



## **COMBINED FIRE AUTHORITY**

**13 FEBRUARY 2014**

### **2014/15 REVENUE BUDGET AND COUNCIL TAX, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL PLAN**

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#### **REPORT OF TREASURER AND CHIEF EXECUTIVE**

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##### **Purpose and Structure of the Report**

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

- approve a revised revenue budget for 2013/14;
- set a revenue budget for 2014/15;
- approve the Medium Term Financial Plan;
- approve the capital budgets for 2014/15 to 2017/18;
- determine the Fire Authority Council Tax Requirement;
- approve the associated resolutions.

2 The report is divided into 11 sections:

Section A - Background (page 2)

Section B - Strategic Aims and Objectives (page 3)

Section C - Budget Consultation (page 4)

Section D - Local Government Finance Settlement (page 5)

Section E - Revenue Budget (page 6)

Section F - Medium Term Financial Plan (page 8)

Section G - Capital Budget (page 13)

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Section K - Summary of Recommendations (page 36)

## **SECTION A**

### **BACKGROUND**

- 1 A meeting of the Finance and General Purposes Committee was held on 28 January 2014 to consider the revenue and capital budgets, together with the Medium Term Financial Plan. This report incorporates the recommendations of the Committee regarding the overall budget amount and the level of Council Tax for 2014/15. The Chair of the Finance and General Purposes Committee will provide an update to the meeting on the recommendation of the Finance and General Purposes Committee.

## SECTION B

### STRATEGIC AIMS AND OBJECTIVES

- 1 The Authority's Community Safety Strategy sets out its vision of '**Safest People, Safest Places**'. To achieve this vision, the Authority has three strategic aims and seven objectives:-

#### **Protecting and Preventing**

- identifying and reducing risks from fire and other hazards to achieve safer, stronger communities;
- responding effectively and competently to prevent loss of life, injury and damage, with resources targeted to risk;
- defining and delivering our role in the community to improve the well-being and quality of life for our communities.

#### **Developing Motivated People to Deliver Effectively**

- investing in the skills and potential of all our people through continuous personal and professional development;
- optimising the contribution of all our people in a rewarding, challenging and safe environment.

#### **Value Through Sustainable Improvement**

- developing an organisation that is fit for purpose to meet the changing needs of our communities;
- delivering value for money with prioritisation of available resources based on risk.

- 2 The Authority places significant importance on ensuring that investments made in delivering and improving services are aligned to the strategic aims and objectives. In addition, efficiencies and savings that are identified are assessed in relation to their impact on the Authority achieving its strategic aims.
- 3 It is **recommended** that Members confirm the strategic aims and objectives against which efficiency, savings and investment decisions are made.

## SECTION C

### BUDGET CONSULTATION

- 1 The Authority has undertaken on-going consultation on the Integrated Risk Management Plan (IRMP) and the Budget via:
  - Area Action Partnerships in County Durham;
  - Police and Communities Together (PACT) meetings in Darlington;
  - IRMP consultation via the Authority's website.
- 2 A meeting with representatives of the Non-Domestic Ratepayers was arranged for 14<sup>th</sup> January 2014 to discuss the 2014/15 budget and Medium Term Financial Plan. However, none of the invited representatives attended the meeting. No specific comments have been received from representatives of the local Non-Domestic Ratepayers.
- 3 Consultation on the budget and the Service Transformation Programme has also taken place with representative bodies on a regular basis since the Service Transformation Programme was introduced.
- 4 Meetings with representative bodies have been productive and focused on considering savings options that do not increase risks in local communities. No specific issues have been raised by representative bodies as part of the consultation on the budget.
- 5 It is **recommended** that Members take into account the views of those consulted as they consider the budget and Medium Term Financial Plan proposals.

## SECTION D

### LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2014/15

- 1 Details of the final Local Government Finance Settlement were announced on 5<sup>th</sup> February 2014.
- 2 The final settlement information sets out details of the specific elements of government funding that will be received for 2014/15 and 2015/16.

