Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority

Combined Fire Authority

19 February 2021

2021/22 Revenue Budget and Council Tax, Capital Programme and Medium-Term Financial Plan

Report of Treasurer and Chief Fire Officer

PURPOSE AND STRUCTURE OF THE REPORT

1 The purpose of the report is to enable the Authority to:

- approve a revised revenue budget for 2020/21
- approve a revenue budget for 2021/22
- approve the Medium-Term Financial Plan (MTFP)
- approve the capital budgets for 2021/22 to 2024/25
- determine the Fire Authority Council Tax Requirement
- approve the associated resolutions

2 The report is divided into 11 sections:

SECTION A

BACKGROUND

1 A meeting of the Finance Committee was held on 03 February 2021 to consider the revenue and capital budgets, together with the MTFP. This report incorporates the recommendations of the Committee regarding the overall budget amount and the level of council tax for 2021/22.

SECTION B

CONSULTATION

1 The Authority has undertaken on-going consultation with a wide range of stakeholders on the Integrated Risk Management Plan (IRMP) plan and the budget. The consultation process involved a wide range of stakeholders including:

- Our staff
- Representative Bodies
- The public
- Our partner agencies
- Local councillors
- Parish councils
- Residents associations
- Area Action Partnerships
- Community groups
- Representatives of the Non-Domestic Ratepayers.

2 Various methods of communication have been used in the consultation process and these included:

- An on-line survey
- Durham County Council and Darlington Borough Council staff
- Messages about the survey and links to it from Twitter and Facebook via the Service accounts as well as the partner organisations (listed above)
- Direct emailing to stakeholders (incl. Voluntary Sector, Businesses, Faith Groups)
- Online events with the public (eg Facebook live)
- Presentations to various strategic groups of Darlington Borough Council and Durham County Council including Overview and Scrutiny Committees
- Presentations at Resident Association meetings
- Presentations at Parish and Town Council meetings
- Presentations to Area Action Partnership meetings
- Briefings to all CDDFRS staff. Information also included in several staff bulletins and Communications Forums

3 Consultation on the budget and proposals for achieving efficiency savings have taken place with staff and the representative bodies on a regular basis. Meetings have been productive and focused on considering savings options that minimise any increase in risks in local communities.

4 It is <u>**recommended**</u> that members take into account the views of those consulted as they consider the budget and MTFP proposals.

SECTION C

LOCAL GOVERNMENT FINANCE SETTLEMENT

Settlement Funding Assessment

1 Due to the financial impact of COVID-19 the government has once again issued a one-year funding settlement for 2021/22, compounding the uncertainty surrounding future funding.

2 The settlement funding assessment has been calculated by formula and is the Government's assessment of the financial resources to be provided from a combination of revenue support grant, local business rates income and top-up grant. Table 1 below sets out the settlement figures for 2021/22 and the current year (2020/21).

Table 1: Settlement Funding Assessment

Description	2020/21 £m	2021/22 £m
Total Government Funding	9.171	9.190
Local Non-Domestic Rates	1.503	1.503
Total	**10.674**	**10.693**
Change in Funding	**+0.241**	**+0.019**
% Change in Funding	**+2.3%**	**+0.2%**

3 The Authority's funding from central government and local non-domestic rates will increase by £0.019M (0.2%) in 2021/22. We are unlikely to have longer term certainty around funding until the end of 2021.

Local Council Tax Referendum

4 The Government has also announced details of the local council tax referendum limits for 2021/22.

5 Any fire authority that wishes to increase council tax in 2021/22 by 2% or more, as compared to the 2020/21 council tax level will be required to hold a referendum.

Recommendation

6 It is **recommended** that the Authority notes the 2021/22 settlement funding assessment and the uncertainty around the funding position from 2022/23 onwards.

SECTION D

RESERVES STRATEGY

Background

1 The Fire and Rescue National Framework for England sets out the priorities and objectives for fire and rescue authorities (FRA's) and makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's MTFP.

2 The information which FRA's are required to publish includes:

- How the level of the general reserve has been set
- Justification for holding a general reserve larger than 5% of budget
- Details of the activities or items to be funded from each earmarked reserve and how they support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example a change or transformation reserve), details of each programme or project to be funded should be set out.

3 The information on each reserve should make clear how much of the funding falls into the following three categories:

a. Funding for planned expenditure on projects and programmes over the period of the current MTFP.

b. Funding for specific projects and programmes beyond the current planning period.

c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

Reserves Policy

4 The Authority's reserves are held as:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of general reserves.
- A contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.

- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

5 The current reserves policy is that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.

- Aim to maintain a general reserve of 5% of the net expenditure, currently £1.45m.

Estimated Reserves Position

6 The estimated reserves position for the period 2020/21 to 2024/25 is set out in Table 2 below:

Table 2: Estimated Reserves Position 2020/21 – 2024/25

Reserve	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
General Reserve	1.459	1.459	1.459	1.459	1.459
Earmarked Reserves	4.473	4.317	3.505	3.505	3.505
TOTAL RESERVES	5.932	5.776	4.964	4.964	4.964

General Reserve

7 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. However, given the high level of influence that third parties such as the Local Government Employers and government departments have on income and expenditure there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure. Therefore, proportionally, it's general reserve may be slightly higher than a multi-purpose authority.

8 The Authority has a policy to maintain the general reserve at 5% of the net expenditure which is a commonly used benchmark across the fire sector. A risk assessment of the adequacy of the Authority's general reserve is carried out at the year-end and any necessary adjustments are made as part of the final accounts process. A general reserve of 5% of net expenditure is considered to be adequate taking account of the risks associated with the MTFP, the level of

earmarked reserves and the Authority's track record of delivering efficiency savings and sound budget management.

Earmarked Reserves

9 The Authority holds the following earmarked reserves to meet known or predicted liabilities:

Pensions Reserve (General Contingency)

The purpose of the pensions reserve is to meet any unforeseen pension costs which may arise due to changes to pension schemes, or any increase in the level of ill-health retirements over and above the level included in the revenue budget. Each higher tier ill-health retirement can cost in the region of £125K therefore the pensions reserve equates to the equivalent of an additional 4 higher tier ill-health retirements over the four-year MTFP period.

