

NOTICE OF MEETING

<i>Meeting</i>	Hampshire Fire and Rescue Authority	<i>Clerk to the Hampshire Fire and Rescue Authority</i> John Coughlan CBE
<i>Date and Time</i>	Wednesday 22nd July, 2020 10.30 am	<i>The Castle, Winchester</i>
<i>Place</i>	Virtual Teams Meeting - Microsoft Teams	<i>Hampshire SO23 8UJ</i>
<i>Enquiries to</i>	<u>members.services@hants.gov.uk</u>	

BROADCAST NOTIFICATION

This meeting is being held remotely and will be recorded and broadcast live via the Hampshire Fire and Rescue Service website at the following link: [HFRA Broadcast](#)

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 - 12)

To confirm the minutes of the previous meeting

4 DEPUTATIONS

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

5 CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6 MEMBER DEVELOPMENTS

To receive any updates from Members of the Authority

7 OUTTURN REPORT 2019/20 (Pages 13 - 40)

To consider a report from the Chief Financial Officer, which recommends that the outturn report, including carry forwards, reserves and capital financing are approved, along with the annual treasury outturn for 2019/20.

8 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.

9 APPOINTMENTS REPORT (PENSION BOARD) (Pages 41 - 44)

To consider a report from the Clerk regarding an appointment to the Hampshire Fire and Rescue Authority Pension Board.

10 EXEMPT MINUTE FROM 3 JUNE 2020 MEETING (Pages 45 - 46)

To approve the exempt minute from the meeting on 3 June 2020.

ABOUT THIS AGENDA:

This agenda is available on the Hampshire 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.

Agenda Item 3

AT A MEETING of the Hampshire Fire and Rescue Authority held virtually via
Microsoft Teams on Wednesday 3rd June, 2020

Chairman:

* Councillor Christopher Carter

* Councillor Roz Chadd
* Councillor Liz Fairhurst
* Councillor Jason Fazackarley
* Councillor Jonathan Glen
* Councillor Geoffrey Hockley

* Councillor Sharon Mintoff
* Councillor Roger Price
* Councillor David Simpson
* Councillor Rhydian Vaughan MBE

*Present

256. **ELECTION OF CHAIRMAN**

Councillor Chris Carter was proposed by Councillor Chadd and seconded by Councillor Fairhurst for the position of Chairman of the Fire Authority for 2020-21. This was then taken to a vote and Councillor Carter was duly appointed.

257. **ELECTION OF VICE CHAIRMAN**

Councillor Roz Chadd was proposed by Councillor Carter and seconded by Councillor Fairhurst for the position of Vice Chairman of the Fire Authority for 2020-21. This was taken to the vote and Councillor Chadd was duly appointed.

258. **APOLOGIES FOR ABSENCE**

Apologies were noted from Michael Lane, the Police and Crime Commissioner and Councillor Dave Stewart from the Isle of Wight Council.
All Members of the Full Authority were present.

259. **DECLARATIONS OF INTEREST**

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

260. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed.

261. **DEPUTATIONS**

There were no deputations for the meeting.

262. CHAIRMAN'S ANNOUNCEMENTS

The Chairman opened his announcements by thanking officer Geoff Howsego for his contribution and service to the Hampshire Fire and Rescue Service (HFRS) over the past 13 years, which was echoed by the Chief Fire Officer, who wished Geoff well for the future. Cllr Price thanked Geoff in particular for his work with Chief Fire Officers Association and for being a driving force behind looking at national policies.

Looking at the impacts of Covid-19, Members learned of the Strategic Coordinating group, which was Chaired by the Chief Fire Officer. Many HFRS staff had contributed and volunteered and many were also now working outside the normal parameters of their roles and were thanked for adapting to ensure business continuity and effective protection of the public. A response and recovery process was now in place and demand was increasing with the warmer weather and easing of restrictions. Members emphasised the importance of the public being careful, particularly with disposable BBQ's, which were a common cause of wild fires.

The Isle of Wight Fire & Rescue Service (IWFRS) discovery week would have commenced on 30 March 2020, with the inspection week starting 27 April 2020 and the HFRS discovery week would have commenced on 31 August 2020, with the inspection week starting 28 September 2020.

Due to the pandemic the inspections had been delayed and it was likely to now be a combined inspection of both Services.

The Chairman was also pleased to confirm that the first meeting of the Shadow Authority was due to take place later the same day at 14:00, which would also take place virtually and be available for viewing.

263. MEMBER DEVELOPMENTS

The Chairman and Cllr Roger Price had attended a virtual LGA Fire Commission meeting on 15 May¹ and heard from new Fire Minister Lord Stephen Greenhalgh, who was looking for action and reform based on recommendations of national inspection, including those following Grenfell. Peter Baker from the Health and Safety Executive (HSE) had also talked about the transition to a new building safety regime and how there was more to learn as it developed and came into effect in 2021.

Cllr Price shared his concerns over the direction that the Minister wanted to go in and felt it was still unclear what the view was on the Police and Crime Commission, but felt encouraged that the changes needed had been acknowledged.

¹ <https://lga.moderngov.co.uk/ieListDocuments.aspx?CId=171&MId=4304&Ver=4>

264. **APPOINTMENTS REPORT**

The Authority considered a report from the Clerk (item 9 in the minute book), which proposed the appointments for 2020/21. It was confirmed that Section 2 had been added to accommodate the new arrangements with meetings in light of Covid-19, which allowed for virtual meetings.

Members confirmed that the recommendation regarding the Member Liaison Champion be removed as it was not felt a necessary appointment.

