

**Safest People, Safest Places**

County Durham and Darlington  
**Fire and Rescue Authority**



## **COMBINED FIRE AUTHORITY**

**09 FEBRUARY 2017**

### **2017/18 REVENUE BUDGET AND COUNCIL TAX, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL PLAN**

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#### **REPORT OF TREASURER AND CHIEF FIRE OFFICER**

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##### **PURPOSE AND STRUCTURE OF THE REPORT**

1. The purpose of the report is to enable the Authority to:
  - approve a revised revenue budget for 2016/17;
  - set a revenue budget for 2017/18;
  - approve the Medium Term Financial Plan;
  - approve the capital budgets for 2017/18 to 2019/20;
  - determine the Fire Authority Council Tax Requirement;
  - approve the associated resolutions.

2. The report is divided into 10 sections:

Section A - Background (page 2)

Section B - Budget Consultation (page 3)

Section C - Local Government Finance Settlement (page 4)

Section D – Medium Term Financial Plan (page 6)

Section E – Revenue Budget (page 12)

Section F - Capital Budget (page 13)

Section G - Fire Authority Council Tax Requirement (page 14)

Section H - Prudential Code (page 17)

Section I - Treasury Management (page 22)

Section J - Summary of Recommendations (page 35)

## **SECTION A**

### **BACKGROUND**

3. A meeting of the Finance and General Purposes Committee was held on 30 January 2017 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 2017/18.

## 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 the Service Transformation Programme has taken place with staff and the representative bodies on a regular basis since the Service Transformation Programme was introduced. 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 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 14<sup>th</sup> 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 non-domestic rates share and top-up grant. Table 1 below sets out the four year settlement figures covering the period 2016/17 (the current financial year) 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	9.668	9.134	8.884
Local Non Domestic Rates	1.479	1.508	1.552	1.602
	<b>12.332</b>	<b>11.176</b>	<b>10.686</b>	<b>10.486</b>
Reduction in Funding	<b>-0.943</b>	<b>-1.156</b>	<b>-0.490</b>	<b>-0.200</b>
% Reduction in Funding	<b>-7.05%</b>	<b>-9.30%</b>	<b>-4.39%</b>	<b>-1.87%</b>

- 4 The Authority's funding from central government will reduce by a further £1.156M in 2017/18 followed by a reduction of £0.490M in 2018/19 and a further £0.200M 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.

#### Council Tax Referendum Limit

- 6 Further information was also announced on the council tax referendum limit for 2017/18. As in previous years, any fire authority that wishes to increase council tax by more than 2%, as compared to the 2016/17 council tax level will be required to hold a referendum.

## Recommendation

- 7 It is **recommended** that the Authority notes the 2017/18 settlement funding assessment.

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

This section provides a summary of the Medium Term Financial Plan for 2017/18 to 2019/20.

### **Basis of the Preparation of the Medium Term Financial Plan 2017/18 to 2019/20**

#### **Resources**

- 1 The Medium Term Financial Plan (MTFP) has been revised to take account of the settlement information and to incorporate 2017/18 and future year's expenditure and income estimates.
- 2 The details of the Local Government Finance Settlement for 2017/18 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 1.97% in 2017/18 and by 1.90% in 2018/19 and 2019/20.
- 4 Members will need to review these assumptions noting that each 1% change in council tax results in a variation of approximately £163,000.

#### **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 Following expressions of interest for early retirement and voluntary redundancy from command and control and corporate services staff, additional savings of £290,000 have been realised over and above the level set out in the published efficiency plan. However, as the proposed savings from collaboration initiatives are less certain at this stage, the saving incorporated into the MTFP has been reduced from the £250,000 set out in the efficiency plan to £50,000. Details of planned efficiency savings which have been incorporated into the MTFP are set out in table 2 below:

