Members' Allowances Scheme

Basic Allowance: £6243

Special Responsibility Allowances

Role	**SRA Formula**	**SRA monetary value (based on £6243 Basic Allowance)**
Chairman of the Authority	2 x Basic	£12,486
Vice-Chairman of the Authority	0.5 x Basic	£3122
Standards and Governance Committee Chairman	0.25 x Basic	£1561
Standards and Governance Committee Vice-Chairman	0.125 x Basic	£781
Principal Opposition Spokesperson	0.5 x Basic	£3122
Other* Opposition Spokesperson	0.125 x Basic	£781

RESOURCE IMPLICATIONS

13. There are no financial or resource implications from the content of this report.

IMPACT ASSESSMENTS

14. There are no specific equality or other impacts arising from the proposals contained in this paper.

LEGAL IMPLICATIONS

15. The Full Authority is required under the The Local Authority (Members Allowances) (England) Regulations 2003 to have an adopted Member Allowances Scheme in place for April 2022.

RECOMMENDATIONS

16. That the Authority note the outcomes of the review of the Members' Allowances Scheme carried out by the Working Group and agree to implement a new Members' Allowances Scheme for the years 2022/23 – 2025/26 as attached at Appendix 1.

17. That the Monitoring Officer be given delegated authority to incorporate the new scheme at Appendix 1 into the HIWFRA Constitution.

18. That any local government pay award made in this period be applied as an index for the adjustment of Member allowances. In doing so retaining the ratio between basic allowance and SRA as set out above. For clarity, the applicable pay award shall be that received by the majority of staff and exclude any additional pay award given to officers on low pay grades.

19. That any further expenses in relation to being a Member of the Fire Authority (e.g travel or subsistence) continue to be reclaimed from respective appointing Members' local authorities in accordance with their Members' Allowances Schemes.

20. That the Authority note that the appointed Independent Persons receive an annual allowance of £100 which is awarded under separate legislation and therefore not formally part of the Members' Allowances Scheme.

Appendix 1: Proposed Members Allowance Scheme for 2022-2026

Contact: Paul Hodgson, Monitoring Officer
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Hampshire and Isle of Wight Fire and Rescue Authority Members' Allowances Scheme – 2022-2026

This scheme is made by Hampshire and Isle of Wight Fire and Rescue Authority (HIWFRA) in accordance with the provisions of the Local Authorities (Members' Allowances) (England) Regulations 2003 and is effective from 1 April 2022 until 31 March 2026.

1. A Basic Allowance of £6243 per annum shall be paid to each properly appointed Member of HIWFRA (excluding Deputy Members, where appointed).

2. A special responsibility allowance (SRA) shall be paid to those Members who hold the offices of special responsibility listed in the table below and the amount of each allowance shall be the amount specified.

3. Should a Member be appointed to more than one role for which an SRA is payable, only one (the higher) SRA may be claimed.

Basic Allowance: £6243

Special Responsibility Allowances:

Role	**SRA Formula**	**SRA monetary value (based on £6243 Basic Allowance)**
Chairman of the Authority	2 x Basic	£12,486
Vice-Chairman of the Authority	0.5 x Basic	£3122
Standards and Governance Committee Chairman	0.25 x Basic	£1561
Standards and Governance Committee Vice-Chairman	0.125 x Basic	£781
Principal Opposition Spokesperson	0.5 x Basic	£3122
Other* Opposition Spokesperson	0.125 x Basic	£781

* Not currently claimed

4. Travel and other expenses, including childcare and dependent carers' allowances accrued whilst undertaking HIWFRA duties to be claimed by each Member through and in accordance with the Members' Allowances Scheme of their respective appointing Authority.

5. Any local government pay award** made in this period will be applied as an index for the adjustment of Member allowances. In doing so retaining the ratio between basic allowance and SRA as set out above.
   (**The applicable pay award shall be that received by the majority of staff and exclude any additional pay award given to officers on low pay grades.)