Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority

COMBINED FIRE AUTHORITY

13 FEBRUARY 2018

2018/19 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 2017/18;
- set a revenue budget for 2018/19;
- approve the Medium Term Financial Plan;
- approve the capital budgets for 2018/19 to 2021/22;
- determine the Fire Authority Council Tax Requirement;
- approve the associated resolutions.

2 The report is divided into 10 sections:

SECTION A

BACKGROUND

1 A meeting of the Finance and General Purposes Committee was held on 31 January 2018 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 2018/19.

SECTION B

BUDGET CONSULTATION

1 The Authority has undertaken on-going consultation with a wide range of stakeholders on the Intergrated Risk Management 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 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 do not increase risks in local communities. No specific issues have been raised by representative bodies as part of the consultation on the budget.

3 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 C

LOCAL GOVERNMENT FINANCE SETTLEMENT

Four Year Funding Settlement

1 As part of the 2016/17 settlement, the Government stated that it would offer any local authority (including fire and rescue authorities) that wishes to take it up a four-year funding settlement covering the period 2016/17 to 2019/20. The Authority agreed to accept the Government's offer which will provide the Authority with the ability to plan ahead with a degree of certainty. In return for the Government's commitment to provide central funding allocations for four years, local authorities were required to publish an efficiency plan. The Authority's efficiency plan was published on 14th October 2016 in accordance with the requirements set out in the offer letter from Government. Formal confirmation of the multi-year settlement offer was received in a letter from the Home Office dated 14 December 2016.

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 four year settlement figures covering the period 2016/17 to 2019/20.

Table 1: Settlement Funding Assessment 2016/17 – 2019/20

Description	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Government Funding	10.853	9.836	9.325	9.020
Local Business Rates	1.479	1.345	1.370	1.408
	12.332	**11.181**	**10.695**	**10.428**
Reduction in Funding	**-0.943**	**-1.151**	**-0.486**	**-0.267**
% Reduction in Funding	**-7.05%**	**-9.33%**	**-4.38%**	**-2.50%**

4 The Authority's funding from central government will reduce by a further £0.486M in 2018/19 followed by a reduction of £0.267M in 2019/20.

5 The confirmation letter received from the Home Office stated that barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

Local Council Tax Referendum Limit

6 The Government has also announced details of the local council tax referendum limits for 2018/19. Any fire authority that wishes to increase council tax by more than 3%, as compared to the 2017/18 council tax level will be required to hold a referendum. The limit is 1% higher than the 2017/18 limit of 2%, which brings it into line with inflation. The new 3% limit has been confirmed for 2018/19 and 2019/20 only.

Recommendation

7 It is **recommended** that the Authority notes the 2018/19 settlement funding assessment.

SECTION D

EFFICIENCY PLAN PROGRESS

Background

1 As part of the 2016/17 settlement, the Government stated that it would offer any local authority (including fire and rescue authorities) that wished to take it up, a four-year funding settlement covering the period 2016/17 to 2019/20. The Authority agreed to accept the Government's offer which will provide the Authority with the ability to plan ahead with a degree of certainty. In return for the Government's commitment to provide central funding allocations for four years, local authorities were required to publish an efficiency plan. The Authority's Efficiency Plan was published on 14th October 2016 in accordance with the requirements set out in the offer letter from Government. Formal confirmation of the multi-year settlement offer was received in a letter from the Home Office dated 14 December 2016.

2 This section provides details of the progress made in achieving the savings outlined in the Authority's published Efficiency Plan a copy of which is attached at Appendix A.

Efficiency Savings for Implementation in 2016/17

3 The Efficiency Plan outlined £1.948M of efficiency savings for implementation during 2016/17 which were built into the 2016/17 budget. Details of these savings are set out in Table 2 below:

Table 2: Efficiency Savings for Implementation in 2016/17 (Included in 2016/17 budget)

Efficiency Saving	£M
Establishment level at Durham and Bishop Auckland (alternative to full RDS Provision at Spennymoor)	0.270
Alternative Staffing of Darlington ALP	0.270
Flexi Officer Review	0.240
Reduction in Debt Repayments and Interest	0.241
Reduction in FPS Employer Contributions	0.169
Reduction to Operational Staffing Pool	0.150
Senior Leadership Team Restructure	0.140
Base Budget Review	0.100
Service Transformation Phase 1	0.092
Alternative Provision of Officer's Cars	0.079
Income Generation	0.074
Reduction in Vehicle Running Costs	0.060
Reduction in Vehicle Fleet	0.055
National Insurance Contribution Band Changes	0.008
	1.948

4 The savings set out in Table 2 above were fully achieved by 31 March 2017.

Efficiency Savings for Implementation During the Period 2016/17 to 2019/20

5 The Efficiency Plan also identified further efficiency savings for implementation during the period 2016/17 to 2019/20. Table 3 below sets out details of the actual savings achieved and those forecast to be achieved compared with the estimates included in the Efficiency Plan:

Table 3: Efficiency Savings for Implementation During the Period 2016/17 to 2019/20

Efficiency Saving	**Estimate**	**Actual / *Forecast***	**Variance**
	£M	**£M**	**£M**
2016/17			
Trading Arms Surplus & Contribution to Service Costs	0.025	0.025	0
Total	**0.025**	**0.025**	**0**
2017/18			
Savings Achieved to 31/03/17	0.025	0.025	0
Review of Command and Control	0.230	0.350	+0.120
Restructure of Strategic & Middle Managers	0.075	0.075	0
Restructure of Corporate Services	0.075	0.245	+0.170
Reduction in Debt Repayments & Interest	0.095	0.095	0
Collaboration initiatives with the Police and other partners	0.250	0.175	-0.075
Trading Arms Surplus & Contribution to Service Costs	0.025	0.025	0
Total	**0.775**	**0.990**	**+0.215**
2018/19			
Savings Achieved to 31/03/18	0.775	0.990	+0.215
Reduction in Debt Repayments & Interest	0.205	*0.205*	0
Trading Arms Surplus & Contribution to Service Costs	0.025	*0.025*	0
Total	**1.005**	**1.220**	**+0.215**
2019/20			
Savings Achieved to 31/03/19	1.005	1.220	+0.215
Trading Arms Surplus & Contribution to Service Costs	0.025	*0.025*	0
Total	**1.030**	**1.245**	**+0.215**

Note: Figures in Italics are forecast at this stage

6 The majority of the savings outlined in the Efficiency Plan for implementation during the period 2016/17 to 2019/20, have been achieved and the service is on track to deliver efficiency savings totalling £1.245M which is £0.215M more than anticipated when the Efficiency Plan was published in October 2016.