Insurance Reserve (General Contingency)

The excess levels on the Authority's insurance policies are significant and the purpose of this reserve is to meet any unexpected increase in the level of claims excesses that may arise over and above the sums included in the revenue budget. Provision has not been made in the revenue budget to cover the payment of policy excesses which are £50K on the vehicle insurance policy and £100K on the public and employer's liability policies.

Resilience (General Contingency)

The National Framework requires the Authority to maintain national resilience capabilities in a high state of operational readiness. The funds in this reserve have been set aside to meet any unforeseen costs which may arise to meet this obligation and any costs associated with a business continuity event such as a prolonged period of industrial action or the need to support a significant operational incident over a prolonged period of time, either within our area or elsewhere.

Community Safety Reserve

This reserve is made up of the balance of unspent grant to enable specific community safety improvements to be undertaken. This balance is expected to be fully utilised during 2021/22.

New Risks Reserve

This reserve holds the balance of unspent grant, earmarked to fund the response to emerging new risks. This balance is expected to be fully utilised during 2021/22.

Modernisation Reserve (Funding for projects)

The funds in this reserve are earmarked to fund expenditure on future improvements to the Authority's estate.

Emergency Services Mobile Communications Programme (Grant funding for a planned project)

The reserve comprises of the balance of unspent grant, earmarked to fund the replacement national mobile communications systems. Whilst the funds in this reserve are not legally or contractually committed at this stage, they will be fully utilised over the MTFP period to finance the replacement systems.

10 The estimated movement on each of the earmarked reserves during the period 2021/21 to 2024/25 is set out in Table 3 below:

Table 3: Earmarked Reserves 2021/21 to 2024/25

Earmarked Reserve	Estimated Balance at 01/04/21 £m	Transfers to Reserves £m	Use of Reserves £m	Estimated Balance 31/03/25 £m
Pensions	0.500	0	0	0.500
Insurance	0.250	0	0	0.250
Resilience	0.625	0	0	0.625
Modernisation	2.130	0	0	2.130
ESMCP	0.812	0	-0.812	0
Community Safety	0.110	0	-0.110	0
New Risks	0.046	0	-0.046	0
TOTAL	**4.473**	**0**	**-0.968**	**3.505**

Recommendations

11 It is **recommended** that the Authority:

(a) Agrees to the policy for reserves, that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure, currently £1.45m.

SECTION E – MEDIUM-TERM FINANCIAL PLAN

This section provides a summary of the MTFP for 2021/22 to 2024/25.

Basis of the Preparation of the Medium-Term Financial Plan

1 The MTFP has been revised to take account of the settlement information and to incorporate 2021/22 and future year's expenditure and income estimates.

Resources

Settlement Funding

2 Details of the Local Government Finance Settlement are outlined in Section C. The Government has only provided a one-year settlement and funding has increased by £0.019m (0.2%) in 2021/22. The funding position beyond 2021/22 is currently unknown and we are unlikely to have longer term certainty regarding the level of funding until late 2021.

Council Tax

3 The MTFP has been calculated based on the assumption that council tax will increase by 1.96% in 2021/22 and by 2% in each of the financial years included in the MTFP thereafter. Members will need to review these assumptions noting that each 1% change in council tax results in a variation of approximately £185,000.

Council Tax and Business Rates Collection Fund

4 The impact of COVID-19 on council tax and business rates receipts in 2020/21 has been significant. The Spending Review 2020 confirmed that the government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21.

5 Under normal circumstances any deficit on the collection fund would need to be built into the budget for the following year however, the government have announced that the deficit for 2020/21 (after allowing for the 75% compensation) should be spread over the following 3 years 2021/22, 2022/23 and 2023/24.

6 After allowing for the 75% government support, the Authority has a forecast deficit on the collection fund for 2020/21 of £0.356M.

Budget Pressures

7 A number of budget pressures have been identified which have been incorporated into the MTFP:

Pay Awards

8 The Spending Review 2020 set out the government's plans to introduce a freeze on public sector pay in 2021/22 with the exception of employees earning below £24,000 who will receive a minimum £250 increase. The pay budget for 2021/22 has been compiled on this basis. From 2022/23 onwards the MTFP includes a pay award of 2% per annum. Each additional 1% increase in pay for the whole workforce costs in the region of £230,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

Firefighters Pension Scheme (FPS)

9 Following the last valuation of the Firefighters' Pension Scheme there was an average increase of 12.6% in the employer's contribution rate which resulted in an increase of £1.560m in the overall cost. The Government have made grant funding available towards the additional cost in 2020/21 and we have been informed that this funding will continue in 2021/22. From 2022/23 onwards we expect this funding to be mainstreamed into the settlement funding assessment although this has not been confirmed at this stage.

COVID-19

10 The Authority received government grant of £599,000 in 2020/21 to deal with the impact of COVID-19. The government have stated that looking to the future, they are optimistic about overcoming the spread of the virus and on that basis, their working assumption is that COVID-19 costs will start to decline significantly from Easter onwards. Whilst they have committed to keeping the situation under review, authorities have been told to plan on the basis of no further funding to meet COVID-19 costs in 2021-22. Should the Authority continue to incur expenditure related to COVID-19 it may be necessary to use reserves as no provision has been made in the MTFP for this additional cost.

Savings Options

11 At the Fire Authority strategic planning day on 07 October 2020, members received an update on the available options that have been modelled to shape the Service's Emergency Response provision in future years together with alternative options for savings. A summary of the savings options is set out in Table 4 below:

Table 4: Summary of Savings Options

	Option	Saving £m	Response Standards Impact
1	Ride with a crew of 4 on all appliances	0.749	Least
2	SRU Unit Crewed	0.208	Least
3	Remove 1 x station TRV	0.208	Least
4	Phase 2 of the Service Restructure	0.130	None
5	Review of SLT and Middle Managers	0.445	None
6	Service Headquarters	0.200	None
7	2 x stations to day crewing	1.023	Greater
8	2 x stations 2nd pump to day crewing	0.695	Greater
9	2 x stations 1 pump and 1 TRV	1.381	Greater
10	2 x stations to RDS only	1.398	Greatest
11	2 x stations removal of 2nd pump	1.913	Greatest

12 At this stage, none of the above options have been incorporated into the budget for 2021/22 or any of the MTFP models set out below.

