Cabinet

11 February 2015

General Fund Medium Term Financial Plan 2015/16 to 2017/18, Revenue and Capital Budget 2015/16 and 2015/16 Council House and Garage Rent Proposals

Key Decision Number Corp/R/14/02

Report of Corporate Management Team

Joint Report of Don McLure, Corporate Director Resources and Lorraine O'Donnell, Assistant Chief Executive

Councillor Alan Napier, Cabinet Portfolio Holder for Finance
Councillor Simon Henig, Leader of the Council

Purpose of the Report

1 To provide comprehensive financial information to enable Cabinet to agree the 2015/16 balanced revenue budget, an outline General Fund Medium Term Financial Plan (MTFP (5)) for 2015/16 to 2017/18 and a fully funded capital programme for recommendation to the County Council meeting on 25 February 2015.

Executive Summary

2 Looking back to the 2010 Comprehensive Spending Review (CSR), the Government outlined funding reductions of 28% that Local Government would need to face to contribute to eradicating the national budget deficit by the end of March 2015. The initial strategy for eradicating the nation deficit was for public expenditure reductions to finance 80% of the plan with 20% coming from tax increases. Local Government faced the highest reductions in spending across the public sector.

3 The CSR 2010 forecasts have not been met by the Government and the Chancellor of the Exchequer's December 2014 Autumn Statement confirmed that the national budget deficit would not now be eradicated until 2018/19 with reductions in public expenditure continuing until 2019/20 to enable a forecast national budget surplus of £23bn to be realised. The national budget deficit at the end of 2014/15 is forecast to be £91bn, a reduction of less than 50% since 2011/12. Government funding reductions for local government are now forecast to be 60%, a doubling of the figure first forecast after the 2010 CSR.

4 It is apparent therefore that the financial landscape for Local Authorities will continue to be extremely challenging until at least 2018/19 and possibly

2019/20, resulting in the longest period of austerity in modern times. The challenges faced are exacerbated in Durham for a range of reasons:-

(i) Government grant reductions are not being evenly distributed across the country, as evidenced by the Government's own Spending Power figures. Whilst deprived areas like Durham continue to experience Spending Power reductions above the national average, in some more affluent areas they are actually receiving spending power increases.

(ii) The Government's methodology for funding local authorities is inextricably linked to the performance of the local economy in the local authority areas via New Homes Bonus Funding arrangements, Business Rate Retention and Local Council Tax Reduction Schemes. Disappointingly, the link to a 'Needs Assessment' is no longer a key determinant of local authority funding.

(iii) Demand for services and support from local authorities in areas like Durham is increasing with Welfare Reforms continuing to have a significant impact on communities in more deprived areas.

5 Overall, it is forecast that the Council will need to save £225m over the 2011 to 2018 period. This figure is forecast to exceed £250m in 2018/19 based on the forecast public sector funding reductions outlined in the Government's December 2014 Autumn Statement.

6 A sum of £136.9m of savings will have been delivered by the end of 2014/15. Forecasted savings over the MTFP (5) period 2015/16 to 2017/18 of £87.6m are required, with the 2015/16 budget requiring savings of £16.3m to achieve a balanced budget.

7 The Council has consulted extensively with the public as part of the MTFP development. During autumn 2013 a major exercise was carried out which involved over 3,800 people who provided a clear steer in which services they felt should be prioritised for larger or smaller reductions. A refresh of this exercise was carried out in autumn 2014 with the public and partner agencies. Over 1,400 responses were received and the majority indicated that the priorities established in 2013 were still appropriate. Respondents also highlighted general concern at the scale of the reductions facing the Council and supported the approach to pursue innovative solutions to maintaining services through the Durham Ask.

8 The Council's MTFP strategy for the last four years has been to protect front line services as far as possible and the 2015/16 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time and the likelihood is that front line services will become increasingly impacted over the next three or four years. This report summarises how the main proposals are in line with the Council's overall strategy and have been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.

9 In line with the MTFP (4), detailed savings proposals are only included for 2015/16, the first year of MTFP (5). This is due to the significant uncertainty in relation to finance settlements beyond 2015/16. The Local Government Finance Settlement published in December only provided details for 2015/16. It is expected that longer term finance settlements may be received in the future. The forecasts included in MTFP (5) have been extrapolated from the Chancellor's "Red Book" forecasts for the public finances.

10 In MTFP (1) 2011/12 to 2014/15, the Council forecast that there would be a reduction of 1,950 posts by the end of 2014/15. It is currently forecast that after the realisation of the 2015/16 savings plans the level of post reductions will still be around 1,950.

11 In the setting of Council Tax levels for 2015/16, consideration has been given to the significant financial pressures facing the Council. The Government have offered a Council Tax Freeze Grant for 2015/16, equivalent to a 1% Council Tax increase. The calculation of the Council Tax Freeze Grant utilises a higher Council tax base than the current level. The calculation utilises the Council tax base that was in place prior to the implementation of the Local Council Tax Reduction Scheme in 2013/14. It is forecast that this would generate a Council Tax Freeze Grant of £2.180m for 2015/16. MTFP (5) planning however has been based upon a 1.99% Council Tax increase, which is below the confirmed 2% Council Tax Referendum Limit. A 1.99% Council Tax increase will generate additional Council Tax income of £3.398m in 2015/16 which is £1.218m more than the freeze grant option. This report recommends a 1.99% Council Tax increase in the Council's Band D Council Tax in 2015/16 which would result in an average increase of 78 pence a week for all Council Tax payers and an increase of 33 pence a week for the majority of Council tax payers in County Durham, who live in the lowest value properties (Band A).

Background

12 The Council's MTFP (5) is aligned to the Council plan, which sets out the Council's strategic service priorities and articulates the financial implications and impacts over a three year budgeting period, 2015/16 to 2017/18.

13 The MTFP provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.

14 Looking back to MTFP (1) the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP (5):-

(i) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.

(ii) To fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan.

(iii) To deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum.

(iv) To strengthen the Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes.

(v) To ensure the Council can continue to demonstrate value for money in the delivery of its priorities.

Local Government Finance Settlement

15 The final Local Government Finance Settlement was published on 3 February 2015 and only includes grant allocations for 2015/16, with no indicative figures provided for later years.

16 The Government has made a significant change following the consultation responses from local authorities in relation to the provisional Settlement where local authorities were very unhappy about the withdrawal of the Local Welfare Provision Grant and continuing pressures in relation to Social Care. In the Final Settlement the Government has announced an additional £74m nationally to address these concerns with Durham receiving additional Revenue Support Grant (RSG) of £0.966m. This additional £0.966m compares to the current Local Welfare Provision Grant received by the Council in 2014/15 of £1.9m.

17 The Council Tax Referendum Limit is confirmed at 2%. The Government has also confirmed that a 1% Council Tax Freeze Grant will be paid to any authority which freezes Council Tax in 2015/16.

18 The settlement includes details of core grants e.g. RSG and Business Rates 'Top Up' Grant. The table below highlights the 2015/16 reduction in the Settlement Funding Assessment (SFA). It is important to note that the Business Rates figure below is a 'notional' figure published by the Government.

Table 1 – 2015/16 Settlement Funding Assessment

Funding Stream	2014/15	2015/16	Variance	
	£m	£m	£m	%
Revenue Support Grant	138.710	100.240	(38.470)	(27.7)
Business Rates	54.045	55.050	1.005	1.9
Top Up Grant	59.357	60.491	1.134	1.9
SFA	**252.112**	**215.781**	**(36.331)**	**(14.4)**

19 The table above highlights that the SFA has reduced by 14.4% in 2015/16. In addition to the above 'core' grants the Council continues to face reductions in Specific Grants with examples detailed below. Full detail is provided at Appendix 2.

Table 2 – Reduction in 2015/16 Specific Grants

Specific Grant	2014/15	2015/16	Variance	
	£m	£m	£m	%
Education Services Grant	7.523	6.002	(1.521)	(20)
Housing Benefit Admin Grant	4.091	3.765	(0.326)	(8)
Extended Free Rights to Transport	1.086	0.999	(0.087)	(8)
Local Welfare Assistance	1.900	-	(1.900)	(100)
Discretionary Housing Payment	1.096	0.982	(0.114)	(10)

20 In relation to the withdrawal of Local Welfare Provision Grant (£1.9m), the Government had notionally identified a sum of £1.4m in the Council's provisional RSG settlement for Local Welfare Assistance but had not transferred any additional funding into RSG in this regard at that stage. This was effectively a 'top slice' of existing RSG funding to provide for an exemplification of a notional figure 'available' for continuation of a Local Welfare Assistance scheme. An additional £0.966m has subsequently been received in the final settlement notionally linked to Welfare Provision and Social Care pressures, therefore to reflect the importance of supporting vulnerable people, it is recommended that a £1m Welfare Assistance budget should be introduced in 2015/16. The Council's policy and associated expenditure in relation to Welfare Assistance will be kept under review during 2015/16 to determine any impact for MTFP (6) and beyond.

21 The table below shows a comparison between the final settlement figures compared to the previously reported forecast position in 2015/16:-

Table 3 – Final Finance Settlement Compared to Forecast

Grant/Income	2015/16 Settlement	2015/16 Forecast	Difference
	£m	£m	£m
Revenue Support Grant	100.240	98.665	1.575
Town and Parish RSG Adjustment	0.270	0.285	(0.015)
Business Rate RPI Increase	0.999	1.203	(0.204)
Top-Up Grant RPI Increase	1.134	1.365	(0.231)
Section 31 Grant Increase	0.515	0.080	0.435
New Homes Bonus (NHB) Increase	1.538	1.500	0.038
NHB Re-imbursement	0.377	0.390	(0.013)
Total Variance	**105.073**	**103.488**	**1.585**

22 The main issues to note in relation to the table above are as follows:-

(i) The Government had originally planned to top-slice £300m from RSG to finance the additional 2015/16 New Homes Bonus. The final settlement shows that the top slice has been reduced to £250m and the Government has re-instated the £50m difference to RSG resulting in a £0.609m increase in RSG for the Council.

(ii) An additional sum of £0.966m has been forthcoming to account for recognised pressures in relation to Welfare Provision and Social Care.

(iii) To protect business rate payers, the Government has capped the increase in business rates for 2015/16 at 2% rather than 2.3% which is the increase that should have been applied based on regulations, where the annual increase in business rates is based upon retail price index as at 30 September in the previous year. This reduction of £0.435m in Business Rate income and Top Up Grant will be reimbursed to the Council through a specific grant known as 'Section 31' Grant.

(iv) The additional New Homes Bonus allocation for 2015/16 of £1.538m is broadly in line with the Council's forecast.

23 Although Government funding for the Council has been reduced by circa £40m in 2015/16, the settlement is actually £1.585m better than previously forecast.

24 The additional £1.585m has been utilised in the 2015/16 budget by reducing the previous call on the contingency budget and introducing a £1m Welfare Provision budget.

Government Funding Reductions Based Upon 'Spending Power'

25 The Government has published data based upon their national Spending Power calculations. Spending Power includes certain Government grants, Council Tax income and Better Care Fund health funding. The average national Spending Power reduction in 2015/16 has been published as being 1.7% as compared to Durham's reduction of 2.5%. This calculation is however not wholly representative of the actual funding reduction and challenges faced by local authorities for the following reasons:-

(i) The totality of the Better Care Fund revenue allocation for the County of £39.193m is included in 2015/16 figures for the first time. This has been taken from top slicing of existing funding streams received by the Council and from existing health budgets and is effectively not new funding. The majority of this funding is either already being expended by the Council and is in the 2014/15 base budget or will be expended within the health sector next year. It is inaccurate not to include this in the 2014/15 base and this is significantly skewing the data and masking the actual level of Government funding reductions being faced by local authorities.

(ii) Certain grants are excluded from the Spending Power calculation e.g. the Education Services Grant. In 2015/16 the Council is losing £1.521m of Education Services Grant funding but this is not included in the Spending Power calculation.

26 The Chartered Institute of Public Finance and Accountancy (CIPFA) has carried out its own analysis on what the Spending Power reduction would be if Public Health Funding and the Better Care Fund were excluded. Rather than

the published national average Spending Power reduction of 1.7%, the CIPFA figure is 6.1% with a north east regional average of 7.7% based on the provisional grant settlement figures.

27 Although the actual level of funding reduction is not fairly represented in the Spending Power figures, the analysis does fairly reflect the regional variations in the funding settlement. Detailed below are a number of examples of the Governments own 2015/16 Spending Power figures showing variations across the country.

Table 4 – 2015/16 Spending Power Variation

Area	Spending Power Variation
England	-1.7%
Durham	-2.5%
Newcastle	-4.7%
Middlesbrough	-5.4%
North Yorkshire	+1.2%
Wokingham	+2.6%
Surrey	+3.2%

28 The Government has also published details of Spending Power 'per dwelling' for all local authorities. Areas of deprivation naturally require, and have always received, higher funding levels than more affluent areas. This higher level of funding in deprived areas is required for a range of reasons including the following:-

(i) In affluent areas, significant numbers of service users, especially in adult care can afford to contribute to the cost of their service provision. This is especially the case for residential care and home care services for the elderly. In these circumstances, the budget required in deprived areas is much higher than in affluent areas.

(ii) Similarly, demand for services in deprived areas such as Children's Social Care, is significantly higher than more affluent areas resulting in deprived areas requiring higher budgets.

29 There is strong evidence therefore as to why local authorities which are more reliant upon Government grant should not face higher funding reductions. Need and links to Council Tax raising capacity have been eroded over the last four years, with allocations being more focussed on equalising, over time, the level of Government support being provided to each area regardless of the needs of local circumstances.

30 Regardless of this, the Spending Power per dwelling data highlights how significantly the funding of an area such as Durham has declined in the period 2011/12 to 2015/16. The table below highlights the 2015/16 Spending Power per dwelling for a range of local authorities.

Table 5 – 2015/16 Spending Power Per Dwelling

Area	Spending Power Per Dwelling
	£
England	2,086
Durham	2,052
Bristol	2,132
Reading	2,076
Wokingham	1,932
Surrey (including Districts)	2,186

31 Considering the levels of deprivation, it is significant that Durham's Spending Power per dwelling is now less than the England average. It is even more significant that if the pace of funding reduction continues as forecast and the current allocation methodology continues, then the Spending Power of Surrey County will exceed that of Durham in 2017/18, notwithstanding that the Spending Power for Durham is already below that of Surrey County when their figures are consolidated with the Surrey District Councils. It is staggering to think that a deprived area such as Durham would have a lower Spending Power per dwelling than an affluent area such as Surrey.

Consultation

32 During autumn 2013, the Council attracted over 10,000 people to take part in the largest public engagement programme of events ever held in County Durham. These events were managed through the Area Action Partnerships (AAPs) and were held across the county. They provided the opportunity for the public to allocate grants to local projects, set AAP priorities and provide views as to how the Council should manage its budget challenges up to March 2017.

33 At these events, almost 1,300 people took the time to take part in 270 budget setting group exercises where, over 30-45 minutes, they deliberated with other members of the public as to how the Council should allocate savings of £100 million over the next few years. Feedback from those taking part in the activities was very positive, with 97% of participants feeling that it was a good way to involve local people in decision making.

34 In addition to the group exercises, comments as to how the Council should achieve its savings target were also provided through different forms. There were 2,074 completed paper questionnaires and a further 517 completed online.

35 The results of this budget consultation, which included over 4,000 responses, were reported to Cabinet on 12 February 2014. A clear message from the

consultation was the requirement to minimise the impact upon frontline service provision wherever possible. This feedback has influenced the development of the budget proposals for 2015/16 as set out in this report and it is anticipated that they will help inform the budget setting process for the next two to three years.

36 Having completed such a comprehensive budget consultation in 2013, this year's budget consultation concentrated on seeking views from the 14 AAPs and the key partner agencies that make up the County Durham Partnership. This involved two distinct phases. The first phase focussed on the AAP Boards and Forums, where attendees were asked specific questions, namely:-

- Since the public consultation in 2013, has anything changed in your area that you feel would affect which services should have larger or smaller reductions?

- Where a local organisation has shown interest, should the council explore the opportunity of them managing a facility or service to reduce the impact of budget savings on communities?

- Are there any council facilities or services in your area that could be managed by local people?

37 The second phase of the consultation concluded on 15 January 2015, and sought views on the draft 2015/16 budget proposals (as reported to Cabinet on 17 December 2014) from AAP Boards and partner agencies.

Phase I – Public Consultation

38 The first phase of the consultation which concluded on 12 December 2014 and involved presentations to all 14 AAP Boards as well as the completion of questionnaires at the 14 AAP Forum events. A total of 602 hard copy questionnaires were collected at the AAP Forums and a further 110 were submitted online bringing the overall total to 712.

39 Overall, a majority of respondents (65%) said that nothing changed in their area that would affect which services should have larger or smaller reductions. Where respondents did identify change they were more likely to identify services or issues that should be **protected** from larger budget reductions (86%), rather than those to be cut by more (14%).

40 Most commonly and in order of priority, respondents who did identify change tended to say the following services should be protected from larger budget reductions:-

- Subsidised Bus Travel
- Roads, footpaths, traffic and lighting
- Job Creation
- Support for Community Projects, Centres, Partnerships and Groups.

41 Respondents identified the following services that should have larger budget reductions:-

- Finance, Legal, Information Technologies and Human Resources
- Gritting and Snow Clearance
- Roads, footpaths, traffic and lighting
- Democratic Support - Decisions and Elections
- Social Work and Protecting Vulnerable Children and Adults.

42 A full list of the services identified by respondents is available in Appendix 3.

43 Older respondents tended to be more likely to identify change than younger ones and most commonly they identified the following issues:-

- Subsidised Bus Travel
- Roads, footpaths, traffic and lighting
- Social Work and Protecting Vulnerable Children and Adults.

44 As with the consultation carried out in 2013/2014, there was a general understanding of the scale of the financial challenge facing the council. In the light of this situation, a large majority of respondents (93%) felt that the council should explore opportunities for local organisations to manage Council facilities or services as being promoted through The Durham Ask.

45 The services respondents felt there could be most scope for transfer, included:-

- Libraries
- Community centres
- Grass Cutting, flower beds.

46 Similar to the questionnaire responses, AAP Boards were in favour of progressing with The Durham Ask. However, in reaching their conclusion, it was suggested the council needed to:-

- Ensure the focus includes established organisations (including local councils and other partners) in addition to smaller voluntary organisations and groups
- Ensure that groups are confident that they can operate appropriately post transfer
- Provide training/support so groups understand the full scale and responsibilities and are able to apply for funding. This support could be offered by council staff or the VCS.

47 A number of other suggestions for achieving the necessary savings whilst maintaining community services and facilities were highlighted by AAP Boards. These included proposals that:-

- More work should be undertaken to consider whether joint arrangements could be developed with neighbouring authorities and other private sector organisations.
- Consideration should be given to ensure there is sufficient executive housing across the County to help attract new businesses to the area.
- When considering service provision/withdrawal, account should be taken of the varying levels of need across the county, in terms of population size (current and planned growth) as well as deprivation levels.

48 In general, the most common response from AAP Boards was concern at the level of the cuts facing the Council and the need to develop innovative solutions such as The Durham Ask to try to safeguard frontline services.