7 Following expressions of interest for early retirement and voluntary redundancy from command and control and corporate services staff, additional savings of £290,000 (Command & Control - £120,000, Corporate Services £170,000) were realised during 2017/18 over and above the level set out in the Efficiency Plan.

8 The proposed savings from collaboration initiatives were less than expected as agreement has not been reached with the Fire Brigade's Union (FBU) to continue providing an Emergency Medical Response (EMR) service with the North-East Ambulance Service (NEAS) on an on-going basis. Discussions are continuing nationally with the FBU on firefighter roles and responsibilities going forward. There are also local discussions taking place with NEAS about the possibility of introducing a specific EMR scheme at a number of fire stations.

Recommendations

9 It is **recommended** that the Authority notes the progress made in achieving the savings set out in the Efficiency Plan.

SECTION E

RESERVES STRATEGY

Background

1 The Home Office are currently consulting on a revised draft Fire and Rescue National Framework document which sets out the priorities and objectives for fire and rescue authorities (FRA's) going forward. The document makes specific reference to reserves and requires FRA's to provide specific 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 five percent of budget;
- whether the funds in each earmarked reserve are legally or contractually committed, and if so what amount is so committed; and
- a summary of what activities or items will be funded by each earmarked reserve, and how they support the fire and rescue authority's strategy to deliver good quality services to the public.

3 The revised draft National Framework also makes specific reference to national resilience and requires FRA's to maintain national resilience capabilities in a high state of operational readiness. The Authority currently has an earmarked reserve of £241,000 for resilience which may prove to be inadequate in the light of this requirement, as we have not previously been required to provide this level of resilience for these assets.

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, broadly, general reserves of between 7.5% and 10% of the net expenditure, currently between £2.085m and £2.780m respectively, with a maximum general reserve of 15% (£4.171m) of the net expenditure for the short to medium term.

6 In light of the requirements set out in the revised draft National Framework, a review of the reserves currently held by the Authority has been carried out and it is proposed that the general reserve is reduced from the current level of 10% of budget to 5%. A general reserve of 5% of budget is considered to be adequate taking account of the risks associated with the medium term financial plan and the Authority's track record of delivering efficiency savings and sound budget management. To achieve this, it is recommended that £400,000 is transferred to the resilience reserve in 2017/18 and £1m is utilised to finance capital expenditure, reducing the need to borrow in 2018/19.

7 The revised 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 £1.424M.

Estimated Reserves Position

8 The estimated reserves position for the period 2017/18 to 2021/22 is set out in Table 4 below:

Table 4: Estimated Reserves Position 2017/18 – 2021/22

Reserve	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
General Reserve	**2.824**	**2.424**	**1.424**	**1.424**	**1.424**
Use of Reserve – Capital Financing	0	-1.000	0	0	0
Transfer to Resilience Reserve	-0.400	0	0	0	0
Closing Balance	**2.424**	**1.424**	**1.424**	**1.424**	**1.424**
Earmarked Reserves	**3.865**	**2.437**	**1.825**	**1.725**	**1.725**
Transfer from General Reserve	0.400	0	0	0	0
Use of Reserves	-1.828	-0.612	-0.100	0	0
Closing Balance	**2.437**	**1.825**	**1.725**	**1.725**	**1.725**
TOTAL RESERVES	**4.861**	**3.249**	**3.149**	**3.149**	**3.149**

Earmarked Reserves

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

Pensions Reserve (Legally or Contractually Committed - NO)

The purpose of the pensions reserve is to meet any unforeseen pension costs which may arise as a result of changes to pension schemes, or any increase in the level of ill-health retirements over and above the level included in the revenue budget.

Community Safety Reserve (Legally or Contractually Committed - NO)

The community safety reserve was created to enable specific community safety improvements to be undertaken to meet the objectives outlined in the Authority's Integrated Risk Management Plan (IRMP). This reserve includes funding received under the Safer Homes Initiative which will be fully utilised during 2018/19 to fit sprinkler systems into the homes of vulnerable people.

Insurance (Legally or Contractually Committed – NO)

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.

Resilience (Legally or Contractually Committed – NO)

The new draft 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 in order 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.

Replacement Mobilisation System Reserve (Legally or Contractually Committed – YES)

This reserve comprises of the balance of unspent grant, earmarked to fund the replacement mobilisation system. The funds in this reserve will be utilised during 2018/19 and 2019/20 to fund licence and maintenance costs associated with the command and control system.

Modernisation Reserve (Legally or Contractually Committed – YES)

This reserve was created to meet any one-off costs associated with service transformation. The funds in this reserve will be fully utilised during 2017/18 and 2018/19 to finance capital expenditure.

Emergency Services Mobile Communications Programme (Legally or Contractually Committed - NO)

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

New Risks (Legally or Contractually Committed - YES)

This reserve comprises of the balance of unspent grant, earmarked to fund the response to emerging new risks. The funds in this reserve will be fully utilised during 2017/18.