Medium Term Financial Plan Assumptions

13 As there is a great deal of uncertainty surrounding the level of Government funding from 2021/22 onwards, three MTFP scenarios have been modelled based on differing levels of funding. All three models include a £0.019m increase in settlement funding in 2021/22 and are based upon the assumptions set out in Table 5 below:

Table 5: MTFP Assumptions

	2021/22	2022/23	2023/24	2024/25
Income Assumptions				
Council Tax Base	0	+0.50%	+0.50%	+0.50%
Council Tax Level	+1.96%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	0%*	+2.00%	+2.00%	+2.00%
Inflation	+1.00%	+2.00%	+2.00%	+2.00%

*With the exception of individuals earning below £24,000 who will receive £250.

Medium Term Financial Plan Models

14 The following MTFP models are based on the assumptions outlined above and incorporate 2021/22 and future year's expenditure and income estimates:

- Model 1 (Table 6) – "Best Case Scenario" – based upon a 2% increase in settlement funding from 2022/23 onwards.

- Model 2 "Mid Case Scenario" (Table 7) – based upon no further increase in settlement funding from 2022/23 onwards.

- Model 3 "Worse Case Scenario" (Table 8) – based upon a 5% reduction in settlement funding from 2022/23 onwards.

Table 6: Medium Term Financial Plan – Model 1 'Best Case Scenario'

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Net Expenditure	**29.338**	**30.598**	**31.492**	**32.418**
Total Government Funding	9.190	9.373	9.560	9.751
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	18.832	19.290	19.775	20.271
Deficit on Collection Fund	(0.116)	(0.123)	(0.123)	0
Total Funding	**29.338**	**29.972**	**30.644**	**31.454**
Surplus/ (Shortfall)	**0**	**(0.626)**	**(0.848)**	**(0.964)**

15 The MTFP in Table 6 above shows a balanced budget position in 2020/21 and a shortfall in funding of £0.626m in 2022/23 rising to £0.964m in 2024/25.

Table 7: Medium Term Financial Plan – Model 1 'Mid Case Scenario'

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Net Expenditure	**29.338**	**30.598**	**31.492**	**32.418**
Total Government Funding	9.190	9.190	9.190	9.190
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	18.832	19.290	19.775	20.271
Deficit on Collection Fund	(0.116)	(0.123)	(0.123)	0
Total Funding	**29.338**	**29.789**	**30.274**	**30.893**
Surplus/ (Shortfall)	**0**	**(0.809)**	**(1.218)**	**(1.525)**

16 The MTFP in Table 7 above shows a balanced budget position in 2021/22 and a shortfall in funding of £0.809m in 2022/23 rising to £1.525m in 2024/25.

Table 8: Medium Term Financial Plan – Model 3 'Worst Case Scenario'

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Net Expenditure	**29.338**	**30.598**	**31.492**	**32.418**
Total Government Funding	9.190	8.730	8.294	7.879
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	18.832	19.290	19.775	20.271
Deficit on Collection Fund	(0.116)	(0.123)	(0.123)	0
Total Funding	**29.338**	**29.329**	**29.378**	**29.582**
Surplus/ (Shortfall)	**0**	**(1.269)**	**(2.114)**	**(2.836)**

17 The MTFP in Table 8 above shows a balanced budget position in 2021/22 and a shortfall in funding of £1.269m in 2022/23 rising to £2.836m in 2024/25.

18 It should be noted that the estimates for 2022/23 onwards are less robust as they are based upon a number of assumptions. Therefore, there is a risk that the actual position could turn out to be different. They do, however, provide a good indication of the level of savings which may need to be identified in future years in order to balance the budget.

Risks

19 The Authority has embedded risk management as part of its overall control framework and reviews financial risks on a regular basis. Risks have also been fully reviewed as part of the overall budget setting process for 2021/22 and over the medium term.

20 There are a number of risks associated with the MTFP that need to be considered as part of the budget setting process:

(a) Local Business Rates Retention
The Local Business Rates Retention Scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington. The Authority is also exposed to collection rate risk and if collection rates fall, then there will be a direct impact on the Authority's available financial resources.

(b) Local Council Tax Benefit Schemes
The introduction of local council tax benefit schemes by Durham County Council and Darlington Borough Council exposes the Authority to a further council tax collection rate risk.

(c) COVID-19
No further government funding has been announced to meet costs associated with COVID-19. Should the Authority continue to incur expenditure on COVID-19 it may be necessary to use reserves as no provision has been made in the MTFP for this additional cost.

(d) Expenditure and Income Assumptions
A number of assumptions have been made in relation to settlement funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are considered to be reasonable at this stage, there is a risk that the actual position could turn out to be different.

The employer costs of pensions are extremely difficult to forecast with any certainty. The outcome of the valuation exercise for the Firefighters Pension Scheme resulted in an increase of 12.6% in the average employer's contribution rate. The government have stated that grant funding will continue to be made available towards the additional cost however there is a risk that the Authority does not receive sufficient funding from 2022/23 onwards if this funding is mainstreamed into the settlement.

Table 9 below sets out the potential impact of changes to these assumptions on the MTFP position:

Table 9: Impact of Changes to Expenditure and Income Assumptions

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	£0.230
1% change in level of Inflation	£0.070
1% change in level of council tax	£0.185
1% change in level of settlement funding	£0.092

21 The above risks will be closely monitored, and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the MTFP.

Value for Money

22 The Authority's approach to identifying efficiency savings is based on the principle of providing value for money to local taxpayers. The savings that have been identified as part of the budget setting process are focused on reducing cost whilst at the same time minimising the impact on the level of risk in local communities.

Recommendations

23 It is **recommended** that the Authority:

(a) Agrees the Medium-Term Financial Plan.

(b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget, as set out in the separate report under Section 25 of the Local Government Act 2003.

