

PROPOSED CREATION OF A NEW COMBINED FIRE AUTHORITY TO INCLUDE HAMPSHIRE, ISLE OF WIGHT, PORTSMOUTH AND SOUTHAMPTON AUTHORITIES

Appendix A: Consultation information and business case

1 CONSULTATION INFORMATION

1.1 Introduction

Hampshire Fire and Rescue Authority (HFRA) are seeking views on the possible creation of a new Combined Fire Authority (CFA) to include the Authorities of Hampshire County Council (HCC), the Isle of Wight Council (IWC), Portsmouth City Council and Southampton City Council (SCC).

This consultation document is for the purposes of HFRA's consideration of the proposal. IWC are running a similar consultation process as part of their consideration of the proposal

The consultation documents will be available online and in paper form (upon request).

Consultation will run for 12 weeks. The results of the consultation will be carefully analysed and put into a report which will be presented to the HFRA, along with all other relevant information, in order to enable a decision to be made about whether to propose a scheme to the Secretary of State for the creation of a new CFA. This decision will be made towards the end of the year. A similar process and decision will be made by IWC, following consultation with their key stakeholders.

Consultation is taking place with the following key stakeholders (this list is not exhaustive):

- the public
- the Constituent Authorities of Hampshire County Council, Portsmouth City Council and Southampton City Council
- Bordering Fire and Rescue Authorities and Services
- The Police and Crime Commissioner
- Bordering Constabularies
- Local emergency services
- The National Fire Chiefs Council
- Hampshire MP's
- Home Office
- National Police Chiefs Council
- Local Government Association (LGA)
- Trade unions and professional representative bodies
- Society of Local Authority Chief Executives (SOLACE)

Section 2 of the Fire and Rescue Services Act 2004 states that a CFA may only be created by the Secretary of State if it is in the interests of economy, efficiency, effectiveness or public safety. The information contained within this document pays due regard to economy, efficiency and effectiveness and public safety and explains

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how the proposed creation of a new CFA could meet the requirements of section 2 of the Fire and Rescue Services Act 2004. We are therefore seeking views from stakeholders on these areas.

Hampshire Fire and Rescue Authority is a Best Value Authority, under section 3 of the Local Government Act 1999, and is committed to securing continuous improvement in the way its functions are exercised, having due regard to economy, effectiveness and efficiency. HFRA is consulting with key stakeholders regarding the proposed creation of a new CFA to ensure it continues to meet the requirements of a Best Value Authority.

1.2 Background

Fire and Rescue Authorities (FRAs) are governed by the Fire and Rescue Services Act 2004 (“the 2004 Act”). An aim of a Fire and Rescue Authority is to promote fire safety in its area. All FRAs must ensure they provide services to their communities in relation to fire-fighting, road traffic incidents and other emergencies. FRAs are also increasingly broadening their role into Health and Wellbeing functions.

An FRA must provide the services set out in the 2004 Act and in doing so, delegates the day to day operations to a Fire and Rescue Service (FRS) made up of officers and support staff. The FRA holds FRS to account for delivery of an Integrated Risk Management Plan (IRMP). The IRMP is based around the risks and demands the Service faces and outlines how it will deploy resources to ensure safer communities. Through delivery of the IRMP, both HFRS and IWFRS provide a Community Safety, Community Response and Community Resilience service to the communities they serve.

HFRA and IWC entered into a Strategic Partnership in April 2015. This partnership, named “Delivering Differently in Partnership” (DDiP), enabled the operational alignment of Hampshire Fire and Rescue Service (HFRS) and the Isle of Wight Fire and Rescue Service (IWFRS) and has been successfully operating for three years. The partnership has enabled the two services to establish a close working relationship. The main focus of the partnership was shared Strategic leadership and incident command, aligned service policy, a Fleet Management and Health and Safety provision and training and development support. The Chief Fire Officer of HFRS is also the Chief Fire Officer for the IWFRS. HFRS have also recently taken over call handling on the Isle of Wight. The call control room in Hampshire now receives the 999 calls from the Isle of Wight and despatches emergency response on the Island as appropriate.

Since April 2015, DDiP has delivered benefits to both services, the staff and the communities we serve, including successfully achieving financial efficiencies, operational benefits and increased and shared knowledge and learning. It has also had the effect of bringing the services closer together. The current partnership has enabled the two services to align on an operational level but does have some constraints financially, and also with regards to governance and decision making. The partnership has enabled the IWFRS to continue to operate financially,

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something which has become more difficult in the current financial climate. Three years into the partnership it is timely to build upon the success of DDiP and now consider proposals for optimal governance arrangements for both Authorities.

Investigations into possible creation of a new CFA began in February 2017. In March 2018, HFRA and IWC agreed an outline business case exploring the risks and opportunities of creating a new CFA consisting of Hampshire, the Isle of Wight, Portsmouth and Southampton.

This consultation document describes the current governance arrangements of HFRA, HFRS, the IWC and the IWFRS, explains why we are consulting on a proposed change in governance and what a new CFA might look like. No decisions around creating a new CFA have yet been made and we are now seeking views from key stakeholders to inform a decision about whether to proceed with a proposal to the Secretary of State.

1.3 Governance

Fire and Rescue Authorities (FRAs) are governed in a variety of ways including: a Combined Fire Authority (CFA), an upper tier Local Authority, a Metropolitan Council, a Police and Fire Crime Commissioner (PFCC) or an Elected Mayor.