RESOLVED

a) The Authority noted the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Meetings and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and their effects in enabling the Authority to hold virtual meetings, as set out in section 2 of the report.

b) For the purposes of Part 1 of the Local Government and Housing Act 1989, the allocation of seats on the Standards and Governance and the Stakeholder Committee of the Authority was agreed as set out in Appendix 2 of the report.

c) The Authority appointed the following members of the Standards and Governance and the Stakeholder Committees and their respective Chairmen and Vice Chairmen following the agreed allocation of seats at paragraph 8.2 (above), until the Combined Fire Authority is formally established in 2021:

Standards and Governance	Stakeholder Committee
Cllr Liz Fairhurst (Chairman)	Cllr Roger Price (Chairman)
Cllr Sharon Mintoff (Vice Chairman)	Cllr Jonathan Glen (Vice Chairman)
Cllr Jonathan Glen	Cllr Roz Chadd
Cllr Geoff Hockley	Cllr Rhyddian Vaughan
Cllr Roger Price	Cllr Sharon Mintoff

d) With regards to the Pension Board, the Authority considered the position as set out in section 4 of the report and confirmed the appointment of Councillor Roger Price and Stew Adamson in accordance with the Board's Terms of Reference, with the vacancy to be appointed to at a future date.

e) That APAG include all appointed Shadow Authority Members as set out in paragraph 5a of the report, until the inaugural meeting of the Combined Fire Authority in 2021.

f) The Authority appointed Councillor Fairhurst (Chairman), Councillor Price and Councillor Vaughan to an informal working group for the review of principal officer pay, as detailed in paragraph 5b of the report, until the inaugural meeting of the Combined Fire Authority in 2021:

g) The Minority Group Spokesperson for the Liberal Democrat Party Group until

the inaugural meeting of the Combined Fire Authority in 2021 was confirmed as **Cllr Roger Price**, as set out in paragraph 5d of the report.

h) The Chairman of the Stakeholder Committee was appointed as the Shareholder Representative for 3SFire Ltd (with the Vice Chairman, Councillor Jonathan Glen, substituting as and when required) pursuant to Article 39 of the Articles of Association of 3SFire Ltd as set out in paragraph 5e of the report, until the inaugural meeting of the Combined Fire Authority in 2021.

265. **YEAR END PERFORMANCE REPORT**

The Authority considered a report from the Chief Fire Officer (item 10 in the minute book) regarding the Year End Performance report. It was confirmed that it had not been a normal year, with Covid being factored in. Whilst there was a lot of detailed information provided as part of the report, the following item on the agenda (Service Plan – item 12) was linked to this report and important to be considered alongside.

The report demonstrated performance throughout the year and wider reporting provided more visibility of what the Service was doing. It was acknowledged that there were anomalies with some of the dates within the report and that these would be corrected for the online version.

Some targets were still ongoing and work was continuing to be done around data quality, but it was felt important during the first year to embrace the challenges. Due to increased resources available to staff, mental health related sickness had improved and numbers had decreased in 2019-20, however it was anticipated that this would change following lockdown and Covid-19.

During questions, Members learned that Hampshire Fire and Rescue Service was one of few Service's to have compulsory fitness tests, and this was a good way of monitoring the health and wellbeing of staff.

It was noted that the Arson Task Force had above the national average conviction and clear-up rates for arson incidents, but the number of convictions following arrest fell down to the judicial system not within the control of the Service.

Members were pleased to see an increase in Black, Asian, Minority and Ethnic (BAME) and female firefighters, however there was no evidence to support that females passed the fitness tests more successfully than males and this was more down to the age of individuals.

RESOLVED

Hampshire Fire and Rescue Authority noted the performance for 2019/20 detailed in the report.

266. **SERVICE PLAN 2015-2020 PERFORMANCE REVIEW AND CLOSE REPORT**

The Authority considered a report from the Chief Fire Officer (item 11 in the minute book), which provided an overview of how the plan has progressed to date. Despite covering five years, the plan focussed on areas of change rather than business-as-usual and therefore did not cover all areas of work for the Service.

Members were happy with the Plan and there were no questions.

RESOLVED

The closure of the 2015-2020 Service Plan was approved by the Authority.

267. **ORGANISATIONAL RISK REGISTER**

The Authority considered a report from the Chief Fire Officer (item 12 in the minute book), which reported on closure of the current Hampshire Fire and Rescue Authority (HFRA) Strategic Risk Register and presented the new Organisational Risk Register.

The Risk Register was a business tool utilised to inform and help continuous improvements across the Service and ensure the delivery or mitigation of the risks that had potential to go against priorities. The new risk management approach included the integration of external risks and internal risks through the Hampshire and Isle of Wight Fire and Rescue Service Safety Plan, therefore ensuring risk management culture was far more proactive. It was proposed that the Risk Register continue to be closely managed by the Executive Group and the Standards & Governance Committee, which had increased in meeting frequency.

Members were happy with the proposals and there were no questions.

RESOLVED

The Hampshire Fire and Rescue Authority:

- a) Agreed Option 1 - to close down the current Strategic Risk Register and to adopt the Organisational Risk Register as part of the agreed Risk Management Policy, Safety Plan and delegating its management to the Chief Fire Officer.
- b) Agreed to delegate oversight and the annual monitoring of the Organisational Risk Register to the Standards and Governance Committee.
- c) Delegated authority to the Clerk to make the necessary consequential minor amendments to the Constitution to reflect the changes agreed as part of the report.

268. ANNUAL STATEMENT OF EQUALITY

The Authority received a report from the Chief Fire Officer (item 13 in the minute book) regarding the Service's progress towards actions undertaken to improve the diversity of the workforce.

An on-call recruitment campaign had been effective and now 8% of the on-call workforce were female. The Service was committed to further improve and build strong networks with communities and had undertaken a focused recruitment day earlier in the year. 80% of those in attendance were BAME. A recruitment phase was being planned for 2021 and it was accepted that Covid and social distancing restrictions would mean it unlikely that any recruitment days would be hosted in the near future. Social media would continue to be used.

Members agreed it would be beneficial to work more closely with internal networking groups and this would be investigated by officers. When discussing those with disabilities, it was acknowledged this was a more difficult area as not all disabilities were visible or disclosed and it was important that more consideration was given to disabilities that could not be seen.

On page 150 of the pack, it was confirmed that the age profile brackets were considered as part of the recruiting process.

RESOLVED

Option A: The Annual Statement of Equality (Workforce Demographics) was noted by Hampshire Fire and Rescue Authority.

269. ANNUAL PAY POLICY STATEMENT

The Authority considered a report from the Chief Fire Officer (item 14 in the minute book) regarding the Pay Policy Statement. It was an annual requirement to publish the information publicly on the Service's website and provided information on CFO pay as well as that of the rest of the workforce.

It was noted by Members that no employee was on the minimum wage and it was felt that this was a great achievement.

RESOLVED

The Pay Policy Statement at Appendix A was approved for publication on Hampshire Fire and Rescue Service's website.