10 The estimated movement on each of the earmarked reserves during the period 2017/18 to 2021/22 is set out in Table 5 below:

Table 5: Earmarked Reserves 2017/18 to 2021/22

Earmarked Reserve	Balance at 01/04/17 £m	Transfers to Reserves £m	Use of Reserves £m	Estimated Balance 31/03/22 £m
Pensions	0.500	0	0	0.500
Community safety	0.236	0	-0.236	0
Insurance	0.250	0	0	0.250
Resilience	0.241	0.400	0	0.641
Replacement Mobilisation System	0.363	0	-0.363	0
Modernisation	1.821	0	-1.821	0
ESMCP	0.334	0	0	0.334
New Risks	0.120	0	-0.120	0
TOTAL	**3.865**	**0.400**	**-2.540**	**1.725**

Recommendations

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

(a) Agrees to transfer £400,000 from the general reserve to the resilience reserve in 2017/18.

(b) Agrees to utilise £1m of the general reserve to finance capital expenditure reducing the need to borrow in 2018/19.

(c) Agrees to the revised 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 £1.424M.

SECTION F – MEDIUM TERM FINANCIAL PLAN

This section provides a summary of the Medium Term Financial Plan for 2018/19 to 2021/22.

Basis of the Preparation of the Medium Term Financial Plan

Resources

1 The Medium Term Financial Plan (MTFP) has been revised to take account of the settlement information and to incorporate 2018/19 and future year's expenditure and income estimates.

2 The details of the Local Government Finance Settlement for 2018/19 are outlined in Section C. As part of the four year settlement the Government provided indicative funding allocations up to 2019/20. These figures have been used in the calculation of the government funding figures set out in the MTFP below.

3 The MTFP has been calculated based on the assumption that council tax will increase by 2.95% in 2018/19 and 2019/20 and by 2.00% in 2020/21 and 2021/22.

4 Members will need to review these assumptions noting that each 1% change in council tax results in a variation of approximately £171,700.

Savings

5 Details of planned efficiency savings are set out in the efficiency plan which was provided to the Home Office as a condition of the four year funding settlement. The proposals include staffing reductions in command and control, corporate services and strategic/ middle management, a reduction in debt repayment and interest, further collaboration and income generation from the trading arms.

6 Efficiency savings totalling £1.220m in 2018/19 and £1.245m in 2019/20 have been incorporated into the MTFP. Further details of the savings are set out in Table 3 in Section D.

Budget Pressures

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

Local Government Pension Scheme (LGPS)

8 A valuation of the Pension Fund as at 31 March 2016 resulted in an increase in the employer contribution rate from 1 April 2017. In order to give employers some choice on how to budget for this increase there were two options, one with no stepping applied to employer deficit contribution payments, and one showing increases to employer deficit contributions being stepped over 3 years. In order to minimise the impact on the revenue budget we decided to opt for the stepped deficit contribution option. This will result in an increase in employer contributions of £49,000 in 2017/18 rising to £128,000 in 2019/20.

Firefighters Pension Scheme (FPS)

9 The Government Actuary's Department is currently carrying out a valuation of the Firefighters' Pension Scheme which could potentially lead to an increase in the employer's contribution rate from 2019/20. Whilst the impact of the valuation on the level of employer's pension contributions is not known at this stage, a 3% increase in the contribution rate (£100,000) has been incorporated into the MTFP from 2019/20.

Medium Term Financial Plan

10 The MTFP incorporating the above information is set out in Table 6 below:

Table 6: Medium Term Financial Plan 2018/19 – 2020/21

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Net Expenditure	**28.507**	**29.010**	**29.632**	**30.230**
Total Government Funding	9.591	9.295	9.125	9.125
Local Business Rates	1.374	1.408	1.408	1.408
Council Tax	17.170	17.859	18.402	18.962
Surplus on Collection Fund	0.372	-	-	-
Total Funding	**28.507**	**28.562**	**28.935**	**29.495**
Shortfall	**-**	**-0.448**	**-0.697**	**-0.735**

11 The MTFP above shows a balanced budget position in 2018/19 and a shortfall in funding of £0.448m in 2019/20 rising to £0.735m in 2021/22. Work is continuing through the Emergency Response Review to identify further savings options to assist in balancing the budget in future years.

12 It should be noted that the estimates for 2020/21 and 2021/22 are less robust as they are based on 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 will need to be identified in future years in order to balance the budget.

Risks

13 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 2018/19 and over the medium term.

14 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 government grant, pay, prices and pension costs across the Medium Term Financial Plan 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 until the outcome of the valuation exercise for the Firefighters Pension Scheme is known. Allowance for an increase of 3% in the employer contribution rate from 2019/20 has been included in the MTFP.

15 The above risks will be monitored closely, 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

16 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 without increasing the level of risk in local communities.

Recommendations

17 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 G

REVENUE BUDGET

Introduction

1 This section deals with the revised revenue budget for 2017/18 and the revenue budget for 2018/19.

Revised Revenue Budget 2017/18

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. Details of the revised 2017/18 revenue budget are set out in Appendix B.

3 Based upon expenditure and income to 31st December 2017, net expenditure for 2017/18 is forecast to be within the approved budget.

Revenue Budget 2018/19

5 The revenue budget for 2018/19 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 savings set out in the Efficiency Plan together with the further savings identified during the preparation of the budget and MTFP have enabled a balanced budget to set for 2018/19.

7 The net revenue budget for 2018/19 totals £28.507m. Details of the revenue budget are set out in Appendix B.

Trading Organisations

8 The Authority operates two trading organisations; Vital Fire Solutions Limited and County Durham and Darlington Fire and Rescue Community Interest Company, to enable it to trade with the private sector. Both organisations are now trading profitably and are forecast to make a financial contribution of £100,000 to the Authority's MTFP by 2019/20. Each year, the Treasurer is required to provide a "letter of comfort" to the auditor of both companies (Mazars LLP), confirming the Authority's intention to provide financial support to the organisations for a period of at least twelve months, should the need arise. This assurance is provided on the express understanding that it does not give rise to any legally binding obligation or commitment. Members are requested to agree that the Authority will provide the assurance outlined above to the auditor on an ongoing basis.

Recommendations

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

(a) That the revised revenue budget for 2017/18 as set out in Appendix B 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 2017/18.