**Table 2: Planned Efficiency Savings 2017/18 to 2019/20**

Potential Saving	2017/18	2018/19	2019/20
	£m	£m	£m
<b>Staffing</b>			
Review of Command and Control	0.350	0.350	0.350
Restructure of Strategic & Middle Managers	0.075	0.075	0.075
Restructure of Corporate Services	0.245	0.245	0.245
<b>Capital Financing</b>			
Reduction in Debt Repayments & Interest	0.095	0.300	0.300
<b>Collaboration</b>			
Collaboration initiatives with the Police and other partners	0.050	0.050	0.050
<b>Income Generation</b>			
Trading Arms	0.050	0.075	0.100
<b>Total Efficiency Savings</b>	<b>0.865</b>	<b>1.095</b>	<b>1.120</b>

## Budget Pressures

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

### Business Rates

- 8 The recent revaluation of business rates has resulted in an estimated increase in business rates totalling £89,000 from 1 April 2017. The revaluation has resulted in a significant increase in the rateable value of a number of properties therefore the Authority will be lodging appeals against the increases. As the appeals may not be successful, the full amount of the increase has been built into the MTFP from 2017/18.

### Local Government Pension Scheme (LGPS)

- 9 A valuation of the Pension Fund as at 31 March 2016 has 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 have 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)

- 10 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

- 11 The MTFP incorporating the above information is set out in table 3 below:

**Table 3: Medium Term Financial Plan 2017/18 – 2019/20 (Based on a 1.9% per annum council tax increase)**

	2017/18 £m	2018/19 £m	2019/20 £m
<b>Net Expenditure</b>	<b>27.805</b>	<b>27.704</b>	<b>28.411</b>
Total Government Funding	9.949	9.426	9.202
Local Non Domestic Rates	1.345	1.388	1.438
Council Tax	16.367	16.851	17.358
Surplus on Collection Fund	0.144	0	0
<b>Total Funding</b>	<b>27.805</b>	<b>27.665</b>	<b>27.998</b>
<b>Shortfall</b>	<b>0</b>	<b>-0.039</b>	<b>-0.413</b>

- 12 The MTFP above shows a balanced budget position in 2017/18 and a shortfall in funding of £0.039m in 2018/19 rising to £0.413m in 2019/20. Work is continuing through the Service Transformation process to identify further savings options to assist in balancing the budget in future years.
- 13 It should be noted that the estimates for 2018/19 and 2019/20 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.

## Reserves

- 14 Reserves are held as:-
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of general reserves.
  - A contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.
- 15 The current strategy for the Authority is based on the assumption that, for the period of



the MTFP, general reserves will stay broadly within the reserves policy.

- 16 The current policy is that the Authority will:
- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
  - Aim to maintain, broadly, general reserves of between 7.5% and 10% of the net expenditure, currently between £2.085m and £2.780m respectively, with a maximum general reserve of 15% (£4.171m) of the net expenditure for the short to medium term.
- 17 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.
- 18 The reserves strategy is set out in table 4 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 4: Reserves Strategy 2016/17 to 2019/20**

<b>Reserve</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
<b>General Reserve</b>	<b>2.824</b>	<b>2.824</b>	<b>2.824</b>	<b>2.824</b>
<b>Modernisation Reserve</b>				
Opening Balance	2.500	1.789	1.789	1.750
Use of Revenue - MTFP	0	0	0.039	0.413
Redundancy Payments	-0.711	0	0	0
<b>Closing Balance</b>	<b>1.789</b>	<b>1.789</b>	<b>1.750</b>	<b>1.337</b>
<b>Other Earmarked Reserves</b>	<b>1.543</b>	<b>1.543</b>	<b>1.543</b>	<b>1.543</b>
<b>TOTAL RESERVES</b>	<b>6.156</b>	<b>6.156</b>	<b>6.117</b>	<b>5.704</b>

## Risks

- 19 The Authority has embedded risk management as part of its overall control framework and reviews financial risks on a regular basis. Risks have also been fully reviewed as part of the overall budget setting process for 2017/18 and over the medium term.
- 20 There are a number of risks associated with the MTFP that need to be considered as part of the budget setting process:

**(a) Local Business Rates Retention**

The Local Business Rates Retention Scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington.

The Authority is also exposed to collection rate risk and if collection rates fall, then there will be a direct impact on the Authority's available financial resources.