SECTION F

REVENUE BUDGET

Introduction

1 This section sets out the revised revenue budget for 2020/21 and the revenue budget for 2021/22.

Revised Revenue Budget 2020/21

2 During the year, the revenue budget is monitored and reports outlining spending against budget are regularly considered by the Finance Committee. Estimates are revised as pressures and opportunities for savings are identified and virement is exercised in accordance with the financial regulations of the Authority. Details of the revised 2020/21 revenue budget are set out in Appendix A.

3 Based upon expenditure and income to 31st December 2020, net expenditure for 2020/21 is forecast to be within the approved budget.

4 In order to secure the financial position of the Authority going forward It is recommended that the Treasurer is authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2020/21.

Revenue Budget 2021/22

5 The revenue budget for 2021/22 includes provision for pay awards, inflation, capital financing and any known variations. Due to the current financial climate, attention has been focussed on the achievement of further efficiencies during the preparation of the budget.

6 The net revenue budget for 2021/22 totals £29,337,855. Details of the revenue budget are set out in Appendix A.

Recommendations

7 The following resolutions are **recommended** to the Authority:

(a) That the revised revenue budget for 2020/21 as set out in Appendix A be approved.

(b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2020/21.

(c) That the revenue budget for 2021/22 as set out in Appendix A be approved.

SECTION G

CAPITAL STRATEGY 2020/21 TO 2024/25

Background

1 The revised CIPFA Prudential Code for Capital Finance in Local Authorities, which was issued in December 2017, sets out key objectives to ensure capital programme decisions are affordable, prudent and sustainable. Under the revised guidance, the Authority is now required to produce a Capital Strategy, which must be considered and approved annually by Members.

Purpose and Principles

2 The principles of the Capital Strategy are:

- To ensure capital resources are aligned with the corporate priorities of the Authority.
- To maintain the Authority’s assets and infrastructure.
- To maintain an affordable rolling capital programme.
- To only undertake Prudential Borrowing where there are sufficient monies to meet the full borrowing and running costs of capital expenditure.

3 These principles have been followed when developing the capital programme, within the framework of the MTFP.

4 It is essential that the Authority ensures that its assets are in good condition and that it delivers a good service through the best use of its assets. Where assets are identified as surplus to requirements, they will be disposed of appropriately andf where possible, will generate a capital receipt. Such capital receipts contribute towards the costs of future asset investment and development.

Monitoring

5 The Authority will undertake frequent monitoring of the agreed capital programme, including the funding of this programme. All expenditure incurred in delivering the capital programme must be compliant with the defined finance and procurement policies and procedures.

Funding

6 There are a number of available options for the financing of capital expenditure. Typically, this will be financed through a combination of revenue contributions or use of reserves, capital grants, capital receipts and borrowing, as defined below:

- Revenue Contributions – the revenue budget can include an amount allocated to support the funding of the capital programme.
- Use of Reserves – revenue resources held in the Authority's modernisation reserve are set aside in order to fund capital expenditure.
- Capital Grants – external grant funding may be available for some projects. Such funding must be applied for and utilised for the specific project. The Government have not announced any available capital grant funding for 2021/22.
- Capital Receipts – cash receipts generated from the disposal of assets deemed to be surplus to requirements will be used to support new capital investment or to offset any future debt.
- Borrowing – prudential borrowing can be used to fund capital expenditure. This is on condition that any borrowing is affordable, prudent and sustainable over the medium term. As part of the annual budget setting process, a range of calculations, known as prudential indicators, are completed in order to demonstrate this and ensure that when developing the MTFP, the cost of interest charges and the repayment of principal is taken into account.

Capital Receipts Strategy

7 Prior to the start of each financial year, under the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), Local Authorities are required to publish a strategy on the planned use of capital receipts. Generally, capital receipts must only be utilised to support the purchase of capital expenditure. However, in March 2016, statutory guidance issued by the Government allowed a variation to this.

8 The Statutory Guidance on the Flexible Use of Capital Receipts allowed capital receipts to fund revenue expenditure costs which would generate ongoing savings, relating to sharing back office services, service reform, collaboration and driving digital delivery. This permission was initially applied from 1 April 2016 to 31 March 2019, but it was subsequently confirmed in the Local Government Finance Settlement, issued in February 2018, that this would be extended by a further 3 years to April 2022. Any transformation revenue costs which will be incurred by 31 March 2022 and funded from capital receipts received between 1 April 2016 and 31 March 2022 must be detailed in the strategy.

9 The utilisation of capital receipts to fund expenditure that would usually be funded from revenue resources prevents these receipts from being available for investment in capital. To date, the Authority has not made use of the option to fund any revenue reform costs from capital receipts and the MTFP does not include any such funding. Any changes to this plan in the future would be considered on an individual project basis and any expected savings or service transformation proposals would be reported to the Authority for their consideration. The Authority is not expected to receive a significant level of capital receipts in 2021/22, but any received will be used to fund capital expenditure, reducing the need to borrow.

Significant Capital Projects

10 The main capital projects included in the Authority's Capital Programme are outlined below:

- **Premises –** The capital programme includes provision for major building works at Darlington fire station, Sedgefield fire station and the Training Centre. In addition, it includes a budget for minor works in order to ensure that the condition of the Authority's property portfolio is maintained, and any improvements or enhancements are undertaken whenever it is necessary and appropriate.

- **Vehicle Replacement –** a comprehensive plan is in place to replace the operational fleet of fire appliances and specialist vehicles, pool cars and response vehicles when they reach the end of economic life. This is reviewed on an ongoing basis to identify any changes in the number and types of vehicles required to facilitate operational capacity.

- **Equipment Replacement** – Equipment and IT assets are replaced in line with a detailed plan, which is subject to regular review.

11 All capital projects are subject to an assessment of risk and outcomes, as well as identifying any savings and efficiencies that can be achieved. The Authority seeks to collaborate with other partner agencies wherever possible, in order to maximise efficiencies and improvements to service.

Capital Expenditure

12 The Prudential Code requires that all decisions made by the Authority in relation to capital expenditure, investments and borrowing are prudent and sustainable. Therefore, the Authority must consider arrangements for debt repayment, risk and the impact on overall fiscal sustainability. The Authority should make reasonable estimates of the anticipated capital expenditure throughout the period covered by the MTFP.