270. SPONSORSHIP AND CHARITY ENGAGEMENT POLICY POSITION

The Authority considered a report from the Chief Fire Officer (item 15 in the minute book) regarding a policy position on Sponsorship and Charity engagement.

It was emphasised how important it was that conduct was held to the highest personal and professional standards and that acceptance of money or support in-kind necessitated appropriate levels of scrutiny. To comply with the Authority's financial regulations, control mechanisms were essential to avoid any suggestion of malpractice or financial mismanagement, and so a policy had been compiled to establish a clear position. The policy covered the legal basis of the approach but was not to be done in a commercial setting, which would take the Service out of the boundaries of the Fire and Rescue Services Act.

Going forward, it was agreed that Members would be kept up to date on the register through APAG as well as updates to the Hampshire Fire and Rescue Authority.

RESOLVED

The Policy Statement at Appendix A be approved by Hampshire Fire and Rescue Authority, and the register is reported back to the Full Authority on a regular basis for review going forward.

271. **MINUTES FROM THE STANDARDS & GOVERNANCE MEETING - 2 MARCH 2020**

The Authority received the Minutes from the Standards & Governance Committee meeting, which took place on the 2 March 2020. There were no questions.

272. **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 the 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.

273. **STATION INVESTMENT PROGRAMME - REDEVELOPMENT OF BISHOPS WALTHAM FIRE STATION**

The Authority considered an exempt report from the Chief Fire Officer (item 18 in the minute book) regarding Bishops Waltham Fire Station [SEE SUMMARY OF EXEMPT MINUTE]

274. **URGENT DECISIONS REPORT**

The Authority considered an exempt report from the Chief Fire Officer (item 19 in the minute book), which summarised urgent decisions that had been made due to Covid-19 and the April 2020 Full Authority meeting being cancelled.

It was confirmed that any unplanned expenditure would be picked up as part of the forward planning for next year. Members were content with the report and the decisions taken by the Chief Fire Officer.

RESOLVED

The HFRA noted and supported the urgent decisions taken by the Chief Fire Officer and Chief Finance Officer under the HFRA Constitution and Scheme of Delegation.

Chairman,



Purpose: Approval

Date **22 JULY 2020**

Title **OUTTURN REPORT 2019/20**

Report of: Chief Financial Officer

SUMMARY

1. The final year end position for 2019/20 is an underspend of £0.912m against budget. Carry forward requests totalling £0.763m have been put forward, and provisionally agreed by the Chairman of the Fire Authority, which would leave a balance of £0.149m to be transferred to reserves.
2. This report requests Members of the Authority to review the figures as laid out in the appendices and recommends that the outturn report, including carry forwards, reserves and capital financing are approved, along with the annual treasury outturn for 2019/20.

BACKGROUND

3. This is an annual report which sets out the financial position at the end of 2019/20 as per the draft Statement of Accounts.
4. The Covid-19 pandemic started right at the end of the 2019/20 financial year and as such there is no direct impact on the finances of the authority reflected in the figures presented in this report.

REVENUE EXPENDITURE 2019/20

5. The revenue outturn position is shown in functional and subjective summary at Appendix A.
6. Within the overall outturn position there are a number of variances to budget which can broadly be broken down into 3 main elements. These are:
 - (a) Overspend on operational budgets - £1.936m
 - (b) Underspends across non-operational budgets – (£1.594m)
 - (c) Underspends against central budgets – (£1.254m)

7. The overspend on operational budgets is due to a number of factors. The most significant are the cost of the RDS Support Officers (£492,000), which were unbudgeted but remained in post for the full year as there was a need to continue to push for recruitment and retention of Retained Duties Firefighters.
8. In addition, there was a recruits' intake (£335,000), for which salaries were unbudgeted. Crewing at Southsea Station was overspent by £324,000 as a result of a delay in the acquisition of new vehicles which prevented the introduction of the new crewing model. The remainder of the overspend is made up of PPE requirements and reduced levels of income.
9. It is pleasing to note that the majority of these overspends were known about in year and decisions were taken to meet the costs from savings declared elsewhere. Furthermore, all these areas of concern are being addressed and action put in place to prevent further overspending in 2020/21, albeit separate provision will need to be made for any further recruitment exercises planned to take place next year.
10. Underspends across non-operational areas were largely due to vacant posts across the service as a whole. This is partly due to the restructuring across the Service in the early part of the year, which then required recruitment to take place in order to fill the roles.
11. Underspends against central budgets were mainly as a result of unused pay allowances and additional grant received from the Government in respect of pension costs following the increase in contribution rates notified previously.
12. The outturn balance also includes £3.905m contribution to the Capital Payments Reserve, £1.474m contribution to the Transformation Reserve and £0.344m net contribution to the Equipment Reserve in line with the Medium Term Financial Plan.

CARRY FORWARD REQUESTS

13. Requests have been received from Property Services and ICT Services to carry forward budget allocated in 2019/20 for work which was unable to be completed in the year. These are:
 - (a) Alteration and improvement works (£706,000) – this work could not be completed in year due to staffing vacancies and other significant delays. This work still needs to be carried out and will take place in 2020/21 providing the funding is made available.
 - (b) Firewall replacement (£45,000) – this is essential work for ICT security and was scheduled to be completed in late 2019/20 but was delayed due to COVID-19.
 - (c) Lifecycle device management (£12,000) - this is essential work for operational efficiency and was scheduled to be completed in late 2019/20 but was delayed due to COVID-19.
14. These carry forward requests were provisionally agreed by the Chairman of the HFRA in May to enable activity in these areas to continue and have therefore

been reflected in the Statement of Accounts and the figures quoted within this report.

CAPITAL EXPENDITURE 2019/20

15. Capital payments during the year totalled £2.629m compared with the £8.088m forecast. A breakdown of the expenditure against plan is given in Appendix B.
16. The capital payments have been financed from the following sources:

	£'000
Capital grants	0
Partner contributions	0
Capital receipts	124
Revenue contributions	0
Capital payments reserve	<u>2,505</u>
Total	<u>2,629</u>

17. The capital spend for 2019/20 is significantly lower than had been expected. The main reason for this is that payment for the replacement Fire Training Facility being delayed. A lump sum payment had been expected for this, but it is now planned to phase the payments over 2020/21 and 2021/22.
18. There have also been further delays on some vehicle purchases, however contracts are now in place to allow improved forward planning which should avoid delays in future.
19. By using the above funding sources, the Authority has not had to use any unsupported borrowing this year, in line with the agreed funding strategy.