**(b) Council Tax Base**

The MTFP is based on the assumption that the council tax base will increase by 1% in 2018/19 and 2019/20 which is considered reasonable based on previous years' increases. If this does not turn out to be the case, then there will be an impact on the Authority's available resources.

**(c) 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.

**(d) Expenditure and Income Assumptions**

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

Pay inflation has been included in the budget based on announcements made in relation to restrictions on public sector pay.

The employer costs of pensions are extremely difficult to forecast with any certainty until the outcome of the 2016 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.

**(e) Savings**

The MTFP has been compiled on the assumption that savings totalling £1.120m will be achieved over the plan period. Whilst the savings in the areas of staffing and capital financing have already been achieved, those in relation to collaboration and income generation are less certain at this stage. Failure to achieve the savings outlined will lead to a greater budget deficit, placing further pressure on reserves.

- 21 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**

- 22 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 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**

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

- (a) Agrees the Medium Term Financial Plan.
- (b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget.
- (c) Reaffirms the current policy for reserves.

## SECTION E

### REVENUE BUDGET

#### Introduction

- 1 This section deals with the revised revenue budget for 2016/17 and the revenue budget for 2017/18.

#### Revised Revenue Budget 2016/17

- 2 During the year, the revenue budget is monitored and reports outlining spending against budget are regularly considered. Estimates are revised as pressures and opportunities for savings are identified and virement is exercised in accordance with the financial regulations of the Authority.
- 3 Based upon expenditure and income to 31<sup>st</sup> December 2016, net expenditure for 2016/17 is forecast to be within the approved budget.

#### Revenue Budget 2017/18

- 5 The revenue budget for 2017/18 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 that have been agreed through the service transformation process together with the further savings identified during the preparation of the budget and MTFP have enabled a balanced budget to set for 2017/18.
- 7 The net revenue budget for 2017/18 totals £27.805m. Details of the revenue budget are set out in Appendix A.

#### Recommendations

- 8 The following resolutions are **recommended** to the Authority:
  - (a) That the revised revenue budget for 2016/17 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 2016/17.
  - (c) That the revenue budget for 2017/18 as set out in Appendix A be approved.

## SECTION F

### CAPITAL BUDGET 2016/17 TO 2019/20

- 1 The proposed capital budgets for the years 2017/18 to 2019/20 and the revised capital budget for 2016/17 are set out in Appendix B and are summarised in table 5 below:

**Table 5: Capital Budgets 2016/17 – 2019/20**

Year	Capital Budget £m
2016/17 Revised	5.103
2017/18	0.617
2018/19	1.351
2019/20	1.195
	<b>8.266</b>

- 2 A significant amount of work has been undertaken to ensure that the capital budgets proposed for the medium term are reflective of the Authority's priorities and are affordable in terms of associated revenue expenditure. The revenue costs associated with the capital programme have been incorporated into the MTFP.
- 3 Under the Prudential framework, the Authority is free to make its own borrowing decisions according to what is affordable as guided by the Prudential Code. With effect from 2011/12, central government ceased to provide support for borrowing. Capital expenditure will be funded through unsecured borrowing, capital grant, revenue contributions or use of reserves, depending on the financial situation at the relevant time.
- 4 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 2017/18 to 2019/20 is set out in table 6 below:

**Table 6: Estimated Borrowing Requirement 2017/18 – 2019/20**

Year	Borrowing requirement £m
2017/18	0
2018/19	6.158
2019/20	1.195
	<b>7.353</b>

- 6 Full provision has been made in the 2017/18 revenue budget and the MTFP to meet the revenue consequences of the capital programme.
- 7 It is **recommended** that the Authority approves the capital budgets for 2017/18 to 2019/20.