#### Start Up Funding Assessment

- 3 The start-up 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.
- 4 The settlement information no longer specifies the amount of funding provided for Council Tax support and this has been rolled into Revenue Support and Top-Up grant from 2014/15. The start-up funding assessment has been calculated as follows:

Description	2014/15 £m	2015/16 £m
Revenue Support Grant	8.238	6.846
Top Up Grant	4.905	5.040
Business Rates Section 31 Grants	0.106	0
<b>Total Government Funding</b>	<b>13.249</b>	<b>11.886</b>
Local Non-Domestic Rates Share	1.400	1.478
<b>Start Up Funding</b>	<b>14.649</b>	<b>13.364</b>
<b>Reduction in Funding</b>	<b>-0.994</b>	<b>-1.283</b>
<b>% Reduction in Funding</b>	<b>-6.39%</b>	<b>-8.76%</b>

- 5 The Safety Net Threshold has been set at 7.5% of the baseline funding level and is £5.868m in 2014/15. Local business rate income would need to fall by £476,000 for a safety net payment to be triggered in 2014/15.
- 6 It is **recommended** that Members note the grant settlement.

## **SECTION E**

### **REVENUE BUDGET**

#### **Introduction**

- 1 This section deals with the revised revenue budget for 2013/14 and the revenue budget for 2014/15.

#### **Revised Revenue Budget 2013/14**

- 2 During the year the revenue budget is monitored and reports outlining spending against budget are regularly considered. Estimates are revised as pressures and opportunities for savings are identified and virement is exercised in accordance with the financial regulations of the Authority.
- 3 Based upon expenditure and income to 31<sup>st</sup> December 2013, Net Expenditure for 2013/14 is forecast to be broadly in line with the budget.
- 4 The following resolutions are **recommended** to the Authority:
  - (a) That the revised revenue budget for 2013/14 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 2013/14.

#### **Revenue Budget 2014/15**

- 6 The savings that have been identified to date through the Service Transformation process have been sufficient to enable a balanced budget to be set for 2014/15. Savings have been made in the following areas as a result of Service Transformation:
  - Estates Improvement Programme
  - Base Budget Review
  - Review of the Service Structure
  - Changes to shift systems and working patterns to release firefighter capacity
  - Review of crewing arrangements
- 7 The revenue budget for 2014/15 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.

- 8 The net revenue budget for 2014/15 totals £29.336m, a reduction of £0.696m from the 2013/14 budget of £30.032m. Details of the revenue budget are set out in Appendix A.
- 9 The Chair of the Finance and General Purposes Committee will provide an update to the meeting on the recommendation of the Committee.**
- 10 It is **recommended** that the Authority approves the revenue estimates for the year ended 31 March 2015 as summarised above and detailed in Appendix A.

## **SECTION F – MEDIUM TERM FINANCIAL PLAN**

This section provides a summary of the Medium Term Financial Plan for 2014/15 to 2017/18.

### **Basis of the Preparation of the Medium Term Financial Plan 2014/15 to 2017/18**

#### ***Resources***

- 1 The Medium Term Financial Plan (MTFP) has been revised to take account of the final settlement information and to incorporate 2014/15 and future year's expenditure and income estimates.
- 2 The details of the Local Government Settlement for 2014/15 are outlined in Section D.
- 3 The settlement provides details of government funding for the financial years 2014/15 and 2015/16. Estimates of government funding have been made for financial years 2016/17 and 2017/18 to enable the Authority to consider the financial position over the medium term.
- 4 The estimates for 2016/17 and 2017/18 are less robust as they are based on an assumption that future years government support will be reduced by the average of the 2014/15 and 2015/16 grant reductions.
- 5 It is important that the Authority continues to consider the Medium Term Financial Plan as it seeks to continue to invest in capital infrastructure and information technology projects to improve efficiency at a time when central government support is reducing and is likely to continue to reduce for the foreseeable future.
- 6 The Medium Term Financial Plan has been calculated based on the assumption that council tax will increase by 1.9% in each of the years 2014/15 to 2017/18.
- 7 Members will need to review these assumptions noting that each 1% change in Council Tax results in a variation of approximately £143,000.

#### ***Local Council Tax Referendum***

- 8 The information relating to the council tax referendum criteria was released on 5<sup>th</sup> February 2014. Any local authority that wishes to increase council tax above the threshold level of 2% will require the agreement of their local electorate in a referendum.