CAPITAL EXPENDITURE 2020/21 to 2024/25

20. Appendix C provides an update to the capital programme for the coming years, including the latest forecast of spending requirements and funding sources.
21. Although Basingstoke Fire Station is complete and in operation, there are issues with the drainage which need to be rectified. This has taken a long time to resolve, but the work will now take place in 2020/21, along with some other minor works which are best completed whilst the contractor is on site. This work will be contained within the approved budget for the project.
22. Work on SHQ Phase 2 was also completed some time ago, however significant negotiations were required with the contractor to agree the final cost. This has now been confirmed and is in line with the latest approved budget.

PROVISIONS

23. The following provisions have been adjusted in the 2019/20 financial year. The increase is met from the revenue budget:

(a) **Provision for Uninsurable and other claims (-£30,000)**

This covers costs which may arise as a result of the Authority being uninsured for a period (the Authority's insurers went into liquidation some years ago), possible employment tribunals (together with their associated costs) and other claims made against the Authority. These cases may take a number of years to settle.

(b) **Provision for Pension Liabilities (-£2,000)**

This provision is to cover the cost of the pension liabilities relating to temporary promotions that have agreed to be funded by the Authority.

(c) **Provision for Business Rate Appeals (+£59,000)**

Business Rates are reviewed on a regular basis and can be increased or decreased, depending on various circumstances. This provision is to cover those changes, where HFRA (through the Billing Authorities) have unsuccessfully appealed against an increase or appealed for a decrease.

RESERVES AND GENERAL BALANCE

24. In recent years it has been normal practice to add any underspends to the Transformation reserve, as contributions are made to the Capital Payments Reserve each year as part of the base budget. The net underspend of £149,000 has therefore been included within the closing balance of the Transformation reserve.

(a) **Capital and Revenue Grants Unapplied Reserve**

There has been no movement in the Capital Grants Unapplied reserve, which remains with a zero balance.

Revenue grants totalling £1.657m have been received in 2019/20 and £0.734m of grants have been spent giving a net increase to the revenue grants unapplied reserve of £0.923m.

(b) **Transformation Reserve**

The balance of the Transformation Reserve is £2.243m as at 31st March 2020, which takes into account the £0.149m net underspend during 2019/20.

(c) **Capital Payments Reserve**

Payments of £4.014m have been made from the Capital Payments Reserve, along with a budget contribution to the reserve of £3.905m. This leaves a balance of £22.981m as at 31st March 2020.

The movements in these reserves and the general balance, including the proposed adjustments to reserves, can be summarised as follows:

Balance as at 1 April 2019 £'000s	Used during the year £'000s	Additions in year £'000s	End of year addition £'000s	Balance as at 31 March 2020 £'000s
-30,379	7,801	-8,593	-149	-31,320

25. A breakdown by reserve is shown at Appendix D of this report. Whilst the value of reserves is significant it must be seen in the context that the Authority also has outstanding long term debt totalling £8.25m which is due to be paid off over the next 17 years.

TREASURY MANAGEMENT

26. The Treasury Management Strategy approved by the Authority in February 2019 was followed throughout the year. All the limits and boundaries set were fully complied with.
27. The year end report for Treasury Management is set out as Appendix E for Members' approval.

SUPPORTING OUR SERVICE PLAN AND PRIORITIES

28. Ensuring that funding is appropriately accounted for is vital for all public sector organisations. Budget management during 2019/20 has allowed an underspend to be achieved in year, even following the full implementation of Service Delivery Redesign and the significant savings that were achieved as part of that restructure.

CONSULTATION

29. No consultation is required for this report as it is based on historic information and is a purely factual document. The information contained within this report will be verified by our external auditors.

RESOURCE IMPLICATIONS

30. This report generally reflects the financial position for the previous financial year and does not contain any requests which would affect the future financial position, other than the carry forward requests and the transfer of the underspend into the Transformation Reserve, providing for future funding needs.

LEGAL IMPLICATIONS

31. It is a legal requirement that the Statement of Accounts be approved and signed by external audit. This is now expected to take place in September once the full review of the accounts has taken place. This is in line with the revised timetable for later publication this year due to COVID-19.

PEOPLE IMPACT ASSESSMENT

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

OPTIONS

33. There are no options for consideration in this report.

RISK ANALYSIS

34. This report sets of the draft outturn position, prior to the full audit of the accounts being completed. If any significant errors are uncovered by the auditors, these will be referred back to the Authority.

CONCLUSION

35. It is requested that the Authority review and approve the financial position for the year ended 31st March 2020 as detailed in this report.

RECOMMENDATION

36. That the accounts for 2019/20, including the use of reserves set out in paragraph 24 and Appendix D of this report be approved by Hampshire Fire and Rescue Authority
37. That the carry forward requests totalling £763,000 as set out in paragraph 13 of this report be approved by Hampshire Fire and Rescue Authority.
38. That the changes to the capital payments reserve in 2019/20 and the impact on the capital spend profile going forward as set out in Appendices B and C be approved by Hampshire Fire and Rescue Authority
39. That the financing for capital payments as set out in paragraph 16 be approved by Hampshire Fire and Rescue Authority
40. That the annual treasury outturn report set out in Appendix E of this report be approved by Hampshire Fire and Rescue Authority

APPENDICES ATTACHED

41. Appendix A – Revenue Outturn 2019/20
Appendix B – Capital Outturn 2019/20
Appendix C – Capital Forecast to 2024/25
Appendix D – Reserves
Appendix E – Treasury Management Outturn 2019/20

Contact:

Rob Carr, Chief Finance Officer

Rob.Carr@hants.gov.uk

01962 847508

This page is intentionally left blank

Objective	Budget	Net Expenditure chargeable to the General Fund Balance	Variance (Underspend (-) / Overspend)
	£ '000s	£ '000s	£ '000s
Combined Fire Authority Project	262	262	0
People and Organisational Development	3,951	3,799	-152
Risk and Strategy	984	891	-93
Operations	43,727	45,663	1,936
Performance and Assurance	1,696	1,740	44
Corporate Services	16,025	14,632	-1,393
Finance	2,959	1,762	-1,197
Net expenditure on Fire and Rescue Services	69,604	68,749	-855
Net contribution to reserves	2,532	2,532	0
Funding	-68,906	-68,906	0
Non specific grants	-3,230	-3,286	-56
Funding	-69,604	-69,660	-56
Outturn position	0	-912	-912
Property Services	0	706	706
ICT - firewall replacement	0	45	45
ICT - device management	0	12	12
Carry forwards	0	763	763
Surplus transferred to transformation reserve	0	-149	-149

Subjective	Budget	Net Expenditure chargeable to the General Fund Balance	Variance
	£ '000s	£ '000s	£ '000s
Wholesale Fire Fighter	32,841	33,766	926
Retained Fire Fighters	7,114	7,112	-2
Support staff	12,039	10,994	-1,045
Other Employee Expenses	2,698	2,849	151
Total employee expenses	54,691	54,721	30
Premises Related Expenditure	5,638	5,184	-454
Transport Related Expenditure	1,550	1,822	272
Supplies and Services	11,386	11,361	-25
Total expenditure	73,265	73,087	-178
Service income	-1,739	-2,060	-321
Specific grants and contributions	-2,710	-3,202	-491
	-4,449	-5,261	-812
Capital financing	788	837	50
Change to provisions	0	85	85
Net expenditure on Fire and Rescue Services	69,604	68,749	-855

This page is intentionally left blank

Capital Payments Outturn 2019/20

	Estimated Payments £'000	Actual Payments £'000	Variance £'000
Basingstoke Fire Station	52	-73	-125
Solar photovoltaic panels	17	0	-17
Thermal image cameras	72	72	0
Estates Transformation -HQ-Phase 2	126	-25	-151
VEHICLES	4,221	2,676	-1,545
Station Improvement Programme	100	0	-100
Replacement Fire Training Facility	3,500	0	-3,500
Goods receipting reversals previous schemes	0	-21	-21
Total	8,088	2,629	-5,459

This page is intentionally left blank

Capital Forecast to 2024/25

Project Details	Approved	Previous Years					Balance		
	Spend	Spend	2020/21	2021/22	2022/23	2023/24	2024/25	Latest Estimate	Over(-) /Under
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Basingstoke Fire Station	6,955	6,644	310					6,954	-1
Fire control system - (FGP 4/12) NFCSP	729	671	58					729	0
Solar photovoltaic panels	1,076	1,059	17					1,076	0
Estates Transformation -HQ Phase 2	4,660	4,509	153					4,662	2
Estates Transformation -HQ Phase 1 £260K F&E	260	260	0					260	0
Vehicles	27,135		3,055	10,348	5,825	3,542	3,818	26,588	-547
Station Improvement Programme Cosham	2000	0	200	1800				2,000	0
Warsash Replacement Fire Training Facility	3,500	0	1750	1750				3,500	0
Gosport Land Purchase	200	0	200	0				200	0
Total Programme Cost	50,467	13,143	5,743	13,898	5,825	3,542	3,818	45,969	-546

Financed by:

Capital payments reserve	11,019	5,685	13,898	5,825	3,542	3,818	43,787
Prudential Borrowing	0	0	0	0	0	0	0
Revenue Grant unapplied reserve	0	58	0	0	0	0	58
Capital receipts	1624	0	0	0	0	0	1,624
Capital Grant	0	0	0	0	0	0	0
Partner contributions	500	0	0	0	0	0	500
Total financing	13,143	5,743	13,898	5,825	3,542	3,818	45,969

This page is intentionally left blank

Specific reserves and general balance 2019/20

	Transformation Reserve	Capital Payments	Earmarked Underspends	IT Reserve	Equipment Replacement Reserve	SHQ Maintenance	Prince's Trust	Revenue Grants Unapplied	Capital Grants	Capital Receipts	General Balance	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Balance as at 01.04.2019	-3,382	-23,090	-44	-75	0	-374	-82	-833	0	0	-2,500	-30,379
Used in year	2,762	4,014	37		256	0	0	734				7,801
Addition in year	-1,474	-3,905	-763		-600	-177	-17	-1,657				-8,593
End of year addition	-149											-149
Balance as at 31.03.2020	-2,243	-22,981	-770	-75	-344	-551	-99	-1,756	0	0	-2,500	-31,320

This page is intentionally left blank

Annual Treasury Outturn Report 2019/20

1. Purpose

- 1.1. Hampshire Fire and Rescue Authority has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the Fire and Rescue Authority to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

2. Summary

- 2.1. This report fulfils the Fire and Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.2. The Fire and Rescue Authority's treasury management strategy for 2019/20 was approved at a meeting of Hampshire Fire and Rescue Authority in February 2019. The Fire and 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 risk are therefore central to the Fire and Rescue Authority's treasury management strategy.
- 2.3. Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.4. This annual report sets out the performance of the treasury management function during 2019/20, to include the effects of the decisions taken and the transactions executed in the past year.
- 2.5. Overall responsibility for treasury management remains with the Fire and Rescue Authority. No treasury management activity is without risk and the effective identification and management of risk are therefore integral to the Fire and Rescue Authority's treasury management objectives.
- 2.6. All treasury activity has complied with the Fire and Rescue Authority's Treasury Management Strategy and Investment Strategy for 2019/20, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Fire and Rescue Authority's treasury advisers, Arlingclose.
- 2.7. The 2017 Prudential Code includes the requirement to produce a Capital Strategy, a summary document approved covering capital expenditure and financing, treasury management and non-treasury investments. Hampshire Fire and Rescue Authority's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by the Fire and Rescue Authority on 19 February 2020.

3. External Context

- 3.1. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2019/20.