## SECTION G

### 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 1.97%.
- 2 This will increase basic council tax from the 2016/17 level of £95.76 to £97.65 in 2017/18.
- 3 ***Members are requested to consider the above information and determine the level of Council Tax for 2017/18.***

#### 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 £27,804,519 the calculation is shown in table 7 below:

**Table 7: Calculation of the 2017/18 Council Tax Requirement**

	£	£
Fire Authority's Net Expenditure		27,804,519
Less:		
Revenue Support Grant	4,529,320	
Top Up Grant	5,307,011	
Business Rates Income	1,344,898	
Section 31 Business Rates Grant	105,093	
Transitional Funding	7,677	
Collection Fund Surplus / Deficit	143,364	11,437,363
<b>Council Tax Requirement</b>		<b>16,367,156</b>

## Council Tax Base

- 6 The 'council tax bases' of Durham County Council and Darlington Borough Council are used to calculate the proportion of the Fire Authority's total precept to be levied on each 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 2016/17 as notified to the Fire Authority are set out in table 8 below:

**Table 8: Council Tax Base and Precept 2017/18**

Authority	Council Tax Base	Precept
		£
Durham County Council	135,620.90	13,243,380.89
Darlington Borough Council	31,989.50	3,123,774.67
Total	167,610.40	16,367,155.56

## 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:

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

$$\frac{\underline{£16,367,155.56}}{£167,610.40} = £97.65$$

- 8 A Basic Council Tax of £97.65 represents a 1.97% increase from the 2016/17 level.

## Precept Instalments

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

- (a) Durham County Council:

3 <sup>rd</sup> April 2017	4 <sup>th</sup> September 2017
5 <sup>th</sup> May 2017	4 <sup>th</sup> October 2017
5 <sup>th</sup> June 2017	3 <sup>rd</sup> November 2017
5 <sup>th</sup> July 2017	4 <sup>th</sup> December 2017
4 <sup>th</sup> August 2017	4 <sup>th</sup> January 2018

(b) Darlington Borough Council:

19 <sup>th</sup> April 2017	16 <sup>th</sup> October 2017
25 <sup>th</sup> May 2017	20 <sup>th</sup> November 2017
30 <sup>th</sup> June 2017	27 <sup>th</sup> December 2017
4 <sup>th</sup> August 2017	1 <sup>st</sup> February 2018
11 <sup>th</sup> September 2017	8 <sup>th</sup> March 2018

- 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 £27,804,519 and a Band D Council Tax of £97.65, it is **recommended** that the Authority adopts the following resolutions:

That for the year ended 31 March 2018:

- (i) the 'council tax base' for the whole of the Authority's area be 167,610.40;
- (ii) there be no Authority expenses relating to a part only of the Authority's area;
- (iii) the 'basic amount of council tax' be £97.65 and the amount of the council tax for each category of dwelling be as set out in table 9 below:

**Table 9: 2017/18 Council Tax by Valuation Band**

Valuation Band	Proportion of 'Basic Amount'	Council Tax
		£
A	6/9	65.10
B	7/9	75.95
C	8/9	86.80
D	'basic amount'	97.65
E	11/9	119.35
F	13/9	141.04
G	15/9	162.75
H	18/9	195.30

- (iv) the Net Expenditure be £27,804,519 and that, (after taking into account revenue support grant of £4,529,320 business rates income of £1,344,898, section 31 business rates grant of £105,093, top up grant of £5,307,011, transitional funding of £7,677 and a surplus on the collection fund of £143,364, precepts totalling £16,367,155.56 be issued to Durham County Council and Darlington Borough Council.



## SECTION H

### PRUDENTIAL CODE

#### Background

- 1 The framework of the prudential capital finance system, which came into effect from 1 April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on “credit approvals” were abolished with effect from 1 April 2004. The Authority is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the Authority’s decision on what it can afford. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.
- 2 The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the Authority are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 3 To demonstrate that the above objectives have been fulfilled, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits; these are for the Authority to set.
- 4 Previously, credit approvals from Central Government set the limit of a local authority’s long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the new system, unless, exceptionally, a national limit is imposed, the Authority is free to make its own borrowing decisions according to what it can afford. Central Government support for borrowing through RSG continues to be given on the basis of a named amount of capital expenditure which borrowing will support. The Authority will take the totality of Central Government support into account in setting its prudential limits.