A Combined Fire Authority (CFA) is created by the Secretary of State using powers granted in section 2 of the Fire and Rescue Services Act 2004. A statutory instrument known as a Combination Order is created. This constitutes the CFA as a public body and provides some detail about how the CFA should operate. A CFA covers more than one local authority area. The upper tier Local Authorities in the CFA area are known as Constituent Authorities. The Constituent Authorities appoint a fixed number of elected Councillors to the CFA. The Councillors on a CFA are known as Members.

A Local Authority led Fire and Rescue Service is integrated into the Local Authority. The Local Authority is responsible for delivering Fire and Rescue services to the area it covers in the same way it delivers other services. The Local Authority's Constitution will set out how fire and rescue functions are discharged and what responsibilities lie with elected Councillors.

A Metropolitan Fire and Rescue Service (with the exception of London and Manchester) is similar to a CFA. Metropolitan Fire and Rescue Services consist of Metropolitan Councils from different local areas, who come together and appoint Councillors to form a Fire and Rescue Authority, in a similar way to the CFA model.

Both Manchester and London operate a Fire and Rescue Service with a single Mayor to govern the whole area.

In January 2017, the Policing and Crime Act 2017 granted powers to Police and Crime Commissioners to be able to take on the responsibilities of Fire and Rescue Services instead of having a Fire and Rescue Authority. If a Police and Crime

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Commissioner opts to go down this route, and the Secretary of State agrees it is in the interests of effectiveness, efficiency, economy or public safety, they become known as a Police and Fire Crime Commissioner (PFCC). There are currently a number of Police and Crime Commissioners in England that have opted to take on the responsibilities of the Fire and Rescue Service.

1.3.1 Hampshire Fire and Rescue Authority (HFRA)

HFRA is a CFA comprised of the constituent authorities of Hampshire County Council, Portsmouth City Council and Southampton City Council. HFRA was created by the Hampshire Fire Services (Combination Scheme) Order 1996 (known as the Combination Order) and which has remained in force under section 4 of the Fire and Rescue Services Act 2004. The number of Members of the HFRA is currently 10. There are eight Members from Hampshire County Council, one from Portsmouth City Council and one from Southampton City Council. As a Member of the body governing the FRS, a Fire Authority Member's priority is to ensure the Service is protecting life and property in the event of fires, rescuing and protecting people in the event of road traffic collisions and rescuing and protecting people in the event of other emergencies across the whole CFA area. They make decisions regarding the operations of the Fire and Rescue Service as a whole including approving the Integrated Risk Management Plan (IRMP).

1.3.2 Hampshire Fire and Rescue Service (HFRS)

HFRS is accountable to HFRA. HFRS delivers the day to day operational fire and rescue service as directed by HFRA. The Service is responsible for carrying out the objectives within the IRMP. Resources are deployed throughout the CFA area according to risk and demand to ensure safe communities. The Service is made up of operational staff who respond to incidents, protect life and property, undertake prevention work and deal with fire safety.

1.3.3 The Isle of Wight Fire and Rescue Authority (IWFA)

The IWFA is part of the Isle of Wight Council (IWC). The IWC is an upper tier Council made up of 39 areas known as wards. An upper tier Council is the top tier of local government for an area, providing a large number of public services to the community. For the Isle of Wight, the Council provides services for the whole Isle of Wight area. The Isle of Wight Council has 40 elected Councillors. The IWFA is made up of Cabinet Members on the IWC who make decisions regarding the fire and rescue service. A single Councillor is responsible for bringing to Cabinet, decisions around the Fire and Rescue Service. The decisions are considered amongst other Council business. Cabinet within the IWC agree the IRMP.

1.3.4 The Isle of Wight Fire and Rescue Service (IWFRS)

The IWFRS is a department of the IWC and is part of the Community Safety and Public Protection portfolio. The Fire and Rescue Service budget is part of the larger budget of the whole County Council. Operational staff cover the whole of the Island

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to provide response to incidents, protection and prevention work and Fire Safety; ensuring the delivery of the IRMP. Currently, the strategic management of the Fire and Rescue Service is provided by HFRS under the DDiP agreement with operational staff on the Island remaining IWC employee's.

1.3.5 The Police and Crime Commissioner (PCC)

The PCC in Hampshire represents, and covers a boundary area, comprising of the Hampshire County Council, the Portsmouth City Council and the Southampton City Council areas and the Isle of Wight. This is the same boundary area that Hampshire Constabulary cover. With the HFRS and IWFRS as two separate Services, the boundaries are not coterminous with the PCC or Hampshire Constabulary. The PCC has been invited by both the HFRA and the IWC to become a voting Member of each of the FRAs. The HFRA combination order was amended in 2017 to reflect this and facilitate the change. The PCC declined the invite to become a voting member and instead, regularly attends HFRA meetings as a non-voting participant and actively comments on the debate. The PCC has indicated that at the moment, he is not minded to use the Policing and Crime Act 2017 and change the governance of the Fire and Rescue Services of Hampshire and the Isle of Wight but will continue to engage and support the fire Authorities. He has also said that he will continue to look for the successful coming together of the Fire Authorities.

1.3.6 A new Combined Fire Authority (CFA)

HFRA and IWC are considering making a proposal to the Secretary of State to create a new, single CFA covering the existing HFRA area and the Isle of Wight.

In order for a new CFA to be created, the proposal needs to be put forward to the Secretary of State for consideration. It is the decision of the Secretary of State whether a new CFA is created or not. Should the Secretary of State agree to create a new CFA, this would be done under Section 2 of the Fire and Rescue Services Act 2004. The proposed new CFA would consist of the Authorities of Hampshire County Council, the Isle of Wight Council, Portsmouth City Council and Southampton City Council. It is anticipated that the new CFA would be made up of elected Members from each Constituent Authority. The total number of Members is likely to be determined by the new CFA. The number of Members from each Constituent Authority should, so far as is practicable, be proportionate to the number of electors in each Constituent Authority area compared to each other.