49 Finally, in addition to the consultation set out above, the opportunity was taken to supplement this consultation by seeking views of children and young people at a series of school based events in the East of the County. Overall 724 took part from various schools. Overall, a large majority of children and young people consulted supported last year's results with respect to services that should have a smaller reduction. However, a small majority of respondents disagreed about the services that should receive larger reductions. This was most so with subsidised bus services where 62% of children and young people disagreed that the council should save money on this service.

Phase 2 – Partner Consultation

50 Phase 2 of the consultation sought views on the draft 2015/16 budget proposals (as reported to Cabinet on 17 December 2014) from AAP Boards and partner agencies which make up the County Durham Partnership. Respondents generally welcomed the opportunities to continue to work collaboratively and therefore contribute to shaping future budget reductions and mitigate against impacts. From those which responded, there were no suggestions to amend specific savings proposals in the report. However some areas for consideration where highlighted and are detailed below:-

51 It is reassuring that the council's commitment to consult has continued and that it has been able to deliver budget savings of £137 million without major effects on frontline services. However, there is concern about what will happen to frontline services in the future given the level of savings which need to be achieved by 2019.

52 Concern was expressed about the higher spending power reductions faced by Durham County Council in comparison with the average for England. One Council highlighted that when deciding on support for school crossing patrols, note should be taken of growth in traffic due to new developments.

53 Local Councils welcomed the continued support from Durham County Council of passing the Council Tax Support Grant and the support it has provided to County Durham Association of Local Councils.

54 The Durham Ask approach was supported as a method to achieve savings whilst maintaining services and it was recognised that the VCS will be working alongside the council to support its implementation.

55 That the Council should allocate some of the New Homes Bonus generated by the new houses built in Spennymoor to specific projects in the town to address its deteriorating infrastructure.

56 Durham Community Action highlighted that they will work with the Council to mitigate potential impacts of the reductions in the Community Building Grants with other support, and accepted the scale and proportion of the proposed reduction is fair and balanced given the overall budget situation.

57 Whilst preparing to implement the savings required, we need to consider;

(i) Impacts on national health priorities such as tackling obesity, particularly when Sport and Leisure is restructured.

(ii) The potential impact of the proposed changes to the Community Building Grant on the voluntary sector and the need to consider the availability of funding from other sources.

(iii) That the consistent application of eligibility criteria for care services does not result in higher costs for the health sector.

Scrutiny Committee Feedback

58 Scrutiny Members met on the 23 January 2015 to consider the December and January MTFP 5 Cabinet reports. Full verbal feedback on the outcomes from this meeting will be given by the Chair of the Overview Scrutiny management Board at the Cabinet meeting on the 11 February 2015, and a summary of headline issues raised is included below.

59 Overall, the committee acknowledged the ongoing deterioration in national finance and the effect this has on local government finances and the requirement for greater savings to be made long term. Given this difficult context, the majority of members were in support of the MTFP proposals. The committee also acknowledged the good work of the officer team who had developed the budget proposals.

60 The committee agreed that four suggestions put forward by some members of the committee should be raised for further consideration by Cabinet colleagues:

(i) The assumed energy price increases built into the base budget model may benefit from review in light of recent decreases in the price of oil;
(ii) Some members questioned whether it would be possible to reduce the underlying price inflation assumption of 1.5%, given lower recent national figures;

(iii) There was a concern about the ongoing maintenance of welfare provision in light of the national withdrawal of the Local Welfare Provision Grant;

(iv) More detail was requested regarding the rationale for one of the key savings areas - the proposal for greater court cost fee income (RES22).

61 The content and recommendations included in this report has taken into consideration all the views of members of the public, partners and the scrutiny committee in finalising the 2015/16 to 2017/18 MTFP proposals.

MTFP Strategy

62 The strategy the Council has deployed to date has been to seek savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.

63 Throughout the period covered by the MTFP (1) through to MTFP (5), the totality of savings required has risen from £123m to £225m. It is clear that it will become increasingly difficult to protect frontline services going forwards.

64 To date the Council has implemented the agreed strategy very effectively:-

(i) £136.9m of savings will have been delivered by the end of 2014/15.

(ii) Savings have been delivered on time and in some areas ahead of time. This is critically important, because slippage would mean that the Council would have to deliver higher savings over time.

(iii) The number of employees earning over £40,000 since 2011 had been reduced by 31%. This has significantly reduced management costs.

(iv) Proportionally more than three times as many manager posts have been removed than frontline staff.

(v) Whilst income from fees and charges has been increased, this has not resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county.

(vi) It was originally forecast in MTFP (1) that there would be a reduction in posts of 1,950 by the end of 2014/15. Based upon the 2015/16 savings plan it is forecast that post number reductions will still be around 1,950. Management of change policies and HR support have ensured that this degree of change has been managed effectively.

65 The importance of delivering savings early if practical to do so cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring the delivery of the savings and enables a managed implementation of proposals across financial years.

66 In general, the Council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and to robustly manage implementation, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the continued and enhanced challenges across this medium term financial plan and beyond, where savings proposals will undoubtedly become more complex and difficult to deliver in future years.

67 The Council's existing MTFP strategy accords well with the priorities identified by the public. For example:-

(i) **Protecting basic needs and support service for vulnerable people:** Although the scale of Government spending reductions is such that all MTFPs including MTFP (5) have identified unavoidable impact on vulnerable people, the Council works hard with partners to minimise this impact as far as possible. In MTFP (5), support has been included to protect working age people on low incomes through the Council tax reduction scheme and the identification of other support to help mitigate the impact on vulnerable people. Work with health partners continues to help ensure that health and social care funds are maximised and every proposal with the potential to impact on vulnerable people is subject to an assessment to identify likely impacts and mitigate these as far as possible.

(ii) **Avoid waste and increase efficiency:** The Council has a good track record of increasing efficiency since local government reorganisation. This includes rationalisation of Council buildings, IT systems and changes such as the move to alternate weekly refuse collections. All employees have the ability to suggest ideas that could reduce waste and improve efficiency and several, value for money reviews have been successfully implemented. The Council benchmarks itself against other organisations in order to demonstrate value for money.

(iii) **Reduce Councillor and staffing costs**: Councillor costs were significantly reduced at LGR with associated support costs also reduced. The reduction in staffing of around 1,950 posts by the end of 2015/16 is a significant reduction in staffing costs. Proportionally, three times more reductions have been made in management than frontline costs.

(iv) **Work with the community:** The Council is a forerunner in asset transfer, having successfully transferred a number of leisure centres, a golf course and community buildings to date. The Council has recognised the need for investment in resources to work with the community to achieve successful outcomes in this area and shares the public's view that there is scope to continue this in the future. The "Durham Ask" initiative is expected to result in the transfer of more Council assets.

(v) **Fairness**: The Council continues to lobby the Government on the current unfairness of the geographical distribution of Government cuts, both individually and through the Association of North East Councils (ANEC). Independent evidence from the National Audit Office also confirms that Councils serving deprived areas have faced and are facing the largest cuts and this supports a number of other independent research papers, including reports from the Institute for Fiscal Studies. The Council is committed to carrying out impact assessments on its policy changes, including those arising from austerity, to identify how reductions can continue to be made in a fair way.

(vi) **Charges**: The Council has addressed some of its financial challenges through increasing fees and charges. Such decisions are carefully considered and it is acknowledged that it is not appropriate to aim for the highest charges possible given the income levels of the majority of residents and service users in County Durham.

68 It is clear that austerity will continue over the three year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66m 2011/12, the Council is likely to face several years where the targets will be higher than those for 2015/16. Obviously, the fact that each year's reduction is on top of those of previous years is leading to a forecasted, cumulative total of £225m since 2011/12 up to 2017/18 and means that the Council continues to face a very considerable financial challenge.

69 In addition, Local Government generally is facing more uncertainty about future funding and absorbing more risks from Central Government.

70 Increased risk is arising from several sources:-

(i) Under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average.

(ii) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain more business rates raised locally from new businesses. Economic regeneration has always been the top priority for the Council. Unfortunately, the changes again shift risk once managed nationally to Local Authorities should there be a downturn in the local economy and local business rate yield reduces.

(iii) Welfare Reform carries increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly Council Tax may become more difficult to collect, creating increased financial pressure.

(iv) Ongoing Council Tax capping restrictions – The Council medium term financial planning is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create an annual pressure of circa £800,000 per 0.5% Council Tax reduction.

(v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply.

71 Since clarity is expected to emerge throughout 2015 regarding the future levels of local government funding beyond 2015/16, savings plans have yet to be fully developed beyond 2015/16 and therefore only one year's savings proposals are included in this MTFP (5) and are shown at Appendix 3.

Revenue Budget for 2015/16

72 Regular updates on the development of the 2015/16 budget have been reported to Cabinet since July 2015. These updates have provided detail upon the resources available, budget pressures and the savings required to balance the budget. This report provides details on the final position.

Base Budget Pressures in 2015/16

73 Base budget pressures have been reviewed over the last year. The table below details the final position on the 2015/16 Base Budget pressures.

Table 6 – 2015/16 Base Budget Pressures

Pressure	Amount
	£m
Pay Inflation	2.750
Price Inflation	2.650
Council Housing – costs relating to Stock Transfer	3.550
Employer Pension Contributions	0.760
Energy Price Increase	0.250
Durham Living Wage	0.250
Concessionary Fares	0.320
Welfare Assistance Provision	1.000
Prudential Borrowing to Fund New Capital Projects	2.000
CAS Demographic and Hyper Inflationary Pressures	1.000
Use of Earmarked Reserve in CAS	(1.000)
Corporate Risk Contingency Budget	(0.382)
Capital Financing for Current Programme	(2.500)
TOTAL PRESSURE	**10.648**

Additional Investment

74 Additional budget has been allocated for price inflation, the cost of the recently agreed 2014/15 pay award which includes the 2015/16 pay award, additional costs in relation to both employer pension contributions and the Council's concessionary fares scheme.

75 The additional costs in relation to the transfer of the Council's housing stock from 1 April 2015 totalling £3.550m have been financed along with the £0.25m cost associated with the implementation of the Durham Living Wage which came into effect on 1 January 2015 and £1m for a recurring Welfare Assistance Provision budget to help vulnerable people with settlement grants and food vouchers.

76 The Council continues to invest in infrastructure. An additional £2m of revenue will be provided in 2015/16 budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. A key priority of the Capital Programme is to stimulate regeneration and job creation within the local economy.

Savings Methodology

77 To date, the Council has delivered the savings required on schedule where each of the years 2011/12 to 2014/15 annual savings targets have been achieved totalling £136.9m.

78 The savings target for 2015/16 is £16.283m with the savings plans for each Service Grouping along with 'Corporate' savings being detailed in Appendix 4.

79 Based upon future years finance settlement forecasts, the Council could face significant savings targets for 2016/17 to 2018/19. Plans in relation to these years will be developed in the coming months and reported to Cabinet during the development of MTFP (6).

80 The revised forecast of savings up to the end of 2017/18 is detailed below.

Table 7 – Total Savings 2011/12 to 2017/18

Period	**Savings**
	£m
2011/12 to 2014/15	136.9
2015/16 to 2017/18	87.6
TOTAL	**224.5**

2015/16 Net Budget Requirement and Council Tax

81 After taking into account base budget pressures, additional investment, the Council's recommended Net Budget Requirement for 2015/16 is £409.873m. The financing of the Net Budget Requirement is detailed below.

Table 8 – Financing of the 2015/16 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	100.240
Business Rates	54.809
Business Rates – Top Up Grant	60.491
Business Rates – Collection Fund Surplus	0.500
Council Tax	174.134
New Homes Bonus	8.322
New Homes Bonus Reimbursement	0.377
Education Services Grant	6.002
Section 31 – Small Business Rate Relief	2.398
Section 31 – Empty Property and Retail Relief	0.919
Section 31 – Settlement Funding Adjustment	1.681
TOTAL	**409.873**

82 The Gross and Net Expenditure Budgets for 2015/16 for each Service Grouping are detailed in Appendix 5. Appendix 6 provides a summary of the 2015/16 budget by service expenditure type, based upon the CIPFA classification of costs.

83 The Government have confirmed that Local Authorities will receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax, if they agree not to increase Council Tax in 2015/16. The grant for Durham would be an estimated £2.180m. The Government has also confirmed that the Council Tax Referendum Limit for 2015/16 is 2%. Should the Council agree to a Council Tax increase of 1.99%, which would be below the referendum limit, this would generate £1.218m of additional income.

84 The 2015/16 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 17 December 2014 as 130,493.0 Band D equivalent properties. Based upon the Council's track record in collecting Council Tax from Council Tax payers, the tax base for Council Tax setting and income generation processes will continue to be based upon a 98.5% collection rate in the long run.

Recommendations

85 **It is recommended that Members:-**

(i) Approve the identified base budget pressures included in paragraph 72.

(ii) Approve the investments detailed in the report.

(iii) Approve the savings plans detailed in the report.

(iv) Approve a 1.99% increase in Council Tax.

(v) Approve the Net Budget Requirement of £409.873m.

How the Medium Term Financial Plan (MTFP (5)) – 2015/16 to 2017/18 has been developed.

86 The following assumptions have been utilised in developing the MTFP (5) model.

(i) Government grant reductions for the MTFP period have been developed utilising information from the December 2014 Autumn Statement. The estimated Government grant reduction for 2016/17 and 2017/18 are as follows:-

Table 9 – MTFP (5) Funding Reductions

Year	Funding Reduction
	£m
2016/17	38.000
2017/18	28.000

(ii) Forecast pay and price inflation levels have taken into account the likely restraint on public sector pay and the current and forecast levels of price inflation. The assumptions built into MTFP (5) are detailed in the table below:-

Table 10 – Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
	%	%
2016/17	1.5	1.5
2017/18	1.5	1.5

(iii) Continuing forecast budget pressures in relation to Employer Pension Contributions, Concessionary Fares, Energy Prices and CAS Demographics and Hyper Inflation.

(iv) Increased Employer National Insurance costs when the Government's national 'Single Pension' is introduced in 2016/17.

(v) Additional costs associated with the implementation of Single Status in October 2012. These additional costs are presently being met from the Equal Pay Reserve which is forecast to run out in 2016/17.

(vi) Continuing the need to support the capital programme.

(vii) Council Tax increases are assumed to be 2% across the MTFP (5) period.

87 At this stage, detailed savings plans need to be developed to achieve the following savings targets for 2016/17 and 2017/18.

Table 11 – Savings to be Identified

Year	Savings Target
	£m
2016/17	36.554
2017/18	34.829

88 The 16 July 2014, MTFP (5) Cabinet report introduced the option of the utilisation of a planned delivery programme (PDP) reserve to support the MTFP (5) process. For indicative processes the utilisation of the PDP of £10m in each of 2016/17 and 2017/18 has been modelled to enable consideration to be given to utilising PDP to support the MTFP. An initial £10m PDP Reserve has been created as reported in the MTFP (5) Cabinet report of 17 December 2014.

89 The MTFP (5) forecasted budget model is attached at Appendix 7.

Financial Reserves

90 Reserves are held:-

(i) As a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves.

(ii) As a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves.

(iii) As a means of building up funds, ‘earmarked’ reserves to meet known or predicted future liabilities.

91 The Council’s current reserves policy is to:-

(i) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet.

(ii) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £33m.

92 Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.

93 A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".

94 This bulletin highlights a range of factors, in addition to cash flow requirements that Councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of this budget process appropriate action would need to be factored into the MTFP to ensure that this is addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.

95 The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 19 November 2014. A range of reserves are being utilised to support MTFP (5). Details are as follows:-

- **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m. The reserve was replenished during 2013/14 when a further £15m was contributed to the reserve. At the end of 2014/15 it is presently forecast that the balance on the reserve will be £13m. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (5) period. This reserve will continue to be closely monitored.

- **Adult Demographic Reserve** – this reserve continues to be utilised to delay the impact of cost pressures, thus delaying the need to achieve additional savings. A sum of £4.15m is to be utilised in 2015/16.

- **Equal Pay Reserve** – The cost of successfully implementing Single Status in October 2012, in order to put in place a pay and grading structure that satisfied all equal pay legislation was greater than the £6.5m available budget. The Equal Pay Reserve is being utilised to delay the impact of this cost pressure thus delaying the need to achieve additional savings in the short term.

It is forecast that the reserve will be utilised in both 2015/16 and 2016/17. The sum to be utilised in 2015/16 will be £4.536m.

- **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £0.267m is to be utilised in 2015/16.

96 The table below details the known reserves being utilised to support MTFP (5).

Table 12 – Earmarked Reserves utilised to support MTFP (5) in 2015/16

Reserve	Sum Utilised in 2015/16
	£m
Adult Demographic	4.150
Equal Pay	4.536
Cash Limit	0.267
TOTAL	**8.953**

97 In addition to the above, the MTFP Redundancy and ER/VR Reserve will also be utilised during 2015/16 to support the delivery of MTFP (5) savings. Overall it is forecast that over £10m of earmarked reserves will be utilised to support the 2015/16 budget.

98 It is recommended at this stage that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £31m.

99 A balanced MTFP model has been developed after taking into account the assumptions detailed in this report. The MTFP model is summarised below.

Table 13 – MTFP (5) Model Summary

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	**£m**
Reduction in Resource Base	5.635	25.582	21.129	**52.346**
Budget Pressures	10.648	10.972	13.700	**35.320**
Savings Required	**16.283**	**36.554**	**34.829**	**87.666**

Recommendations

100 **It is recommended that Members:-**

(i) Agree the forecast 2015/16 to 2017/18 MTFP (5) financial position.

(ii) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required to review them

for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet.

(iii) Aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £31m.

Capital Budget

101 The revised 2014/15 to 2017/18 capital budget was approved by Cabinet on 19 November 2014. Since that date, the Capital Member Officer Working Group (MOWG) has approved a number of revisions to the capital budget. The table below details the latest revised capital budget for the period 2014/15 to 2017/18 including the revisions approved by MOWG whilst also providing details of the financing. Further details of the current Capital Programme can be found at Appendix 8.

Table 14 – Current Capital Budget 2014/15 to 2017/18

Service Grouping	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
ACE	3.741	3.768	0	0	7.509
CAS	62.976	34.507	2.524	0.315	100.322
Neighbourhoods	43.474	36.375	3.819	7.631	91.299
RED	36.809	56.982	2.698	0	96.489
Resources	7.253	13.098	4.859	0	25.211
TOTAL	**154.253**	**144.729**	**13.900**	**7.946**	**320.828**
Financed by					
Grants and Contributions	62.315	37.275	5.369	0.315	105.274
Revenue and Reserves	8.387	0.280	0	0	8.667
Capital Receipts	10.229	16.619	4.673	6.687	38.208
Borrowing	73.322	90.555	3.858	0.944	168.679
TOTAL	**154.253**	**144.729**	**13.900**	**7.946**	**320.828**

Capital Considerations in the MTFP (5) Process

102 Service Groupings developed capital bid submissions during the summer 2014 alongside the development of revenue MTFP (5) proposals. MOWG have considered the Capital bid submissions taking the following into account:-

(i) Service Grouping assessment of priority.

(ii) Affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget.