#### Prudential Indicators

- 5 The estimates of capital expenditure to be incurred for the current and future years are contained in Section G of this report and summarised in table 12 below:

**Table 12: Prudential Indicators – Capital Expenditure**

Capital Expenditure				
2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
3,202	5,190	617	6,158	1,195

- 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 2016 are set out in table 13 below:

**Table 13: Prudential Indicators – Capital Financing Requirement**

Capital Financing Requirement				
2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
9,179	8,944	8,679	14,450	14,800

- 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 2017/18 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 2015/16 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				
2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
1.5	1.0	1.1	1.8	2.3

## 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:
- 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).
  - 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 (2016/17) 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				
	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	0.9	0.8	7.6	8.9
Long-term liabilities	8.5	8.3	8.1	7.9
Total	9.4	9.2	15.7	16.8

- 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				
	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	0.8	0.8	6.9	8.1
Long-term liabilities	7.8	7.6	7.4	7.2
Total	8.6	8.4	14.3	15.3

- 15 The Authority's actual external debt at 31 March 2016 was £8.562m, comprising £0.817m borrowing and £7.745m 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 1.97% Council Tax increase in 2017/18 and assuming a 1.9% 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		
2017/18 %	2018/19 %	2019/20 %
0.00	1.90	1.06

## Recommendations

- 19 It is **recommended** that the Authority:
- (a) Notes the prudential indicators.
  - (b) Approves the MRP Statement
  - (c) Approves the following limits for external debt in 2017/18:
    - (i) Authorised Limit of £9.2m
    - (ii) Operational Boundary of £8.4m

## SECTION I

### TREASURY MANAGEMENT 2017/18

- 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 I1.
  - 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 I2.
- 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 2017/18 is shown in Annex I3. 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 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sum.

- 5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2017/18, 2018/19 and 2019/20 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 I3.
  - c) Sets an upper limit on the Authority's fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sum.
  - d) Sets an upper limit on the Authority's variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 30% of its net outstanding principal sums.

## **Annex I1: 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 I2: 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 I3: Treasury Management Strategy 2017/18**

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 2017/18 – 2019/20**

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 2017/18 – 2019/20**

#### **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 2017/18, the Authority will not invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

## **2.6 Use of additional information other than credit ratings**

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

## **2.7 Time and Monetary Limits applying to Investments**

The time and monetary limits for institutions on the Authority's Counterparty List are set out in table 19 below:

**Table 19: Time and Monetary Limits of Investments**

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

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

## **2.8 Sensitivity to Interest Rate Movements**

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

The estimated impact of a 1% increase or decrease in interest rates to the estimated treasury management income for the Authority in 2017/18 is an increase or decrease of £62,500.

## **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 J**

### **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 Members note the grant settlement.

#### **SECTION D** – Medium Term Financial Plan (page 11)

That the Authority:

- (a) Agrees the Medium Term Financial Plan.
- (b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget.
- (c) Reaffirms the current policy for Reserves.

#### **SECTION E** – Revenue Budget (page 12)

##### **Revised 2016/17 Revenue Budget Recommendations** (page 12)

That the Authority adopts the following resolutions:

- (a) That the revised revenue budget for 2016/17 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 2016/17.

##### **2017/18 Revenue Budget Recommendations** (page 12)

- (a) That the Authority approves the revenue estimates for the year ending 31 March 2018 as detailed in Appendix A.

#### **SECTION F** – Capital Programme and Budget (page 13)

That the Authority approves the capital budgets for 2016/17 to 2020/21.

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

That Members determine the level of Council Tax for 2017/18 based on the Net Expenditure of £27,804,519. Based on the recommendation of the Finance and General Purposes Committee, it is recommended for the year ending 31<sup>st</sup> March 2018:

- (i) That the 'council tax base' for the whole of the Authority's area be 167,610.40
- (ii) That there be no Authority expenses relating to a part only of the Authority's area
- (iii) That the Authority increases Council Tax by 1.97% to £97.65 for a Band D property
- (iv) That the Net Expenditure be £27,804,519 and that, (after taking into account revenue support grant of £4,529,320 business rates income of £1,344,898, section 31 business rates grant of £105,093, top up grant of £5,307,011, transitional funding of £7,677 and a surplus on the collection fund of £143,364, precepts totalling £16,367,155.56 be issued to Durham County Council and Darlington Borough Council.