(c) That the revenue budget for 2018/19 as set out in Appendix B be approved.

(d) That the Authority agrees to provide assurance to the auditor of Vital Fire Solutions Limited and County Durham and Darlington Fire and Rescue Community Interest Company that it intends to provide ongoing financial support to the companies for a period of at least twelve months, should the need arise on the express understanding that this does not give rise to any legally binding obligation or commitment.

SECTION H

CAPITAL BUDGET 2017/18 TO 2021/22

1 The proposed capital budgets for the years 2018/19 to 2021/22 and the revised capital budget for 2017/18 are set out in Appendix C and are summarised in Table 7 below:

Table 7: Capital Budgets 2017/18 – 2021/221

Year	Capital Budget £m
2017/18 Revised	1.002
2018/19	4.874
2019/20	1.985
2020/21	1.739
2021/22	1.317
	10.917

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 In order to ensure that the Authority retains an appropriate level of reserves to assist with managing the budget over the medium term, the financing of the capital programme includes the use of borrowing.

5 The estimated borrowing requirement over the period 2018/19 to 2021/22 is set out in Table 8 below:

Table 8: Estimated Borrowing Requirement 2018/19 – 2021/22

Year	Borrowing requirement £m
2018/19	2.975
2019/20	1.985
2020/21	1.739
2021/22	1.317
	8.016

6 Full provision has been made in the 2018/19 revenue budget and the MTFP to meet the revenue consequences of the capital programme.

7 It is **recommended** that the Authority approves the revised capital budget for 2017/18 and the capital budgets for 2018/19 to 2021/22.

SECTION I

FIRE AUTHORITY COUNCIL TAX REQUIREMENT

Council Tax

1 Taking into account the information outlined in Sections D and E, the budget has been constructed to include the assumption that Council Tax will be increased by 2.95%.

2 This will increase basic council tax from the 2017/18 level of £97.65 to £100.53 in 2018/19.

3 ***Members are <u>requested</u> to consider the above information and determine the level of Council Tax for 2018/19.***

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 the calculation is shown in table 9 below:

Table 9: Calculation of the 2018/19 Council Tax Requirement

	£	£
Fire Authority's Net Expenditure		28,507,168
Less:		
Revenue Support Grant	3,842,803	
Top Up Grant	5,474,430	
Business Rates Income	1,374,735	
Section 31 Business Rates Grant	273,440	
Collection Fund Surplus / Deficit	371,759	
		11,337,167
Council Tax Requirement		**17,170,001**

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 2018/19 as notified to the Fire Authority are set out in Table 10 below:

Table 10: Council Tax Base and Precept 2018/19

Authority	**Council Tax Base**	**Precept**
		£
Durham County Council	138,419.20	13,915,282.17
Darlington Borough Council	32,375.60	3,254,719.07
Total	170,794.80	17,170,001.24

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:

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

$$\frac{£17{,}170{,}001.24}{£170{,}794.80} = £100.53$$

8 A Basic Council Tax of £100.53 represents a 2.95% increase from the 2017/18 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 April 2018	4 September 2018
4 May 2018	4 October 2018
5 June 2018	2 November 2018
5 July 2018	4 December 2018
3 August 2018	4 January 2019

(b) Darlington Borough Council:

17 April 2018	12 October 2018
23 May 2018	16 November 2018
28 June 2018	21 December 2018
2 August 2018	30 January 2019
7 September 2018	6 March 2019

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 £28,507,168 and a Band D Council Tax of £100.53, it is **recommended** that the Authority adopts the following resolutions:

That for the year ended 31 March 2019:

(i) the 'council tax base' for the whole of the Authority's area be £170,794.80;

(ii) there be no Authority expenses relating to a part only of the Authority's area;

(iii) the 'basic amount of council tax' be £100.53 and the amount of the council tax for each category of dwelling be as set out in Table 11 below:

Table 11: 2018/19 Council Tax by Valuation Band

Valuation Band	Proportion of 'Basic Amount'	Council Tax
		£
A	6/9	67.02
B	7/9	78.19
C	8/9	89.36
D	'basic amount'	100.53
E	11/9	122.87
F	13/9	145.21
G	15/9	167.55
H	18/9	201.06

(iv) the Net Expenditure be £28,507,168 and that, after taking into account revenue support grant of £3,842,803 business rates income of £1,374,735, section 31 business rates grant of £273,440, top up grant of £5,474,430, and a surplus on the collection fund of £371,759, precepts totalling £17,170,001.24 be issued to Durham County Council and Darlington Borough Council.

SECTION J

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 H of this report and summarised in Table 12 below:

Table 12: Prudential Indicators – Capital Expenditure

Capital Expenditure				
2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
5,533	1,002	4,874	1,985	1,739

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 2017 are set out in table 13 below:

Table 13: Prudential Indicators – Capital Financing Requirement

Capital Financing Requirement				
2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
9,419	10,176	11,362	12,982	14,312

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 2018/19 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 2016/17 are set out in table 14 below:

Table 14: Prudential Indicators – Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing Costs to Net Revenue Stream				
2016/17 Actual %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
0.9	1.0	1.4	1.8	2.1

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 Authorised Limits for its total external debt, gross of investments, for the current (2017/18) 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 15 below:

Table 15: Prudential Indicators – Authorised Limit for External Debt

Authorised Limit for External Debt				
	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	0.848	4.073	6.257	11.311
Long-term liabilities	8.329	8.119	7.893	7.657
Total	9.177	12.192	14.150	18.968

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 16 below:

Table 16: Prudential Indicators – Operational Boundary for External Debt

Operational Boundary for External Debt				
	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	0.771	3.703	5.688	10.283
Long-term liabilities	7.572	7.380	7.175	6.961
Total	8.343	11.083	12.863	17.244

15 The Authority's actual external debt at 31 March 2017 was £8.109m, comprising £0.728m borrowing and £7.381m 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

16 The Prudential Indicators have been calculated using a 2.95% Council Tax increase in 2018/19 and 2019/20 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 17 below:

Table 17: Prudential Indicators – Incremental Impact of Borrowing

Incremental Increase on Band D Council Tax		
2018/19 %	2019/20 %	2020/21 %
0.90	0.90	1.02

Recommendations

19 It is **<u>recommended</u>** that the Authority**:**

(a) Notes the prudential indicators.