13 The estimates of capital expenditure, along with the proposed sources of finance are outlined in Table 10 below:

Table 10: Capital Budgets 2020/21 – 2024/25

	2020/21 Revised £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Premises	4,050	1,000	250	250	250
IT	105	240	150	150	150
Equipment	220	513	109	438	737
Vehicles	850	436	1,036	1,223	632
TOTAL	**5,235**	**2,189**	**1,545**	**2,061**	**1,769**
Funded by:					
Capital contributions	0	120	0	0	0
External borrowing	5,235	2,069	1,545	2,061	1,769
TOTAL FUNDING	**5,235**	**2,189**	**1,545**	**2,061**	**1,769**

14 A significant amount of work has been undertaken to ensure that the capital budgets proposed for the medium term are reflective of the Authority's priorities and are affordable in terms of associated revenue expenditure. The revenue costs associated with the capital programme have been incorporated into the MTFP.

Capital Financing Requirement

15 Under the Prudential Code, it is necessary for the Authority to calculate its Capital Financing Requirement (CFR), which relates to all unfunded capital expenditure, not yet permanently financed through the revenue account. The Authority's Capital Financing Requirement is set out in Table 11 below:

Table 11: Capital Financing Requirement 2020/21 – 2021/22

	2020/21 £000	2021/22 £000
Opening CFR	**8,178**	**13,033**
Capital Expenditure	5,235	2,189
Sources of Finance:		
Revenue Contributions	0	-120
Transfers from Reserves	0	0
Minimum Revenue Provision (MRP)	-380	-389
Closing CFR	**13,033**	**14,713**

External Debt

16 All borrowing is undertaken from the Public Works Loan Board (PWLB). The Authority currently has no PWLB debt outstanding. The estimated borrowing requirement based upon the capital programme contained within the MTFP is set out in Table 12 below:

Table 12: Estimated Borrowing Requirement 2021/22 – 2024/25

2021/22	2022/23	2023/24	2024/25
£000	£000	£000	£000
7,199	1,545	2,061	1,769

Knowledge and Skills

17 Capital and Treasury Management are managed by professionally qualified accountants, who also have significant experience within local government. External professional advice is procured where required and members receive appropriate training on a variety of financial subjects, provided by officers and external providers.

Recommendations

18 It is **recommended** that the Authority approves the revised capital budget for 2020/21 and the capital budgets for 2021/22 to 2024/25.

SECTION H

FIRE AUTHORITY COUNCIL TAX REQUIREMENT

Council Tax

1 Taking into account the information outlined in Sections F and G, the budget has been constructed to include the assumption that council tax will be increased by 1.96%.

2 This will increase basic council tax from the 2020/21 level of £105.48 to £107.55 in 2021/22.

3 Members are **requested** to determine the level of Council Tax for 2021/22.

Calculation of the Council Tax Requirement

4 The calculation of the council tax requirement takes the Authority's net expenditure and deducts contributions from Government in respect of revenue support grant and top up grant, together with the business rates income receivable from Durham County Council and Darlington Borough Council. Allowance also has to be made for the Authority’s share of any surplus or deficit on Durham County Council and Darlington Borough Council Collection Funds.

5 Assuming net revenue expenditure of £29,337,855 the calculation is shown in Table 13 below:

Table 13: Calculation of the 2021/22 Council Tax Requirement

	£	**£**
Net Revenue Expenditure		29,337,855
Less:		
Revenue Support Grant Top Up Grant	3,499,067	
Business Rates Income	7,122,966	
Collection Fund Surplus / Deficit	-116,484	
		10,505,549
Council Tax Requirement		**18,832,306**

Council Tax Base

6 The 'council tax bases' of Durham County Council and Darlington Borough Council are used to calculate the proportion of the Fire Authority's total precept to be levied on each local authority. The tax base is the estimated full year equivalent number of chargeable 'Band D' dwellings with two or more liable adults in respect of which tax will be received. The 'council tax bases' for 2021/22 as notified to the Fire Authority are set out in Table 14 below:

Table 14: Council Tax Base and Precept 2021/22

Authority	Council Tax Base	Precept £
Durham County Council	141,623.20	15,231,575.16
Darlington Borough Council	33,479.60	3,600,730.98
Total	**175,102.80**	**18,832,306.14**

Calculation of Fire Authority's Basic Council Tax

7 The basic council tax for the Authority is calculated by dividing the council tax requirement by the aggregate of the tax bases as shown below:

$$\frac{\text{Council Tax Requirement}}{\text{Aggregate Council Tax Base}} = \textbf{Basic Council Tax (At Band D)}$$

$$\frac{18{,}832{,}306.14}{175{,}102.80} = £107.55$$

8 A Basic Council Tax of £107.55 represents a 1.96% increase from the 2020/21 level.

Precept Instalments

9 Following discussions with the Treasurers of the collecting authorities, the following dates for the payment of the precept in ten equal instalments have been agreed:

(a) Durham County Council:

06 April 2021	02 September 2021
04 May 2021	04 October 2021
02 June 2021	02 November 2021
02 July 2021	03 December 2021
02 August 2021	05 January 2022

(b) Darlington Borough Council:

19 April 2021	14 October 2021
25 May 2021	18 November 2021
30 June 2021	23 December 2021
04 August 2021	01 February 2022
09 September 2021	08 March 2022

10 It is proposed that Durham County Council and Darlington Borough Council also use these payment dates for income from business rates.

Recommendations

11 Based on the net expenditure of £29,337,855 and a Band D Council Tax of £107.55 it is **recommended** that the Authority adopts the following resolutions:

That for the year ended 31 March 2022:

i. the ‘council tax base’ for the whole of the Authority’s area be 175,102.80.

ii. there be no Authority expenses relating to a part only of the Authority’s area.

iii. the ‘basic amount of council tax’ be £18,832,306.14 and the amount of the council tax for each category of dwelling be as set out in Table 15 below:

Table 15: 2021/22 Council Tax by Valuation Band

Valuation Band	Proportion of ‘Basic Amount’	Council Tax
		£
A	6/9	71.70
B	7/9	83.65
C	8/9	95.60
D	‘basic amount’	107.55
E	11/9	131.45
F	13/9	155.35
G	15/9	179.25
H	18/9	215.10

iv. the Net Expenditure be £29,337,855 and that, after taking into account revenue support grant of £3,499,067 business rates income of £1,431,840, top up grant of £5,691,126, and a deficit on the collection fund of £116,484, precepts totalling £18,832,306.14 be issued to Durham County Council and Darlington Borough Council.