## **SECTION H – Prudential Code (page 21)**

- (a) That the Authority notes the prudential indicators.
- (b) That the Authority approves the MRP Statement.
- (c) That the Authority approves the following limits for external debt in 2017/18:
  - (i) Authorised Limit of £18.2m
  - (ii) Operational Boundary of £16.5m

## **SECTION I – Treasury Management (page 23)**

- (a) That the Authority formally adopts the key recommendations of the CIPFA code.
- (b) That the Authority notes the Annual Treasury Management Strategy.
- (c) That the Authority sets an upper limit on its fixed interest rate exposures for 2017/18, 2018/19 and 2019/20 of 100% of its net outstanding principal sum.
- (d) That the Authority sets an upper limit on its variable interest rate exposures for 2017/18, 2018/19 and 2019/20 of 30% of its net outstanding principal sums.

## APPENDIX A

### COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

#### REVENUE BUDGET

Original Estimate 2016/17	Revised Estimate 2016/17	Budget Heading	Original Estimate 2017/18
£	£		£
18,093,037	17,989,107	<b>Employees</b>	17,369,830
2,681,290	2,675,033	Salaries and Wages	2,319,634
551,000	551,000	Pension Contributions	551,000
427,730	526,791	Ill Health Charges	428,944
		Other	
<b>21,753,057</b>	<b>21,741,931</b>	<b>Total Employees Costs</b>	<b>20,669,408</b>
3,487,587	3,462,688	<b>Premises</b>	2,704,359
630,695	605,169	<b>Transport</b>	610,768
3,805,953	3,925,851	<b>Supplies &amp; Services</b>	4,088,751
1,606,171	1,606,171	<b>Capital Financing</b>	1,196,650
116,919	81,132	<b>Contingencies</b>	329,852
2,893,031	2,653,285	<b>Capital Charges</b>	2,846,519
792,464	792,464	<b>Contribution to Reserve</b>	39,231
<b>35,085,877</b>	<b>34,868,691</b>	<b>GROSS EXPENDITURE</b>	<b>32,485,538</b>
-3,363,620	-3,386,180	<b>Income</b>	-1,834,500
-220,711	-220,711	<b>Contribution from Reserve</b>	0
-2,893,031	-2,653,285	<b>Reversal of Capital Charges</b>	-2,846,519
<b>28,608,515</b>	<b>28,608,515</b>	<b>NET EXPENDITURE</b>	<b>27,804,519</b>

## COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

## CAPITAL BUDGETS 2016/17 (REVISED) AND 2017/18 TO 2019/20

Capital Project Details	Total Estimated Cost £	Revised Estimate 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Premises	3,788,000	3,788,000	-	-	-
Vehicles	910,000	910,000	-	-	-
Equipment	325,000	325,000	-	-	-
ICT	80,000	80,000	-	-	-
<b>TOTAL</b>	<b>5,103,000</b>	<b>5,103,000</b>	-	-	-
Premises	250,000	-	250,000	-	-
Vehicles	37,000	-	37,000	-	-
Equipment	250,000	-	250,000	-	-
ICT	80,000	-	80,000	-	-
<b>TOTAL</b>	<b>617,000</b>	-	<b>617,000</b>	-	-
Premises	250,000	-	-	250,000	-
Vehicles	771,000	-	-	771,000	-
Equipment	250,000	-	-	250,000	-
ICT	80,000	-	-	80,000	-
<b>TOTAL</b>	<b>1,351,000</b>	-	-	<b>1,351,000</b>	-
Premises	250,000	-	-	-	250,000
Vehicles	615,000	-	-	-	615,000
Equipment	250,000	-	-	-	250,000
ICT	80,000	-	-	-	80,000
<b>TOTAL</b>	<b>1,195,000</b>	-	-	-	<b>1,195,000</b>
<b>TOTAL NEW COMMITMENTS</b>	<b>3,163,000</b>	-	<b>617,000</b>	<b>1,351,000</b>	<b>1,195,000</b>
<b>TOTAL ALL COMMITMENTS</b>	<b>8,266,000</b>	<b>5,103,000</b>	<b>617,000</b>	<b>1,351,000</b>	<b>1,195,000</b>