HFRA has recently carried out a Governance Review, for the purpose of ensuring it is operating in the most efficient and effective way and is aligned to the Fire Reform agenda. The Governance Review resulted in a reduction of the number of Members of HFRA from 25 to the current number of 10 (as of June 2017). This reduction in size has seen many positive benefits such as cost savings and more efficient and effective decision making. It is important that a new CFA recognises the importance of the principles of [Fire Reform](#) and continues to operate in the most efficient and effective way. Any decision about the size and number of Members of a new CFA must reflect these principles. Using 2017 electoral data from the Constituent

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Authorities, calculations show that a new CFA could consist of 11 Members representing the four councils, with the PCC as an invited guest. In keeping with HFRA's Governance Review, HFRA's preferred option would be for a new CFA to be initially created with 11 Members. However, the total number of members would then be a decision for the CFA from time to time, according to the proportionality principles explained above.

If a proposal is put forward to create a new CFA, then the current Hampshire Fire and Rescue Authority Combination Order would be revoked and the staff and assets of HFRA would be transferred to the new CFA. Similarly, the staff and assets of IWFRS would be transferred from the IWC to the new CFA. The two Fire and Rescue Services would combine under the governance of a new, single Fire Authority to serve the communities of all the constituent authorities, across the whole CFA area.

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2 THE BUSINESS CASE

In order to assess the relative merits and risks of the options, the business case is made up of two main parts consisting of:

1. Operational Analysis
2. Financial Analysis

The business case has been constructed in this way to allow the relevant Authorities to consider the options in a way that meets the requirements in the Fire and Rescue Services Act (2004) Section 2, which requires the Secretary of State to make any decision about the governance of Fire and Rescue functions on basis of:

1. Efficiency and effectiveness
2. Economy
3. Public safety

Efficiency and effectiveness and public safety have been captured under the operational analysis. Economy has been captured under the financial analysis.

The financial analysis within the business case has taken due regard of the Chartered Institute of Public Finance and Accountancy (CIPFA) document 'The Development of Guiding Principles on how to Fund the Transfer of a Fire and Rescue Service from a County Council to a PCC' January 2018, as well as the CIPFA independent reviews of PCC governance business cases. Although this proposal is not to transfer to the HFRA to a PCC model, the CIPFA document provided a useful reference.

The table below provides a direct comparison of the main statistical information for both Hampshire and the Isle of Wight.

Key comparators for Hampshire FRS and Isle of Wight FRS			
	Hampshire (including Portsmouth and Southampton)	Isle of Wight	Total
Socio-economic			
Population	1,829,500	139,800	1,969,300
Area (in hectares)	376,921	38,016	414,937
Number of domestic properties	754,084	69,583	823,667

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Number of non-domestic properties	51,479	6,631	58,110
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2.1 Operational analysis

In considering the efficiency, effectiveness and public safety of a new CFA we have focused on the benefits and risks from an operational and organisational perspective and explored:

- Resilience
- Capacity
- Duplication
- Continuous improvement
- Reducing the risk from fire and other emergencies

The new CFA would need to undertake a review of risk across the whole geography of the new CFA area through an Integrated Risk Management Plan (IRMP). The operations of the new CFA will adjust to meet the risks and demands of the new CFA area. Fire and Rescue Authorities have a duty to have regard to the Fire and Rescue National Framework required by s.21 Fire and Rescue Services Act 2004 and to produce an IRMP that identifies and assesses all foreseeable fire and rescue related risks that could affect its community.

A larger CFA provides for more resources to be able to grow and improve the fire and rescue service provision across both localities. The financial choices faced by an upper tier local authority could present a future challenge to the IOWFRS and although efficiencies have been made to most services on the Island more maybe required. A new CFA including the IWFRS would ensure a fire specific focus on the Isle of Wight by a new organisation whose sole purpose is fire and rescue services. Its financial separation would also give the ability to plan well ahead and ensure the public are receiving the best fire and rescue service.

Operational	Key comparators for Hampshire and Isle of Wight FRS		
	Hampshire	Isle of Wight	Total
No of fire stations	51	10	61
On-call fire stations	38	8	46
Number of appliances	78	13	91
Number of calls to control	30,433	1969	32,402
No of incidents attended	20,299	1349	21,648

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2.1. 1 <u>Resilience</u>	17/18 within county			
	Total fires	3,891	306	4,197
	Total accidental dwelling fires	796	75	871
	Number of FSO inspections carried out	457	107	564
	Number of wholetime firefighters	679	76	755
	Number of on-call firefighters	496.5	86	582.5
	Number of corporate staff, non-uniformed service delivery and	256	19	275
	Fire Control	31.5	0	31.5

The current arrangements in Hampshire mean that there are 1462 employees of the fire service to provide prevention, protection, response and resilience activities to the community. In comparison the Isle of Wight has 181 employees. By combining and creating a new CFA, this would provide for increased resilience operationally across the whole of the new CFA area and would build upon the benefits already realised under the current Strategic Partnership. Under a new CFA it would be possible to plan for teams to operate between the mainland and Island for specific events as well as to provide contingency in case of low staff numbers. The same approach can be taken for vehicles and equipment across the two areas. The IWFRS has 13 equipped front-line appliances, HFRS has 78. There would be challenges geographically however this shouldn't be a barrier to becoming one organisation and enhancing resilience for operational employees.