SECTION I

PRUDENTIAL CODE

Background

1 The framework of the prudential capital finance system, which came into effect from 1 April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on "credit approvals" were abolished with effect from 1 April 2004. The Authority is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the Authority's decision on what it can afford. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.

2 The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the Authority are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

3 To demonstrate that the above objectives have been fulfilled, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits; these are for the Authority to set.

4 Previously, credit approvals from Central Government set the limit of a local authority's long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the new system, unless, exceptionally, a national limit is imposed, the Authority is free to make its own borrowing decisions according to what it can afford. Central Government support for borrowing through RSG continues to be given on the basis of a named amount of capital expenditure which borrowing will support. The Authority will take the totality of Central Government support into account in setting its prudential limits.

Prudential Indicators

5 The estimates of capital expenditure to be incurred for the current and future years are contained in Section G of this report and summarised in Table 16 below:

Table 16: Prudential Indicators – Capital Expenditure

2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
1,531	5,235	2,189	1,545	2,061

6 Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2020 are set out in Table 17 below:

Table 17: Prudential Indicators – Capital Financing Requirement

2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
8,178	12,929	14,479	15,450	16,727

7 The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Fire Authority does not associate borrowing with particular items or types of expenditure. The Authority has an Integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority's Treasury Management Strategy and annual plan for 2021/22 is shown in Section J. The Fire Authority has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the Authority's underlying need to borrow for a capital purpose.

8 CIPFA's Prudential Code for Capital Finance includes the following as a key indicator of prudence:

> *"In order to ensure that over the medium-term net borrowing will only be for a capital purpose the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*

9 There are no difficulties envisaged for the current or future years in meeting this requirement. This view takes into account current commitments, existing plans, and the proposals contained in this budget report.

10 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2019/20 are set out in Table 18 below:

Table 18: Prudential Indicators – Ratio of Financing Costs to Net Revenue Stream

2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
0.9	1.3	1.4	2.1	2.9

Minimum Revenue Provision (MRP) Statement

11 The Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP). CLG Regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options have been provided to replace the existing Regulations, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:

i. For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 2).

ii. From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset Life Method (Annuity)** - MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3).

External Debt

12 In respect of external debt, the Authority has set Authorised Limits for its total external debt, gross of investments, for the current (2020/21) and the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases. The authorised limits are set out in Table 19 below:

Table 19: Prudential Indicators – Authorised Limit for External Debt

	2020/21 Estimate £m	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
Borrowing	5.759	7.919	9.619	11.727
Long-term liabilities	7.657	7.408	7.147	6.858
Total	**13.416**	**15.327**	**16.766**	**18.585**

13 The Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements.

14 The Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the Treasurer's estimate of the most likely, prudent but not worst-case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a key management tool for in year monitoring by the Treasurer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The operational boundary limits are set out in Table 20 below:

Table 20: Prudential Indicators – Operational Boundary for External Debt

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Borrowing	5.235	7.199	8.744	10.661
Long-term liabilities	6.961	6.735	6.497	6.234
Total	**12.196**	**13.934**	**15.242**	**16.895**

15 The Authority's actual external debt at 31 March 2020 was £6.735m, comprising of long-term liabilities in respect of Private Finance Initiative (PFI) schemes. It should be noted that actual external borrowing differs from the Authorised Limit and Operational Boundary, since actual external debt reflects the position at one point in time.

Council Tax

16 The Prudential Indicators have been calculated using a 1.96% Council Tax increase in 2021/22 and assuming a 2% increase in subsequent years.

17 The capital programme outlined in Appendix C is funded by a mix of capital grants, contributions from revenue and borrowing under the Prudential Code.

18 The estimate of the incremental impact of this prudential borrowing for Band D Council Tax is set out in Table 21 below:

Table 21: Prudential Indicators – Incremental Impact of Borrowing

2021/22 %	2022/23 %	2023/24 %
0.52	0.61	0.88

Recommendations

19 It is **recommended** that the Authority**:**

(a) Notes the prudential indicators.

(b) Approves the MRP Statement.

(c) Approves the following limits for external debt in 2021/22:

i. Authorised Limit of £15.327m

ii. Operational Boundary of £13.934m

SECTION J

TREASURY MANAGEMENT 2021/22

1 The CIPFA Code of Practice for Treasury Management in the Public Services makes the following key recommendations:

(i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

(ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities

(iii) They should acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

2 The Authority has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains, as the cornerstone for effective treasury management:

- a treasury management policy statement stating the policies and objectives of its treasury management activities. This is attached as Annex J1.

- suitable treasury management practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. These are attached as Annex J2.

3 Reports will be presented to members of the Authority on its Treasury Management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. The annual strategy for 2020/21 is shown in Annex J3. In implementing this strategy, the Authority will give priority to security and liquidity rather than yield. However, the Authority will aim to achieve the highest rate of interest consistent with proper levels of security and liquidity. In particular, members' attention is drawn to the key objectives of the Investment Strategy, which is firstly safeguarding the repayment of principal and interest of its

investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. The Authority delegates responsibility for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

Treasury Management Indicators

4 The Authority has set an upper limit on its *fixed* interest rate exposures for 2021/22, 2022/23 and 2023/24 of 100% of its net outstanding principal sum.

5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2020/21, 2021/22 and 2022/23 of 30% of its net outstanding principal sums.

6 The Authority's upper and lower limits for the maturity structure of its borrowings are set out in Table 22 below. The table shows the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Table 22: Maturity Structure of Borrowings

	Upper Limit %	**Lower Limit %**
Under 12 months	20	0
12 months and within 24 months	20	0
24 months and within 5 years	30	0
5 years and within 10 years	50	0
10 years and above	100	0

7 The Authority does not intend to invest sums for periods longer than 364 days. This is seen as prudent interest rate risk management.