#### ***Council Tax Freeze Grant***

- 9 The Government has announced a further round of the Council Tax Freeze Grant scheme for 2014/15. Those Authorities that choose to freeze or



reduce Council Tax will receive a grant equivalent to a 1% increase in Council Tax calculated using the tax base for 2014/15 without taking account of the reduction in tax base due to the council tax reduction scheme. This equates to a freeze grant of approximately £175,000 for this Authority.

**Savings Options**

10 The following savings opportunities, totalling £893,000, have been identified for implementation during the 2015/16 financial year:

Removal of Project Staffing Costs	£456,000
Removal of Vacant Posts	£157,000
Structural Review	£100,000
Review of Facilities Management	£180,000
	<b>£893,000</b>

**Medium Term Financial Plan**

11 The Medium Term Financial Plan (MTFP) incorporating the above information is set out in the following table:

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Net Expenditure</b>	<b>29.336</b>	<b>29.601</b>	<b>30.624</b>	<b>31.036</b>
Efficiency Savings	0	-0.893	-0.893	-0.893
<b>Revised Net Expenditure</b>	<b>29.336</b>	<b>28.708</b>	<b>29.731</b>	<b>30.143</b>
Total Government Funding	13.249	11.886	11.069	10.398
Local Non Domestic Rates	1.400	1.478	1.508	1.538
Council Tax	14.686	14.967	15.251	15.541
<b>Total Funding</b>	<b>29.336</b>	<b>28.331</b>	<b>27.828</b>	<b>27.477</b>
<b>Shortfall</b>	<b>0</b>	<b>-0.377</b>	<b>-1.903</b>	<b>-2.666</b>

13 The MTFP above shows a balanced budget position in 2014/15 and a shortfall in funding of £0.377m in 2015/16 rising to £2.666m in 2017/18. Work is continuing through the Service Transformation process to identify further savings options to assist in balancing the budget in future years.

**Financial Reserves**

14 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.

15 The current strategy for the Authority is based on the assumption that, for the period of the Medium Term Financial Plan, general reserves will stay broadly within the reserves policy.

16 The current policy is that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain, broadly, general reserves of between 7.5% and 10% of the Net Expenditure, currently between £2.2m and £2.9m respectively, with a maximum general reserve of 15% (£4.4m) of the net expenditure for the short to medium term.

17 The Authority's reserves position is set out below:

	<b>Balance at 1/4/13</b>	<b>Estimated Use of Reserves 2013/14</b>	<b>Estimated balance at 31/3/14</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Earmarked Reserves</b>			
Pensions	0.500	0	0.500
Revenue Modernisation	1.000	0	1.000
Capital Modernisation	9.718	4.652	5.066
Community Safety	0.414	0	0.414
Insurance	0.100	0	0.100
New Dimensions	0.094	0	0.094
Replacement Mobilisation System	1.800	1.342	0.458
Resilience	0.100	0	0.100
<b>Total Earmarked Reserves</b>	<b>13.726</b>	<b>5.994</b>	<b>7.732</b>
<b>General Reserves</b>	<b>2.824</b>	<b>0</b>	<b>2.824</b>
<b>Total Reserves</b>	<b>16.550</b>	<b>5.994</b>	<b>10.556</b>

18 In order to assist with the management of the budget over the medium term, it is proposed that the balances on the capital modernisation, community safety and replacement mobilisation system reserves at 31 March 2014 are transferred to the revenue modernisation reserve. This will increase the revenue modernisation reserve to £6.938m after allowing for the estimated use of these reserves in the current financial year.

19 This approach will provide the Authority with flexibility to fully consider its options for implementing savings options over the medium term.

## **Risks**

- 20 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 2014/15 and over the medium term.
- 21 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) Expenditure and Income Assumptions**

A number of assumptions have been made in relation to pay, price and pension costs across the Medium Term Financial Plan period.

Pay inflation has been included in the budget based on announcements made in relation to restrictions on public sector pay inflation for 2014/15 and 2015/16.