(b) Approves the MRP Statement

(c) Approves the following limits for external debt in 2018/19:

(i) Authorised Limit of £12.192m

(ii) Operational Boundary of £11.083m

SECTION K

TREASURY MANAGEMENT 2018/19

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 K1.

- 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 K2.

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 2018/19 is shown in Annex K3. 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 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sum.

5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2018/19, 2019/20 and 2020/21 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 18 below:

Table 18: Maturity Structure of Borrowings

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.

Recommendations

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 K3.

c) Sets an upper limit on the Authority's fixed interest rate exposures for 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sum.

d) Sets an upper limit on the Authority's variable interest rate exposures for 2018/19, 2019/20 and 2020/21 of 30% of its net outstanding principal sums.

Annex K1: 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 K2: 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 K3: Treasury Management Strategy 2018/19

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 2018/19 – 2020/21

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 2018/19 – 2020/21

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 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 2018/19, 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 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 set out in table 19 below:

Table 19: 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 2018/19 is an increase or decrease of £87,000.

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 L

SUMMARY OF RECOMMENDATIONS

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

SECTION B **–** Budget 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 5)

That the Authority notes the 2018/19 settlement funding assessment.

SECTION D **–** Efficiency Plan (page 8)

That the Authority notes the progress made in achieving the savings set out in the Efficiency Plan

SECTION E **–** Reserves Strategy (page 12)

That the Authority:

(a) Agrees to transfer £400,000 from the general reserve to the resilience reserve in 2017/18.

(b) Agrees to utilise £1m of the general reserve to finance capital expenditure, reducing the need to borrow in 2018/19.

(c) Agrees to the revised 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 £1.424M.

SECTION F **–** Medium Term Financial Plan (page 15)

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 G – Revenue Budget (page 16)

Revised 2017/18 Revenue Budget Recommendations (page 16)

That the Authority adopts the following resolutions:

(a) That the revised revenue budget for 2017/18, as set out in Appendix B 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 2017/18.

2018/19 Revenue Budget Recommendations (page 17)

That the Authority adopts the following resolutions

(a) That the revenue budget for 2018/19, as set out in Appendix B be approved.

(b) That the Authority agrees to provide assurance to the Auditor of Vital Fire Solutions Limited and County Durham and Darlington Fire and Rescue Community Interest Company that it intends to provide ongoing financial support to the companies for a period of at least twelve months, should the need arise, on the express understanding that this does not give rise to any legally binding obligation or commitment.

SECTION H – Capital Programme and Budget (page 18)

That the Authority approves the revised capital budget for 2017/18 and the capital budgets for 2018/19 to 2021/22.

SECTION I **–** Fire Authority Council Tax Requirement (page 21)

That Members determine the level of Council Tax for 2018/19 based on the Net Expenditure of £28,507,168. Based on the recommendation of the Finance and General Purposes Committee, it is recommended for the year ending 31st March 2019:

(i) That the 'council tax base' for the whole of the Authority's area be 170,794.80

(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 2.95% to £100.53 for a Band D property

(iv) That the Net Expenditure be £28,507,168 and that, (after taking into account revenue support grant of £3,842,803 business rates income of £1,374,735, section 31 business rates grant of £273,440, top up grant of £5,474,430, and a surplus on the collection fund of £371,759, precepts totalling £17,170,001.24 be issued to Durham County Council and Darlington Borough Council.

SECTION J **–** Prudential Code (page 26)

(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 2018/19:

  (i) Authorised Limit of £12.192m

  (ii) Operational Boundary of £11.083m

SECTION K – Treasury Management (page 28)

(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 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sum.

(d) That the Authority sets an upper limit on its variable interest rate exposures for 2018/19, 2019/20 and 2020/21 of 30% of its net outstanding principal sums.

APPENDIX A

COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY EFFICIENCY PLAN 2016/17 – 2019/20

Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority

BACKGROUND

1. In the face of an ongoing reduction in government funding, County Durham and Darlington Fire and Rescue Authority remains committed to protecting front line services to the public ensuring that there is no increase in risk and no change to emergency response standards. The Authority's funding from central government reduced by £4.9M during the period 2010/11 to 2015/16. Over the same period the Authority's net revenue budget reduced by £2.7M ignoring the effects of pay awards and inflation, meaning that the real reduction is significantly more than this. In spite of the challenging financial circumstances, the Authority has been successful in achieving savings through its Service Transformation Programme which has enabled it to balance the budget whilst at the same time protecting front line services.

2. In order to balance the budget the Authority has taken a number of difficult decisions many of which have directly impacted on staff. We believe our crewing arrangements and shift systems are now amongst the most efficient in the country. We also have a very lean support staff and management structure and we have worked hard to help staff understand the reasons behind changes and how they can make a contribution by changing working practices and taking on new work to improve efficiency.

3. 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.

4. The Authority has set a balanced budget for the current year (2016/17) and needs to identify a further £1.5M of savings during the period 2017/18 to 2019/20. Work is ongoing to identify additional savings through the service transformation programme and this Efficiency Plan sets out how the Authority intends to make the savings required in order to produce a balanced budget over the medium term.