Recommendations

8 It is **recommended** that the Authority:

a) Continues to adopt the key recommendations of the CIPFA code.

b) Notes the Annual Treasury Management Strategy as set out in Annex J3.

c) Sets an upper limit on the Authority's fixed interest rate exposures for 2021/22, 2022/23 and 2023/24 of 100% of its net outstanding principal sum.

d) Sets an upper limit on the Authority's variable interest rate exposures for 2021/22, 2022/23 and 2023/24 of 30% of its net outstanding principal sums.

Annex J1: Treasury Management Policy Statement

1 The Authority defines its treasury management activities as:

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

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

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

Annex J2: Treasury Management Practices

1 TMP1 - TREASURY RISK MANAGEMENT

1.1 The Treasurer shall:

- Design, implement and monitor all arrangements for the identification, management and control of the treasury management risks shown below
- Report at least annually on the adequacy/ suitability thereof, and
- Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect, all in accordance with the procedures set out in **TMP6** *Reporting requirements and management information arrangements.*

1.2 *Liquidity*

The Authority will ensure it has adequate, but not excessive, cash resources, borrowing arrangements, overdraft or standby facilities, to enable the Authority at all times to have the level of funds available which are necessary for the achievement of its service objectives.

1.3 *Interest Rates*

The Authority will manage its exposure to fluctuations in interest rates with a view to containment of its net interest costs, or securing its interest revenues, in accordance with the amounts provided in the Revenue Estimates in accordance with **TMP6** *Reporting requirement and management information arrangements.*

1.4 *Credit and Counterparties*

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the Authority's investment activities to the instruments, methods and techniques referred to in **TMP4** *Approved Instruments, methods and techniques*.

1.5 *Rescheduling & Refinancing of Debt*

The Authority will ensure that all borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

1.6 *Legal and Regulatory*

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. The Authority will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under **TMP1.4** *Credit and Counterparties,* the Authority will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The Authority will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

1.7 *Fraud, Error and Corruption, and Contingency Management*

The Authority will seek to ensure that it has identified the circumstances which may expose the Authority to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Accordingly, it will design and implement suitable systems and procedures, and will maintain effective contingency management arrangements to counter such risks.

1.8 *Market Risk*

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums invested.

2 TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT

2.1 The Authority will actively work to promote best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.

3 TMP3 - DECISION-MAKING AND ANALYSIS

3.1 The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

4 TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy that is shown in Annex J3.

5 TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 The Authority's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.

5.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

5.3 If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer will ensure that the reasons are properly reported in accordance with **TMP6** *Reporting requirements and management information arrangements,* and the implications properly considered and evaluated.

5.4 The Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.

5.5 The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

5.6 The Treasurer will fulfil all delegated responsibilities in respect of treasury management in accordance with Authority's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

6 TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Regular reports will be prepared for consideration by the Authority on:

- the implementation of its treasury management policies
- the effects of decisions taken and the transactions executed in pursuit of those policies
- the implications of changes resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the treasury management function

6.2 As a minimum, Authority will receive:

- an Annual Report on the strategy and plan to be pursued in the forthcoming year
- an Annual Report on the performance of the treasury management function in the previous year and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and Treasury Management Practices

7 TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 The Authority will account for its treasury management activities in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements.

7.2 The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8 TMP8 - CASH AND CASH FLOW MANAGEMENT

8.1 All Authority monies shall be aggregated for treasury management purposes and will be under the control of the Treasurer. Cash flow projections will be prepared on a regular and timely basis, and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1.2** *Liquidity.*

9 TMP 9 - MONEY LAUNDERING

9.1 Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.

10 TMP 10 - STAFF TRAINING AND QUALIFICATIONS

10.1 The Authority will seek to appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

11 TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

11.1 When external service providers are employed by the Authority, the Treasurer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the methods by which service providers' value will be assessed will be properly agreed and documented and subjected to regular review.

11.2 Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, Authority Standing Orders and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangements rests with the Treasurer.

12 TMP 12 - CORPORATE GOVERNANCE

12.1 The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

12.2 The Authority has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the Treasurer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Annex J3: Treasury Management Strategy 2021/22

The CIPFA Code of Practice for Treasury Management in the Public Services recommends that the Authority draw up an annual Treasury Management Strategy before the start of each financial year, which it may vary at any time.

In implementing this strategy, the Authority will give priority to security and liquidity, rather than yield. However, the Authority will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. In order to achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the Authority's approach to borrowing and the use of external managers.

1. Borrowing Strategy 2021/22 – 2023/24

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the Authority will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are at risk of being higher over the medium term, and short-term rates are expected to rise, although more modestly. The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

With the likelihood of long-term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Treasurer and treasury consultants will monitor prevailing rates for any opportunities during the year.

Continuing to postpone borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

2. Investment Strategy 2021/22 – 2023/24

2.1 Key Objectives

The primary objectives of the Authority's investment strategy are firstly safeguarding the repayment of the principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. With the current economic background, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns, officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

2.2 Risk Benchmarking

A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature.

These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Authority's maximum-security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.08% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area, the Authority seeks to maintain:

- Liquid short-term deposits of at least £0.5m available with a week's notice
- Weighted Average Life benchmark is expected to be 0.25 years (3 months), with a maximum of 0.5 years (6 months)

Yield - Local measure of yield benchmarks is:

- Investments - Internal returns above the 7-day London Interbank Bid Rate (LIBID)

2.3 Investment Counterparty Selection Criteria

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Authority will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Authority for approval as necessary. These criteria are separate to those which choose Specified and Non-Specified investments, as they provide an overall pool of counterparties considered high quality that the Authority may use, rather than defining what its investments are.

The rating criteria use the ***lowest common denominator*** method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside of the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

2.4 Specified Investments

Specified Investments are defined as those satisfying the following conditions:

a) Denominated in sterling
b) To be repaid or redeemed within 12 months of the date on which the investment was made
c) Do not involve the acquisition of share capital or loan capital in any body corporate
d) Are made with the UK Government, local authorities, parish councils, community councils, housing associations or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency.