The employer costs of pensions are also extremely difficult to forecast with any certainty until the new 2015 scheme is implemented. Whilst the new scheme should release savings for employers, it is uncertain whether these savings will be passed on through a corresponding reduction in the employers' contribution rate. There is also uncertainty relating to the additional costs of retained duty staff accessing the 1992 pension scheme. Employers' pension contribution rates have been included in the MTFP at the existing levels. This position will need to be reviewed when the final position on the new 2015 pension scheme is announced.

### **(d) Future Funding**

An assumption has been made for 2016/17 and 2017/18 that government funding allocations are reduced in line with the average of 2014/15 and 2015/16 grant cuts. This assumption will need to be

considered by the Authority as further information is made available.

- 22 These risks will be monitored closely by the Finance and General Purposes Committee and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the Medium Term Financial Plan.

### ***Value for Money***

- 23 The Authority's approach to Service Transformation is based on the principle of providing value for money to local taxpayers. The Service Transformation Programme and the efficiencies that have been identified as part of the budget setting process are focused on reducing cost without increasing the level of risk in local communities.

### **Recommendations**

- 24 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.
  - (c) Reaffirms the current policy for Reserves.
  - (d) Agrees to transfer the balances at 31<sup>st</sup> March 2014 on the capital modernisation, community safety and replacement mobilisation system reserves to the revenue modernisation reserve.

## SECTION G

### CAPITAL BUDGET 2013/14 TO 2017/18

- 1 The proposed capital budget for the years 2014/15 to 2017/18 and the revised capital budget for 2013/14 are set out in Appendix B and are summarised in the table below:

Year	Capital Budget £
2013/14 Revised	10,222,000
2014/15	11,862,000
2015/16	989,000
2016/17	1,075,000
2017/18	950,000
	<b>25,098,000</b>

- 2 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.
- 3 Under the Prudential framework, the Authority is free to make its own borrowing decisions according to what is affordable as guided by the Prudential Code. With effect from 2011/12, Central Government ceased to provide support for borrowing. Capital Expenditure will be funded through unsecured borrowing, capital grant, revenue contributions or use of reserves, depending on the financial situation at the relevant time.
- 4 The proposed approach to financing the programme going forward includes additional borrowing of £10.157m. This approach will ensure that the Authority retains an appropriate level of reserves to assist with managing the budget over the medium term, whilst also allowing the Estates Improvement Programme to be completed in accordance with plans.
- 5 Full provision has been made in the 2014/15 revenue budget and the Medium Term Financial Plan to meet the revenue consequences of the capital programme.
- 6 It is **recommended** that the Authority approves the capital budgets for 2013/14 to 2017/18.

## SECTION H

### FIRE AUTHORITY COUNCIL TAX REQUIREMENT

#### Council Tax Options

- 1 Taking into account the information outlined in Section E, the budget has been constructed to include the assumption that Council Tax will be increased by 1.9%.
- 2 This will increase Basic Council Tax from the 2013/14 level of £90.45 to £92.16 in 2014/15.
- 3 *Members are **requested** to consider the above information and determine the level of Council Tax for 2014/15.*

#### Calculation of the Council Tax Requirement

- 4 The calculation of the Council Tax Requirement takes the Authority's Net Expenditure and deducts from it 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 Expenditure of £29,335,861 the calculation is shown in the following table:

	£	£
Fire Authority's Net Expenditure		29,335,861
Less:		
Revenue Support Grant	8,238,236	
Business Rates Income	1,400,406	
Business Rates Section 31 Grant	106,321	
Top Up Grant	4,904,668	14,649,631
<b>Council Tax Requirement</b>		<b>14,686,230</b>

## 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 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 2014/15 as notified to the Fire Authority are set out in the table below:

Authority	Council Tax Base	Precept
		£
Durham County Council	129,047.40	11,893,008
Darlington Borough Council	30,308.40	2,793,222
Total	159,355.80	14,686,230

## Calculation of Fire Authority's Basic Council Tax

- 7 The Basic Council Tax for the Fire Authority is calculated by dividing the Council Tax Requirement by the aggregate of tax bases as shown below:

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

$$\frac{\underline{\pounds 14,686,230}}{159,355.80} = \pounds 92.16$$

- 8 A Basic Council Tax of £92.16 represents a 1.9% increase from the 2013/14 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:

3 <sup>rd</sup> April 2014	5 <sup>th</sup> September 2014
2 <sup>nd</sup> May 2014	7 <sup>th</sup> October 2014
3 <sup>rd</sup> June 2014	7 <sup>th</sup> November 2014
3 <sup>rd</sup> July 2014	9 <sup>th</sup> December 2014
5 <sup>th</sup> August 2014	9 <sup>th</sup> January 2015

(b) Darlington Borough Council:

17 <sup>th</sup> April 2014	16 <sup>th</sup> October 2014
28 <sup>th</sup> May 2014	20 <sup>th</sup> November 2014
2 <sup>nd</sup> July 2014	29 <sup>th</sup> December 2014
6 <sup>th</sup> August 2014	3 <sup>rd</sup> February 2015
11 <sup>th</sup> September 2014	10 <sup>th</sup> March 2015

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

11 Based on the Net Expenditure of £29,335,861 and a Council Tax of £92.16, it is **recommended** that the Authority adopts the following resolutions:

That for the year ended 31 March 2014:

- (i) the 'council tax base' for the whole of the Authority's area be 159,355.80;
- (ii) there be no Authority expenses relating to a part only of the Authority's area;
- (iii) the 'basic amount of council tax' be £92.16 (and the amount of the council tax for each category of dwelling be as follows:

<b>Valuation Band</b>	<b>(Proportion of 'Basic Amount')</b>	<b>Council Tax</b>
		<b>£</b>
A	(6/9)	61.44
B	(7/9)	71.68
C	(8/9)	81.92
D	('basic amount')	92.16
E	(11/9)	112.64
F	(13/9)	133.12
G	(15/9)	153.60
H	(18/9)	184.32

- (iv) the Net Expenditure be £29,335,861 and that, (after taking into account 'Revenue Support Grant' of £8,238,236, Business Rates Income of £1,400,406, Top Up Grant of £4,904,668 and Business Rates Section 31 Grant of £106,321, precepts totalling £14,686,230 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 are as follows:

Capital Expenditure				
2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
3,869	10,222	11,862	989	1,075

- 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 2014 are:

Capital Financing Requirement				
2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
9,811	9,403	19,141	18,674	18,235

- 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 2014/15 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 2012/13 are:

Ratio of Financing Costs to Net Revenue Stream				
2012/13 Actual %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
1.5	1.6	2.4	3.3	3.1

### 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 the following Authorised Limits for its total external debt, gross of investments, for the current (2013/14) and the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases.
- 13 The limits for 2013/14 have been revised to reflect the change in the approach to financing the capital programme from the use of reserves to borrowing. This will allow sufficient flexibility to borrow during 2013/14 to finance the capital programme should this be required.

Authorised Limit for External Debt				
	2013/14 Revised Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	8.7	12.6	12.5	12.0
Long-term liabilities	8.8	8.4	8.1	7.8
Total	17.5	21.0	20.6	19.8

- 14 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.
- 15 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.

Operational Boundary for External Debt				
	2013/14 Revised Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	8.4	11.5	11.4	11.0
Long-term liabilities	8.0	7.7	7.4	7.1
Total	16.4	19.2	18.8	18.1

- 16 The Authority's actual external debt at 31 March 2013 was £9.394m, comprising £1.410m borrowing and £7.984m long-term liabilities. 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

- 17 The Prudential Indicators have been calculated using a 1.9% Council Tax increase in 2014/15 and assuming a 1.9% increase in subsequent years.
- 18 The capital programme outlined in Appendix B is funded by a mix of capital grants, contributions from revenue and borrowing under the Prudential Code.
- 19 The estimate of the incremental impact of this prudential borrowing for Band D Council Tax is:

<b>Incremental Increase on Band D Council Tax</b>		
<b>2014/2015</b>	<b>2015/2016</b>	<b>2016/2017</b>
%	%	%
1.59	0.36	0.35

- 19 It is **recommended** that the Authority:
- (a) Notes the prudential indicators.
  - (b) Approves the MRP Statement
  - (c) Approves the following revised limits for external debt in 2013/14:
    - (i) Authorised Limit of £17.5m
    - (ii) Operational Boundary of £16.4m
  - (d) Approves the following limits for external debt in 2014/15:
    - (i) Authorised Limit of £21.0m
    - (ii) Operational Boundary of £19.2m