STRATEGIC PLAN

5. The Authority's strategy for the provision of fire and rescue services is driven by the approved Strategic Plan which has been designed to comply with the Government's guidance in relation to the preparation of integrated risk management plans. A link to the Strategic Plan 2015/16 to 2017/18 is provided below together with a link to the Integrated Risk Management Plan Consultation document for 2016/17:

   https://www.ddfire.gov.uk/sites/default/files/attachments/IMRP_2015_0.pdf
   https://www.ddfire.gov.uk/sites/default/files/attachments/IRMP-consultation_2016-2017_v9.pdf

MEDIUM TERM FINANCIAL PLAN

6. The Authority has agreed in principle to accept the Government's offer of a four year funding settlement however this will still result in a significant reduction in Government funding (19%) over the Medium Term Financial Plan (MTFP) period. The MTFP set out in table 1 below outlines the financial position of the Authority over the next 4 years:

Table 1: Medium Term Financial Plan 2016/17 to 2019/20

	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
Net Expenditure	**28.609**	**28.183**	**28.774**	**29.062**
Total Government Funding	10.945	9.676	9.134	8.884
Local Non Domestic Rates	1.479	1.508	1.552	1.602
Council tax	15.861	16.254	16.646	17.047
Surplus on Collection Fund	0.324	0	0	0
Total Funding	**28.609**	**27.438**	**27.332**	**27.533**
Shortfall	**0**	**-0.745**	**-1.442**	**-1.529**

A link to the Authority's detailed 2016/17 budget and MTFP is provided below:
https://www.ddfire.gov.uk/sites/default/files/attachments/16-17%20budget%20book.pdf

MTFP Assumptions

7. A number of assumptions have been made when preparing the MTFP which are set out in table 2 below. At this stage the assumptions are believed to be prudent based upon the information that is available.

Table 2: MTFP Assumptions

	2016/17	2017/18	2018/19	2019/20
Income Assumptions				
Settlement Funding	**-7.05%**	**-9.30%**	**-4.39%**	**-1.87%**
Council Tax Base	**+2.50%**	**+0.50%**	**+0.50%**	**+0.50%**
Council Tax Level	**+1.90%**	**+1.90%**	**+1.90%**	**+1.90%**
Expenditure Assumptions				
Pay Awards	**+1.0%**	**+1.0%**	**+1.0%**	**+1.0%**
Inflation	**+1.0%**	**+1.0%**	**+1.0%**	**+1.0%**
Pensions Costs	**0.00%**	**0.00%**	**0.00%**	**0.00%**
NI Changes	**+3.00%**	**0.00%**	**0.00%**	**0.00%**

8. The assumptions relating to grant cuts beyond 2016/17 are based upon the four year funding figures provided as part of the settlement.

9. The Authority's share of council tax collection fund surplus (the excess council tax collected over that which was budgeted to collect) amounts to £324,000 in 2016/17. No surplus or deficit has been incorporated into the plan for future years.

Other Budget Pressures

10. The Government Actuary's Department is carrying out a valuation of the Firefighters' Pension Scheme during 2016/17 which could potentially lead to an increase in the employer contribution rate from 2017/18. This has not been factored into the MTFP at this stage as there is no clear indication of the impact (if any) on the contribution rate going forward.

EFFICIENCY SAVINGS

Savings 2016/17

11. In order to arrive at a balanced budget for 2016/17 the following efficiency savings totalling £1.948M were incorporated into the 2016/17 budget:

Table 3: Efficiency Savings for Implementation in 2016/17

Saving	2016/17 £M	RAG Rating
Establishment level at Durham and Bishop Auckland (alternative to full RDS Provision at Spennymoor)	0.270	
Alternative Staffing of Darlington ALP	0.270	
Flexi Officer Review	0.240	
Reduction in Debt Repayments and Interest	0.241	
Reduction in FPS Employer Contributions	0.169	
Reduction to Operational Staffing Pool	0.150	
Senior Leadership Team Restructure	0.140	
Base Budget Review	0.100	
Service Transformation Phase 1	0.092	
Alternative Provision of Officer's Cars	0.079	
Income Generation	0.074	
Reduction in Vehicle Running Costs	0.060	
Reduction in Vehicle Fleet	0.055	
National Insurance Contribution Band Changes	0.008	
	1.948	

12. Based upon the latest available information, the Authority is on track to deliver all of the above savings in 2016/17.

Potential Savings 2016/17 to 2019/20

13. The MTFP set out in table 1 above shows a shortfall in available funding of £1.529M over the plan period. In order to produce a balanced budget, further efficiency savings have been identified through the Authority's Service Transformation Programme. The following potential savings have been identified for implementation during the period 2016/17 to 2019/20:

Table 4: Potential Savings 2016/17 to 2019/20

Potential Saving	2016/17	2017/18	2018/19	2019/20
	£M	£M	£M	£M
Staffing				
Review of Control	0	0.230	0.230	0.230
Restructure of Strategic & Middle Managers	0	0.075	0.075	0.075
Restructure of Corporate Services	0	0.075	0.075	0.075
Capital Financing				
Reduction in Debt Repayments & Interest	0	0.095	0.300	0.300
Collaboration				
Collaboration initiatives with the Police and other partners	0	0.250	0.250	0.250
Income Generation				
Trading Arms Surplus	0.025	0.050	0.075	0.100
Total Potential Savings	**0.025**	**0.775**	**1.005**	**1.030**
MTFP Deficit	**0**	**-0.745**	**-1.442**	**-1.529**
Revised MTFP Surplus / Deficit (-)	**0.025**	**0.030**	**-0.437**	**-0.499**

14. Assuming all of the above savings are achieved, the Authority will still need to identify a further £0.5M of savings in order to set a balanced budget each year. Work is ongoing through the service transformation process to identify further savings, the outcome of which will be considered later this year during the preparation of the 2017/18 budget and revised MTFP.