The criteria for providing a pool of high-quality investment counterparties are:

Banks 1 - Good Credit Quality
The Authority will only use banks which:

(a) Are UK banks; and/or
(b) Are non-UK and domiciled in a country which has a minimum Sovereign long- term rating of AAA;

(c) And have, as a minimum, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):

  i. Short Term – F1
  ii. Long Term – A
  iii. Individual / Financial Strength – C- (Fitch / Moody's only)
  iv. Support – 3 (Fitch only)

Banks 2 - Guaranteed Banks with suitable Sovereign Support
In addition, the Authority will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

(a) wholesale deposits in the bank are covered by a government guarantee
(b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
(c) the Authority's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

Banks 3 - Eligible Institutions
The Authority is an eligible institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long-term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.

Banks 4 - The Authority's own banker for transactional purposes if the bank falls below the above criteria although in this case balances will be minimised in both monetary size and time.

Building Societies
The Authority will use all Societies which meet the ratings for banks outlined above.

Money Market Funds – AAA

UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF))

Other Local Authorities, Parish Councils, Community Councils, Housing Associations

2.5 Non - Specified Investments

Non-Specified investments are those not meeting the definition in the Specified Investments section above. It is proposed that during 2021/22, the Authority will <u>not</u> invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

2.6 Use of additional information other than credit ratings

Additional requirements under the Code of Practice now require the Authority to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties.

2.7 Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the Authority's Counterparty List are set out in Table 23 below:

Table 23: Time and Monetary Limits of Investments

	Fitch (or equivalent)	Money Limit	Time Limit
Limit 1 Category	AAA	£4m	1 year
Money Market Funds	AAA	£4m	1 year
Limit 2 Category	AA	£4m	1 year
Eligible Institutions	AA	£4m	1 year
Limit 3 Category	A	£1m	3 months
Eligible Institutions	A	£1m	3 months
UK Government		unlimited	1 year
Other Local Authorities		£2m	1 year

Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from these criteria to safer instruments and institutions. Currently this involves the use of the UK Government Debt Management Account Deposit Facility, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

2.8 Sensitivity to Interest Rate Movements

Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified.

The estimated impact of a 1% increase or decrease in interest rates to the estimated treasury management income for the Authority in 2021/22 is an increase or decrease of £80,000.

3. External Managers (Other than those relating to the Pension Fund)

The Authority may, upon the recommendations of the Treasurer, appoint one or more external managers to manage the short-term investment of surplus Authority money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.

SECTION K

SUMMARY OF RECOMMENDATIONS

Set out below is a summary of the recommendations on which Members' views are sought.

SECTION B – Consultation (page 3)

That Members take into account the views of those consulted as they consider the budget and Medium-Term Financial Plan proposals.

SECTION C – Local Government Finance Settlement (page 4)

That the Authority notes the 2021/22 settlement funding assessment and the uncertainty around the funding position from 2022/23 onwards.

SECTION D – Reserves Strategy (page 5)

That the Authority agrees to the policy for reserves, that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure; currently £1.45m.

SECTION E – Medium-Term Financial Plan (page 9)

That the Authority:

(a) Agrees the Medium-Term Financial Plan.

(b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget, as set out in the separate report under Section 25 of the Local Government Act 2003.

SECTION F – Revenue Budget (page 16)

That the Authority adopts the following resolutions:

(a) That the revised revenue budget for 2020/21, as set out in Appendix A be approved.

(b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2020/21.

(c) That the revenue budget for 2021/22, as set out in Appendix A be approved.

SECTION G – Capital Strategy (page 17)

That the Authority approves the revised capital budget for 2020/21 and the capital budgets for 2021/22 to 2024/25.

SECTION H – Fire Authority Council Tax Requirement (page 24)

That Members determine the level of Council Tax for 2021/22 based on the Net Expenditure of £29,337,855. Based on the recommendation of the Finance Committee, it is recommended for the year ending 31st March 2022:

i. That the 'council tax base' for the whole of the Authority's area be £175,102.80

ii. That there be no Authority expenses relating to a part only of the Authority's area

iii. That the Authority increases Council Tax by 1.96% to £107.55 for a Band D property

iv. That the Net Expenditure be £29,337,855 and that, (after taking into account revenue support grant of £3,499,067 business rates income of £1,431,840, top up grant of £5,691,126, and a deficit on the collection fund of £116,484, precepts totalling £18,832,306.14 be issued to Durham County Council and Darlington Borough Council.

SECTION I – Prudential Code (page 25)

(a) That the Authority notes the prudential indicators.

(b) That the Authority approves the MRP Statement.

(c) That the Authority approves the following limits for external debt in 2021/22:

   i. Authorised Limit of £15.327m

   ii. Operational Boundary of £13.934m

SECTION J – Treasury Management (page 31)

(a) That the Authority formally adopts the key recommendations of the CIPFA code.

(b) That the Authority notes the Annual Treasury Management Strategy.

(c) That the Authority sets an upper limit on its fixed interest rate exposures for 2021/22, 2022/23 and 2023/24 of 100% of its net outstanding principal sum.

(d) That the Authority sets an upper limit on its variable interest rate exposures for 2021/22, 2022/23 and 2023/24 of 30% of its net outstanding principal sums.

APPENDIX A

COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

REVENUE BUDGET

Budget Heading	Original Estimate 2020/21 £	Revised Estimate 2020/21 £	Original Estimate 2021/22 £
Employees			
Salaries and Wages	19,035,625	18,998,009	19,462,786
Pension Contributions	3,900,048	3,883,581	4,305,252
Ill Health Charges	715,000	715,000	728,409
Other	434,946	434,422	441,422
Total Employees Costs	**24,085,619**	**24,031,012**	**24,937,869**
Premises	2,824,066	2,824,066	2,802,025
Transport	610,739	613,739	624,690
Supplies & Services	4,369,514	4,367,615	4,482,713
Capital Financing	1,231,177	1,231,177	1,329,906
Contingencies	280,057	333,563	265,246
Capital Charges	3,094,533	2,496,695	2,756,396
GROSS EXPENDITURE	**36,495,705**	**35,897,867**	**37,198,845**
Income	-4,077,773	-4,077,773	-4,882,519
Contribution from Reserve	-150,000	-150,000	-222,075
Reversal of Capital Charges	-3,094,533	-2,496,695	-2,756,396
NET EXPENDITURE	**29,173,399**	**29,173,399**	**29,337,855**