## **SECTION J**

### **TREASURY MANAGEMENT 2014/15**

- 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 2014/15 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 2014/15, 2015/16 and 2016/17 of 100% of its net outstanding principal sum.
- 5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2014/15, 2015/16 and 2016/17 of 30% of its net outstanding principal sums.
- 6 The Authority’s upper and lower limits for the maturity structure of its borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate		
	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.
- 8 It is **recommended** that the Authority:
  - a) Adopts 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 2014/15, 2015/16 and 2016/17 of 100% of its net outstanding principal sum.
  - d) Sets an upper limit on the Authority’s variable interest rate exposures for 2014/15, 2015/16 and 2016/17 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 effect 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 2014/15**

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 2014/15 – 2016/17**

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 2014/15 – 2016/17**

#### **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:

- Bank overdraft of £0.25m
- 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 is in compliance 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 2014/15, the Authority will not 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 relies 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 as follows:

	<b>Fitch (or equivalent)</b>	<b>Money Limit</b>	<b>Time Limit</b>
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 2014/15 is an increase or decrease of £105,000.

### **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** – Strategic Aims and Objectives (page 3)

That Members confirm the strategic aims and objectives against which efficiency, savings and investment decisions are made.

#### **SECTION C** – Budget Consultation (page 4)

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

#### **SECTION D** – Local Government Finance Settlement (page 5)

That Members note the grant settlement.

#### **SECTION E** – Revenue Budget (page 6)

##### **Revised 2013/14 Revenue Budget Recommendations** (page 6)

That the Authority adopts the following resolutions:

- (a) That the revised revenue budget for 2013/14 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 2013/14.

##### **2014/15 Revenue Budget Recommendations** (page 7)

- (a) That the Authority approves the revenue estimates for the year ending 31 March 2015 as detailed in Appendix A.

#### **SECTION F** – Medium Term Financial Plan (page 12)

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.
- (c) Reaffirms the current policy for Reserves.
  - (d) Agrees to transfer the balances at 31<sup>st</sup> March 2014 on the capital modernisation, community safety and replacement mobilisation system reserves to the revenue modernisation reserve.

**SECTION G** – Capital Programme and Budget (page 13)

That the Authority approves the capital budgets for 2013/14 to 2017/18.

**SECTION H** – Fire Authority Council Tax Requirement (page 16)

That Members determine the level of Council Tax for 2014/15 based on the Net Expenditure of £29,335,861. Based on the recommendation of the Finance and General Purposes Committee, it is recommended for the year ending 31<sup>st</sup> March 2015:

- (i) That the 'council tax base' for the whole of the Authority's area be 159,355.80
- (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 1.9% to £92.16 for a Band D property
- (iv) That the Net Expenditure be £29,335,861 and that, (after taking into account 'Revenue Support Grant' of £8,238,236, Business Rates Income of £1,400,406, Top Up Grant of £4,904,668 and Business Rates Section 31 Grant of £106,321, precepts totalling £14,686,230 be issued to Durham County Council and Darlington Borough Council.

**SECTION I** – Prudential Code (page 21)

- (a) That the Authority notes the prudential indicators.
- (b) That the Authority approves the MRP Statement.
- (c) That the Authority approves the following revised limits for external debt in 2013/14:
  - (i) Authorised Limit of £17.5m
  - (ii) Operational Boundary of £16.4m

- (d) That the Authority approves the following limits for external debt in 2014/15:
  - (i) Authorised Limit of £21.0m
  - (ii) Operational Boundary of £19.2m

**SECTION J** – Treasury Management (page 23)

- (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 2014/15, 2015/16 and 2016/17 of 100% of its net outstanding principal sum.
- (d) That the Authority sets an upper limit on its variable interest rate exposures for 2014/15, 2015/16 and 2016/17 of 30% of its net outstanding principal sums.