(iii) Whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.

103 Whilst considering Capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time MOWG also recognised the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.

Available Capital Financing – Capital Grants

104 The following level of capital grants for 2015/16 were assumed when MTFP (4) was approved at County Council on 26 February 2014.

Table 15 – 2015/16 Capital Grants Assumed in MTFP (4)

Grant	Amount
	£m
LTP – Highways Maintenance	13.480
LTP – Integrated Transport	2.566
School Capitalised Maintenance	7.200
TOTAL	**23.246**

105 Specific capital programmes were included in MTFP (4) financed from these assumed allocations. The allocations have now been confirmed with the following impact:-

(i) **Local Transport Plan (LTP) - Highways Maintenance - £11.886m**
The Government has top sliced Local Authorities LTP Highways Maintenance allocation to form an Incentive Fund and Challenge Fund. This has resulted in a significant reduction in the forecast grant allocation from £13.480m to £11.886m. The 2015/16 budget allocation approved in MTFP (4) of £13.480m will be reduced to this lower figure of £11.886m. The Council may be successful in attracting additional funding from bids to the Incentive and Challenge Funds.

(ii) **LTP – Integrated Transport £2.789m**
Confirmation of the grant allocation was received during October. The additional allocation of £0.233m has already been added to the budget.

(iii) **Schools Capitalised Maintenance/Basic Need - £5.635m**
The funding allocation for school maintenance has reduced again in 2015/16. The 2015/16 budget allocation approved in MTFP (4) of £7.2m will be reduced to this lower figure of £5.635m Three schools have received provisional approval for improvement under the Priority Schools Building Programme at Bishop Barrington, Vane Road Primary and Durham Community Business College, although at this stage no budget allocation is forthcoming.

106 In addition to the above grants, the Council has received confirmation for additional capital grants for 2015/16 and has included indicative grants for 2016/17 in developing the MTFP (5) Capital Programme. The table overleaf provides details of the additional 2015/16 allocations, along with the indicative allocation for 2016/17 included in plans. It should be noted that funding for 'Disabled Facilities' and 'General Social Care' are financed from the Better Care Fund. If the actual allocations for 2016/17 vary from the forecast then the capital budget may be adjusted accordingly.

Table 16 – Capital Grants Utilised in Support of the MTFP (5) Capital Programme

Capital Grant	2015/16	2016/17
	£m	£m
Disabled Facilities	2.970	2.970
General Social Care	1.572	1.572
LTP - Highways	0	11.886
LTP – Integrated Transport	0	2.789
School Maintenance	0	5.635
Devolved Schools Capital	1.424	0
Total	**5.966**	**24.852**

Capital Receipt Forecast

107 In the majority of cases, capital receipts received are utilised to support the overall Council capital programme. Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils. Normally Registered Social Landlords cannot recover VAT. The VAT shelter agreed with Revenues and Customs (HMRC) allows recovery normally over a 15 year period. The benefit of this is shared between the Council and the landlord. Asset sales in the main relate to land sales which are generated from the council's three year Asset Disposal Programme. It is estimated that £10m of capital receipts will be generated in 2016/17, which will support the additional schemes for approval.

108 In a small number of circumstances, capital receipts via land sales are ring fenced to particular schemes. Examples in recent years have been restricted to school schemes such as the Consett Academy development and the Wolsingham Comprehensive split site removal. In other cases estimated capital receipts have been offset by selective demolition of redundant buildings on sites declared surplus and being marketed for sale, in recent years this has been restricted to school sites and surplus office accommodation.

Prudential Borrowing

109 An additional revenue budget of £2m has been included in the MTFP (5) for 2016/17 to support prudential borrowing. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant. The residual sum is available to support additional new schemes in the MTFP (5) capital programme.

Residential Homes

110 The current capital programme includes £5.841m budget in 2014/15 in relation to residential homes. This full budget will no longer be required due to the closure of these homes. It is recommended that a budget of £0.841m is retained to cover any costs associated with the facilities, especially in relation to demolition. The remaining £5m is available to support new schemes in the MTFP (5) capital programme.

Approval of Additional Capital Schemes

111 A comprehensive 2015/16 capital programme was approved as part of MTFP (4) in line with the Council policy of developing a two year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key Council services are maintained and improved.

112 After considering all factors, including the availability of capital finance, MOWG have recommended that the following additional value of schemes be approved for inclusion in the MTFP (5) capital programme. Full details of the additional schemes can be found in Appendix 9.

Table 17 – Additional Capital Schemes for 2015/16 and 2016/17

Service Grouping	2015/16	2016/17
	£m	**£m**
ACE	0	2.100
CAS	1.424	5.635
Neighbourhoods	0.910	20.508
RED	4.325	15.684
Resources	0.250	1.755
Total	**6.909**	**45.682**

113 The new schemes detailed in Appendix 9 will ensure that the Council continues to invest in priority projects and essential maintenance programmes. Examples of additional investments are detailed below:-

(i) **Highways Maintenance (2016/17 - £2.756m)** In line with previous years, a sum in addition to the LTP grant will be invested into highways maintenance. The sum of £2.756m will be especially important in light of the Government top slicing of LTP grant nationally.

(ii) **Unadopted Highway Maintenance (2015/16 - £0.5m 2016/17 - £1.0m**) This funding will enable Council owned unadopted highway to be made up to adoptable standards on a priority basis and then maintained as adopted highway. The unadopted highways are often in a very poor state of repair and are a danger to the public and a risk for the Council in relation to insurance claims.

(iii) **Flood Prevention (2016/17 - £1.0m)** Flooding incidents continue to have a significant impact upon the public. The additional budget allocation will enable investment in prioritised flood prevention schemes.

(iv) **A19/A189 Sheraton Junction (2016/17 - £1.5m)** Investment will enable the signalisation of this dangerous junction which had seen a number of accidents and fatalities in recent years.

(iv) **Town Centre Master Plans (2016/17 - £1.0m)** This budget will enable continued investment to continue delivery of action plans within the Cabinet approved Town Centre Masterplans.

114 After taking into account the adjustments detailed in this report, and the additional schemes the revised capital budget and its financing will be as follows:-

Table 18 – New MTFP (5) Capital Programme

Service Grouping	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
ACE	3.741	3.768	2.100	0	9.609
CAS	57.976	34.366	8.159	0.315	100.816
Neighbourhoods	43.474	35.691	24.327	7.631	111.123
RED	36.809	61.307	18.382	0	116.498
Resources	7.253	13.348	6.614	0	27.215
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**
Financed by					
Grants and Contributions	62.315	40.082	30.221	0.315	132.933
Revenue and Reserves	8.387	0.280	0	0	8.667
Capital Receipts	10.229	16.619	14.673	6.687	48.208
Borrowing	68.322	91.498	14.689	0.944	175.453
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**

Recommendation

115 **It is recommended that Members:-**

- **(i) Approve the utilisation of £5m Residential Homes Capital Budget to support the MTFP (5) Capital Programme.**
- **(ii) Note the reduction in the 2015/16 Highways Maintenance Capital Budget due to the £1.594m reduction in the forecast LTP grant.**
- **(iii) Approve the revised 2014/15 Capital Budget of £149.253m.**
- **(iv) Approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from the additional capital grants, from capital receipts, prudential borrowing and from the £5m transfer from the Residential Homes Capital Budget.**
- **(v) Approve the MTFP (5) Capital Budget of £365.261m for 2014/15 to 2017/18 detailed in table 18.**

Savings Proposals

<u>Assistant Chief Executive's</u>

116 Spending reductions of £3.81m have been achieved over the course of MTFP (1) – (4). A further reduction of £0.218m is required in 2015/16.

117 The savings made to date have been made through reviewing each of the services within the Service Grouping to identify opportunities to work more efficiently whilst continuing to provide support to the Council through a period of considerable change.

118 The service grouping has met increased demands for service arising for example from welfare reforms, programme management of significant policy changes and freedom of information requests within a much reduced resource base.

119 Much of the service grouping's savings have been realised through reduction of management and support services. The savings proposed for 2015/16 will come from a reduction of non-frontline supplies and services budgets together with reductions in community and partnership administration and non-staff budgets.

120 Frontline services mainly comprise AAP and Member budgets. These have had a lower percentage reduction than the overall reduction for the service grouping and the Council as a whole.

121 Higher reductions have been made and proposed in performance management, policy and communications in line with consultation findings.

Children and Adults Services

122 Spending reductions of over £63m have been achieved over the course of MTFP (1) – (4). A further reduction of c£8.6m is required in 2015/16.

123 The service has been impacted by a significant amount of change both internally and externally during the last few years. External factors include demographic changes as a result of an ageing population and increasingly complex cases, NHS changes, social care reforms, changes in funding for schools and new inspection frameworks for children's social care and schools.

124 Further efficiency savings have been made in supporting people to live independently through the further development of re-ablement services, reviewing transport commissioning, including home to school transport, ensuring consistency in the application of eligibility criteria to ensure people consistently receive the right level of care they need, and through better procurement of services.

125 Given the nature of the service grouping, the 2015/16 proposals comprise those that affect frontline services as well as significant savings from management, support and other efficiencies such as those resulting from effective commissioning and value for money reviews of services. Continuous development and improvement in methods of addressing child care issues will enable savings to be achieved in the costs associated with looked after children together including associated supervised contact and legal costs. Collaborative working with other bodies has also allowed for mental health and substance misuse provision to continue by adopting a revised service delivery model at a reduced cost. Significant savings relate to the changes in the number of Children's Centre services through a proposed community service delivery model, a 12 week consultation was undertaken from 31 July 2014.

126 Some of the 2015/16 proposals that affect frontline services are savings arising from policy changes made in previous years, such as a review of day care provision, plus a continuation of the strategy in previous years, including the continued focus on consistent and effective use of existing eligibility criteria within Adult Care.

127 Whilst it is clear that savings proposals in this area affect vulnerable people, all efforts continue to be made to minimise the impact as far as possible in line with the views expressed by the public. This involves reviewing and changing operating models and working practices.

Neighbourhood Services

128 Spending reductions of £22.7m have been achieved over the course of MTFP (1) - (4). A further reduction of £2.6m is required in 2015/16.

129 During this period, Neighbourhood Services has been able to make significant savings through more efficient delivery of services. Examples include the

procurement of new contracts for waste disposal, reviews of waste collection and leisure services along with rationalising the council's fleet of vehicles, savings in procurement and reductions in management and support services.

130 While every attempt has been made to prioritise savings from non-frontline services in the 2015/16 proposals, this will become increasingly difficult and unavoidable in future years.

131 A number of the 2015/16 proposals involve restructures across most areas of Neighbourhood Services. In addition there are further savings associated with more energy efficient street lighting, a review of the offer at the Gala Cinema and Bishop Auckland Town Hall, reductions in Museum funding and the implementation of charging for garden waste.

Regeneration and Economic Development

132 Spending reductions of £19.1m have been achieved over the course of MTFP (1) – (4). A further reduction of £1.3m is required in 2015/16.

133 Front line service provision was heavily affected by the removal of the Working Neighbourhoods Fund and Local Enterprise Growth Initiative (LEGI) in 2011/12, which reduced the advice and support available to unemployed people and those looking to start a new business in an economic recession. The removal of Areas Based Grants in 2011/12 amounted to £12m.

134 The service has undergone a full restructure, which has meant that the majority of savings to date have come through management, support services and efficiency measures.

135 For 2015/16, all of the savings proposed will be delivered from further staffing reductions, through vacancy management and restructuring activity alongside reductions in supplies and services.

136 Consultations held previously have consistently identified job prospects as a priority and whilst there has been a significant reduction in the Government funding available for this activity, the service grouping has sought to continue to support this area as far as possible.

Resources

137 The Council has consistently prioritised higher savings targets from Resources in line with the views of the public and this has resulted in the achievement of spending reductions of £10.2m over the course of MTFP (1) – (4). A further reduction of £1.6m is required in 2015/16.

138 A significant part of the budget covers services that provide support to other service groupings. The proposed savings for 2015/16 continue to mostly relate to reducing the staffing costs of these services. These include Human Resources, where the full year savings from the restructure implemented in 2014/15 will be achieved, Information and Communication Technology, Legal

and Democratic Services, and Internal Audit and Risk, which will all be subject to restructuring and downsizing in 2015/16.

139 Additional savings have been achieved through reductions in supplies and services and efficiencies in non-staffing budgets for Financial Services, Legal Services and Welfare Rights and from an increase in court cost fee income, where a current overachievement of budgeted income will be built into the base budget.

Recommendation

140 **It is recommended that Members:-**

(i) Note the approach taken by Service Groupings to achieve the required savings.

Equality Impact Assessment of the Medium Term Financial Plan

141 This section updates members on the outcomes of the equality impact assessment of the MTFP (5) to date, and summarises the potential cumulative impact of the 2015/16 proposals.

142 Equality impact assessments are an essential part of decision making, building them into the MTFP process supports decisions which are both fair and lawful. The aim of the assessments is to:

(i) Identify any disproportionate impact on service users or staff based on the protected characteristics of age, gender (including pregnancy/maternity and transgender), disability, race, religion or belief and sexual orientation.

(ii) Identify any mitigating actions which can be taken to reduce negative impact where possible.

(iii) Ensure that we avoid unlawful discrimination as a result of MTFP decisions.

143 The Council is subject to the legal responsibilities of the Equality Act 2010 which, amongst other things, make discrimination unlawful in relation to the protected characteristics listed above and require us to make reasonable adjustments for disabled people. In addition, as a public authority, we are subject to legal equality duties in relation to the protected characteristics. The public sector equality duties require us to:-

(i) Eliminate unlawful discrimination, harassment and victimisation.

(ii) Advance equality of opportunity.

(iii) Foster good relations between those who share a protected characteristic and those who do not.

144 The Equality and Human Rights Commission (EHRC) issued ‘Using the equality duties to make fair financial decisions: a guide for decision makers’ in September 2010. The guidance states that “equality duties do not prevent you from making difficult decisions such as reorganisations and relocations, redundancies and service reductions nor do they stop you making decisions which may affect one group more than another. What the equality duties do is enable you to demonstrate that you are making financial decisions in a fair, transparent and accountable way, considering the needs and the rights of different members of your community.”

145 A number of successful judicial reviews have reinforced the need for robust consideration of the public sector equality duties and the impact on protected characteristics in the decision making process. Members must take full account of the duties and accompanying evidence when considering the MTFP proposals.

146 In terms of the ongoing programme of budget decisions the Council has taken steps to ensure that impact assessments:

(i) Are built in at the formative stages so that they form an integral part of developing proposals with sufficient time for completion ahead of decision making.

(ii) Are based on relevant evidence, including consultation where appropriate, to provide a robust assessment.

(iii) Objectively consider any negative impacts and alternatives or mitigating actions so that they support fair and lawful decision making.

(iv) Are closely linked to the wider MTFP decision-making process.

(v) Build on previous assessments to provide an ongoing picture of cumulative impact.

147 The process for identifying and completing impact assessments in relation to the MTFP is consistent with previous years. Services, with support from the corporate equalities team, were asked to consider all proposals to identify the level of assessment required – either ‘screening’ or ‘full’ depending on the extent of impact and the deadline for the final decision.

148 Where proposals are subject to further consultation and further decisions, the relevant impact assessments will be updated as further information becomes available. Final assessments will be considered in the decision making process.

Impact Assessments for 2015/16 Savings Proposals

149 A total of 24 assessments are available for Members to inform their decisions on individual proposals. Some are existing assessments from previous years where there is a residual saving or a continuation of a savings proposal. Some are new assessments and a number of proposals do not require an assessment, for example those involving use of cash limits or savings in supplies and services.

Assessments by Service Grouping:

ACE	2
CAS	9
Neighbourhoods	6
RED	1
Resources	4
Corporate	2

The documentation has been made available for Members via the Member Support team ahead of the 11 February 2015 Cabinet meeting, and is in line with information provided in support of the December Cabinet report.

Summary of Equality Impact of 2015/16 MTFP Proposals

150 Services were required to identify potential impacts likely to arise from implementing each savings proposal. The main equalities impacts in relation to new and continuing savings proposals are summarised below for each service grouping.

151 ACE proposals have minimal equality impact and include:-

(i) Staffing proposals and proposals relating to the proposed review and withdrawal of grant funding. Specifically, the grants involved are community buildings grant and grant for the County Durham Foundation (CDF). At this stage neither proposal is thought to have specific impacts on equality groups. However, consultation will take place with community building groups and the CDF to better understand implications of grant withdrawal.

152 CAS proposals include potential impacts on age, disability and gender:-

(i) Savings largely relate to the continuation of existing proposals from previous years which continue to produce savings in 2015/16, including non-residential care charging, consistent and effective use of existing eligibility criteria, changes to stairlift maintenance contracts, in house social care provision and efficiencies in relation to management and support services.

(ii) Some proposals may lead to positive impacts, for example a proposed procurement exercise to develop additional reablement services in the independent sector is expected to support people to remain in their own homes for longer and lead to fewer, or lower level, care packages. In addition the continuing impact of the Early Help Strategy and the Looked After Children's Reduction Strategy will mean fewer children looked after and more adopted, and fewer children looked after in children's homes.

(iii) A further review of in-house day care services will be undertaken looking at re-profiling the service. This may have a potential impact on services users, many of whom are older and/or disabled. Consideration will also be given to the impact on staff which is a predominately female workforce.

(iv) The delivery of a new youth support strategy will impact mainly on young people with a key objective to increase the proportion of youth service spend on targeted support and achieve a more equitable balance between universal provision delivered through open access evening youth provision and targeted youth support.

(v) The Early Years Strategy and Review was agreed by Cabinet on 19th March 2014. The outcome of the review proposed a new model of service delivery for children and families in early years and a proposed change to the number of children's centres. The identified equalities impact will be on children, young people, families and women. However, the proposed changes are expected to lead to improved service delivery, with an emphasis on targeting resources where deprivation and needs are highest. It will also make better use of existing buildings in the heart of communities to improve access and use of these services.

153 Neighbourhood Services proposals mainly relate to staffing restructures, changes in service delivery and increased income. The assessments indicate potential impacts across all characteristics in relation to staffing reviews whilst there are potential service impacts on age, gender and disability. Fair treatment of staff will be ensured through agreed corporate HR procedures contained within the Change Management Toolkit.

(i) Existing proposals from previous years produce savings in 2015/16, including the charging for garden waste collection services due to be implemented in 2015, and changes to street lighting provision.

(ii) The proposal to identify a strategic partner to work with Culture and Sport to develop a cinema, film and catering offer across the county relates in particular to current facilities at the Gala Theatre in Durham and within Bishop Auckland Town Hall. Any changes to services or staffing would be subject to a more detailed impact assessment following agreement for the project to proceed. The Council will expect the provider to maintain the same levels of accessibility and adhere to and advance equality and diversity aims and objectives already embedded within our policies and procedures. This project has the potential to enrich communities and foster good relations between people by providing the opportunity to embrace diversity through film and theatre.

(iii) Restructure and staffing reviews relating to Direct Services are likely to affect staff and could impact staff from any or all of the protected characteristics. There may be potential service delivery impacts as a result of rationalisation and wherever possible this would be mitigated by better use of resources. The impact on sustainability and continuation of services would be considered where appropriate in specific impact assessments.

(iv) Restructure and staffing review within Strategic Highways and Culture and Sport will lead to overall reduction in number of posts and changes in responsibilities. However, operational delivery of these services will not be affected.

154 RED and Resources proposals both relate to further staffing restructures, residual savings as a result of previous staffing restructures and efficiencies from supplies and services. Fair treatment of staff will be ensured through agreed corporate HR procedures contained within the Change Management Toolkit.

155 Corporate proposals relate to a reduction in staff car mileage rate to be implemented in 2015 and existing proposals including the use of more sustainable travel options such as use of pool cars and promoting use of video conferencing to minimise travel requirements. Although there are no service delivery impacts identified related to these proposals, and these proposals would be applied consistently to all eligible employees, it should be noted that there may be specific impacts on women and disabled employees. Potential impacts have been identified for low paid female employees and staff with a disability who need to use their own car for work purposes.

Cumulative Impacts

156 Carrying out equality impact assessments on MTFP proposals helps us to understand the cumulative impact across a range of savings proposals. Generally impacts in relation to previous proposals related to loss of or reduced access to a particular service or venue and travel to alternative provision, increased costs or charges and service re-modelling including reductions in staff. This had the potential to impact on all protected characteristics however because it is more likely to affect those on low income, people without access to personal transport and those reliant on others for support there were particular impacts in relation to disability, age and gender.

157 Changes to universal services such as street lighting, bin collection and our cultural offer are less likely to have a disproportionate impact on any one group. However there are exceptions such as reductions in contracted public bus services, changes to libraries’ opening hours and closure of leisure centres.

158 Dedicated services such as social care, Day Care and home to school transport have more specific and sometimes disproportionate impacts for particular groups such as people with a disability and women, particularly those with a caring responsibility.

159 Current savings proposals have similar impacts most likely in relation to increased costs or charges, loss of or reduced access to a particular service or venue and travel to alternative provision and continue to have a greater effect in terms of disability, age and gender. There are potential impacts for community groups with a proposed reduction in grant funding. There are limited impacts identified in relation to race, religion or belief and no specific impacts on transgender status or sexual orientation which is mainly due to the fact that few council services are provided solely on the basis of these characteristics. However there is also less data and evidence available to show potential impact on these groups.

160 Mitigating actions are considered where the assessments have identified negative impacts on protected groups. These generally include ensuring service users can make informed choices or find alternatives, implementing new or improved ways of working, working with partners and providing transition or more flexible arrangements to reduce the initial impact.

161 There are a number of 2015/16 proposals relating to staffing restructures and changes, the impacts are comparable to those reported in previous years. Services are required to follow corporate HR procedures to ensure fair and consistent treatment, for example, by making reasonable adjustments for disabled employees. In many cases negative impact can be minimised by progressing requests for early retirement, voluntary redundancy and through redeployment.

162 In summary the potential impacts on staff can relate to any of the protected characteristics. In terms of age, employees over 55 may feel at greater risk of redundancy or younger staff who may be more likely to have significant financial burdens in terms of mortgages or young families. There are potential gender impacts on both men and women, for example where reviews relate to senior posts or particular technical roles they are more likely to affect male employees whilst a number of proposals relate to areas with more female employees. Overall the staffing profile still shows significantly more women employed across the council so they are statistically more likely to be affected by change. There are some disabled staff and staff from black or ethnic minority backgrounds included in the reviews and restructures but the overall numbers of those affected are low which reflects the broader workforce profile data. Data on the religion or belief and sexual orientation of staff is collected through Resourcelink but the reporting rates are still very low so this information is not routinely included in equality impact assessments in order that people cannot be identified. Transgender status is not currently monitored.

Key Findings and Next Steps

163 The equality impact assessments are vital in order to understand potential outcomes for protected groups and mitigate these where possible. Details of the impacts identified at this stage will be updated for the final Cabinet and Council decision-making meetings.

164 The main equalities impacts of the 2015/16 MTFP proposals relate to age, disability and gender. The main mitigating actions include development of alternative provision models, transition arrangements, partnership working and alternative sources of support where possible. The cumulative impacts can increase costs for individuals, reduce access to services and affect their participation in employment, social activities and caring responsibilities. There will be continued focus on equalities issues as we move into future years of this MTFP, with equality impacts revisited and reviewed each year as appropriate. In some cases impact assessments are initial screenings with a full impact assessment to follow at the point of decision, once all necessary stakeholder consultation has been completed.

Recommendation

165 **Members are asked to ensure that the public sector equality duties and impact assessments are taken into account during the decision making process and are recommended to:**

(i) Consider the equality impacts identified and mitigating actions both in the report and in the individual equality impact assessments which have been made available in the Members' Resource Centre.

(ii) Note the programme of future work to ensure full impact assessments are available where appropriate at the point of decision, once all necessary consultations have been completed.

(iii) Note the ongoing work to assess cumulative impacts over the MTFP period which is regularly reported to Cabinet.

Workforce Considerations

166 The Council's original estimated 1,950 reductions to posts by the end of 2014/15. It is forecast that after taking into account 2015/16 savings plans the figure will still be around 1,950.

167 In order to achieve this, the Council will take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. The target will require a continued approach of forward planning, the change involving the forecasting of employee turnover, retaining vacant posts in anticipation of any required change, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce.

168 In addition, the way that work is organised and jobs designed will be reviewed by service groupings, to ensure that changes that are made maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.

169 These actions have ensured that, wherever possible, service reductions are planned well in advance of commencing the exercises, employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

Pay Policy

170 The Localism Act 2011 requires the Council to prepare and publish a pay policy statement annually which sets out the authority's policy relating to the remuneration of its Chief Officers, and how this compares with the policy on the remuneration of its lowest paid employees.

171 The first policy document was approved by a resolution of the Council prior to 31 March 2012 and a policy must then be published by the end of March for each subsequent year, although the policy can be amended by a resolution of the Council during the year.

172 Additionally, the Act requires that in relation to Chief Officers the policy must set out the authority's arrangements relating to:-

(i) The level and elements of remuneration for each Chief Officer.

(ii) Remuneration of Chief Officers on recruitment.

(iii) Increases and additions to remuneration for each Chief Officer.

(iv) The use of performance-related pay for Chief Officers.

(v) The use of bonuses for Chief Officers.

(vi) The approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority.

(vii) The publication of and access to information relating to remuneration of Chief Officers.

173 There will be no change to the current process where Parish Councils meet the full costs of their individual by-elections. The pay policy statement presented at Appendix 10 includes the fees of the Returning Officer and deputies and other personnel employed in county or parish elections.

174 The Pay Policy Statement at Appendix 10 is for Council consideration and outlines the details for the authority for 2015/16, in line with the above requirements.

Recommendations

175 **It is recommended that Members:-**

(i) Approve the Pay Policy Statement at Appendix 10.

Members Allowance Scheme 2015/16

176 Under the Local Authorities (Member's Allowances) (England) Regulations 2003 ("the regulations"), Council must make a Scheme of Allowances in accordance with the Regulations which provide for the payment of an allowance in respect of each year to each Member of the Council. This is referred to as "the basic allowance".

177 The scheme may also provide for the special responsibility allowances to such Members of the authority as are specified in the scheme and fit within one or more of the categories set out in the Regulations.

178 The Regulations also provide that before the beginning of each financial year, the authority shall review the scheme and before it confirms or amends the scheme, it shall have regard to the recommendations made in relation to it by the Independent Remuneration Panel. The scheme may be amended at any time and where an amendment is to be made which affects an allowance payable for the year in which the amendment is made, the scheme may provide for the entitlement to such allowance as amended to apply with effect from the beginning of the year in which the amendment is made.

179 On 21 January 2015, Council considered a report, referring to the outcome of the Constitution Working Group's consideration of the recommendations of the Independent Remuneration Panel for 2014/15. Although the panel had made recommendations for an increase in members' basic allowance of 1% and to change the car mileage rate to 48p, Council resolved to make no changes for 2014/15. By this 21 January 2015 Council meeting, the panel had made its recommendations for 2015/16 of "no change" to the scheme.

180 Council is required to formally review the scheme of allowances for the year 2015/16 and the recommendations in this report include a recommendation for Cabinet to recommend to Council no changes to the members' allowances scheme for 2015/16 but to consolidate the current 3 rates of car mileage for members to 45 pence per mile from 1 April 2015. The current 3 rates are shown in the table below:

Current Car Mileage Rates	
Exceeding 500cc but not exceeding 999cc	34.6p a mile
Exceeding 999cc but not exceeding 1199cc	39.5p a mile
Exceeding 1199cc	48.5p a mile

181 By consolidating the car mileage rate to 45 pence per mile will make an estimated annual saving of £7,000 which will contribute to the 2015/16 savings target in the Resources Service Grouping (RES 13).

Recommendations

182 **It is recommended that Members:-**

(i) agree to recommend to Council that there be no changes to the Members' Allowance Scheme for 2015/16, save for consolidating Members' Car Mileage Allowances to 45 pence per mile.

Risk Assessment

183 The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP (5) period. Some of the key risks identified include:

(i) Ensure the achievement of a balanced budget and financial position across the MTFP (5) period.

(ii) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff.

(iii) Government funding reductions are based upon the December 2014 Autumn Statement. In recent years the level of funding cuts required for Local Government have increased every year.

(iv) The localisation of council tax support passes the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.

(v) The Council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP (5).

(vi) The MTFP (5) model builds in estimates of pay and price inflation. Although price inflation levels are reducing, there could be a significant impact if the Low Pay Commission agrees to large increases in the minimum wage. Many Council' contractors would be likely to request above inflation contract price increases if the minimum wage increased at a level above inflation.

(vii) The outcome of the 2015 General Election on 7 May 2015 could impact local government. It is likely that there will be a Comprehensive Spending Review in the autumn of 2015. The impact of this will need to be considered as part of the development of MTFP (6).

Recommendation

184 **It is recommended that Members:-**

(i) Note the risks to be managed over the MTFP (5) period.

Dedicated Schools Grant (DSG) and School Funding – 2015/16

185 From April 2013 the Government reformed the statutory guidelines under which the local authority allocates funding to individual schools. This "simplified system" places more emphasis on pupil driven factors and restrictions on the formula funding factors that can be applied by the local authority to direct funding to individual schools and represented a significant change in County Durham, where a set of bespoke specific formula factors had been established over a number of years.

186 From April 2015, the Government is amending the way in which funding for primary and secondary schools is provided to local authorities. These changes involve the re-allocation of funding between areas on the basis of pupil numbers, pupil need (based on deprivation, prior attainment, looked after children, pupils with English as an additional language), sparsity and numbers of schools in each local authority area.

187 In order to ensure that no authority was worse-off as a result of this re-allocation, £350m of additional funding has been made available in 2015/16 to increase national allocations. Primary and Secondary Schools in Durham have benefited from the new basis of allocation methodology and for 2015/16 this results in an increase per primary or secondary pupil from £4,572.50 to £4,640.88 which equates to c£4.2m additional funding into County Durham.

188 Primary and secondary funding will also increase by c£3.59m as a result of additional delegation in respect of capitalised structural maintenance, for which the Council is no longer allowed to retain DSG centrally next year; the Council will retain the same responsibilities in respect of capitalised

maintenance, but will have less funding available, which will restrict the works that it can undertake. Schools have been advised that they may need to be prepared to set aside funding from their delegated budget to contribute towards the cost of less urgent works.

189 Transitional protection from the impact of the formula changes introduced from 2013/14 onwards is provided through the Minimum Funding Guarantee (MFG), which limits the year on year change in funding per pupil for each school: the maximum decrease any school would face is 1.5%. The cost of providing this protection is met by capping increases in funding per pupil; in 2015-16 the maximum increase is likely to be around 9%. The MFG only protects schools from the impact of the formula changes, not from the impact of falling roll numbers and is designed so that over time the amount of protection reduces. The Government has not made any commitments about the MFG beyond 2015/16.

190 There are no significant changes to the primary and secondary formula for 2015/16. The main change arises from pupil numbers and increases in the amount of funding available to be delegated to schools. Consultation on the formula factors to be applied in 2015/16 has been through the Schools Forum and via the Schools Extranet.

191 The DSG is notionally split into three ‘blocks’: Early Years, High Needs and Schools.

192 The Early Years block provides funding for 3 to 4 year old provision, which includes Early Years Single Funding Formula (EYSFF) to maintained Nursery Schools, nursery units in primary schools and academies, and Private, Voluntary and Independent sector providers for 570 hours of free early education or childcare a year.

193 In addition to funding through the EYSFF, the maintained nursery schools also receive funding through a formula. The formula includes an amount per pupil, a deprivation element, a lump sum and an allowance for rates.

194 The High Needs Block provides for pupils with high cost SEN (requiring provision costing more than £10,000 per year), including specialist placements, place based funding for special schools, top-up funding to reflect additional costs for individual pupil support and SEN support services.

195 The Schools Block includes centrally retained funding and funding for primary and secondary schools in respect of the education of pupils from Reception to Year 11.

196 DSG funding for 2015/16 is as follows:-

Table 19 – DSG Funding

DSG Block	Amount per pupil £/pupil	Pupils	DSG Allocated £m	Additional Funding £m	Total DSG Allocation £m
Schools Block	4,640.88	61,566	285.720	1.128	286.848
Early Years Block	3,866.10	4,408	17.042	0.553	17.595
High Needs Block	-	-	46.911	-	46.911
Total DSG			**349.673**	**1.681**	**351.354**
Pupil Premium				26.600	26.600
Total			**349.673**	**28.281**	**377.954**

197 Primary and secondary formula funding for Academies in County Durham totals £70.790m. This funding is recouped by the Education Funding Agency and allocated directly to the individual schools, leaving £280.564m of DSG funding payable to the Council for maintained schools.

198 Funding is being provided through the DSG to provide free early education places for eligible 2 year-olds from lower income households. The basis of the allocation is changing for 2015/16 to participation funding (based on census data taken in January 2015 updated by an autumn census) for early education entitlement for two year olds from 2015/16. The DfE will not announce the 2015/16 allocations until June 2015. The rate per hour for Durham has been confirmed as £4.85 per hour which is in line with the current level of hourly payments to providers.

199 Pupil premium for schools and academies in Durham for 2014/15 is £26.35m. For 2015/16 the premium per pupil for primary pupils is increasing from £1,300 to £1,320; for secondary pupils there is no change and the premium remains at £935; and for looked after children there is no change and the premium remains at £1,900. Pupil numbers eligible for pupil premium for 2015/16 are not yet confirmed, but it is estimated that the premium for schools and academies in Durham will be in the region of £26.60m for 2015/16.

200 From April 2015, the DfE are introducing an Early Years Pupil Premium for disadvantaged three and four year olds the eligibility criteria for which is in line with the school age pupil premium. This will be paid at the rate of £300 per year for each eligible child and whilst pupil numbers eligible for this premium for 2015/16 are not yet confirmed, it is estimated that the premium will be in the region of £0.55m for 2015/16.

Recommendation

201 **It is recommended that Members:**

(i) Note the position on the Dedicated Schools Grant.

Housing Rents

202 The Council is on track to transfer its housing stock of circa 18,500 dwellings to the County Durham Housing Group (CDHG) on 23 March 2015. Therefore, for 2015/16 onwards Durham County Council will no longer maintain a statutory ring-fenced Housing Revenue Account.

203 Regulations require that tenants receive at least four weeks' notice of a change in housing rents and therefore Durham will be required to set rents for the final time for 2015/16. In future, this will be the responsibility of the County Durham Housing Group.

204 Under current national rent policy the Government sets a guideline increase or decrease based on the consumer price index in the previous September plus 1%. The increase in rents for 2015/16 consists of the CPI as at September 2014 of 1.2% and a real increase of 1%.

205 Applying the Government's guidelines results in an overall average increase of 2.20% for Durham which yields an average rent of £70.20 per week in 2015/16 (based on 52 weeks). The following table shows the impact on the average rent levels across the three management areas:-

Table 20 – 2015/16 Rent Levels

	Durham City		Easington		Wear Valley		Total	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£	£	£	£	£	£	£	£
Average Rent	71.23	72.80	66.42	67.88	69.56	71.09	68.69	70.20
Maximum Rent	103.07	105.34	84.44	86.30	116.39	118.95	116.39	118.95
Minimum Rent	51.55	52.68	51.53	52.66	30.52	31.19	30.52	31.19

Table 21 - Average Changes in Rent 2014-15 and 2015-16

	Durham City		Easington		Wear Valley		Total	
	%	£	%	£	%	£	%	£
Average Increase	2.20	1.57	2.20	1.46	2.20	1.53	2.20	1.51

Garage Rents

206 The HRA currently includes responsibility for managing and maintaining around 3,200 garages which generate income to the account. For 2015/16 it is proposed that increases in garage rents are linked to the CPI as at September 2014 of 1.2% plus 1 percentage point (for consistency with the annual rent increase for dwellings). Private tenants are required to pay VAT on garage rents, whilst Council tenants are excluded from the VAT charge. The proposed weekly charges for 2015/16 (based on 52 weeks) are £7.26 (for council tenants who are exempt from VAT) and £8.71 (for private tenants where we need to charge VAT).

Recommendation

207 **It is recommended that Members agree:-**

(i) To set dwelling rents for 2015/16 in accordance with Government guidelines which result in an overall average increase of 2.2%.

(ii) To increase garage rents by 2.2% which is in line with CPI as at September 2014 plus 1 percentage point.

Prudential Code

208 This section outlines the council's prudential indicators for 2015/16 to 2017/18 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:-

(i) The reporting of the prudential indicators, setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities as shown at Appendix 11.

(ii) The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 as shown at Appendix 11.

(iii) The Treasury Management Strategy statement which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the 'Authorised Limit', the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix 11.

(iv) The investment strategy which sets out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is also shown in Appendix 11.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

209 The Annual Investment Strategy for 2015/2016 has been amended as follows:

(i) The option of investing in Certificates of Deposit (CDs) has been introduced. CDs are more flexible than fixed term deposits and can be redeemed before the maturity date if required. They also give access to counterparties that do not offer traditional fixed term deposits.

(ii) The monetary limits for Money Market Funds have increased to £20m per fund (overall £100m) in 2015/2016, from £10m (overall £50m) in 2014/2015. This is a recommendation by Capita, the Council's Treasury Management advisor, and is intended to provide an alternative source of investment should the rates on Bank instant access accounts fall further.

Recommendation

210 **It is recommended that Members:-**

(i) Agree the Prudential Indications and Limits for 2015/16 – 2017/18 contained within the Appendix 11 of the report, including the Authorised Limit Prudential Indicator.

(ii) Agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 11 which sets out the council's policy on MRP.

(iii) Agree the Treasury Management Strategy and the treasury Prudential Indicators contained within Appendix 11.

(iv) Agree the Investment Strategy 2015/16 contained in the Treasury Management Strategy (Appendix 11 and the detailed criteria included in Appendix 11).

Summary of Recommendations

211 **It is recommended that Members:-**

(a) 2015/16 Revenue Budget

(i) Approve the identified base budget pressures included in paragraph 72.

(ii) Approve the investments detailed in the report.

(iii) Approve the savings plans detailed in the report.

(iv) Approve a 1.99% increase in Council Tax.

(v) Approve the Net Budget Requirement of £409.873m.

(b) MTFP (5)

(i) Agree the forecast 2015/16 to 2017/18 MTFP (5) financial position.

(ii) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet.

(iii) Aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £31m.

(c) Capital Budget

(i) Approve the utilisation of £5m Residential Homes Capital Budget to support the MTFP (5) Capital Programme.

(ii) Note the reduction in the 2014/15 Highways Maintenance Capital Budget due to the £1.594m reduction in the forecast LTP grant.

(iii) Approve the revised 2014/15 Capital Budget of £149.253m.

(iv) Approve the additional capital schemes detailed at Appendix 8. These schemes will be financed from the additional capital grants, from capital receipts, prudential borrowing and from the £5m transfer from the Residential Homes Capital Budget.

(v) Approve the MTFP (5) Capital Budget of £365.261m for 2014/15 to 2017/18 detailed in table 18.

(d) Savings Proposals

(i) Note the approach taken by Service Groupings to achieve the required savings.

(e) Equality Impact Assessment

(i) Consider the equality impacts identified and mitigating actions bit hint he report and in the individual equality impact assessments which have been made available in the Members' Resource Centre.

(ii) Note the programme of future work to ensure full impact assessments are available where appropriate at the point of decision, once all necessary consultations have been completed.

(iii) Note the ongoing work to assess cumulative impacts over the MTFP period which is regularly reported to Cabinet.

(f) Pay Policy

(i) Approve the Pay Policy Statement at Appendix 10.

(g) Members' Allowances

(i) Agree to recommend to Council that there be no changes to the Members' Allowance Scheme for 2015/16, save for consolidating Members' Car Mileage Allowances to 45 pence per mile.

(h) Risk Assessment

(i) Note the risks to be managed over the MTFP (5) period.

(i) Dedicated Schools Grant

(i) Note the position of the Dedicated Schools Grant.

(j) Housing Rents/Garage Rents

(i) To set dwelling rents for 2015/16 in accordance with Government guidelines which result in an overall average increase of 2.20%;

(ii) To increase garage rents by 2.2% which is in line with CPI as at September 2014 plus 1 percentage point.

(k) Prudential Code

(i) Agree the Prudential Indications and Limits for 2015/16 – 2017/18 contained within Appendix 11 of the report, including the Authorised Limit Prudential Indicator.

(ii) Agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 11 which sets out the Council's policy on MRP.

(iii) Agree the Treasury Management Strategy and the Treasury Prudential Indicators contained in Appendix 11.

(iv) Agree the Investment Strategy 2015/16 contained in the Treasury Management Strategy (Appendix 11 and the detailed criteria included in Appendix 11).

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Appendix 1: Implications

Finance – The report sets out recommendations on the 2015/16 Budget and for the MTFP(5) period 2015/16 – 2017/18.

Staffing – The impact of the MTFP upon staffing is detailed within the report.

Risk – A robust approach to Risk Assessment across the MTFP process has been followed including individual risk assessment of savings plans.

Equality and Diversity/ Public Sector Equality Duty - Full information on equality and diversity is contained within the report.

Accommodation – the council's Corporate Asset Management Plan is aligned to the corporate priorities contained within the Council Plan. Financing for capital investment priorities is reflected in the MTFP Model.

Crime and Disorder – It is recognised that the changes proposed in this report could have a negative impact on crime and disorder in the county. However, the council will continue to work with the Policy and others through the safe Durham Partnership on strategic crime and disorder and to identify local problems and target resources to them.

Human Rights – Any human rights issues will be considered for each of the proposals as they are developed and decisions made to take these forward. There are no human right implications from the information within the report.

Consultation – Full information on the MTFP(5) consultation process are contained in the report.

Procurement – Wherever possible procurement savings are reflected in service groupings savings plans.

Disability Issues – All requirements will be assessed in Equality Impact Assessments.

Legal Implications – The Council has a statutory responsibility to set a balanced budget for 2015/16. It also has a fiduciary duty not to waste public resources.

Appendix 2: Durham County Council Specific Grants 2015/16

SPECIFIC GRANT	2014/15	2015/16	Variance
	£m	£m	£m
Community Rights to Challenge	0.017	0.000	-0.017
Local Welfare Provision	1.900	0.000	-1.900
Extended Free Rights to Transport	1.086	0.999	-0.087
Public Health	45.780	45.780	0.000
Local Reform and Community Voices	0.510	0.380	-0.130
Prisons Social Care - New Burden	0.000	0.365	0.365
Inshore Fisheries	0.014	0.014	0.000
Local Lead Flood Authorities	0.070	0.047	-0.023
LCTRS New Burdens	0.267	0.121	-0.146
Housing Benefit Administration	4.091	3.765	-0.326
Social Care Act New Burdens	0.000	2.770	2.770
Education Services Grant	7.523	6.002	-1.521
Discretionary Housing Payment	1.096	0.982	-0.114

Appendix 3: Durham County Council Budget Consultation

Full Tables of responses

Q1 Since the public consultation in 2013, has anything changed in your area that you feel would affect which services should have larger or smaller reductions?

	Frequency	Percent
Yes	224	34.5%
No	425	65.5%
Total	**649**	**100.0%**

Q2 If so, please outline the changes.

Smaller Reductions	Number of mentions
Subsidised Bus Travel	36
Roads, footpaths, traffic and lighting	26
Job Creation	21
Support for Community Projects, Centres, Partnerships and Groups	20
Collection, disposal and recycling of waste	13
Street Cleaning	13
Social Work and Protecting Vulnerable Children and Adults	11
Grass cutting, trees and flower beds	10
Services to keep people safe	9
School Support and Education Services	8
Sports, parks and play areas	8
Day Centres and support for families	7
Gritting and Snow Clearance	6
Libraries	6
Support for Adults in their Homes	3
Art, museums and theatres	2
Other	6
TOTAL	**237**

Larger reductions:	Number of mentions
Finance, Legal, information Technologies and Human Resources	7
Gritting and Snow Clearance	4
Roads, footpaths, traffic and lighting	4
Democratic Support - Decisions and Elections	2
Social Work and Protecting Vulnerable Children and Adults	2
Street Cleaning	2
Other	11
TOTAL	**237**

Q3 Where a local organisation has shown interest, should the council explore the opportunity of them managing a facility or service to reduce the impact of budget savings on communities?

	Frequency	Percent
Yes	573	92.7%
No	45	7.3%
Total	**618**	**100.0%**

Q4 Are there any council facilities or services in your area that could be managed by local people? If so, please outline them below.

Facilities which could be managed by local people	Number of mentions
Libraries	59
Community centres	40
Grass Cutting, flower beds	19
Sports facilities	16
Leisure centres	12
Parks	11
Street Cleaning	10
Surestart/Day centres	8
Litter pick/Dog waste (emptying)	6
Other	27
TOTAL	**225**

Equalities Breakdown

Responses were broadly representative of all age groups (shown in the table below), although older people were more likely to take part and make reference to experiencing changes since the last consultation than younger people.

In addition, supplementary consultation with 724 children and young people at a series of school based events was conducted in the east of the county.

What is your age?	Frequency	Percent
Under 16	16	3.0%
16-24	36	6.8%
25-44	125	23.5%
45-54	110	20.7%
55-64	113	21.3%
65-74	92	17.3%
75+	39	7.3%
Total	**531**	**100.0**

The responses from the different age groups to the question asking if anything had changed in the area are shown below.

Since the public consultation in 2013, has anything changed in your area that you feel would affect which services should have larger or smaller reductions? * What is your age?				
What is your age?		**Yes**	**No**	**Total**
Under 45	Frequency	55	108	163
	Percentage	33.7%	66.3%	100.0%
45-64	Frequency	71	132	203
	Percentage	35.0%	65.0%	100.0%
65+	Frequency	49	71	120
	Percentage	40.8%	59.2%	100.0%
Total	**Frequency**	**175**	**311**	**486**
	Percentage	**36.0%**	**64.0%**	**100.0%**

When asked to outline those changes Over-65s responded to changes affecting the following services. These focused mainly on applying a smaller reduction with only three respondents citing services for a higher reduction.

Smaller Reductions:	**Number of Responses**
Subsidised Bus Travel	9
Roads, footpaths, traffic and lighting	5
Social Work and Protecting Vulnerable Children and Adults	5
Services to keep people safe	4
Collection, disposal and recycling of waste	3
Libraries	3
Street Cleaning	3
Support for Community Projects, Centres, Partnerships and Groups	3
Grass cutting, trees and flower beds	2
Gritting and Snow Clearance	2
Job Creation	2
Support for Adults in their Homes	2
Other	3
TOTAL	**49**

Other protected characteristic groups
We received feedback from individuals from various protected characteristic groups such as:

- Gender
- Disability
- Religion or belief
- Sexual orientation
- Ethnicity

However, there were no discernible differences in the responses they made.

Appendix 4: Durham County Council MTFP Budget Saving 2015/16

ASSISTANT CHIEF EXECUTIVE

Saving	Description	2015/16
		£
ACE03	Management Review within ACE	132,340
ACE05	Research Activity	26,000
ACE16	Review of community grants	155,039
ACE19	Review of Parish Budget	34,650
ACE24	Adjustment for previous year use of cash limit	-69,992
	TOTAL ACE	**278,037**

CHILDREN AND ADULTS SERVICE

Saving	Description	2015/16
		£
CAS01	Review of in-house social care provision	940,000
CAS02	Eligibility Criteria - Consistent and effective application of existing criteria	3,311,000
CAS03	Increased charging income in respect of Adult Care Provision	748,105
CAS04	Savings resulting from purchasing new stairlifts with extended warranties	40,000
CAS05	Management and Support Services, staffing structures and service reviews/rationalisation	4,056,386
CAS09	Review of Children's Care Services	1,186,416
CAS11	Adjustment for previous year use of cash limit	-1,879,000
CAS11	Use of Cash Limit	187,000
	TOTAL CAS	**8,589,907**

NEIGHBOURHOODS SERVICE

Saving	Description	2015/16
		£
NS01	Restructure of Sport & Leisure	557,000
NS03	Structural reviews and more efficient ways of working	605,000
NS11	Review of Technical Services	275,000
NS17	Saving Deferred from 2014/15 - Implementation of charging for Garden Waste	933,000
NS24	Review of Heritage and Culture	298,500
NS29	Adjustment for previous years' use of cash limit	-130,000
NS29	Use of cash limit	80,000
	TOTAL NS	**2,618,500**

REGENERATION AND ECONOMIC DEVELOPMENT SERVICE

Saving	Description	2015/16
		£
RED01	RED restructure	719,195
RED14	Review of supplies and services across RED Service grouping	560,500
	Total RED	**1,279,695**

RESOURCES

Saving	Description	2015/16
		£
RES02	Reduction in Supplies and services and other non staffing budgets through efficiencies - Corporate Procurement	8,137
RES13	Management restructure of Legal & Democratic Services and Reduction in Members' Car Mileage Rate	130,726
RES14	Restructure of HR Service	648,417
RES16	Restructure of ICT Service	472,155
RES17	Reduction in supplies and services and other non staffing budgets through efficiencies (e-billing, postages etc.) - Financial services	548,699
RES21	Internal Audit and Risk staffing rationalisation	56,808
RES22	Court cost fee income - summons and liability costs recovered - Financial services	85,235
RES23	Welfare Rights	25,000
RES24	Adjustment for previous year use of cash limit	-358,000
	TOTAL RES	**1,617,177**

CORPORATE

Saving	Description	2015/16
		£
COR12	Reduction in car mileage rate	240,000
COR14	Saving from employees not being a member of the Local Government pension scheme	184,000
COR15	Saving from employees purchasing additional leave	285,000
COR16	Income from capital receipts below de minimis value of £10k	100,000
COR17	Fleet review inc. car mileage volume reduction	591,000
COR18	Durham Villages Regeneration Limited dividend payment	200,000
COR 19	Fuel Price Reduction	300,000
	TOTAL COR	**1,900,000**

SUMMARY

Description	2015/16
	£
ASSISTANT CHIEF EXECUTIVES	278,037
CHILDREN AND ADULTS SERVICES	8,589,907
NEIGHBOURHOOD SERVICES	2,618,500
REGENERATION & ECONOMIC DEVELOPMENT	1,279,695
TOTAL RESOURCES	1,617,177
TOTAL CORPORATE	1,900,000
TOTAL SAVINGS	**16,283,316**

Appendix 5: Durham County Council Budget Summary – By Service Grouping

2014/15 Original Budget £000	2014/15 Projected Outturn £000		2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
		Council Controlled Budgets			
10,200	10,725	Assistant Chief Executive	12,411	2,248	10,163
275,231	270,397	Children and Adults Service	469,855	218,405	251,450
109,765	113,554	Neighbourhood Services	228,670	124,434	104,236
42,653	43,877	Regeneration and Development	66,726	41,267	25,459
14,447	14,456	Resources	70,899	55,044	15,855
3,452	3,153	Corporate Costs	4,646	145	4,501
7,706	8,908	Contingencies	5,690	0	5,690
463,454	**465,070**		**858,897**	**441,543**	**417,354**
		Non Council Controlled Budgets			
0	0	Schools	313,205	313,205	0
0	0	Benefits	190,759	190,759	0
0	**0**		**503,964**	**503,964**	**0**
463,454	**465,070**	***NET COST OF SERVICES***	**1,362,861**	**945,507**	**417,354**
-50,474	-50,474	Reversal of Capital Charges			-48,977
38,444	33,791	Interest payable and similar charges			38,530
-1,441	-1,689	Interest and investment income			-1,641
		Levies			
0	0	North East Combined Authority			16,076
409	409	Environment Agency - Flood Defence			415
63	63	North East Inshore Fisheries Conservation Authority			64
450,455	**447,170**	***NET OPERATING EXPENDITURE***			**421,821**
-52,342	-52,342	Business Rates - local share			-54,809
-59,357	-59,357	Top up Grant			-60,491
-138,710	-138,710	Revenue Support Grant			-100,240
0	0	Business Rate Collection Fund Surplus			-500
-6,784	-6,783	New Homes Bonus			-8,322
-390	-381	New Homes Bonus - re-imbursement			-377
-5,101	-4,642	Section 31 Grant			-4,998
-7,237	-7,490	Education Services Grant			-6,002
-8,140	-8,265	Use of Earmarked Reserves			-11,511
-2,617	-993	Use of Cash Limit Reserves			-437
-933	637	Use of General Reserve			0
168,844	**168,844**	***AMOUNT REQUIRED FROM COUNCIL TAX PAYERS***			**174,134**

Appendix 6: Durham County Council Budget Summary – By Expenditure and Income Type

	Original Budget 2014/15	2014/15 Projected Outturn Position	Original Budget 2015/16
	£'000	£'000	£'000
Employees	483,046	491,055	470,911
Premises	49,510	55,132	50,757
Transport	46,657	45,727	47,915
Supplies & Services	113,798	128,237	111,589
Agency & Contracted	260,165	269,246	307,725
Transfer Payments	206,771	206,527	204,317
Central Costs	94,797	85,067	96,263
Other	12,637	14,649	18,603
Capital Charges	50,474	50,474	48,977
Contingencies	7,706	8,908	5,690
GROSS EXPENDITURE	1,325,561	1,355,022	1,362,747
Income			
- Specific Grants	539,986	542,908	580,428
- Other Grants & contributions	25,830	30,594	53,488
- Sales	5,367	5,147	5,966
- Fees & charges	104,308	104,729	104,473
- Rents	5,470	5,778	6,494
- Recharges	174,150	191,958	186,789
- Other	6,996	8,838	7,755
Total Income	862,107	889,952	945,393
NET COST OF SERVICES	463,454	465,070	417,354
Capital charges	-50,474	-50,474	-48,977
Interest and Investment income	-1,441	-1,689	-1,641
Interest payable and similar charges	38,444	33,791	38,530
Levies			
North East Combined Authority	0	0	16,076
Environment Agency - Flood Defence	409	409	415
North East Inshore Fisheries Conservation Authority	63	63	64
Net Operating Expenditure	450,455	447,170	421,821
Less:			
Use of Reserves:			
Earmarked Reserves	-8,140	-8,265	-11,511
Cash Limit	-2,617	-993	-437
General	-933	637	0
Net Budget Requirement	**438,765**	**438,549**	**409,873**

	Original Budget 2014/15	2014/15 Projected Outturn Position	Original Budget 2015/16
	£'000	**£'000**	**£'000**
Financed by:-			
Business Rates - local share	-52,342	-52,342	-54,809
Top up Grant	-59,357	-59,357	-60,491
Revenue Support Grant	-138,710	-138,710	-100,240
Amount required from council tax payers	-168,844	-168,844	-174,134
Business Rate Collection Fund Surplus	0	0	-500
New Homes Bonus	-6,784	-6,783	-8,322
New Homes Bonus - re-imbursement	-390	-381	-377
Section 31 Grant	-5,101	-4,642	-4,998
Education Services Grant	-7,237	-7,490	-6,002
Total Financing	**-438,765**	**-438,549**	**-409,873**

Appendix 7: Medium Term Financial Plan - MTFP(5) 2015/16 - 2017/18 Model

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Government Funding			
Government Net Funding Reduction	31,633	38,000	28,000
Town and Parish Council RSG Adjustment for LCTRS funding	-270	-196	-211
Business Rates - RPI increase (2%/2%/2%)	-1,005	-1,070	-1,090
Top Up Grant - RPI increase (2%/2%/2%)	-1,134	-1,210	-1,240
Section 31 Grant	-509	-70	-70
Other Funding Sources			
Council Tax Increase (2% per annum)	-3,370	-3,440	-3,510
New Homes Bonus	-1,538	-1,000	0
Council Tax Base increase	-1,891	-1,000	-750
Business Rates Tax Base Increase	-850	-500	0
Business Rates 2014/15 Collection Fund Surplus	-500	500	0
Replenishment of 2014/15 Use of General Reserve	933	0	0
NHS Funding - Social Care Transformation	-15,864	-4,432	0
Estimated Variance in Resource Base	**5,635**	**25,582**	**21,129**
Pay inflation (2.2% (15 months) - 1.5% - 1.5%)	2,750	3,300	3,200
Price Inflation (1.5% - 1.5% - 1.5%)	2,650	2,450	2,400
Corporate Risk Contingency Budget	-382	-3,018	0
Base Budget Pressures			
Employer National Insurance increase - State Pension changes	0	4,700	0
Single Status Implementation	0	0	4,500
Council Housing - costs related to Stock Transfer	3,550	0	0
Additional Employer Pension Contributions	760	940	1,000
Energy Price Increases	250	500	500
Durham Living Wage	250	0	0
Concessionary Fares	320	100	100
Welfare Assistance	1,000	0	0
CAS Demographic and Hyper Inflationary Pressures	1,000	1,000	1,000
Use of Earmarked Reserve in CAS	-1,000	-1,000	-1,000
Prudential Borrowing to fund new Capital Projects	2,000	2,000	2,000
Capital Financing for current programme	-2,500	0	0
TOTAL PRESSURES	**10,648**	**10,972**	**13,700**
SUM TO BE MET FROM SAVINGS	**16,283**	**36,554**	**34,829**
Savings	-16,283	-36,554	-34,829
Deferred Savings (Utilisation of PDP)	0	0	-10,000
SAVINGS REQUIREMENT	**-16,283**	**-36,554**	**-44,829**
Planned Delivery Programme (PDP)	0	10,000	10,000
REVISED SAVINGS REQUIREMENT	**-16,283**	**-26,554**	**-34,829**
Cumulative Use of PDP Reserve To Support MTFP	**0**	**10,000**	**20,000**

Appendix 8: Durham County Council Current Capital Programme - 2014/15 To 2017/18

Service Grouping	Scheme	2014/15	2015/16	2016/17	2017/18
ACE	Members Neighbourhood Fund	2,493,019	1,764,000	-	-
ACE	Community Buildings	949,645	1,154,618	-	-
ACE	Area Action Parterships (AAP)	298,647	336,000	-	-
ACE	Community Facilities in Crook	-	513,007	-	-
ACE Total		**3,741,311**	**3,767,625**	**-**	**-**
CAS	Learning Disability Provider Services	62,105	-	-	-
CAS	Adult Care	5,841,107	-	-	-
CAS	Commissioning Service	100,700	-	-	-
CAS	Planning & Service Strategy	40,000	105,000	101,000	314,962
CAS	Social Inclusion	17,673	-	-	-
CAS	Building Schools for the Future (BSF)	22,592,158	18,107,657	-	-
CAS	BSF Public finance Initiative Contribution	786,870	-	-	-
CAS	Childrens Homes	67,142	-	-	-
CAS	CAS AAP Scheme	3,623	-	-	-
CAS	Health Co-Location	349	-	-	-
CAS	Increased Provision for Two Year Olds	691,846	-	-	-
CAS	Public Health	1,860,180	-	-	-
CAS	Drugs Commissioning	65,000	-	-	-
CAS	Drug & Alcohol Premises Upgrade	685,000	-	-	-
CAS	School Devolved Capital	4,618,933	-	-	-
CAS	School Capitalised Maint. Inc Basic Need	18,493,219	13,625,548	2,422,871	-

Service Grouping	Scheme	2014/15	2015/16	2016/17	2017/18
CAS	DSG Structural Maintenance	4,566,171	2,614,949	-	-
CAS	School Modernisation	807,957	53,890	-	-
CAS	Childrens Access/Safeguarding	400,352	-	-	-
CAS	Free School Meals Support	1,275,221	-	-	-
		62,975,606	**34,507,044**	**2,523,871**	**314,962**
NEI	Outdoor Play Areas and Parks	939,992	2,272,260	9,890	12,000
NEI	Countryside Estates	52,945	-	-	-
NEI	Leisure Centres	784,010	6,500	-	-
NEI	Culture and Museums	190,791	-	-	-
NEI	AAP Schemes - Sport and Leisure	10,750	2,000	-	-
NEI	Library	1,564,006	-	-	-
NEI	Waste Infrastructure Capital	5,500,510	6,420,517	-	-
NEI	Customer Access Points	1,783,352	2,000,000	-	-
NEI	Vehicle and Plant	4,456,806	-	-	-
NEI	Waste Infrastructure - Refuse Collection	497,955	-	-	-
NEI	Building Services	96,597	-	-	-
NEI	Street Scene	366,555	369,644	-	-
NEI	AAP Schemes - Direct Services	54,288	-	-	-
NEI	Strategic Highways	24,840,517	24,728,905	3,809,592	7,619,176
NEI	Strategic Highways Bridges	2,290,000	-	-	-
NEI	Construction Prog. & Project Mangt. Unit	20,681	-	-	-
NEI	Highway Operations	24,644	575,000	-	-
NEI Total		**43,474,399**	**36,374,826**	**3,819,482**	**7,631,176**

Service Grouping	Scheme	2014/15	2015/16	2016/17	2017/18
RED	Town centres	2,407,490	4,614,461	-	-
RED	Industrial Estates	509,457	12,900,000	-	-
RED	Barnard Castle Vision	595,540	508,028	112,510	-
RED	Office Accommodation	780,697	2,310,286	-	-
RED	Gypsy Travellers	5,196,953	1,150,000	-	-
RED	Eastgate	-	150,000	360,830	-
RED	Durhamgate	364,261	-	-	-
RED	North Dock Seaham	16,442	133,558	426,000	-
RED	Disabled Facilities/Financial Assistance	3,717,937	1,672,250	-	-
RED	Housing Renewal	3,851,922	2,444,619	-	-
RED	Ec. Dev. and Housing Minor Schemes	719,008	520,000	225,817	-
RED	Durham County Cricket Club	1,200,000	-	-	-
RED	Capitalised Structural Maintenance	6,670,557	9,607,839	-	-
RED	Renewable Technologies	627,246	2,963,879	238,794	-
RED	Woodham Community Tech. College	1,380	748,620	-	-
RED	Planning and Assets Minor Schemes	593,927	35,000	35,000	-
RED	Strat. Programmes Minor Schemes	7,043	729,254	-	-
RED	LTP - Integrated Transport	2,937,880	3,189,000	-	-
RED	Transit 15	190,000	210,000	-	-
RED	Major Transport	4,597,521	11,531,240	1,299,164	-
RED	Transport Corridors	1,575,551	1,253,549	-	-
RED	CCTV	237,589	60,000	-	-
RED	Transport Minor Schemes	10,500	250,000	-	-
RED Total		**36,808,900**	**56,981,583**	**2,698,115**	**-**

Service Grouping	Scheme	2014/15	2015/16	2016/17	2017/18
RES	Civica Pension Fund Administration System	398,775	-	-	-
RES	Technical Services	930	-	-	-
RES	Broadband / Digital Durham	4,573,026	9,751,398	4,858,843	-
RES	Code of Connection Compliance	80,000	-	-	-
RES	Corporate Mail Fulfilment	100,000	-	-	-
RES	Dark Fibre Networking	54,037	-	-	-
RES	GIS Architecture	71,238	-	-	-
RES	Homeworking	89,292	200,000	-	-
RES	Learning Gateway	106,921	81,014	-	-
RES	NHS Data Centre	3,128	-	-	-
RES	Tanfield Power Upgrade	-	250,000	-	-
RES	Archiving of obsolete systems	-	430,502	-	-
RES	Replacement of Desktop ICT Equipment	1,120,161	1,253,856	-	-
RES	Dark Fibre installations	315,001	475,000	-	-
RES	Public Internet Access Portal	37,000	-	-	-
RES	Ongoing Server replacement	110,000	110,000	-	-
RES	Tanfield Core Swiching Replacement	8,994	63,790	-	-
RES	Tanfield Network Switching Replacement	-	482,449	-	-
RES	Business Continuity	159,390	-	-	-
RES	Vehicle Replacement	24,881	-	-	-
RES Total		**7,252,774**	**13,098,009**	**4,858,843**	**-**
	TOTAL PROGRAMME	**154,252,989**	**144,729,087**	**13,900,311**	**7,946,138**

Appendix 9: Durham County Council Additions To The 2015/16 - 2016/17 MTFP Capital Programme

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
ACE	Members Neighbourhood Budget	In order to fulfil their roles as community champions and to work in partnership with AAP's to address local priorities in their communities, elected members each had an original allocation of £10K capital per annum. This was also matched with a revenue allocation of £10k per annum leaving a total annual allocation per member of £20K. The allocations have now been adjusted with a £14k capital allocation and a £6k revenue allocation.	0	1,764,000	1,764,000
ACE	Area Action Partnership	AAPs have been set up to give people in County Durham a greater choice and voice in local affairs. The partnerships allow people to have a say on services, and give organisations the chance to speak directly with local communities. Each AAP had an original allocation of £120,000 for local projects and investments. However, £24,000 of the revenue allocation has been transferred to capital.	0	336,000	336,000
		ACE Sub Total	**0**	**2,100,000**	**2,100,000**
CAS	Schools Devolved Capital	These sums are allocated to individual schools with the schools determining the investment.	1,424,000	0	1,424,000
CAS	DFE Capital Maintenance	Each year since 2011/12 local authorities have been allocated Schools Capital Maintenance Grant funding from DfE. This grant funding will address significant condition issues in schools across the county.	0	5,635,000	5,635,000
		CAS Sub Total	**1,424,000**	**5,635,000**	**7,059,000**

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
NEI	**Local Transport Plan (LTP) - Adopted Highway Maintenance Grant**	The LTP Adopted Highway Maintenance Grant Funding is annual capital grant funding from the Department for Transport. The grant is provided to support local authorities with their statutory responsibility to maintain the adopted highway in a safe condition.	0	11,886,000	11,886,000
NEI	**Adopted Highway Maintenance**	LTP Grant Funding is not sufficient for the Council to maintain the adopted highway network in an appropriate condition. Councils are expected to provide additional funding from their own resources.	0	2,756,000	2,756,000
NEI	**Unadopted Highway Maintenance**	The large majority of unadopted highway in the County is privately owned and it is the responsibility of the private owners to maintain. However, there is some unadopted highway which is owned by Durham County Council and therefore the Council is responsible for maintenance. This funding will enable the Council owned unadopted highway to be made up to adoptable standards on a priority basis and then maintained by the Council as adopted highway.	500,000	1,000,000	1,500,000
NEI	**Flood Prevention**	County Durham has suffered from multiple flooding events in recent years. The frequency and severity of flooding events is predicted to increase with climate change. The Council has a significant inventory of drainage assets (highway drainage, culverts, watercourses) and riverbanks. Additional funds are requested to increase flood prevention schemes countywide.	0	1,050,000	1,050,000

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
NEI	**Thornley, Annfield Plain, Heighington & Stainton Grove Waste Transfer Stations**	Since the original capital budget was approved in 2011/12, the 4 waste transfer stations have been returned to authority control (June 2013) and have been found to be in a far worse condition than anticipated. As a result, the scope of work has increased substantially, particularly on the 3 refurbishment schemes where we now have new significant packages of work including mechanical and electrical installations (CCTV, fire alarm, security alarm, external lighting etc), replacement weighbridges and enabling works to facilitate minimal or no closures during works operations where possible. The refurbishment schemes have been developed to a detailed design stage providing greater certainty over the requirements and estimates and the replacement Thornley scheme has been developed to a detailed feasibility study stage with the preferred option being a part refurbishment / significant new build option which was the lowest cost option available.	0	3,757,227	3,757,227
NEI	**Changing rooms at Former Blackfyne site and Former Roseberry School**	Blackfyne due to close June 2015. The Playing Pitch Strategy has identified this site as a hub for junior football provision . The existing school changing rooms are to be demolished as part of the development on this site. New changing rooms are required to accommodate teams on this site. Roseberry Comprehensive is due to close on 31st August 2014. The Playing Pitch Strategy has identified a shortfall of junior football pitches in this AAP area the exsisting school changing rooms are to be demolished as part of development of this site. New Changing rooms are required to accommodate teams on this site.	160,000	0	160,000
NEI	**Restoration Wharton Park**	In July 2013 Cabinet agreed to support a HLF bid for the £3m restoration of Wharton Park Durham City, the report set out DCC capital investment of £129,600 as match funding. This sum is part of that contribution.	0	59,200	59,200
NEI	**Chester-le-Street Riverside Park Development**	The outdoor paddling pool is now at the end of its life after 15 years of use. The pool is a valuable and well used asset in Riverside Park. Over the last 2 years a number of "patching" repairs have been undertaken to keep the pool open however it is now at the stage where a full refurbishment is required to ensure it continues to meets health and safety requirements.	250,000	0	250,000
		NEI Sub Total	**910,000**	**20,508,427**	**21,418,427**

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RED	Local Transport Plan	Local Transport Plan - Transport Improvements - The third Local Transport Plan was introduced in 2011. There are two funding block allocations from the Department for Transport - Integrated Transport and Maintenance. Funding agreed by DfT for 2014/15 was £3.183 million. DfT Integrated Transport Block (ITB) funding from 2015/2016 onwards will be given to the Combined Authority to distribute to the local authorities. Although the DfT have increased the overall national budget for the Integrated Transport Block, a portion of this has been allocated to the Single Growth Fund and consequently leads to an expected reduction in the direct ITB allocation for DCC to £2.789 million for 2015/2016 and 2016/2017.	0	2,789,000	2,789,000
RED	Structural Capitalised Maintenance	Capitalised Maintenance - Planned structural maintenance to Council buildings thereby limiting the amount of reactive (revenue funded) maintenance required. The programe includes Alterations to Buildings Disability Discrimination Act - Continuing programme of alterations adaptations to public and operational buildings to meet our duties under the DDA and Fire Precaution Works - Fire detection and alarm installations to meet our obligations under the Regulatory Reform (Fire Safety) Order 2005	0	3,000,000	3,000,000
RED	Aykley Heads Project Development	Funding will enable progress to be made on the paln to redevelop the Aykley Heads site. Expenditure will be incurred on the following: • Replace & relocate the existing bowling green and croquet pitches at Houghall for phase 1 of Aykley Heads employment site delivery (ATOM) • Provision of landscaping, drainage, highway, utilities & lighting works to allow access for development sites (Infrastructure package)	95,000	60,000	155,000
RED	Peterlee - North East Industrial Estate (NEIE)	The council seeks to facilitate redevelopment of NEIE for housing by a developer or development consortium in line with the County Durham plan.The estate was first developed around 50 years ago. The estate has seen decline over the years due to low demand. The budget would be used to; Acquire land and property interests as part of a comprehensive site assembly exercise; Demolish premises acquired; Relocate business interests and jobs to other sites in the locality; Compile a dedicated masterplan/development brief to serve as the cornerstone for marketing and ancillary expenditure necessary to secure the identified project objectives. The project is expected to: Achieve the beneficial redevelopment of 17 hectares of land, currently being used inefficiently in the form of an outmoded industrial estate; Create the opportunity for 390 new homes (including affordable provision), tied into surrounding neighbourhoods; Lever in an estimated £75 million of private sector investment and relocate/safeguard a number of key local employers.	0	370,000	370,000

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RED	**Festival Walk - Spennymoor**	Festival Walk – infrastructure / site preparation. With the Shopping parade having been in administration for more than five years, an opportunity now presents itself to work with the financiers / administrators to undertake demolition and remodelling work which will reshape and retain existing businesses while providing a development plot for a new user accommodated within a circa 16,000 sq ft gross new unit as well as retaining the existing retail offer / jobs.	300,000	300,000	600,000
RED	**Durham - North Road Development**	North Road will deliver a “step change” development project which will serve to enhance the retail offer, improve the pedestrian/retail environment, remove barriers between transport & retail zones to improve access and connections for pedestrians and create suitable and attractive transport facilities through highway improvements and a new bus station. With the intention to turn this part of Durham into an arrival gateway and destination location in itself, the main area of focus is to redevelop the northern end of North Road to create ‘North Place’. Phase 2 of the North Road redevelopment project will be to remediate the former bus station site and provide critical infrastructure to achieve maximum capital receipt to the Council. This spend to save focus includes: - demolition of the existing buildings - rerouting the watercourse under the existing bus station - relocating the O2 mast on the building - repairing the significant retaining wall - removing the heavy oil interceptor - discharging all of the legal covenants that exist on the site	350,000	965,000	1,315,000
RED	**Durham City Urban Traffic Control (SCOOT)**	Improvements to traffic flow through Durham City - This proposal for this area of Durham involves the very busy and often congested A690 Corridor through Durham City and would introduce Urban Traffic Control to coordinate traffic signals and bringing greater efficiency to traffic flow. The scheme involves the signalisation of both Leazes Bowl Roundabout and Gilesgate Roundabout, and the creation of a virtual network of junctions including Church Street / Hallgarth Street, Elvet /Old Elvet, Elvet Puffin crossing and the existing junction at Millburngate roundabout.	0	1,500,000	1,500,000
RED	**A19/A189 Sheraton Junction**	Improvement to the layout and introduction of traffic signals. Existing traffic volumes at the busy interchange are causing significant safety concerns as motorist undertake unsafe manoeuvres to try and avoid significant queues which something extend onto the A19 running carriageway. In the past 5 years 3 fatalities have occurred in this location together with 3 serious and 9 slight accidents. Attempts have been made to introduce low cost remedial measures however the only potential solution would be to signalise the junction.	0	1,500,000	1,500,000

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RED	**Disabled Facilities Grant - DCLG**	Disabled Facilites Grant is a mandatory grant which provides significant support to the most vulnerable client groups across County Durham. Adaptations enable clients to remain within their own homes and to live independently. Current figures advise that most grants are awarded to the over 60 age group. The Joint Commissioning Strategy for Older People 2010-2013 has identified that there is an ageing population profile within County Durham for those aged 65 and over. The increases expected between 2007 and 2026 are, 65 and over 49.89%, 75 and over 71.4%, 85 and over 115.2%. Support for the grant is of significant importance as it plays a key role in increasing independence and enabling clients to live at home longer.	2,970,000	2,970,000	5,940,000
RED	**Malvern Crescent, Seaham**	The project involves the acquisition of circa 0.38 ha (0.94 acres) of land which forms part of a larger housing allocation site (owned by the Council and included within a Joint Venture Agreement between the Council and The Homes & Communities Agency). The acquisition of the site is an obligation upon the Council in the Joint Venture agreement and, by Cabinet decision in February (to approve a materplan for the JV land) the Corporate Director of Regeneration and Economic Development in consultation with the Portfolio Holder for Economic Regeneration was authorised to acquire the subject land at Malvern Crescent to enable comprehensive development of the site.	330,000	0	330,000
RED	**Financial Assistance Policy (FAP)**	The private sector housing financial assistance policy provides a range of financial measures aimed at improving and maintaining healthy living conditions within existing private sector housing stock and seeks to help homeowners to 'future proof' their homes through improvement, repair and adaptation. The policy aims to assist those who are elderly, disabled or on a low income and cannot access funding from a commercial organisation. It also targets intevention to improve declining neighbourhoods that are in need of support by finaically assisting individuals to bring long term empties back into use. The FAP provides, decent homes assistance loans, relocation, assisting in bringing empty properties back into use, improving conditions within the private rented sector and DFG top-up where the cost of work exceeds the maximum award or the client is unable to fund their contributiuon towards the works. Since the inception of the policy in 2009 an average of 70 properties have been improved to decent homes standard to a value of £1.2m annually. The average laon amount is £18,800. All loans are secured against the property by a restricted charge.	0	250,000	250,000

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RED	**Sherburn Road Retail Link Road**	This project has been identified in the Durham Plan IDP to create a link road to relieve congestion on Dragon Lane and Dragonville retail area. The creation of the link will assist with the continued development of the wider area whist helping to address exiting congestion and air pollution issues. An additional sum of £1.8m will be required in 2017/18.	0	200,000	200,000
RED	**Energy Efficiency - Retrofits**	The Council can potentially save very large amounts of money in reduced energy bills by investing in energy efficiency retrofits on its buildings. Currently, however, there is no clarity on what our future buildings portfolio will be as a full review is underway. Once we know which buildings we are keeping the Carbon Management programme will develop and implement a full investment programme, designed to reduce energy costs. The improvements that could be delivered include heating and cooling efficiency works, insulation of buildings, pipes and valves, lighting upgrades, BMS and building improvements, renewable energy, voltage optimisation and other specialist technologies appropriate to specific buildings. It is not possible to itemise exact interventions until we know which buildings the council will be retaining.	0	500,000	500,000
RED	**Energy Efficiency Programme**	The request is to deliver an energy efficiency programmes covering 366 solid walled private sector properties at a total of £3,361,600 across Seaham, Southmoor in Stanley and Dean Bank, Ferryhill using a street by street approach. Potential match funding of £2,520,750 via objective 3 of the European Structural Investment Fund (£2,016,600) and Energy Company Obligation (£504,150) with the remaining £840,850 requested from DCC. An additional £280,283 will be required in 2017/18.	280,284	280,283	560,567

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RED	**Town Centre Masterplan Prioriites**	The Council have approved and adopted a suite of masterplans to deliver intervention programmes within its major centres; All the masterplans have been developed through rigourous consultation and each have an action plan and delivery focus for the Council. The programme is to continue to deliver priorities set as actions within the adopted 12 masterplans, for the Countys main centres. Works within the main centres for the proposed 2016/2017 programme include Stanley - final phase of public realm improvements on Front Street and links to car parks/Clifford Road/proposed food retail outlets, Crook - to support the depot site develoopment by improving pedestrian permeability to the new retail outlet, Peterlee - to improve pedestrian linkages to town centre, bus station and priivate sector food retailersand Bishop Auckland - address issues highlighted in the conservation area appraisal such as empty retail properties, improvement to the Market Place as a focal point for the town centre, improvement of pedestrian links between the town centre / market place, Auckland Castle and rest of Bishop Auckland This programme will complement works being undertaken in other areas of the capital programme.	0	1,000,000	1,000,000
		RED Sub Total	**4,325,284**	**15,684,283**	**20,009,567**
RES	**Replacement desktop program**	The end user equipment fleet (Desktops, Laptops and Tablet) consists of 8800 items. This is replaced on a four year cycle to ensure that the equipment is fit for purpose and delivers the service for the end users. We have successfully maintained the PC estate and will need to continue doing so to maintain the correct level of equipment. In order to comply with our PSN requirements we need to maintain the level of equipment and ensure it is current and up to date	0	1,000,000	1,000,000
RES	**Wireless network replacement**	The corporate wireless/WiFi network covers many of the council's offices across the county. The infrastructure is made up from 300 access points with associated system controllers and management tools. Notably, the current system is made up several legacy systems. The existing network was installed pre-LGR and needs to be upgraded to offer additional capacity for modern ways of working and extra features to meet security standards and maitain PSN compliance. This project will introduce a more reliable service with wider coverage that will meet the needs of the authority for the next 4 years.	0	250,000	250,000

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RES	**Server Replacement**	This bid seeks to fund the replacement of aging servers that provide DEBS, databases (SQL) and servers currently running Windows 2003, wihich becomes 'end of life' and will not be supported by Microsoft beyond July 2015.	0	155,000	155,000
RES	**Email System Upgrade**	The corporate email and calendar system is used by over 10,000 users and handles over 60,000 transactions per day. This system is over 3 years old and needs to be upgraded to the latest version to ensure that it remain supportable, reliable and offers a full range modern features. This project will upgrade the service and make it more resilient. In line with improved business continuity across ICT Services, the new system will run on active/active platforms, rather than active/passive from the Council's data centre at Tanfield and business continuity site in Sunderland.	0	155,000	155,000
RES	**Electronic voting equipment**	This is a proposal to replace the electronic voting system that is used at full Council meetings. The existing system, purchased in time for the first council meeting following LGR in April 2009, brought about a reduced time for a council meeting, increased the amount of business that could be transacted at it, and improved the transparency, clarity, and accuracy of voting. The equipment is now 5 years old, and there have been some difficulties with it. Although a maintenance fee is paid, the system is perhaps one of the earliest types produced and is not easy to use. Despite being maintained by the off-site company (IML), who are based in Hampshire, and pre-meeting testing by officers it cannot always be relied on.	100,000	0	100,000
RES	**Big Data**	The Council and its partners hold a considerable amount of data which continues to grow year on year. Tools are now available which enable the easier analysis of this data. Through a greater understanding of what the data is able to tell us the Council and its partners will be able to improve decision making, increase efficiency of its service delivery and identify new service opportunities. Capital is required to identify a number of pilot schemes that demonstrate the enormous opportunities contained within the data and will allow future schemes to be developed that are self funding.	150,000	0	150,000

SERVICE	SCHEME	BACKGROUND	2015/16	2016/17	TOTAL
			£	£	£
RES	**Mobile Device Management**	The authority operates over 1000 mobile devices, such as smartphones and tablet computers. To meet PSN standards, a management system is needed to reduce the security risks associated with these devices. The proposed system will allow data to be removed from the devices remotely, store data in secure containers/folders on the device, provide secure collaboration tools and allow remote configuration. This bid is for server hardware and management software.	0	195,000	195,000
		RES Sub Total	**250,000**	**1,755,000**	**2,005,000**
		TOTAL	**6,909,284**	**45,682,710**	**52,591,994**

Appendix 10 – Durham County Council Pay Policy Statement 2015/16

1 Introduction

This policy outlines the key principles of Durham County Council's (DCC) pay policy for 2015/16 aimed at supporting the recruitment and remuneration of the workforce in a fair and transparent way. The policy complies with Government Guidance issued under the Localism Act 2011 and includes commentary upon:

- The approach towards the remuneration of Chief Officers.
- The remuneration of the lowest paid employees.
- The relationship between the remuneration of its Chief Officers and the remuneration of its employees who are not Chief Officers.

The Local Government Transparency Code, published in October 2014 by the Government also sets out key principles for local authorities in creating greater transparency through the publication of public data. As part of the code, the Government recommends that local authorities should publish details of senior employee salaries. This pay policy forms part of the Council's response to transparency of senior pay through the publication of a list of job titles and remuneration.

Durham County Council is mindful of its obligations under the Equality Act 2010 and is an equal opportunity employer. The overall aim of our Single Equality Scheme is to ensure that people are treated fairly and with respect. The scheme also contains a specific objective to be a diverse organisation which includes recruiting and retaining a diverse workforce and promoting equality and diversity through working practices. This pay policy forms part of our policies to promote equality in pay practices. By ensuring transparency of senior pay and the relationship with pay of other employees, it will help ensure a fair approach which meets our equality objectives.

In setting the pay policy arrangements for the workforce the Council seeks to pay competitive salaries within the constraints of a public sector organisation.

As a result of Local Government Review in the County, the significant opportunity existed to bring together the pay and conditions arrangements of the eight previous authorities into one cohesive pay policy for the new organisation. In response, Durham County Council's approach towards the workforce pay and conditions of employment were fundamentally reviewed and a new pay structure and revised conditions of employment for the majority of the workforce was agreed during 2012, in order to ensure that the council is able to operate as a modern, fit for purpose and streamlined organisation.

2 Posts defined within the Act as Chief Officers

2.1 The policy in relation to Chief Officers relates to the posts of Chief Executive, Assistant Chief Executive, four Corporate Directors and the Head of Legal and Democratic Services (who undertakes the Monitoring Officer Role for the Authority).

2.2 Governance Arrangements

The Chief Officer Appointments Committee is defined within the Council's Constitution as performing the functions under section 112 of the Local Government Act 1972 in relation to these officers. This includes the setting of the pay arrangements for these posts and in doing so the Committee takes into account:

- The prevailing market in which the organisation operates.
- The short and long term objectives of the Council.
- The Council's senior structure, financial situation and foreseeable future changes to these.
- The expectations of the community and stakeholders.
- The total remuneration package.
- The links with how the wider workforce is remunerated and national negotiating frameworks.
- The cost of the policy over the short, medium and long term.

The Committee also has access to appropriate external independent expert advice on the subject where required.

2.3 Key Principles

- The Chief Officer Pay policy is designed to be easily understood and to be transparent to the post holders and key stakeholders. The structure and level of the pay arrangements will enable the Council to attract, motivate and retain key senior talent for the authority.
- The policy is based upon spot salaries with clear differentials between levels of work/job size, within a range that is affordable now, will remain so for the medium term, and will be subject to review to ensure it continues to remain fit for purpose. In the first instance it is intended that the Authority will market test the rates of pay when vacancies arise, as part of consideration on whether or not roles continue to be required within the context of the Council's priorities and commitments at that time.

- A competency based performance management framework is established within the organisation linked to individual job descriptions, person specifications, with performance reviewed annually. This ensures that the individual standards of achievement are met and clearly linked to the achievement of the council's objectives and priorities, and the authority's expectations are delivered by post holders within these roles.

- These posts do not attract performance related pay, bonuses or any other additions to basic salary. This approach enables the council to assess and budget accurately in advance for the total senior pay bill over a number of years.

- The Council is currently the sixth largest single tier authority in the Country and in setting the pay policy for this group, a market position has been established that aims to attract and retain the best talent available at a senior level within a national recruitment context, to lead and motivate the council's workforce that is rewarded under a nationally agreed negotiating framework.

- Roles at this level have all been subject to an externally ratified job evaluation scheme that is transparent and auditable to ensure equality proofing of pay levels.

- Other terms and conditions of employment for this group are as defined within the Joint Negotiating Committee for Chief Officers of Local Authorities Conditions of Service handbook, with discretion to set actual pay levels at a local level, but within a national negotiating framework. These posts are part of the nationally defined Local Government final salary pension scheme.

2.4 Pay Levels

Individual elements of the remuneration package are established as follows at the point of recruitment into the posts:

Role	Spot Salary	Additional Variable Pay
	£	£
Chief Executive	200,000	0
Assistant Chief Executive	120,000	0
Corporate Directors	140,000	0
Head of Legal and Democratic Services	110,000	0

In addition to Chief Officers there are a range of senior roles identified as Heads of Service that are evaluated using the same principles and scheme as the Chief Officers and these roles are remunerated at three levels based on job size, these being:

	£
Heads of Service	110,000
	95,000
	75,000

The Corporate Management Team Pay and Heads of Service pay levels were actually assessed in 2008 in preparation for the new authority by external assessors and the levels set have not been increased since that time.

This Council has agreed a salary structure for its senior posts and agrees that appointment to any vacancies on this structure at the salaries referred to in this statement are permitted. The creation of any new appointments paying over £100,000 should however be presented to Council for approval.

The designated Returning Officer for the Council, who is the Head of Legal and Democratic Services, also carries out the role of Acting Returning Officer in Parliamentary and European elections and other national referenda or electoral processes. These additional roles usually carry an entitlement to payment from central government at levels set by order in relation to each national poll and according to scale of fees agreed by the Council in relation to Local Elections.

Set out in Annex 1 is a scale of fees for the conduct of the County Council and Parish elections. The fees are based on the principle that the Returning Officer and nominated deputies will be remunerated in view of personal responsibilities, but at a rate below that of national elections. National rates are given for other posts such as Presiding Officers, Poll Clerks, Count Staff and postal vote sessions to ensure sufficient interest is maintained in undertaking these roles.

3 The Authority’s Policy on the Remuneration of its Lowest Paid Workers

3.1 Definition of Lowest Paid Workers

In order to promote equity, former manual worker grades in the authority have been incorporated into the national framework, as outlined in the National Joint Council for Local Government Services “Agreements on Pay and Conditions of Service”.

This ensures that the lowest paid workers and the wider workforce share equitable terms and conditions and access to pay and condition arrangements that are set within a national negotiating framework.

This approach ensures fairness, provides market rates in the region for jobs, graded by job size, but with a reference also to the national local government family.

It was agreed at Full Council on 3 December 2014 to remove Spinal Column Points 5-9 from the Council's pay and grading structure with effect from 1 January 2015 and implement a 'Durham Living Wage' of Spinal Column Point 10 (£7.43 per hour) for all Durham County Council employees. This equates to workers (outside of apprenticeship schemes) remunerated in Durham on a minimum full time equivalent annual rate of pay of £14,338 (excluding allowances). This is the Council's definition of 'lowest paid workers'.

4 The Policy Relationship between Chief Officers Pay, the Lowest Paid Workers, and the Wider Workforce

4.1 Current Position

At the inception of the new unitary Council in 2009 the authority had defined:

- The strategy for senior pay within the authority and had recruited into these posts.
- The plan for the approach towards harmonising the pay and conditions of the workforce longer term.
- Taking this approach, also now enables the authority to publish and support recommendations within Will Hutton's review 2011 'Review of Fair Pay in the Public Sector' around publishing the ratio of pay of the organisation's top earner to that of a median earner and tracking this over time, taking corrective action where necessary.
- In setting the relevant pay levels a range of background factors outlined at paragraph 2.2 were taken into consideration for senior pay alongside the significant scope and scale of the authority in the national context.

For example, the scope and scale of the Chief Executive's post encompasses responsibilities commensurate with the largest authorities in the country including responsibility for:

- The provision of wide ranging services to over 500,000 residents of County Durham.
- A gross budget of £1.3bn for service delivery.
- Undertaking the role of the Head of Paid Service to over approximately 17,500 employees.
- Lead Policy Advisor to the Council's 126 Elected Members.

The ratio between the pay of the Chief Executive in Durham County Council and the lowest paid workers is 14:1, against figures published by Government of an expectation to always be below 20:1 in local government.

In addition, during 2015/16 the employer will contribute 13.8% of pensionable pay to the pension fund for all employees in the Local Government Pension Scheme.

4.2 Long Term Planning

In line with the original long term plan, Durham County Council has successfully completed the implementation of a new pay and conditions framework for the wider workforce. This pay scheme is based upon a nationally agreed job evaluation system and the national spinal column points of pay, and will see the authority remain within the existing national pay negotiating machinery.

4.3 Pay Policy Objectives

This planned approach towards pay for the wider workforce, and the use of established and equality impact assessed job evaluation schemes in the exercise will ensure:

- A planned approach towards pay policy for the organisation that enables the council to establish a relationship between pay for senior officers, the low paid and the wider workforce to align to the national guidance

- The provision of accountability, transparency and fairness in setting pay for Durham County Council.

4.4 Pay Policy Decisions for the Wider Workforce

The decision making powers for the implementation of the new pay arrangements is one for the Full Council for the Authority, ensuring that decisions in relation to workforce pay are taken by those who are directly accountable to local people.

5 The Approach towards Payment for those Officers Ceasing to Hold Office Under or be Employed by the Authority

The Council has an agreed policy in relation to officers whose employment is terminated via either voluntary or compulsory redundancy. This policy provides a clear, fair and consistent approach towards handling early retirements and redundancy for the wider workforce, including Chief Officers**.** In setting policy, the Authority does at this time retain its discretion to utilise the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales Regulations) 2006.

6 Policy towards the Reward of Chief Officers Previously Employed by the Authority.

The Council's arrangements for payments on severance are outlined in the Early Retirement/Voluntary Redundancy policy approved by Full Council on 29 October 2014.

Chief Officers leaving the authority under regulations allowing for early access to pension are leaving in circumstances where there is no longer a suitable role for them, and in such circumstances they leave the employment of the Council. Immediate re-engagement in another role would negate redundancy by operation of the Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999.

The Council would not expect such officers to be offered further remunerated employment with the Council or any controlled company without such post being subject to external competition.

The administering authority for the Local Government Pension Scheme does not currently have a policy of abating pensions for former employees who are in receipt of a pension, although this is an area that is kept under review.

The Council is mindful of its obligations under equality legislation and as such is limited in its ability to adopt a policy that it will not employ people of an age that has entitled them to pension access on leaving former employment in the public sector or to propose that such applicants be employed on less favourable terms than other applicants. It expects all applicants for any posts to compete and be appointed on merit.

Annex 1: Proposed Scale of Fees for Whole Area Local Elections

Set out in Annex 1 is a scale of fees for the conduct of the 2013 whole County and Parish Council elections. The fees are based on the principle that the Returning Officer and nominated deputies will be remunerated in view of personal responsibilities, but at a rate below that of national elections. National rates are given for other posts such as Presiding Officers, Poll Clerks, Count Staff and postal vote sessions to ensure sufficient interest is maintained in undertaking these roles.

Core Election Team members will receive an ‘election fee’ covering overtime worked and additional responsibilities undertaken during the election period. The overall fee will reflect the amount received at National Elections for example the Alternative Vote Referendum and the Police and Crime Commissioner Election. Any Election Team member who is paid an ‘election fee’ will not receive any additional payment if undertaking a Deputy Returning Officer role or other roles.

Role	**Fee**	**Comments**
Returning Officer	£100 per division or per contested parish council area	Just over half the rate paid at national elections
Deputy Returning Officers	Capped up to £60 per division or per contested parish council area	Fee dependant on role undertaken and level of fee paid to be determined by the Returning Officer
Election Day		
Presiding Officer	£195 (plus 20% for combination)	National Rate
Poll Clerk	£115 (plus 20% for combination)	National Rate
Polling staff – training fee	£40.00	As at PCC Election
Polling Station- Staff Trainer	£120.00 per session	As at PCC Election
Polling Station Inspector	£19.50 per Polling Station (plus 20% for combination)	National Rate
Postal Votes		
Postal Vote Supervisors including Scanners	£12.50 per hour	National Rate
Postal Vote Assistants	£10 per hour	National Rate
Postal Vote Opening - Training	£20.00	As at PCC Election
Postal Vote Opening - Trainer	£60.00 per session	As at PCC Election

Role	**Fee**	**Comments**
Ballot Box Receipt and Document Sort		
Ballot Box Supervisor	£100.00	As at PCC Election
Ballot Box Receipt Asst	£50.00 per session of up to 4 hours	As at PCC Election
The Count		
Count Supervisor/Adjudicator	£250.00	As at PCC Election
Count Supervisor-Trainer	£50.00	As at PCC Election
Count Senior Assistant	£160.00	
Count Supervisor and Senior Assistant Training	£40.00	As at PCC Election
Count Assistant	£50.00 per session of up to 4 hours	As at PCC Election
Security	£100	
General		
Clerical Assistance – use of temporary staff	£200 per division	National rate
Car Mileage	48p per mile	DCC mileage rate
Poll Card Delivery	12p per card (plus 2p mgt)	As at PCC Election

Annex 2: Proposed Scale of Fees for the conduct of Individual By-Elections

Set out in Annex 2 is a scale of fees for the conduct of individual By-Elections. These fees were agreed by the former District Authorities of the County in 2007.

Election Fees – By-Elections

Returning Officer	£67.00 per 1000 electors or part thereof (per division/ward)
Polling Station:	
Presiding Officer	£180.50 (plus ¼ fee for combined election)
Poll Clerk	£108.75 (plus ¼ fee for combined election)
Polling Station Inspector	£17.00 per station
Mileage	0.45p
Postal Votes Issue:	
Postal Votes Issuing Manager	£120.00
Postal Votes Issuing Supervisor	£60.00
Postal Votes Issuing Assistant	£40.00
Postal Votes Opening:	
Postal Votes Opening Manager	£150.00
Postal Votes Opening Supervisor	£75.00
Postal Votes Opening Assistant	£60.00
Count:	
Count Manager	£260.00
Count Supervisor	£140.00
Count Assistant	£80.00
Miscellaneous:	
Elector Assistance	£17.00 per visit
Attending Training	£40.00
Providing Training	£150.00
Scanning of Returned Ballot Papers	£1.5 per 100 papers or part thereof
Clerical	£89.00 per 1000 electors or part thereof
Preparation of Poll Cards	£1.90 per 100 cards or part thereof
Delivery of Poll Cards	12p per card
Ballot Box Preparation	£5.15
Checking of Ballot Papers	£1.60 per 1000 or part thereof

Appendix 11: Durham County Council Annual Treasury Management Strategy 2015/16

Summary

In accordance with statutory guidance and the Council's Financial Procedure rules, this report presents the proposed Treasury Management Strategy for 2015/16, the Annual Investment Strategy, Prudential Indicators, Minimum Revenue Provision Policy and Treasury Management Practices (Annex 1).

A glossary of terms is provided at the end of the report.

Background

Durham County Council defines its treasury management activities as the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It 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, and any financial instruments entered into to manage these risks.

It 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Any surplus cash balances are invested in low risk counterparties or instruments commensurate with the Council's low risk strategy to always provide adequate liquidity initially before considering investment return.

Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals:

1. **Annual Treasury Management Strategy** – this report covers:

    - Annual Treasury Strategy 2015/16
    - Annual Investment Strategy 2015/16

- Prudential Indicators 2014/2018
- Minimum Revenue Provision Policy 2015/16

2. **Mid-Year Treasury Management Report** – this updates members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

3. **Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Annual Treasury Management Strategy 2015/16

This report covers the following issues in respect of 2015/16:

i. Current treasury position
ii. Capital financing plans (including Prudential and Treasury Indicators)
iii. Interest Rate Outlook
iv. Borrowing strategy
v. Policy on borrowing in advance of need
vi. Debt rescheduling
vii. Annual Investment Strategy
viii. Icelandic Bank investments update
ix. Minimum Revenue Provision (MRP) Policy
x. Policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and Communities and Local Government Investment Guidance.

i. Current Treasury position

The table below shows the Council's position as at 31 December 2014, with comparators for 31 March 2014 and a forecast position for 31 March 2015:

	31-Mar-14 (£m)	Average Rate (%)	31-Dec-14 (£m)	Average Rate (%)	31-Mar-15 (£m)	Average Rate (%)
Borrowing	436.833	4.49	457.659	4.46	245.636	4.06
Investments	92.239	0.72	133.119	0.70	123.000	0.70
Net Debt	344.594		324.540		122.636	

Borrowing is forecast to fall by around £191m in 2014/15. This is as a result of new loans of £25m for the General Fund and £34m for the Housing Revenue Account (HRA), together with £4.25m of scheduled principal repayments and £245.75m of debt attributable to the HRA being repaid as part of the proposed housing stock transfer.

Investment levels will increase by £30m as a result of additional funds from borrowing to maximise the level of Housing debt prior to stock transfer.

ii. Capital financing plans

Housing Revenue Account (HRA)

As a result of the housing stock transfer on 23 March 2015, the figures shown in the tables in respect of the HRA contained in this report will be for 2013/14 and 2014/2015 only.

General Fund Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants and revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The following Prudential Indicators provide an overview and assist members in reviewing plans and performance.

Prudential Indicator 1 Capital Expenditure - this prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below summarises capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need ("borrowing"):

Capital Expenditure	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
Non-HRA	109.590	152.672	153.411	67.329	15.851
HRA	45.698	46.717	-	-	-
Total	**155.288**	**199.389**	**153.411**	**67.329**	**15.851**
Financed by:					
Capital receipts	8.150	10.879	16.619	14.673	6.687
Capital grants and contributions	91.643	80.998	40.082	30.221	0.315
Revenue and reserves	35.378	31.194	0.280	-	-
Net financing need for the year	**20.117**	**76.318**	**96.430**	**22.435**	**8.849**

Prudential Indicator 2 Capital Financing Requirement - the second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

	2013/14 Actual	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
Capital Financing Requirement					
CFR – non housing	374.904	430.590	507.927	507.063	491.544
CFR - housing	232.356	-	-	-	-
Total CFR	**607.260**	**430.590**	**507.927**	**507.063**	**491.544**
Movement in CFR	**3.829**	**-176.670**	**77.337**	**-0.864**	**-15.519**
Movement in CFR represented by					
Net financing need for the year (above)	20.117	76.318	96.430	22.435	8.849
HRA non-dwelling impairment	-0.270	-	-	-	-
Housing Stock Transfer	-	-236.933	-	-	-
Less MRP/VRP and other financing movements	-16.018	-16.055	-19.093	-23.299	-24.368
Movement in CFR	**3.829**	**-176.670**	**77.337**	**-0.864**	**-15.519**

Affordability Prudential Indicators

The previous indicators cover overall capital and control of borrowing, but within these further indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Prudential Indicator 3 Actual and estimates of the ratio of financing costs to net revenue stream – this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2013/14 Actual	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	%	**%**	**%**	**%**	**%**
Non-HRA	5.73	6.49	7.73	9.57	10.59
HRA (inclusive of settlement)	23.78	22.64	N/A	N/A	N/A

The estimates of financing costs include current commitments and the proposals in this budget report.

Prudential Indicator 4 Estimates of the incremental impact of capital investment decisions on council tax - this indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2014/15 Estimate	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	£	**£**	**£**	**£**
Council tax - band D	-1.32	-1.29	3.59	4.93

Prudential Indicator 5 Estimates of the incremental impact of capital investment decisions on Housing Rent levels – similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

	2013/14 Actual	**2014/15 Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
	£	**£**	**£**	**£**	**£**
Weekly housing rent levels	17.60	19.85	N/A	N/A	N/A

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Current portfolio position

The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised overleaf. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m	£m
External Debt					
Debt at 1 April	440.389	436.833	245.636	245.622	255.608
Expected change in Debt	-3.556	-191.197	-0.014	9.986	14.985
Other long-term liabilities (OLTL)	51.087	49.685	49.105	49.324	51.409
Expected change in OLTL	-1.402	-0.580	0.219	2.085	1.386
Actual gross debt at 31 March	**486.518**	**294.741**	**294.946**	**307.017**	**323.387**
The Capital Financing Requirement	**607.260**	**430.590**	**507.927**	**507.063**	**491.544**
Under / (over) borrowing	**120.742**	**135.849**	**212.981**	**200.046**	**168.157**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Corporate Director Resources confirms that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Prudential Indicator 6 Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing. The reduction in the borrowing element of the Operational Boundary is due to the removal of the HRA debt following housing stock transfer.

Operational boundary	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m
Borrowing	381.000	458.000	456.000	439.000
Other long term liabilities	50.000	50.000	52.000	53.000
Total	431.000	508.000	508.000	492.000

Prudential Indicator 7 Authorised Limit for external borrowing - this further key prudential indicator represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003.

This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The reduction in the borrowing element of the Authorised Limit is due to the removal of the HRA debt following housing stock transfer.

Authorised limit	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m
Borrowing	431.000	508.000	506.000	489.000
Other long term liabilities	53.000	53.000	55.000	56.000
Total	484.000	561.000	561.000	545.000

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m	£m
Total	245.747	N/A	N/A	N/A

Treasury Management Indicators

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2015/16	2016/17	2017/18
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	
Limits on variable interest rates based on net debt	30%	30%	
Maturity Structure of fixed interest rate borrowing 2015/16			
		Lower	**Upper**
Under 12 months		0%	20%
12 months to 2 years		0%	40%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

iii. Interest Rate Outlook

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	**25 year**	**50 year**
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

iv. Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The County Council may make use of this new source of borrowing as and when appropriate.

Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Corporate Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

v. Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

vi. Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the relevant Committee, at the earliest meeting following its action.

vii. Annual Investment Strategy

The Council has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility)
2. UK treasury bills or a gilt with less than one year to maturity.
3. Term deposits with UK banks and building societies.
4. A local authority, parish council or community council.
5. Certificates of Deposit.
6. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

Non-specified Investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

- Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity.
- The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they 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 to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council'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 Council seeks to maintain:

- Bank overdraft - £2.5m

- Liquid short term deposits of at least £20m available with a week's notice.
- Weighted average life benchmark is expected to be 6 months, with a maximum of 9 months.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

Investment Counterparty Selection

The primary principle governing the Council'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 Council will ensure that:

- 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; and
- 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 Council's prudential indicators covering the maximum principal sums invested.

The Corporate Director Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Capita's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Capita's creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

The proposed selection criteria for approved counterparties will be:

- Banks 1 **–** the Council will only use banks which are UK banks and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

	Fitch	**Moody's**	**Standard & Poors**
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

- Non UK Banks 1 **–** the Council will only use non UK banks which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings:

	Fitch	**Moody's**	**Standard & Poors**
Sovereign Rating	AAA	AAA	AAA
Short Term	F1+	P1	A1+
Long Term	AA-	Aa3	AA-

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council'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.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies*.* The Council will use societies which meet the ratings for banks outlined above:
- Money market funds
- Enhanced money market funds (EMMFs)
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils etc

Use of additional information other than credit ratings

Additional requirements under the Code of Practice require the Council 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. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 higher quality	AA-	£50m	2 years
Banks 1 medium quality	A	£35m	1 year
Banks 1 lower quality	A-	£25m	100 days
Banks 2 category – part-nationalised	N/A	£60m	2 years
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	N/A	£10m each	5 years
Money Market Funds	AAA	£20m each (overall £100m)	liquid

viii. Icelandic Bank Investments Update

1 The County Council had £7m deposited across the Icelandic banks Glitnir Bank hf (£4m), Landsbanki (£2m) and Kaupthing Singer and Friedlander Ltd (£1m), which all effectively collapsed financially in October 2008.

2 The Council's recovery position at 31 December 2014 is as follows:

- Glitnir: a full distribution was made in March 2012, however an element of the distribution is in the Icelandic Kroner currency, which has been placed in an escrow account in Iceland due to currency controls currently operating in the country. As a result this element is subject to exchange rate risk, over which the Council has no control.

- During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. The proceeds of the sale were paid in Pounds Sterling and were received in February 2014 so the Council is no longer a creditor of Landsbanki.

- Kaupthing Singer and Friedlander: 83.5% of the outstanding balance has been repaid. 85.75% recovery is anticipated in the long run.

3 Following a decision of the Icelandic Supreme Court on 25 September 2013, the Winding up Board of Glitnir must apply the Central Bank of Iceland's official selling rates as at the date of the distribution when calculating the value of payments being made to Creditors in Icelandic Kroner (ISK). Previously, the exchange rate as at 22 April 2009 had been applied to all distributions made. The impact of this decision is that there is on-going uncertainty in relation to the sterling value of future distributions.

4 The total amount of ISK held in escrow on behalf of Glitnir Creditors is around ISK 8.9bn (the equivalent of around £47m) excluding interest earned since March 2012. In addition, the total amount of ISK held in escrow on behalf of Landsbanki Creditors is around ISK 95m (the equivalent of around £0.5m) excluding interest earned since December 2011.

5 The LGA, who work on behalf of the Local Authorities with Icelandic deposits, have discussed the potential options for converting the ISK into another currency and repatriating it to the UK. To date, there has been no appetite amongst Creditors to actively pursue any of the options available.

6 It is important to note that Creditors, like the Council are currently unable to access the escrowed ISK unless and until:

- the Central Bank of Iceland (CBI) approves the requests which have been made by the winding-up boards (WUBs) to exempt the escrowed ISK from the capital controls so that the ISK can be paid from the escrow accounts to each individual Creditor (i.e. into an ISK account in each Creditor's name) (those requests remain unanswered); or

- the capital controls are lifted The date on which the controls will be lifted remains unknown but the Icelandic government has recently announced that it is taking steps towards that goal. Currency auctions are one of those steps.

7 The CBI periodically holds a currency auction to allow parties to:

i. purchase ISK solely for the purpose of long term investment in Iceland;

ii. purchase Iceland treasury bonds; and

iii. purchase EUR in exchange for ISK.

8 The auctions are part of the CBI's strategy for an "orderly" removal of the capital controls. (i.) and (ii.) above result in an inflow of foreign currency into Iceland. (iii.) enables holders of ISK to exchange their ISK for EUR (i.e. an outflow of ISK). The part of the auction that is relevant to Local Authority Creditors is (iii.), the sale of ISK in exchange for EUR. In past auctions, the CBI has sought to match the inflow of foreign currency with the outflow of foreign currency. Given that the demand for foreign currency usually outstrips the supply of foreign currency in the CBI's auctions, previous auctions have resulted in a relatively low level of foreign currency outflow.

9 The consensus among most foreign creditors of the insolvent banks is that when the capital controls are ultimately lifted there is a very real risk that the value of the ISK will fall against other currencies. There is uncertainty as to when the capital controls will be lifted, although there is speculation in recent Icelandic media reports that this may happen during the course of 2015.

10 The CBI is currently reviewing ways in which it can relax the capital controls in a way that will not negatively affect Iceland's financial stability. Various commentators in Iceland have suggested that this is may involve the imposition of an "exit tax" (with suggestions of up to 30-40%) on creditors of the failed Icelandic banks. It is not yet known which creditors might be affected by any such tax or how any such tax might be applied but it may be applied to cross-border capital movement, such as the repatriation of escrowed ISK. If it is, this will have a negative impact on value of Creditors' escrowed ISK.

11 Currently, it is necessary to balance the possibility of finality and certainty which a currency auction may offer with the resultant reduced ISK sale price with the risks discussed in paragraph 11 above. The factors that each Creditor needs to take into account when considering the sale its escrowed ISK will differ from Creditor to Creditor. The Council continues to closely monitor the Icelandic deposits

ix. MRP Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council 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:

- **Based on CFR** – MRP will be based on the CFR (Option 2);
- From 1 April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be:
- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3)

x. Policy on use of external advisers

The Council uses Capita as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports
- Economic and interest rate analysis
- Debt services which includes advice on the timing of borrowing
- Debt rescheduling advice surrounding the existing portfolio
- Generic investment advice on interest rates, timing and investment instruments
- Credit ratings/market information service comprising the three main credit rating agencies

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

Glossary of Terms

Authorised Limit
This is the upper limit on the level of gross external indebtedness, which must not be breached without council approval. It reflects the level of borrowing, which while not desired, could be afforded but may not be sustainable. Any breach must be reported to the executive decision-making body, indicating the reason for the breach and the corrective action undertaken or required to be taken.

Capital Financing Requirement (CFR)
The capital financing requirement (CFR) replaced the ‘credit ceiling’ measure of the Local Government and Housing Act 1989. It measures an authority’s underlying need to borrow or finance by other long-term liabilities for a capital purpose.

It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term (by prudent minimum revenue provision (MRP) or voluntary application of capital receipts for debt repayment etc). Alternatively it means, capital expenditure incurred but not yet paid for.

Credit Default Swaps (CDS)
A credit default swap (CDS) is an agreement that the seller of the CDS will compensate the buyer in the event of loan default. In the event of default the buyer of the CDS receives compensation (usually the face value of the loan), and the seller of the CDS takes possession of the defaulted loan.

CDS pricing can be used as a gauge of the riskiness of corporate and sovereign borrowers.

Credit ratings
A credit rating evaluates the credit worthiness of an issuer of debt, specifically, debt issued by a business enterprise such as a corporation or a government. It is an evaluation made by a credit rating agency of the debt issuer’s likelihood of default.

Credit ratings are determined by credit ratings agencies. The credit rating represents their evaluation of qualitative and quantitative information for a company or government; including non-public information obtained by the credit rating agencies analysts.

Debt Management Account Deposit Facility (DMADF)
The Debt Management Office provides the DMADF as part of its cash management operations and in the context of a wider series of measures designed to support local authorities' cash management.

The DMADF currently offers fixed term deposits. All deposits taken will be placed in, and interest paid from, the Debt Management Account. All deposits will be also guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Financing Costs
An aggregation of interest charges, interest payable under finance leases and other long-term liabilities and MRP, net of interest and investment income.

Housing Revenue Account (HRA)
The Housing Revenue Account reflects a statutory obligation to account separately for local authority housing provision, as defined particularly in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure – maintenance, administration and rent rebates – and capital financing costs, and how these are met by rents, subsidy and other income.

London Inter Bank Bid Rate (LIBID)
The London Interbank Bid Rate (LIBID) is a bid rate; the rate bid by banks on deposits i.e. the rate at which a bank is willing to borrow from other banks.

Minimum Revenue Provision (MRP)
Statutory charge to the revenue account as an annual provision for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds
Money market funds are mutual funds that invest in short-term money market instruments. These funds allow investors to participate in a more diverse and high-quality portfolio than if they were to invest individually.

Like other mutual funds, each investor in a money market fund is considered a shareholder of the investment pool, or a part owner of the fund. All investors in a money market fund have a claim on a pro-rata share of the fund's assets in line with the number of ‘shares' or ‘units' owned.

Net Revenue Stream
This is the element of a local authority’s budget to be met from government grants and local taxpayers.

Non-specified Investments
These are any investments which do not meet the Specified Investment criteria.

Operational Boundary
This is the most likely, prudent view of the level of gross external indebtedness. It encompasses all borrowing, whether for capital or cash flow purposes.

Private Finance Initiative (PFI)
Private Finance Initiative (PFI) was introduced in the 1990s by the government to finance public sector projects. The main aims are to reduce public sector borrowing, introduce more innovative ways to provide public services and utilise private sector skills and experience to increase the efficiency of the public sector.

Prudential Indicators
In order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code, it sets out a basket of indicators that must be prepared and used. The required indicators have to be set, as a minimum, on a three year time frame

and are designed to support and record local decision-making, rather than be a means of comparing authorities.

The purpose is to set these historic and forward looking indicators in a circular process and look at the indicators collectively rather than individually, in order to determine the impact of forward plans for capital or revenue expenditure. For some projects and large commitments to capital expenditure, a timeframe in excess of three years is advisable.

Public Works Loans Board (PWLB)
The Public Works Loan Board (PWLB) is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury.

PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Specified Investments
All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum ‘high’ quality criteria where applicable.

Weighted Average Life
The average time that deposits are lent out for, weighted by principal amount.

Annex 1: Treasury Management Practices

TMP1 Risk management

General statement
The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

[1] credit and counterparty risk management
This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments,* methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

[2] liquidity risk management
This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

[3] interest rate risk management
This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

[4] exchange rate risk management
It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

[5] refinancing risk management
This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer 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.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

[6] legal and regulatory risk management
This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It 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[1] *credit and counterparty risk management*, it 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.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

[7] fraud, error and corruption, and contingency management
This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[8] market risk management
This organisation 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 it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance measurement

This organisation is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

TMP3 Decision making and analysis

This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4 Approved instruments, methods and techniques

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*. Where this organisation intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

This organisation considers it essential, for the purposes of the 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, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

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.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer 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.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

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

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 Reporting requirements and management information arrangements

This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
As a minimum:

The organisation (i.e. full board/council) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The committee/board/council will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector specific guidance notes.

TMP7 Budgeting, accounting and audit arrangements

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *liquidity risk management*.

TMP9 Money laundering

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP10 Training and qualifications

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals 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 responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 Use of external service providers

This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

TMP12 Corporate governance

This organisation 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.

This organisation has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.