A CFA with more resources is of great benefit during national scale incidents where whole communities become concerned or involved. During the Grenfell Tower incident, Hampshire Fire and Rescue Service were able to deploy resources across the County from areas of low risk to areas of greater risk in the cities of Portsmouth and Southampton. This supported the City Councils in inspecting the 272 high rise buildings and provided reassurance to the communities that live in them.

A new CFA would also provide for increased resilience for the organisation by creating a more stable platform for the delivery of services to the public. Continuing as two separate organisations, both would maintain their own independence, however as one larger organisation, there would be much more resilience to ensure safer communities. As one organisation there is a single point of governance which will ensure clarity of decision making and a more resilient organisation.

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The table below illustrates the comparison between HFRS and IWFRS in relation to Command Officers and Protection activity. It shows what increased resilience a new CFA could have if the two organisations resources are joined together.

Key comparators for Hampshire FRS and Isle of Wight FRS			
	Hampshire	Isle of Wight	Total
Number of level 1 command officers	488	57	546
Number of level 2 command officers	48	9	57
Number of level 3 command officers	9	0	9
Number of level 4 command officers	9	0	9
Protection			
Fire Safety Audits	457	107	564
Enforcements	0	2	2
Prohibitions	25	0	25
Action Plans Issued	176	4	200
Alleged Fire Risks	466	7	473
High Rise Inspections	272	6	278
Joint Inspections of High Rise with Local Authority	29	0	29
Prosecutions	7 pending	0	7
Building Control	828	71	899
Other Fire Safety activities, e.g. licensing	647	25	672

2.1.2 Capacity

As well as describing the organisational resilience elements it is vital to consider the overall delivery capacity of the current arrangements and the potential of a new combined service.

The table below shows the number of staff HFRS and IWFRS have in their respective community safety and protection functions.

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Team	HFRS	IWFRS	Total
Community Safety	44	5	49
Protection	23	3.5	26.5

A new CFA would provide enhanced and increased capacity operationally and organisationally. It would create the opportunity to work flexibly across a larger geographical area focusing resources upon the needs and risks of the communities. As a combined workforce, these numbers provide for a more resilient Service that is better able to adapt the changing needs and risks of the whole geographical area. A change in the governance model could create a short-term effect on some staff workloads during the transition period, however this would be managed and monitored closely to ensure there are no distractions from the important job we have of creating safer communities.

2.1.3 Duplication

While the existing partnership arrangements provide for more sharing between the two services, they still remain two separate organisations and therefore there is duplication of policies, strategies, response standards, performance indicators and other agreements. Currently HR, legal and employment practices cannot be shared as there are two different employers of FRS teams in the two Authorities. This means that legal challenges, trade union negotiations, grievance and pay procedures are made more difficult for the shared leadership team as they need to operate across two sets of rules. The same is also true for organisational personal support and standards, including discipline where there is a real need for consistency to give our teams the peace of mind to know they are protected and supported in their roles.

The creation of a new CFA and the alignment of such policies, would remove this duplication and create clarity for both staff and the public. It would ensure there is one team providing emergency response and delivering consistent safety messages. It would also remove duplication of work as there are currently two teams delivering all aspects of the Fire and Rescue Service. Aligning the two organisations may take some time however operating as one organisation and the increased consistency this brings is of great benefit to both staff and the public.

2.1.4 Continuous Improvement

The creation of a new CFA would allow for increased shared operational knowledge and learning. Both organisations have a breadth of expertise and coming together as one organisation will further enhance the sharing of knowledge, increase operational learning and ensure continuous improvement. A larger organisation lends itself to better career progression opportunities. The bringing together of the strengths of both organisations, will allow for a mixture of skills and knowledge to be shared benefiting the whole organisation and the public. Staff will have the opportunity to work across different geographical areas allowing for exposure to, and a better awareness of, varying social demographics enabling a better understanding of risk.

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With the increased use of flexible working for support staff, the opportunity to work closer to home and reduce the amount of commuting will increase. A larger organisation will also lend itself to providing increased development opportunities for staff. There will be cultural differences between the two organisations. This brings strength as the differences between the two organisations are valued and brought together as one.

A new CFA would mean that there would be one team with the responsibility of data gathering, data sharing and intelligence. An enhanced data provision and the combining of the data sets would provide a richer picture of the risks faced across the whole geographical area and lead to a better understanding of how to mitigate the risks and create safer communities.

2.1.5 Reducing the risk from fire and other emergencies

There are currently two separate corporate plans for each of the two services. The creation of a new CFA would allow for the alignment of the Integrated Risk Management Plan (IRMP) and other policies and strategies that are currently delivered individually. Alignment would ensure the public are receiving clear consistent safety messages and ensure safer communities through a dedicated Communications Team. It will allow for aligned preventative and protection messages to assist with ensuring safer outcomes for the public. A larger more resilient organisation would be better equipped to deal with emergencies when they happen, and be better equipped to carry out preventative and protection work in a clear consistent manner for the communities.

Fire and Rescue Services primary concern is public safety. The creation of a new CFA must ensure the continued focus on public safety. The points below consider how public safety could be improved under the creation of a new CFA.

Under the Strategic Partnership, the Strategic Management of the IWFRS is provided to the Isle of Wight by HFRS, under the policy direction of the IWC. Although an efficient way to manage the IWFRS, a significant amount of Hampshire Officer's time is spent on the IOW in relation to strategic leadership and contribution to the IWC. Clearer more effective and streamlined governance and decision making could be achieved by the creation of a single Fire and Rescue Authority. Decision making under the current arrangements can be lengthy and take up a lot of time. This is time which could be better spent on making decisions around safety, prevention and protection. The current governance arrangements mean that the IWC consider decisions around the Fire and Rescue Service amongst other priorities, the IWC have multiple purposes and priorities. The creation of a new CFA and a single purpose organisation making decisions about one strategic area, will allow for more cohesive decision making around the safety of the public. It will also ensure all focus on the Island is fire related.