15. At this stage it is envisaged that all of the potential savings identified are achievable. The key risks and mitigation strategies in relation to each of the potential savings are set out in table 5 below:

Table 5: Potential Savings – Key Risks and Mitigation Strategies

Potential Saving	Key Risks	Mitigation	RAG Rating
Staffing	Staff numbers not sufficient to meet operational needs.	Introduction of a revised staffing model following a robust review of operational requirements. This has now been agreed by elected members and the unions.	
Capital Financing	Insufficient reserves and/or borrowing headroom to fund future capital programme.	Agreed reserves strategy in place. Robust process in place for scrutiny of all bids for future capital expenditure.	
Collaboration	Failure to generate income or deliver operating efficiency savings.	Collaboration statement of intent in place with Durham Constabulary for shared use of facilities. Progress is monitored via a Strategic Board chaired by the PCC and Chair of the Fire Authority. Positive ongoing negotiations at a senior level with NEAS to extend EMR response on a cost recovery basis.	
Income Generation	Trading Arms fail to generate a surplus.	Detailed business plans and income targets in place for the trading arms. Financial position monitored by management and the Board on an ongoing basis.	

16. The Authority's External Auditor has recently issued an unqualified Value for Money conclusion following the 2015/16 audit stating:

'The Authority has an excellent track record of delivering planned savings whilst minimising the impact on service delivery. In 2015/16 savings targets were delivered with an additional £700K underspend against budget after taking into account contributions to reserves. The Authority has already identified a number of potential savings in future years and the gap in the medium term financial plan has reduced to circa £0.5m.'

'Our overall conclusion is that in all significant respects the Authority had in place proper arrangements to ensure it took properly informed decisions and deployed its available resources to achieve planned and sustainable outcomes. Overall the Authority has responded well to the financial pressure it has faced, at a time of unprecedented reductions in public sector spending and continues to have a strong record of delivering savings and keeping within budget.'

A link to the 2015/16 Audit Completion Report can be found here:

https://www.ddfire.gov.uk/sites/default/files/attachments/CDD%20FRA%20Audit%20Completion%20Report%202015-16%20%28version%20with%20follow%20up%20report%29.pdf

17. The Authority is committed to protecting front line services and have agreed that a reduction in the number of front line appliances and/or fire stations will only be considered as a last resort when all other options for savings have been exhausted. Should the Authority need to reduce front line service provision in order to balance the budget, the retirement profile of operational staff would allow further staffing reductions to be made without requiring compulsory redundancies.

COLLABORATION

18. The Authority has a strong track record of collaboration with partners and has secured Government funding to progress a number of high profile collaborative projects including:

- The building of the first quad station in the country at Barnard Castle which, when complete, will provide a joint facility for the Fire, Police, Ambulance and Mountain Rescue services.
- A joint facility with the Police at our Belmont Training Centre for incident command training.
- The provision of Community Safety Tri Responders at Stanhope where staff work for the Fire, Police and Ambulance services according to demand.

19. In order to maximise the use of the Authority's buildings, a number of fire stations are shared with either the Police and/or the Ambulance Service. Work is also ongoing to explore opportunities for collaboration with a number of other partners to secure further efficiencies to assist in protecting front line service provision.

20. The Service is taking an innovative approach working collaboratively with councils, the police, health providers and charities to meet changing community safety needs. This is illustrated in a short video 'Beyond Blue Lights' produced for the Chief Fire Officers Association (CFOA) conference in September 2016. A link to the Beyond Blue Lights video can be found here:

https://www.ddfire.gov.uk/beyond-blue-lights-video

21. The Authority has signed a Statement of Intent with Durham Constabulary which sets out our intention to work more closely together to enhance co-operation and collaboration. A link to the Statement of Intent can be found here:

https://www.ddfire.gov.uk/sites/default/files/attachments/Durham-Police-and-Fire-Collaboration-Statement-of-Intent.pdf

22. With regard to procurement, the Authority endeavours to ensure that a collaborative approach is taken on a national and regional basis for the purchase of major items of fire service specific items, such as vehicles, equipment and key services. Procurement

of uniform and firefighting PPE has been undertaken as part of a regional collaboration for over 5 years. The last five fire appliances were procured in partnership with 2 other FRS that this Service proactively sought out to establish.

23. The Service has also been nominated as the category sponsor for the fleet category of the Fire Commercial Reform Programme supported by the Chief Fire Officers Association. Wherever possible all other items of a non-fire service nature are purchased from public sector consortia arrangements, taking account of the needs of the service and the aim of ensuring value for money.

FLEXIBLE WORKING

24. County Durham and Darlington is served by 27 front line fire appliances and 16 specialist vehicles based at 15 fire stations. More than 55% of our fire appliances are crewed by on-call (retained) firefighters who are generally located in rural communities, small towns and villages. They also provide the second or third appliance at a number of stations in more urban areas.

25. By continually reviewing our working practices and implementing more efficient ways of working, the Service has been able to protect front line services whilst reducing the cost to the taxpayer. Since 2002/03, despite maintaining the same number of fire appliances and actually increasing the number of specialist vehicles to meet the increasingly diverse range of incidents we attend, the number of wholetime firefighters employed has reduced by 25%, from 411 to 309. Over the same period the proportion of on-call (retained) firefighters employed has increased from 29% to 35% of the total operational workforce.

26. Mixed crewing of fire appliances is well established across the service with retained firefighters providing cover on wholetime appliances through RDS Detachments and wholetime firefighters providing cover on RDS appliances. A number of staff provide wholetime/retained cover and the service make use of both RDS and wholetime staff in roles such as Associate Trainers.

27. The Service staffing model is under continuous review and significant changes in operational working practices have been implemented in recent years to reflect modern working practices. This includes changes to the wholetime shift system to increase productive time, the introduction of a day crewing plus staffing model at 2 stations, the introduction of tri-service responders at Stanhope and the introduction of operational cover contracts and additional voluntary hours arrangements across both the retained and wholetime workforce. An annualised hours duty system has been in place for wholetime staff since 2009 and special appliances are dual crewed by wholetime staff or crewed by RDS staff.

28. The Service currently employs 5 business administration apprentices and 2 apprentice mechanics. Work is underway to develop an apprenticeship scheme for operational firefighters which will offer a comprehensive programme of learning and development on which to build a skilled and flexible workforce aligned to the Service’s culture and values.