**APPENDIX A**

**COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY  
REVENUE BUDGET**

<b>Original Estimate 2013/14</b>	<b>Revised Estimate 2013/14</b>	<b>Budget Heading</b>	<b>Original Estimate 2014/15</b>
<b>£</b>	<b>£</b>		<b>£</b>
18,262,864	18,008,466	<b>Employees</b>	17,959,346
2,832,896	2,810,064	Salaries and Wages	2,819,144
551,000	551,000	Pension Contributions	551,000
347,094	528,831	Ill Health Charges	347,574
		Other	
<b>21,993,854</b>	<b>21,898,361</b>	<b>Total Employees Costs</b>	<b>21,677,064</b>
3,385,156	3,391,282	<b>Premises</b>	3,386,603
814,029	819,729	<b>Transport</b>	800,199
3,460,116	3,755,977	<b>Supplies &amp; Services</b>	3,652,932
3,759,360	3,759,360	<b>Capital Financing</b>	1,946,418
212,194	0	<b>Contingencies</b>	818,977
2,332,943	2,332,943	<b>Capital Charges</b>	2,632,363
<b>35,957,652</b>	<b>35,957,652</b>	<b>GROSS EXPENDITURE</b>	<b>34,914,556</b>
-3,593,034	-3,593,034	<b>Income</b>	-2,946,332
-2,332,943	-2,332,943	<b>Reversal of Capital Charges</b>	-2,632,363
<b>30,031,675</b>	<b>30,031,675</b>	<b>NET EXPENDITURE</b>	<b>29,335,861</b>

**APPENDIX B**

**COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY**

**CAPITAL BUDGETS 2013/14 (REVISED) AND 2014/15 TO 2017/18**

<b>Capital Project Details</b>	<b>Total Estimated Cost £</b>	<b>Revised Estimate 2013/14 £</b>	<b>Estimate 2014/15 £</b>	<b>Estimate 2015/16 £</b>	<b>Estimate 2016/17 £</b>	<b>Estimate 2017/18 £</b>
<b>Existing Commitments – Due for completion by 31/3/2014</b>						
Equipment	110,000	110,000	-	-	-	-
Vehicles	119,000	119,000	-	-	-	-
Premises	7,279,000	7,279,000	-	-	-	-
ICT	2,714,000	2,714,000	-	-	-	-
<b>TOTAL</b>	<b>10,222,000</b>	<b>10,222,000</b>	-	-	-	-
<b>New Commitments Due for Completion by 31/3/2015</b>						
Equipment	250,000	-	250,000	-	-	-
Vehicles	179,000	-	179,000	-	-	-
Premises	11,295,000	-	11,295,000	-	-	-
ICT	138,000	-	138,000	-	-	-
<b>TOTAL</b>	<b>11,862,000</b>	-	<b>11,862,000</b>	-	-	-
<b>New Commitments - Due for Completion by 31/3/2016</b>						
Equipment	250,000	-	-	250,000	-	-
Vehicles	539,000	-	-	539,000	-	-
Premises	100,000	-	-	100,000	-	-
ICT	100,000	-	-	100,000	-	-
<b>TOTAL</b>	<b>989,000</b>	-	-	<b>989,000</b>	-	-
<b>New Commitments - Due for Completion by 31/3/2017</b>						
Equipment	250,000	-	-	-	250,000	-
Vehicles	625,000	-	-	-	625,000	-
Premises	100,000	-	-	-	100,000	-
ICT	100,000	-	-	-	100,000	-
<b>TOTAL</b>	<b>1,075,000</b>	-	-	-	<b>1,075,000</b>	-
<b>New Commitments - Due for Completion by 31/3/2018</b>						
Equipment	<b>250,000</b>	-	-	-	-	<b>250,000</b>
Vehicles	<b>500,000</b>	-	-	-	-	<b>500,000</b>
Premises	<b>100,000</b>	-	-	-	-	<b>100,000</b>
ICT	<b>100,000</b>	-	-	-	-	<b>100,000</b>
<b>TOTAL</b>	<b>950,000</b>	-	-	-	-	<b>950,000</b>
<b>TOTAL NEW COMMITMENTS</b>	<b>14,876,000</b>	-	<b>11,862,000</b>	<b>989,000</b>	<b>1,075,000</b>	<b>950,000</b>
<b>TOTAL ALL COMMITMENTS</b>	<b>25,098,000</b>	<b>10,222,000</b>	<b>11,862,000</b>	<b>989,000</b>	<b>1,075,000</b>	<b>950,000</b>