The creation of a new larger CFA lends itself to being better equipped to deal with national resilience issues and events. Often, issues and events of national resilience

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can become a huge drain on the resources of a Fire and Rescue Service, the recent Grenfell Tower fire saw this on a large scale and required HFRS to deploy resources to areas of need on a large scale. During Grenfell there were significant priorities HFRS had to work on and do so quickly to help ensure public safety. Operating as one Fire and Rescue Authority creates more resilience when it comes to dealing with events such as these. HFRS have been operating a successful volunteer scheme for many years now. The number of HFRS volunteers in 2017 was 100. In the IWFRS, in 2017, there was one volunteer. The creation of a new CFA and the pooling of resources gives a greater opportunity for communities and business to benefit from the activities currently offered by individual Services, such as the volunteer scheme. They will also benefit from the use of cutting edge equipment and state of the art delivery of services.

There are many benefits to working in collaboration with other blue light partners and the introduction of the Policing and Crime Act 2017 places emphasis on ensuring consideration is given to collaboration at all times. The creation of a new CFA would provide greater capacity to deliver collaborative work and to enter into partnerships that will be of benefit to the communities in Hampshire and the Isle of Wight.

The IWFRS work with partners to deliver a road safety prevention activity across the Island. This has enabled the delivery of an extensive range of road safety activities that is not replicated by HFRS. In 2017/18 the IWFRS delivered the following:

Course	Number of participants
Head On	650 students
Biker Down	100 participants
Driver Awareness Training	1350 drivers
Bikeability	290 children
National Citizen's	11 sessions to 30 people
Child pedestrian training	42 schools

The creation of a new CFA would provide greater operational resilience and in turn, improved interoperability, the ability for the Service to work with other Emergency Services across different boundaries. This will provide enhanced public safety due to the capacity to share resources more efficiently and effectively when it is required. A new CFA would create one single organisation for other partners to work with as opposed to two separate ones. This reduces duplication of workload for partners creating a single unified purpose.

2.1.6 Status quo – maintain existing arrangements

The alternative option to creating a new CFA from an operational perspective would be to maintain the existing governance arrangements and remain as two separate fire and rescue services. There are no identified public safety benefits if the two Services choose to maintain existing arrangements. If the current governance arrangements were maintained, the public in Hampshire and on the Isle of Wight

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would remain safe. There are no benefits that have been identified should the governance arrangements remain as they currently are, compared with creating a new CFA. The risk of this option is that each authority will not make the improvements from an operational perspective as described in this business case. If the Services did remain separate the IWC would retain democratic control of the fire and rescue service and the HFRA would remain unchanged. A review of the partnership under the DDiP arrangements would need to be carried out to ensure the Services can operate in the most efficient and effective way. It is unknown what the outcomes might be from a review of the partnership and whether the savings to IWFRS and IWC and income to HFRA and more efficient and effective ways of working would be maintained. Currently the partnership has delivered £470K savings for IWFRS and provided increased capacity and resilience to the training department and leadership team. HFRA receives an income for the recovery of costs in the region of £230,000 per annum.

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2.3 Financial analysis

Whilst there is only a limited financial case for pursuing a new CFA, this is not one of the key drivers for the business case and therefore this section needs to be considered in the wider context of the other benefits that a new CFA would bring.

The process for creating a new CFA from a financial point of view is quite complex but what this section seeks to explain is the financial impact that it would have both on HFRA and on council tax payers in Hampshire.

In simple terms as the Fire and Rescue Service on the IOW is part of the overall IWC, we must identify all of the financial aspects that relate to that service and then consider what the impact is of transferring these into a new CFA. For the purposes of this consultation we have based the financial information on the 2018/19 budget as this is the most recent information that we have available.

The key element of this process is to identify the direct revenue costs (day to day costs such as salaries and fuel) of providing the FRS on the Island, but we must also consider other issues such as:

- Central costs (e.g. finance and legal support) that are incurred in providing direct support to the FRS
- Grants and other income
- Assets and liabilities linked to the service such as buildings and vehicles
- Debt financing costs
- Reserves

The other important factor is to understand the impact on council tax. For residents on the Isle of Wight, they would see the council tax that they pay for IWC services reduce but a new amount (called a precept) would be charged by the new CFA for FRS's (in the same way that the Police and Crime Commissioner does at the moment).

For Hampshire residents, there may be an impact on council tax depending on the value of costs and income that transfer from the IOW and the new CFA must decide how it will 'harmonise' council tax for residents both on the Isle of Wight and in Hampshire if it is created.

The following sections in this consultation document cover these issues in more detail.

2.3.1 Revenue Costs

As part of the financial process a figure must be calculated that represents the total 'notional' cost of the IWCFRS. The total direct net cost of providing a Fire and Rescue Service on the Isle of Wight is budgeted to be £6.135m in 2018/19 including the proposals for savings that have been put forward as part of the service review.

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In addition to these costs an exercise has been undertaken to identify other direct costs that are attributable to the IWCFRS and to work out an appropriate proportion of other central budgets that should be taken into account. This has provided further costs as follows:

Item	£'000	Comments
Direct support costs	270	Based on forecast time spent supporting the FRS
Repairs and maintenance	26	Proportion of central budget
Debt financing costs	725	Proportion of central budget

The overall aim of the financial process is to leave the IWC in no better or worse position than it would have been if the service remained within the Council. On that basis, the following approach has been proposed in respect of the costs in the above table.