Economic Commentary

- 3.2. The UK's exit from the European Union was one of the main drivers of sentiment on the UK economy for the majority of 2019/20, before focus then shifted to the nation's response to the global coronavirus pandemic in the latter part of the year.
- 3.3. Prior to the pandemic, labour market data remained positive as the employment rate reached a record high of 76.6% in the three months to March 2020, unemployment was 3.9%, and annual pay growth was positive in real terms.
- 3.4. As the early effects of the pandemic and the government measures to reduce transmission began to be felt, the headline rate of UK Consumer Price Inflation fell to 1.5% year on year in March 2020 (and further still to 0.8% in April 2020), below the Bank of England's target of 2%. Gross Domestic Product growth in Quarter 1 of 2020 is also estimated to have reduced by 2.0% alongside falls in financial markets not seen since the Global Financial Crisis, triggered by a flight to quality into sovereign debt and other perceived 'safe' assets.
- 3.5. In response to the spread of the virus, the UK government enforced lockdowns, central banks and governments around the world cut interest rates, and massive stimulus packages were introduced in an attempt to reduce the negative economic impact on domestic and global growth.
- 3.6. The Bank of England, which had previously held policy rates at 0.75% through 2019/20, moved in March 2020 to cut rates to 0.25% and then swiftly brought them down further to the record low of 0.10%. In conjunction with these cuts, the UK government introduced measures to help businesses and households impacted by a series of social restrictions.

Financial markets

- 3.7. Financial markets sold off sharply towards the end of the financial year as the impact of the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30%, with stock markets in other countries seeing similar drops. In March, sterling touched its lowest level against the dollar since 1985.
- 3.8. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark fell from 0.75% in April 2019 to 0.26% on 31 March 2020 and there were similar falls in 10-year and 20-year gilts over the same period, dropping from 1.00% to 0.40% and 1.47% to 0.76% respectively.

Credit review

- 3.9. Prior to the coronavirus pandemic, both the Fitch and Standard & Poor's rating agencies affirmed the UK's AA sovereign rating and revised the outlook from negative to stable.

- 3.10. However, Fitch then downgraded the UK sovereign rating to AA- in March 2020 and revised the outlook on the majority of banks on the Arlingclose counterparty list to negative and in some cases also amended the long-term rating (upwards in the case of Canadian and German banks and downwards for Australian banks).
- 3.11. While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the recommended maximum duration for unsecured investments with all these banks was cut to 35 days in mid-March 2020.
- 3.12. In December 2019, the Bank of England announced its latest stress test results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice the level it was before the 2008 financial crisis, suggesting the banks are in a much stronger position than in 2008.
- 3.13. After remaining flat in January and February, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March but remained above their initial 2020 levels.

4. Local Context

- 4.1. At 31 March 2020 the Fire and Rescue Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £10.8m, while usable reserves and working capital are the underlying resources available for investment and amounted to £28.0m. These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m
CFR	11.2	(0.4)	10.8
Less: External borrowing			
- Public Works Loan Board	(8.4)	0.1	(8.3)
Internal borrowing	2.8	(0.3)	2.5
Less: Working capital liability	3.3	1.1	4.4
Less: Usable reserves	(30.4)	(0.9)	(31.3)
Net investments	(24.3)	(0.1)	(24.4)

- 4.2. CFR has reduced due to MRP as all 2019/20 capital expenditure was funded without new borrowing. Borrowing has reduced by £100,000 as loans have

been allowed to mature and therefore repaid, and no new borrowing has been undertaken. The Fire and Rescue Authority's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. Usable reserves rose as contributions were made to the capital programme, Transformation Reserve and Equipment Reserve, which were expected to be offset by payments out, but due to delays in vehicle purchases the overall reserves level increased rather than fell in the year. Reduced internal borrowing and an increase in usable reserves has been netted off by an increase in the working capital liability, resulting in a very small rise in net investments reported at 31 March 2020.

- 4.3. The treasury management position as at 31 March 2020 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %
Long-term borrowing	(8.3)	1.2	(7.1)	4.88
Short-term borrowing	(0.1)	(1.1)	(1.2)	3.64
Total borrowing	(8.4)	0.1	(8.3)	4.70
Long-term investments	6.5	2.5	9.0	3.85
Short-term investments	10.0	(6.0)	4.0	0.93
Cash and cash equivalents	7.9	4.6	12.5	0.43
Total investments	24.4	1.1	25.5	1.71
Net investments	16.0	1.2	17.2	

Note: the figures in the table above are from the balance sheet in the Fire and Rescue Authority's statement of accounts but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 4.4. The Fire & Rescue Authority's internal borrowing policy has translated into a reduction in investment balances in Table 2, in comparison to Table 1.

5. Borrowing Update

- 5.1. On 9 October 2019 the Public Works Loan Board (PWLb) raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears expensive relative to other options. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

- 5.2. The Chancellor's March 2020 Budget Statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction. This was in part as a response to what HM Treasury describes as a minority of councils using cheap PWLB finance to buy significant amounts of commercial property for rental income, reducing the availability of PWLB finance for core local authority activities. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields (which would not directly affect the Fire & Rescue Authority as it is not a Housing Authority), and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.
- 5.3. The consultation closes on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22, and the Fire & Rescue Authority intends to respond to the consultation.

6. Borrowing Activity

- 6.1. At 31 March 2020 the Fire and Rescue Authority held £8.3m of loans as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below. A further £1.2m of PWLB borrowing will mature during 2020/21.

Table 3: Borrowing Position

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %	31/03/20 WAM* years
Public Works Loan Board	(8.4)	0.1	(8.3)	4.70	9.8
Total borrowing	(8.4)	0.1	(8.3)	4.70	9.8

* Weighted average maturity

Note: the figures in the table above are from the balance sheet in the Fire and Rescue Authority's statement of accounts but adjusted to exclude accrued interest.

- 6.2. The Fire and Rescue Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Fire and Rescue Authority's long-term plans change is a secondary objective.
- 6.3. Short-term interest rates have remained much lower than long-term rates and the Fire and Rescue Authority has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

- 6.4. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.
- 6.5. As a result, no new borrowing was undertaken and £0.1m of existing PWLB loans were allowed to mature without replacement. This strategy enabled the Fire and Rescue Authority to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk.