PERFORMANCE INFORMATION

29. Performance is monitored by management on an on-going basis and considered in detail by elected members at the end of each quarter. A comprehensive suite of performance indicators (PI's) are employed to measure both operational and corporate performance and targets are set with the aim of achieving continuous improvement.

30. During 2015/16, 72% of the strategic PI's met or exceeded their target level and 60% either maintained or improved when compared to the previous year's performance.

31. In 2015/16 the Service responded to 1,343 emergency medical response (EMR) incidents on behalf of the ambulance service as part of a national trial.

32. By focusing our resources on reducing risk in our communities, the number of total incidents attended by the Service has reduced by almost 47% from 11,397 in 2002/03 to 6,053 in 2015/16 (excluding EMR incidents).

33. The Authority commits to publication of transparent performance information. This includes but is not limited to:

    - Budget reports
    - Operational performance reports
    - Statement of Accounts
    - Annual Governance Statement
    - Statement of Assurance
    - Information required by the prevailing Local Government Transparency Code

    A link to our financial and performance information can be found here:

    https://www.ddfire.gov.uk/about

RESERVES STRATEGY

34. In order to assist with the management of the budget over the medium term, the Authority has agreed to adopt a strategy which involves the prudent use of reserves to balance the budget. This approach provides the Authority with flexibility to fully consider its options for implementing savings over the medium term.

35. The reserves strategy is set out in table 6 below and assumes that the MTFP deficits are fully funded from a contribution from reserves over the MTFP period. This is considered a worst case scenario as the Authority will need to agree further savings options for implementation over the MTFP period which, when implemented, will reduce the requirement for reserves to be used to balance the budget.

Table 6: Reserves Strategy 2016/17 to 2019/20

Reserve	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
General Reserve	**2.824**	**2.824**	**2.824**	**2.824**
Modernisation Reserve				
Opening Balance	2.500	1.878	1.908	1.471
Use of Reserve - MTFP	0.025	0.030	-0.437	-0.499
Redundancy Payments	-0.647			
Closing Balance	**1.878**	**1.908**	**1.471**	**0.972**
Capital Modernisation Reserve				
Opening Balance	3.056			
Use of Reserve	-3.056			
Closing Balance	**0**			
Other Earmarked Reserves	**1.543**	**1.543**	**1.543**	**1.543**
TOTAL RESERVES	**6.245**	**6.275**	**5.838**	**5.339**

PROGRESS OF THE EFFICIENCY PLAN

36. The Authority is committed to publishing an annual report on the progress of our Efficiency Plan. This will be published on an annual basis on our website alongside our Statement of Assurance.

APPENDIX B

COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

REVENUE BUDGET

Original Estimate 2017/18	Revised Estimate 2017/18	Budget Heading	Original Estimate 2018/19
£	£		£
		Employees	
17,369,830	17,366,398	Salaries and Wages	18,051,365
2,319,634	2,319,634	Pension Contributions	2,462,486
551,000	551,000	Ill Health Charges	551,000
428,944	416,528	Other	477,136
20,669,408	**20,653,560**	**Total Employees Costs**	**21,541,987**
2,704,359	2,700,019	**Premises**	2,624,549
610,768	610,768	**Transport**	598,504
4,088,751	4,101,200	**Supplies & Services**	4,096,345
1,196,650	1,196,650	**Capital Financing**	1,544,089
329,852	337,591	**Contingencies**	335,274
2,846,519	2,438,217	**Capital Charges**	2,570,333
39,231	39,231	**Contribution to Reserve**	0
32,485,538	**32,077,236**	**GROSS EXPENDITURE**	**33,311,081**
-1,834,500	-1,834,500	**Income**	-1,971,213
0	0	**Contribution from Reserve**	-262,367
-2,846,519	-2,438,217	**Reversal of Capital Charges**	-2,570,333
27,804,519	**27,804,519**	**NET EXPENDITURE**	**28,507,168**

APPENDIX C

COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

CAPITAL BUDGETS 2017/18 (REVISED) AND 2018/19 TO 2021/22

Capital Project Details	Total Estimated Cost £	Revised Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £	Estimate 2020/21 £	Estimate 2021/22 £
Premises	635,000	635,000	-	-	-	-
Vehicles	37,000	37,000	-	-	-	-
Equipment	250,000	250,000	-	-	-	-
ICT	80,000	80,000	-	-	-	-
TOTAL	**1,002,000**	**1,002,000**	**-**	**-**	**-**	**-**
Premises	4,250,000	-	4,250,000	-	-	-
Vehicles	74,000	-	74,000	-	-	-
Equipment	450,000	-	450,000	-	-	-
ICT	100,000	-	100,000	-	-	-
TOTAL	**4,874,000**	**-**	**4,874,000**	**-**	**-**	**-**
Premises	250,000	-	-	250,000	-	-
Vehicles	1,385,000	-	-	1,385,000	-	-
Equipment	250,000	-	-	250,000	-	-
ICT	100,000	-	-	100,000	-	-
TOTAL	**1,985,000**	**-**	**-**	**1,985,000**	**-**	**-**
Premises	250,000	-	-	-	250,000	-
Vehicles	1,139,000	-	-	-	1,139,000	-
Equipment	250,000	-	-	-	250,000	-
ICT	100,000	-	-	-	100,000	-
TOTAL	**1,739,000**	**-**	**-**	**-**	**1,739,000**	**-**
Premises	250,000	-	-	-	-	250,000
Vehicles	717,000	-	-	-	-	717,000
Equipment	250,000	-	-	-	-	250,000
ICT	100,000	-	-	-	-	100,000
TOTAL	**1,317,000**	**-**	**-**	**-**	**-**	**1,317,000**
TOTAL NEW COMMITMENTS	**9,915,000**	**-**	**4,874,000**	**1,985,000**	**1,739,000**	**1,317,000**
TOTAL ALL COMMITMENTS	**10,917,000**	**1,002,000**	**4,874,000**	**1,985,000**	**1,739,000**	**1,317,000**