Direct support costs – These represent proportions of individual staff time spent supporting the FRS. If financial resources were transferred it is unlikely that the staff associated with those budgets could also be transferred to the new CFA since the work for IWCFRS represents only part of an individual's role. It is therefore proposed that this is excluded from the notional budget. Whilst it is anticipated that there will be some additional support costs for the new CFA these are considered to be marginal and would expect to be met from the additional council tax income highlighted below.

Repairs and Maintenance – Since this represents a proportion of an existing central budget and is relatively small, it is again proposed that the resources remain with IWC.

Debt Financing Costs – These costs are more substantial but have still been calculated on the basis of a relevant proportion of a central budget. Loans were taken out to fund capital expenditure in the past and this represents the cost of repaying those loans plus interest. It is not possible to easily identify which FRS assets were funded through borrowing and therefore a proportion of the budget has been used.

If this cost transferred to the new CFA, it would mean that council tax income equivalent to the full value would also need to transfer with it. The impact on the IWC is therefore neutral irrespective of whether the debt costs transfer or not. On that basis it is proposed to leave the debt costs and council tax income with the IWC since this also removes potential administrative complications with transferring debt between organisations.

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Based on the assumptions detailed above this therefore means that the current revenue cost of the IWCFRS for the purposes of any potential transfer are £6.135m

2.3.2 Grants

The IWC also receive grants and other income to help offset the costs of services provided on the island. In order to calculate the 'notional' net cost of the IWCFRS, a proportion of these grants and other income needs to be attributed to the IWCFRS.

An explanation of the different income sources and how these have been treated is outlined below:

Revenue Support Grant – The Government provides grant to local authorities to help meet the cost of services in the form of Revenue Support Grant (RSG). Normally RSG is provided as a general grant and not allocated to specific services, but in the case of Fire a separate Fire RSG is identified by the Government.

For 2018/19 Fire Revenue Support Grant for the IWC was assessed as **£992,000** and this amount can therefore be taken into account as part of these calculations.

Retained Business Rates – Local Authorities can now retain a proportion of Business Rate income collected in the year. Again this is a general grant that can be used to fund all services and therefore only a proportion of this can be attributed to the IWCFRS.

The Government publishes baseline assessments for business rates that distinguish between Fire Services and Other Services. The figure for retained business rates for IWCFRS in 2018/19 is **£1.065m**.

Business Rate Top Up Grant – Some local authorities also receive a top up grant from the Government as the income they now receive through business rates retention is less than the total level of grants they previously received.

For IWC the Top Up grant is £12.652m, but again the Government provides a breakdown of this figure between Fire Services and Other Services. The figure for Top Up grant for IECFRS in 2018/19 is **£714,000**.

2.3.3 Potential Further Savings

The Service Review proposals are expected to be implemented this financial year and take the level of operational capacity down to the minimum level that can be achieved under the current DDiP arrangements.

This means that there is limited opportunity for the IWC to make further savings from the IWCFRS and similarly there are no significant opportunities for HFRA to increase the income they currently receive under the DDiP arrangements.

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In overall terms, the potential removal of the FRS from the IWC would have the impact that the IWC will need to find a relatively higher proportion of savings from a smaller service cost base due to the higher reduction in general RSG compared to Fire RSG.

Whilst this has a slight negative impact on the overall financial position of the IWC, if the FRS remained within the IWC it would have a very limited ability to contribute to any further savings programmes since most of the costs are driven by staff, buildings and vehicles. On that basis the IWC is in no worse a position than it otherwise would have been.

A separate commitment has also been made to continue to use capacity that exists within the IWCFRS to improve and generate efficiencies in other IWC and Isle of Wight public services. Whilst this will not make direct savings within the FRS itself, it may help other services to reduce their expenditure through collaboration and close working with the FRS.

In addition, although the scope is much smaller, it may still be possible to make savings in other running costs within the IWCFRS and current plans to replace Personal Protective Equipment (PPE) in the current year will lead to a saving in annual revenue costs of around £80,000 from 2019/20 onwards.

Since the IWC are funding the £340,000 required to replace the PPE this year, it seems reasonable that the future saving should also be taken into account as part of the calculation of the notional FRS budget.

This would have the effect of reducing the net service cost of the FRS to £6.055m

2.3.4 Council Tax

As mentioned in the introduction to this section, it is necessary to calculate a 'notional' council tax for the IWCFRS, which would be removed from the IWC total council tax and replaced by a separate precept from the new CFA.

The notional council tax can be calculated as follows:

	£'000
Net Service Cost	6,055
Fire Revenue Support Grant	(992)
Retained Business Rates	(1,065)
Business Rates Top Up	(714)
Net Amount to be met from Council Tax	3,284
Divided by Tax Base for IWC	52,998
Notional Council Tax	£62.00

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If a new CFA were to be created then this is the amount that the IWC council tax bill would be reduced by and a new precept would then be charged by the new CFA.

The amount to be charged for council tax by the CFA in the future would need to take into account the impact on the residents of both the Isle of Wight and Hampshire, which is known as council tax harmonisation.

The council tax for HFRA in 2018/19 is £65.74 which is which is £3.74 higher than the notional amount shown above. For the purposes of this consultation it has been assumed that council tax would be harmonised at the current Hampshire rate.

In simple terms this would mean that Isle of Wight residents would pay £3.74 more per year for their Fire Service than they did under the previous arrangements and this would generate extra council tax income for the new CFA of just under £200,000 per annum that could be used to fund any additional support and other costs that may arise as a result of the transfer.

This would mean that at the point of transfer, Hampshire residents would not see any change to the council tax level they pay for Fire and Rescue Services. However, there are other implications on the budget for a new CFA that need to be taken into account, and these are discussed in more detail in the next sections.

2.3.5 Assets and Liabilities

When a transfer of functions between public bodies takes place, it is also usual practice for all relevant assets and liabilities to transfer at the same time. In the context of the IWCFRS this would include:

- Specific land and buildings associated with the provision of the IWCFRS (mainly dedicated fire stations)
- Vehicles and equipment used within the service
- Specific financial assets or liabilities associated with the service (provisions, capital receipts, reserves etc)
- A relevant proportion of general reserves held by IWC based on the IWCFRS budget as a proportion of the total budget (4.087%)

No debt would transfer for the reasons set out previously and it is assumed that contracts for services would be novated to a new CFA wherever this could be negotiated with the provider.

The assumption within this business case is that all physical assets would transfer to a new CFA unless separately agreed between the two organisations and that relevant financial assets and liabilities would also transfer at the point of the creation of a new CFA. This would give the following profile of transfers based on the

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estimated position at the end of 2018/19 (or as per the 2017/18 accounts in the case of the Net Book Values):

	£'000
Net Book Value of Property (existing Use Value based on a 5 year re-evaluation cycle)	10,327
Net Book Value of Vehicles and Equipment (historic cost less depreciation)	2,898
FRS Special Grants Reserve	106
4.087% of Repairs and Renewals Reserve	41
4.087% of Non-insurable risks reserve	81
4.087% of General Reserves	456

In overall terms, the transfer of these assets and liabilities has a broadly neutral impact on Hampshire at the point of transfer but does create substantial liabilities when considering the future maintenance and replacement programmes for buildings and vehicles in particular, which is discussed in more detail in the next section.

In balance sheet terms, it does however increase the net worth of the new CFA and provide greater options for the management of the built estate and vehicles across the new CFA.

2.3.6 Asset Maintenance and Replacement

One of the key issues for creating a new CFA would be the transfer of future liabilities relating to Property and Vehicles which are currently not funded within the existing Medium Term Financial Plan and are only partially offset by the transfer of reserves outlined above.

A review has been carried out to identify the essential areas for capital investment within the FRS on the Isle of Wight and these are outlined below:

Property – The current estate of fire stations is old and in a poor state of repair. A condition survey has been carried out which has identified a programme of essential maintenance that is required to the estate to keep it operationally effective and a safe place to work.

This would require capital funding in the order of **£3m** over the next 3 to 5 years with **£1.6m** of this needing to be addressed within the first 1 to 2 years. In addition, it is estimated that an additional annual revenue budget of over **£460,000** per annum would need to be created to properly maintain and service the fire station estate across the Isle of Wight.

One off capital funding to meet the required investment would need to be found and factored into the capital programme and perhaps more importantly an additional annual revenue budget would need to be created on an ongoing basis.

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This additional funding needs to be seen in the context that the new CFA would have wider and valuable asset base (an increase in the order of £13m) than previously and that these assets are available to help facilitate future changes to the Service as appropriate.

Vehicles – The current service review proposals for IWCFRS include changes to the vehicle types used by the service. In addition, there is a general requirement for vehicle replacement over the next 5 years.

These two things together require investment in vehicles of **£2.4m** over the next five years against which the IWC only has **£0.6m** put aside to help fund this expenditure.

Again, it would be for the new CFA to address this funding shortfall and new capital funding of **£1.8m** would be required to be found and added to the capital programme.

It may be possible to look at alternative arrangements for vehicle utilisation both on the Island and in Hampshire taking into account the wider fleet that would be available to the new CFA. This could bring the one-off liability down, but it unlikely to eradicate it altogether.

It is assumed that the other running costs of the vehicles is adequately covered in the equivalent revenue budgets that would transfer.

2.3.7 Capital Funding Options

In capital terms, a net requirement of nearly **£5m** has been identified over the next 5 years.

Hampshire has been successful in building up its Revenue Contributions to Capital Outlay (RCCO) over the last few years to the extent that there is nearly £4m built into the budget on a recurring basis to help fund capital expenditure.

The current capital programme itself within HFRA is funded until 2020/21 and there remains some uncommitted resources in the Capital Payments Reserve. However, given the extent of the capital liabilities that the new CFA would be taking on, support in the form of implementation grant would be requested from the Home Office to enable the successful creation of the new CFA.

The vehicle replacement programme was recently updated to reflect the impact of the changes arising from the new operating model (Service Delivery Re-Design) and HFRA is currently developing its approach to managing the built estate so that it is fit for purpose going forward.

As a strategy therefore, it may be possible to look at greater vehicle utilisation across Hampshire and the Isle of Wight to limit vehicle replacements and then fund any essential new vehicles from the Capital Payments Reserve and potential financial support provided by the Home Office.

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The one-off costs associated with the built estate could be factored into the current plans being developed in respect of HFRA's estate strategy, which relies on prudential borrowing to meet the cost of capital investment, albeit there would be some contribution towards this from income earning opportunities and utilising other capital funding (such as capital receipts from the sale of other assets) to meet the expenditure.

This would limit the immediate impact of the transfer of property liabilities and would mean that the overall approach to estate management could be developed jointly for Hampshire and Isle of Wight properties, supported in part by potential funding provided by the Home Office.

2.3.8 Revenue Funding Options

Perhaps of greater concern is the annual revenue liability in respect of property assets. An exercise was completed to look at the costs of adequately providing for repairs, term servicing, inspections etc. for the existing properties on the Island.

This was forecast to cost £520,000 per annum and a provision of only £60,000 per annum exists within the current IWCFRS budget that would transfer to the new CFA, leaving an annual gap of £460,000 that would need to be found as part of any future budget setting process.

Part of this cost could be met from the additional council tax income that would be generated at the point of transfer once other costs (such as support costs) had been taken into account. However, since the total amount is only £200,000 this would not cover the annual revenue liabilities identified in respect of property costs.

Whilst under the current DDiP arrangements, it is not anticipated that any further significant savings can be made, the move to a new CFA would open up other opportunities for making savings across the two Fire Services.

This is because having a single larger CFA covering Hampshire and the Isle of Wight means that structures and resource deployment can be changed to be more efficient and generate savings as a result. This option is not available under the current DDiP arrangements as it is not lawful to directly deploy Hampshire resources on the Island unless they are responding to an emergency incident.

This restriction does not apply for a single CFA and it has been estimated that between £300,000 and £400,000 of additional savings could be achieved following the creation of a new CFA.

This funding together with the additional council tax income could be used to meet the additional annual property costs and would ensure that the properties are fit for purpose and maintain operational effectiveness going forward.

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2.3.9 Costs of new CFA creation

The majority of this section has dealt with the financial implications and process for a potential transfer of the IWCFRS to a new CFA.

However, there are also potential one-off costs associated with the transfer itself in terms of preparation of a final business case to Government, the legal process for creation of the CFA and transfer of assets, liabilities and contractual arrangements.

Furthermore, there may be costs in respect of the practical arrangements for the transfer of staff to the new CFA, in areas such as information and communication technology, equipment etc.

At this stage, it has been agreed by the two authorities that all one-off costs will be met by Hampshire and these costs once known would need to be factored into the update of the Medium Term Financial Plan.

2.3.10 Status quo – maintain existing arrangements

The DDiP arrangements finish in March 2020. If there is no move to a new CFA, these arrangements will need to be re-considered by HFRA and IWC. There is risk to HFRA that the arrangements may not be renewed and the income received from the IWC for DDiP will not be maintained.

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3 SUMMARY OF THE BUSINESS CASE

This business case is based on a desire to create a more efficient and effective Fire and Rescue Service. There are challenging economic factors in transitioning to a new CFA, however improving public safety and ensuring delivery of an exceptional Fire and Rescue Service leading to safer communities across the whole area is the most important factor.

The creation of a new CFA would lead to a more efficient and effective Service and an improved level of safety to the public. The creation of consistent safety messages would provide greater re-assurance for the public. It is important to highlight that if a new CFA is created on a larger geographical area, operational staff will still maintain their existing local relationships and continue to have an understanding of the local context of the area they work in. There will be no changes to the operations of the FRS and the FRS will be maintained by the same people as it is currently. A new CFA will however have the responsibility of assessing the risks and demands of the new geographical area and deploying resources to best meet the risks and demands. This would result in the creation of a new IRMP in the future.

There are many benefits that the creation of a new CFA would bring organisationally, operationally and for the public. A new CFA, one organisation with a single purpose is a more accountable way of running a Fire Service. A single organisation with a single purpose is better able to provide efficient and effective scrutiny around decision making. A new CFA would allow for greater resilience, removal of duplication, enhanced capacity and ensure continuous improvement. There are some risks associated with the creation of a new CFA, however these are mainly short-term risks associated with the transition into a new governance model and the long-term benefits to the new CFA and public outweigh these short-term risks.

The alternative option is to maintain the existing arrangements and stay as two separate Services. Under this arrangement the two Services would remain separate and continue to be governed by the HFRA and the IWC. The IWC would maintain control of the fire and rescue service and the existing CFA that covers Hampshire, Portsmouth and Southampton would remain. Under this option, the current arrangements of the Strategic Partnership, DDiP, would run until the end of the agreement which is in March 2020. There is a risk that HFRA and IWC might not be able to come to an arrangement to extend the partnership beyond its current timeframes should a decision be made to keep the governance arrangements as they currently are.

The option not to change the governance of the fire and rescue services, although meaning that Hampshire and the Isle of Wight Fire and Rescue Service's would remain separately governed, does mean that the Police and Crime Commissioner, through the Policing and Crime Act 2017 could create a business case to become the Fire and Rescue Authority and create one entity made up of Hampshire FRS Isle of Wight Fire and Rescue Service's. In a recent letter the Police and Crime Commissioner stated that over the coming months he will continue to look for:

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- The successful coming together of the fire authorities
- The new inspection regime within HMICFRS and the confirmation of ongoing excellent performance of our fire services
- The bringing together of further significant savings through the existing collaboration, which delivered so well in the past

Economically for the HFRA and Hampshire residents there would be no change to council tax levels as a result of the creation of a new CFA and there would be an additional council tax income for the new CFA of nearly £200,000 per annum. There would be a need for the new CFA to fund capital investment for vehicles and property in the region of £5m over the next 5 years which would create a larger higher valued asset portfolio. Home Office funding would be sought to support this spend. There would also be the need for the new CFA to fund additional annual property maintenance and servicing liabilities of £520,000 per annum. This aside, there is the potential for the new CFA to make additional savings around £300,000 to £400,000 per annum.

This business case looks at two options, firstly to create a new CFA and secondly to maintain the existing governance arrangements. The preferred option currently is the proposed creation of a new CFA. There is also an option not to do this and to maintain the status quo. However, views are being sought through this consultation in order to inform a future decision. Whilst, there are challenging financial factors in transitioning to a new CFA, improving public safety and ensuring delivery of an exceptional Fire and Rescue Service leading to safer communities across the whole area is the most important factor.