7. Investment Activity

- 7.1. The Fire and Rescue Authority holds invested funds representing income received in advance of expenditure plus balances and reserves held. During the year, the Fire and Rescue Authority's investment balances have ranged between £19.9m and £36.8m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below. During the year the high yield investment balance increased from £3.5m to £7.0m as the agreed strategy was implemented, and investments were made in pooled property, equity and multi-asset funds to allow dividend yield to further contribute to interest income.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %	31/03/20 WAM* years
Short term investments					
- Banks and Building Societies					
- Unsecured	3.1	(0.1)	3.0	0.49%	0.0
- Secured	4.0	(3.0)	1.0	0.84%	0.3
- Money Market Funds	6.8	2.7	9.5	0.41%	0.0
- Local Authorities	4.0	(1.0)	3.0	0.96%	0.1
	17.9	(1.4)	16.5	0.55%	0.0
Long term investments					
- Banks and Building Societies					
- Secured	2.0	(1.0)	1.0	1.01%	3.0
- Local Authorities	1.0	-	1.0	1.30%	1.2
	3.0	(1.0)	2.0	1.16%	2.1
High yield investments					
- Pooled Property Funds**	2.0	1.3	3.3	3.96%	N/A
- Pooled Equity Funds**	1.5	0.5	2.0	5.50%	N/A
- Pooled Multi-Asset Funds**	-	1.7	1.7	4.86%	N/A
	3.5	3.5	7.0	4.63%	N/A
TOTAL INVESTMENTS	24.4	1.1	25.5	1.71%	0.3

* Weighted average maturity

** The rates provided for pooled fund investments are reflective of the average dividend return over the last 12 months.

Note: the figures in the table on the previous page are from the balance sheet in the Fire and Rescue Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 7.2. The CIPFA Code and government guidance both require 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 rate of return, or yield. The Fire and Rescue Authority's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.
- 7.3. Security of capital has remained the Fire and Rescue Authority's main investment objective and has been maintained by following the Fire and Rescue Authority's counterparty policy as set out in its Treasury Management Strategy Statement.
- 7.4. Counterparty credit quality has been assessed and monitored with reference to credit ratings, the analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press
- 7.5. The Fire and Rescue Authority also makes use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 7.6. The UK Bank Rate was cut from 0.75% to 0.25% and then 0.10% in March 2020 due to the effects of the coronavirus pandemic on the economy. Rates had been historically low even prior to these cuts, impacting the Fire and Rescue Authority's ability to generate income on cash investments.
- 7.7. The progression of credit risk and return metrics for the Fire and Rescue Authority's investments that are managed in-house (excluding external pooled funds) are shown in extracts from Arlingclose's quarterly investment benchmarking in Table 5 below. This compares the data for the quarter ended 31 March 2020 with the same period from the previous year.

Table 5: Investment Benchmarking (investments managed in-house)

	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return**
31.03.2019	AA	43%	178	0.93%
31.03.2020	AA-	68%	99	0.61%
Police & Fire Authorities	AA-	58%	46	0.51%
All LAs	AA-	56%	20	0.64%

* Weighted average maturity

** based on investments held at end of quarter

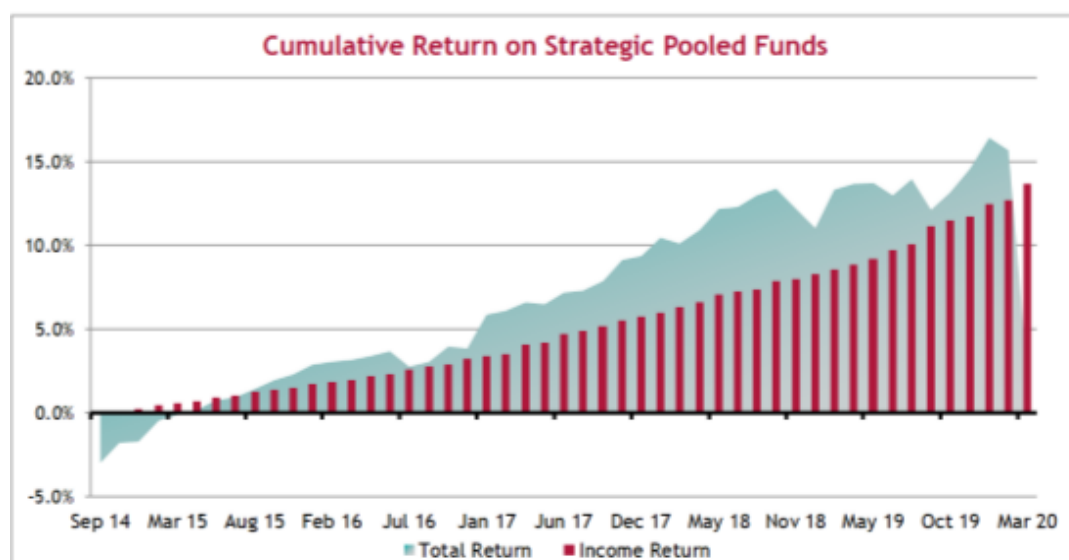
- 7.8. Table 5 shows the average credit rating of the portfolio was AA- at 31 March 2020; this has reduced from AA in part due to the lack of availability of AAA

rated covered bonds when previously held investments matured. AA- is a very good average credit rating and is in line with other Police & Fire Authorities and all Local Authorities covered by Arlingclose's benchmarking. This was alongside increased liquidity in part to fund the prepayment of three year's Pension Fund contributions on 1 April 2020. This increased liquidity meant higher bail-in exposure as a greater proportion of the Fire and Rescue Authority's funds were invested in money market funds, which invest in instruments that are liable to bank bail-in but which are highly diversified therefore reducing this risk.

- 7.9. Interest rates on shorter duration investments are often lower and, coupled with the impact of the two Bank Rate cuts in March, meant average investment returns at 31 March 2020 were lower than at the same time the previous year. These returns were however greater than other Police and Fire Authorities. Bail-in exposure was higher than for other Police and Fire Authorities and the weighted average maturity period was shorter than last year (but still compared favourably to other Police and Fire Authorities), both of which were as a result of holding cash to make the large advance pension contributions payment of £3.9m on 1 April 2020.
- 7.10. As the Fire and Rescue Authority has relatively stable cash balances, the Fire and Rescue Authority has continued to invest in externally managed pooled funds as part of its high yielding strategy, (as shown in Table 4) with the aim of increasing the level of income contributed to the revenue budget without impacting liquidity.
- 7.11. The high yielding strategy generated an average income return of 4.6%, contributing to an average return for the investment portfolio in aggregate of 1.7% at 31 March 2020. By comparison, the average income return at 31 March 2020 for all other investments was 0.6%. This would equate to £0.3m of income from the high yield strategy and £0.1m from all other investments based on the snapshot of investments at 31 March 2020.
- 7.12. The Fire and Rescue Authority has £7m of core balances invested in externally managed pooled property, equity and multi-asset funds, which allow diversification into asset classes other than cash without the need to own and manage the underlying investments.
- 7.13. Pooled fund investments in property, equity and bonds are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term.
- 7.14. The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Fire and Rescue Authority's investments in these pooled funds suffered a £1.1m fall in capital value (15.2%) over the year to 31 March 2020, meaning these investments are now worth £0.7m less than the Fire and Rescue Authority originally invested. This will only result in the Fire and Rescue Authority losing money if the assets are sold before they have regained their value and the Fire and Rescue Authority has always planned to hold these investments for at least the medium term, accepting that capital values would move both up and down in the short term. Under the accounting standard IFRS 9 the Fire and Rescue Authority must in the meantime defer

these fair value losses to the Pooled Fund Adjustment Account, which is available until at least 2023/24.

- 7.15. The fall in the capital value of the Fire and Rescue Authority's pooled funds during 2019/20 reflects the wider market reaction to the coronavirus pandemic, with large falls in equity prices and corporate bond markets, and property markets also affected. Market volatility, as measured by the VIX index, was historically high as investors reacted to the unprecedented situation and attempted to forecast the likely impact on economies, businesses, and individuals. The unrealised capital losses (the 'drawdown' referred to by fund managers) in equity funds owned by the Fire and Rescue Authority were especially large at -19.6% and -33.2% respectively.
- 7.16. Although capital values fell, the pooled funds delivered strong positive income returns during 2019/20, contributing £0.3m income (a return of 4.6% pa) to the revenue budget to support the provision of services by the Fire and Rescue Authority, significantly more than could have been achieved through cash investments.
- 7.17. The total return in 2019/20, allowing for the fall in capital value but offset in part by the income generated, was a loss of £0.8m (10.4% pa).
- 7.18. The cumulative total return from the Fire and Rescue Authority's investments in pooled equity, property and multi-asset funds since purchase is shown in the graph below. This highlights that the Fire and Rescue Authority has benefited from the strong and steady income returns over time.
- 7.19. The volatility experienced due to the COVID-19 pandemic has been significant, but this period has not completely eroded the total cumulative positive returns made over the time that these investments have been held by the Fire and Rescue Authority, and although the pooled funds are reporting a negative capital return of 15.2% pa for the year to 31 March 2020, the cumulative total return from these investments since purchase is positive at 2.1% (made up of 11.6% capital loss and a 13.7% income return).



- 7.20. Strategic pooled fund investments are made as long-term investments using core balances that are not required for current day-to-day liquidity.

Investments are made based on advice from Arlingclose and in the knowledge that capital values will move both up and down in the short term but with confidence that over longer periods total returns will exceed cash interest returns.

- 7.21. The investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Fire and Rescue Authority's investment objectives in monitored regularly and discussed with Arlingclose.
- 7.22. Given the exceptional impact of the COVID-19 crisis on financial markets, the investments in pooled funds have been reviewed with Arlingclose. Despite the current fall in capital values, Arlingclose's advice remains that these investments continue to be appropriate for the Fire and Rescue Authority and will have a positive impact on the Fire and Rescue Authority's investment income.

8. Financial Implications

- 8.1. The outturn for debt interest paid in 2019/20 was £391,000 on an average debt portfolio of £8.3m, against a budgeted £393,000 on an average debt portfolio of £8.3m.
- 8.2. The outturn for investment income received in 2019/20 was £510,000 on an average investment portfolio of £28.2m, therefore giving a yield of 1.81%, against a budgeted £210,000. The Fire and Rescue Authority doubled its investments in externally managed pooled funds early in 2019/20 and £320,000 of the income relates to the pooled funds holdings. By comparison investment income received in 2018/19 was £379,000 (£179,000 relating to pooled fund investments) on an average investment portfolio of £27.5m with a yield of 1.37%.

9. Non-Treasury Investments

- 9.1. Although not classed as treasury management activities the Fire & Rescue Authority may also make loans and investments for service purposes, for example the direct purchase of land or property. Such loans and investments will be subject to the Fire & Rescue Authority's normal approval processes for revenue and capital expenditure and need not comply with the treasury management strategy. The Fire & Rescue Authority does not have any existing non-treasury investments.

10. Compliance Report

- 10.1. The Fire and Rescue Authority confirms compliance of all treasury management activities undertaken during 2019/20 with the CIPFA Code of Practice and the Fire and Rescue Authority's approved Treasury Management Strategy.
- 10.2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 6 overleaf.

Table 6: Debt Limits

	2019/20 Maximum £m	31/03/20 Actual £m	2019/20 Operational Boundary £m	2019/20 Authorised Limit £m	Complied
Borrowing	8.4	8.4	18.6	21.4	✓
Total debt	8.4	8.4	18.6	21.4	✓

11. Treasury Management Indicators

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

Interest Rate Exposures

- 11.2. The following indicator shows the sensitivity of the Fire and Rescue Authority's current investments and borrowing to a change in interest rates:

Table 7 – Interest Rate Risk Indicator

	31/03/20 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates:		
Investment	£15.8m	£0.2m
Borrowing	£0.0m	£0.0m

- 11.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

- 11.4. This indicator is set to control the Fire and Rescue Authority's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement:

Table 8 – Maturity Structure of Borrowing

	31/03/20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	14%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	18%	50%	0%	✓
5 years and within 10 years	1%	75%	0%	✓
10 years and within 20 years	62%	75%	0%	✓
20 years and above	0%	100%	0%	✓

Principal Sums Invested for Periods Longer than a year

- 11.5. The purpose of this indicator is to control the Fire and 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 were:

Table 9 – Principal Sums Invested for Periods Longer than a year

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£9.0m	£8.0m	£8.0m
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied	✓	✓	✓

- 11.6. The table includes investments in strategic pooled funds of £7m as although these can usually be redeemed at short notice, the Fire and Rescue Authority intends to hold these investments for at least the medium-term.

12. Other

IFRS 16

- 12.1. CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank