**County Council**

**24 February 2016**

# Medium Term Financial Plan 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17

## Report of Cabinet
## Councillor Simon Henig, Leader of the Council

### Purpose of the Report

1 To provide County Council with the financial details of Cabinet's budget recommendations for the 2016/17 Revenue and Capital Budget and Medium Term Financial Plan (MTFP (6)) 2016/17 to 2019/20.

### Executive Summary

2 The financial outlook for the Council and the whole of local government remains extremely challenging. The Council has faced government funding reductions since 2010/11 with reductions forecast to continue until at least 2019/20.

3 The Chancellor of the Exchequer's Autumn Statement published on 25 November 2015, announced an overall improvement in the public finances compared to their previous forecasts which afforded some protection for unprotected government departments. Unfortunately this protection was not given to local government and in cash terms, the average reduction in budgets for unprotected government departments over the 2016/17 to 2019/20 period is circa 6%, whereas the reduction for local government over the same period is circa 53% in cash terms.

4 It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, resulting in the longest period of austerity in modern times. By 31 March 2016 the Council will have delivered savings of £153m since 2011. In the January 2016 MTFP Cabinet report it was forecast that the savings required between 2016/17 and 2019/20 would be circa £124m. Having further analysed the final Local Government Finance Settlement of 8 February 2016, it is now forecast that the savings required for this period will be £104m, mainly due to confirmation of receipt of increased Better Care Funding from 2017/18 to 2019/20 and the forecasted council tax income of £15m from 2016/17 to 2019/20 from the Government's 2% adult social care precept.

5 The Council was originally forecasting that funding reductions would be applied in line with previous government policy, however following lobbying from some local authorities including Durham, the Association of North East

Councils (ANEC) and the Special Interest Group of Municipal Authorities (SIGOMA), the government has made some methodology changes which have beneficially impacted upon our previous savings forecast as shown below:-

(i) Revenue Support Grant (RSG) reductions are now based upon a Core Spending Power calculation which includes Council Tax and Business Rate income as well as RSG. This has resulted in a fairer apportionment of reductions in RSG across all local authorities going forward, but does not address the inequality of cuts applied across the period 2011/12 to 2015/16.

(ii) Local authorities providing adult social care services have been given the flexibility to increase council tax by an additional 2% for an adult social care precept over and above the existing 2% referendum level. In reporting the percentage Core Spending Power reduction applied to local government, the government has assumed that all authorities responsible for adult social care will apply the additional 2% social care precept increase in each of the next four years.

(iii) The Better Care Fund (BCF) has been increased by £1.5bn nationally and will be allocated directly to local authorities rather than through a pooled budget arrangement with the National Health Service. The allocation will take into account each local authority's ability to raise income via the additional 2% council tax adult social care precept flexibility. The Council will receive £23m in this regard, although the majority of this additional funding will not be received until 2018/19 and 2019/20 and the funding for this will come from top sliced funding, primarily the New Homes Bonus.

6 Although the provisional settlement resulted in local authorities Core Spending Power varying by broadly the same level, it would appear that following intense lobbying by shire county councils, the government has identified additional funding of £211m to be targeted at those authorities whose Revenue Support Grant has reduced by the 'highest percentage' and also at 'rural' authorities. Unfortunately, although Durham already faced a higher Core Spending Power cut than the national average, the Council has not received any increase in funding from this additional £211m allocation. Shire county councils have received significant additional funding allocations for 2016/17 and 2017/18 e.g. Surrey will receive an additional annual allocation of £11.9m, Hampshire an additional £9.4m, North Yorkshire an additional £9.2m and Cumbria an additional £5.2m.

7 The additional funding allocated to shire county councils has also resulted in significant improvement in their respective Core Spending Power positions in 2016/17 with North Yorkshire receiving an increase of 2.5% which would be the equivalent of a £10m funding increase for Durham if the council had received the same 2.5% increase.

8 In addition to the reductions in Revenue Support Grant, the Council will face additional reductions over the next four years in specific grants in relation to

New Homes Bonus, Public Health, Education Services and Benefit Administration. In addition, updated forecasts of demographic and other inflationary pressures arising from the National Living Wage have had to be accommodated within the MTFP(6) forecasts.

9 Overall, the Council's final settlement position is only slightly better than the provisional settlement due to receiving £140k more than forecast from the New Homes Re-imbursement grant. The delivery of additional savings of £104m across the next four years will be extremely challenging and will mean the Council needing to deliver cumulative savings of £258m between 2011/12 and 2019/20.

10 The forecasted savings required to balance the 2016/17 budget are £36.8m and includes forecast savings of £4.3m in relation to Public Health. The 2016/17 savings plans included in this report amount to £28.3m therefore the £4.2m savings shortfall will be covered by the utilisation of £1.6m of the Budget Support Reserve (BSR) and the utilisation of the £2.6m 2015/16 Collection Fund surplus. The utilisation of these sums will enable the Council to delay the impact of further cuts in front line services until later years. At this stage it is also forecast that an additional £11.6m of BSR will be utilised in 2017/18, bringing the total use of this reserve to £13.3m.

11 The Council has consulted with the public and stakeholders as part of the MTFP (6) development. During autumn 2013 a major exercise was carried out which 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 both the autumn of 2014 and the autumn of 2015, with the public and partner agencies. In the most recent consultation, the majority of responses indicated that the priorities established in 2013 were still appropriate.

12 A second phase of MTFP (6) consultation was carried out at public events in December and January. There was support for the Council's approach to managing savings. In addition, there was general support in the Council taking advantage of the additional 2% council tax precept to support adult social care services and in so doing enabling the Council to protect front line services.

13 The Council's MTFP strategy for the last five years has been to protect front line services as far as possible and the 2016/17 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 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.

14 Detailed savings proposals are included in the report for 2016/17 as shown at Appendix 4 with high level, indicative savings also included for 2017/18. The final Local Government Finance Settlement published on 8 February 2016 provided details of RSG cuts up to 2019/20 and also provided the opportunity for local authorities to receive confirmation of this 'four year settlement' on the

production of an ‘Efficiency Plan’. Cabinet agreed on 13 January to provisionally notify the government how the Council would be minded to submit an efficiency plan in order to receive confirmation of a four year financial settlement subject to approval by Full Council. This report describes how the Council fulfils the Government’s requirements to produce an efficiency plan which is shown at Appendix 3.

15 In the setting of council tax levels for 2016/17, consideration has been given to the significant financial pressures facing the Council and how best to meet these pressures. The Government has confirmed that the maximum the Council can increase council tax by is 1.99% without approval from a majority of council tax payers to increase it higher after a public referendum. The Government has also provided the option to increase council tax by an additional 2% adult social care precept to local authorities like Durham who provide adult social care services. This report therefore recommends a 3.99% Council Tax increase in the Council’s Band D Council Tax in 2016/17, which will generate additional income of £7.1m. The 3.99% increase would result in an average increase of £1.02 a week for all Council Tax payers and an increase of 68 pence a week for the majority of Council tax payers in County Durham, who live in the lowest value properties (Band A). Continued increases of 3.99% are also factored into the MTFP across the period 2017/18 to 2019/20.

16 Despite this very challenging financial period through the scale and sustained level of Government spending cuts and the impact on the Council’s finances, this report includes some very positive outcomes for the people of County Durham including:

(i) Continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme where they will be entitled to up to 100% relief against their council tax payments;

(ii) Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;

(iii) Continue to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the ‘Durham Ask’ initiative;

(iv) Significant investment in capital expenditure in line with the Council’s highest priority of regeneration in order to protect existing jobs and create as many new jobs as possible including investing in our town centres and industrial estates; extending fast speed broadband access across the whole county and infrastructure including new transport schemes and maintenance of our highways and pavements.

17 As outlined in previous MTFP reports, equality impact assessments are also summarised to inform the consultation and subsequent decision making. Workforce implications arising from proposals for 2016/17 savings have been

analysed and the projections for the number of posts to be removed as a consequence of austerity have been increased by an estimated 400 posts.

## Background

18 The Council's MTFP (6) is aligned to the Council Plan, which sets out the Council's strategic service priorities over the next three years 2016/17 to 2018/19 with an indicative direction of travel for 2019/20.

19 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.

20 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 (6):-

(i) To set a balanced budget over the four year 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

21 The final Local Government Finance Settlement was published on 8 February 2016 and includes RSG and forecast Top Up grant allocations for the period 2016/17 to 2019/20.

22 The Government has made changes to the provisional settlement following the extensive lobbying from shire county councils who complained that the settlement was worse than they had forecast.

23 The Council Tax Referendum Limit is confirmed at 2%. The Government has also confirmed that an additional 2% council tax precept could be levied by local authorities providing adult care services. Cabinet agreed on 13 January to provisionally notify the government that the Council would be minded to increase council tax by the additional 2% adult social care precept subject to further public consultation and approval by Full Council. The MTFP(6)

forecasts assume that the additional 2% adult social care precept will be applied across the whole MTFP(6) period in addition to the current 1.99% council tax increase forecast.

24 The final settlement includes details of core grants including RSG and Business Rates 'Top Up' Grant. The table below highlights the 2016/17 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 – 2016/17 Settlement Funding Assessment**

| Funding Stream | 2015/16 | 2016/17 | Variance | |
|---|---|---|---|---|
| | £m | £m | £m | % |
| Revenue Support Grant | 100.240 | 77.140 | (23.100) | (23.0) |
| Business Rates | 55.050 | 55.500 | 0.450 | 0.8 |
| Top Up Grant | 60.491 | 61.000 | 0.509 | 0.8 |
| **SFA** | **215.781** | **193.640** | **(22.141)** | **(10.3)** |

25 The table above highlights that the SFA has reduced by 10.3% in 2016/17 although of more importance is the reduction in RSG. The government has also announced that specific grants in relation to both the Care Act and Local Lead Flood Authorities have been transferred into RSG. In 2015/16 the Council received £2.770m and £0.047m respectively in relation to these funding streams. After taking these transfers into account the actual reduction in RSG in 2016/17 is therefore £25.9m or 25.8%.

26 In addition to the above 'core' grants the Council continues to face reductions in Specific Grants. The Council still awaits confirmation of the 2016/17 allocations for a wide range of specific grants. The table below provides details of the allocations confirmed to date whilst Appendix 2 provides a comprehensive list of all specific grants the council expects to receive for 2016/17.

**Table 2 – Reduction in 2016/17 Specific Grants**

| Specific Grant | 2015/16 | 2016/17 | Variance | |
|---|---|---|---|---|
| | £m | £m | £m | % |
| Education Services Grant | 6.002 | 5.407 | (0.595) | (10) |
| Public Health Grant | 55.568 | 51.246 | (4.322) | (8) |
| Housing Benefit Admin | 2.593 | 2.482 | (0.111) | (4) |

27 Overall, the final settlement position for 2016/17 is broadly in line with the Council's forecasts reported to Cabinet on 13 January. The major adjustments are the reduction in the previously forecast £40.6m savings target to the current £36.8m level due to the additional £3.6m generated from the recommended additional 2% council tax adult social care precept. The forecasted Collection Fund surplus of £2.617m has also been included in the 2016/17 budget model where the impact has been a corresponding reduction in the use of the BSR.

28 Cabinet agreed on 13 January to provisionally notify the government how the Council would be minded to submit an efficiency plan in order to receive confirmation of a four year financial settlement subject to approval by Full Council. The Council advised DCLG by their 15 January deadline of the Council's intention of publishing a plan and at this time we are awaiting confirmation of the security that might be offered as part of the four year settlement. Our Efficiency Plan is included in this report at Appendix 3.

**Analysis of Final Settlement**

29 The Council along with the ANEC and SIGOMA, have campaigned extensively for the government's funding reduction methodology to change on the basis that the system between 2011/12 and 2015/16 resulted in higher 'Spending Power' cuts to more deprived areas with higher needs such as Durham and the north east when compared to local authorities in more affluent areas as the methodology included public health and Better Care Fund specific grants and ignored need, council tax raising capacity and retained business rate income.

30 To an extent, the government has taken these views into account as part of this settlement and has adjusted the methodology and simplified the calculation of Spending Power. The main change in this regard is that Public Health Grant and the original Better Care Fund (BCF) allocations have been excluded. However, in practice, this masks the true Spending Power position for each local authority due to the reduction in the Public Health Grant.

31 The Government's revised 'Core Spending Power' calculation includes the following:

(i) The Settlement Funding Assessment (SFA) for the Council. This includes assumed retained Business Rates, the Top Up Grant and RSG.

(ii) The council tax requirement. This includes the following assumptions:-

(a) Annual growth in the council tax base, utilising the actual average growth between 2013/14 and 2015/16;

(b) An average 1.75% annual increase in Council tax.

(iii) The potential additional council tax income available from the 2% adult social care council tax precept flexibility. It has been assumed in published figures that this flexibility is utilised in each of the four years up to 2019/20.

(iv) The additional funding available from the BCF from 2017/18.

(v) New Homes Bonus. The government has forecast how much this funding stream may reduce in future years to finance the increase in BCF.

32 In the future, to ensure local authorities providing the same services experience similar overall funding reductions, the RSG cut will be based upon total Core Spending Power rather than just the value of RSG. This change should ensure a fairer allocation of funding cuts going forward whilst austerity continues. It does not however rectify the inequitable levels of cuts applied to date.

33 The additional BCF funding will not be allocated based upon the current BCF methodology. Instead to calculate the new BCF allocation, the government has taken into account the following:

(i) Identifying the total additional sum available nationally over the next four years for adult social care from the 2% council tax precept flexibility and the extra income from the additional BCF.

(ii) Calculating what proportion of the national total sum available each local authority providing adult social care services should receive based upon their individual proportion of the 2013/14 adult social care Relative Needs Formula (RNF).

(iii) Calculating how much each local authority could generate from the additional 2% adult social care council tax precept flexibility.

(iv) Calculating for each local authority the additional BCF allocation by deducting the sum which could be generated from the 2% adult social care council tax precept increase from the RNF calculation.

34 This new approach is fairer to areas such as Durham who have low tax raising capacity and has resulted in the Council receiving a higher than average provisional BCF allocation. This approach should also reflect the higher adult social care needs of an area such as Durham.

35 Although the approach followed is fairer for councils like Durham than the approach followed in previous years, the shire county councils have lobbied extensively during the provisional settlement consultation process to receive some level of transitional funding on the basis of the settlement being worse than they were forecasting. The Government appears to have listened to their lobbying and provided £150m of Transitional funding for both 2016/17 and 2017/18 whilst also increasing the Rural Services Delivery Grant by £61m a boost in total of £211m for the benefit of these councils.

36 The Transitional funding has been targeted at those authorities whose RSG has reduced by the highest percentage in 2016/17 and 2017/18. This is an unfair approach to take as RSG is only one part of Core Spending Power. It would have been fairer if the additional £150m of funding was allocated based upon each local authority's proportion of national Core Spending Power which would have resulted in all councils, including Durham receiving a 'fair share'. The Council however will not receive any of this additional Transition funding with the final settlement for RSG being the same as the provisional settlement.

37 In terms of the Rural Services Delivery Grant, this is targeted at those authorities deemed to be in the top 20% nationally in terms of sparsity. Although Durham is a largely rural authority the council does not receive any of this additional allocation.

38 The additional £211m funding allocated in 2016/17 has resulted in shire county councils and southern unitary authorities receiving significant budget increases for both 2016/17 and 2017/18. The annual increases for a number of authorities are detailed below:

| | £m |
|---|---|
| Surrey | 11.9 |
| Hampshire | 9.4 |
| North Yorkshire | 9.2 |
| Devon | 8.3 |
| Cumbria | 5.2 |

39 In terms of Core Spending Power, the additional funding has also resulted in significant improvements for these authorities. In 2016/17 North Yorkshire has received an improvement in Core Spending Power of 2.5%. If the Council had received the same 2.5% Core Spending Power increase, we would have received additional funding of £10m which would have been replicated in 2017/18.

40 In terms of the calculation of the Council's Core Spending Power, the table overleaf details the final settlement position published by the government for the period up to 2019/20. It is important to note that the government has assumed that all local authorities will utilise the flexibility to increase council tax annually by the additional 2% adult social care precept on top of an assumed average 1.75% council tax increase i.e. an assumption of a total 3.75% annual increase. The government has also forecast the impact of reducing the sum available nationally for New Homes Bonus (NHB).

**Table 3 – Core Spending Power Analysis**

| | **2015/16 Adjusted** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Settlement Funding | 219.2 | 193.6 | 174.8 | 164.2 | 153.8 |
| Council Tax Requirement | 174.1 | 178.0 | 182.8 | 187.9 | 193.4 |
| 2% Council Tax Social Care Precept Flexibility | 0 | 3.5 | 7.3 | 11.3 | 15.7 |
| Improved Better Care Fund | 0 | 0 | 2.4 | 13.4 | 23.1 |
| New Homes Bonus | 8.7 | 10.5 | 10.5 | 6.6 | 6.3 |
| **TOTAL** | **402.0** | **385.6** | **377.8** | **383.4** | **392.3** |

**Note** – Government forecast reduction in Council Core Spending Power **- 2.4%**

41 The forecast reduction in Core Spending Power over the next four years for the council is 2.4% compared to a national average reduction of 0.5%. This position is not truly reflective however and it is important to note the following in relation to the above:

(i) The government has assumed a 3% average increase every year in Business Rate income and Top Up Grant.

(ii) The government is forecasting an additional 1% per annum increase in council tax base.

(iii) The New Homes Bonus reduced figures are estimates at this stage.

(iv) No account is taken of the £83m of base budget pressures faced by the Council over the next four years including an estimated £22.6m increase in contractor costs related to the introduction of the government's National Living Wage up to 2019/20.

42 The Council's reduction in Core Spending Power in 2016/17 will be the sixth year in which the Council has faced a higher reduction in Core Spending Power than the national average. Examples of the reduction in Core Spending Power in 2016/17 are detailed overleaf:

| | 2016/17 Reduction in Core Spending Power % |
|---|---|
| England Average | 2.3 |
| Durham County Council | 4.1 |
| Newcastle | 4.4 |
| Sunderland | 4.3 |
| Surrey | 1.0 |
| Wokingham | 0.4 |
| North Yorkshire | 0.3 |

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

(i) In affluent areas, significant numbers of service users, especially in adult social 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 to provide services in deprived areas is much higher than in affluent areas.

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

44 Regardless of this, the Spending Power per dwelling data highlights how significantly the funding of an area such as Durham has declined over recent years. The table below highlights the 2016/17 Spending Power per dwelling for a range of local authorities. The England average excludes District Councils.

**Table 4 – 2016/17 Core Spending Power per Dwelling**

| Area | Core Spending Power Per Dwelling |
|---|---|
| | £ |
| England | 1,838 |
| Durham | 1,608 |
| Wokingham | 1,723 |
| Reading | 1,780 |
| Nottingham City | 1,844 |
| Surrey (including Districts) | 1,955 |

45 Considering the levels of deprivation in County Durham, it is disappointing that the government's Spending Power per dwelling calculation for Durham is now significantly less than the England average. The impact of above average funding reductions for six years has resulted in a relative position for Durham which is neither proportionate nor fair. By way of a practical example; it is staggering to think that a relatively deprived area like Durham should have a lower Spending Power per dwelling compared to a more affluent area such as the county area of Surrey which has a 20% higher spending power per dwelling than Durham. Bearing in the mind the difference in 'need' of the respective areas it would appear to be more logical if Durham had a 20% higher spending power than the Surrey county area rather than the other way around.

**Consultation**

46 The budget consultation for 2016/17 builds on the major MTFP consultation exercise carried out in 2013, which involved more than 4,000 people and provided a clear steer on which services should be prioritised for a standard, larger or smaller reduction for the period 2013 to 2017.

47 The 2016/17 consultation was carried out in two phases. Phase one concentrated on the service priorities identified in 2013 and whether they continued to be relevant as well as what more could be done to encourage greater involvement in the Durham Ask. The outcomes of phase one were reported in the December report. The key findings were:

(i) The priorities identified in 2013 continue to be relevant, and

(ii) That the Council raise awareness of the Durham Ask and provide communities with clear information, support and timescales.

48 Key partners and the wider public participated in the second phase of the consultation which took place between 16 December 2015 and 12 January 2016. The consultation sought views on three key areas;

(i) the council's approach to managing the reductions to date,

(ii) the specific proposals for 2016/17 as reported to Cabinet in December, and

(iii) the potential introduction of the adult social care precept.

49 In total, 139 people participated in twenty facilitated groups across three consultation events. They were asked to score on a scale of 1-10 (1 being poor and 10 being excellent) how the Council had managed the reductions to date and also to provide feedback on our approach. The average score across the twenty groups was 7.5. Discussions indicated broad agreement with the Council's approach, with all groups expressing that we had managed the process well. In particular positive comments were made about our

innovative solutions, partnership working and asset transfer/Durham Ask. These areas are expanded in the table overleaf.

**Table 5 – Consultation Feedback**

| Theme | Examples or comments |
|---|---|
| Innovative solutions (seven groups) | • Environment management such as flower meadows (seven groups)<br>• Reduced library hours rather than closure (seven groups)<br>• Waste disposal (four groups) |
| Partnership working (eight groups) | Increase partnership and inter agency working as it delivers results. |
| Improved consultation and engagement (six groups) | Groups commented on the visible increase in consultation, engagement and dialogue throughout the council budget process. |
| Asset transfer/ Durham Ask (eleven groups) | Durham Ask was felt to be a good idea and a well-managed approach. Groups stressed the need for continued support as well as allowing sufficient time for the process. Concern was raised about a growing reliance on volunteers. |

50 Participants stated that they understood that the council needed to make difficult decisions (six groups). They generally felt the council is managing this approach well and that there have been no significant impacts to date (nine groups). However, there was recognition amongst the consultees that other people or communities might have felt greater impacts from the cuts.

51 It was also recognised that as reductions continue and frontline services are increasingly affected, impacts will be seen (ten groups). Some notable impacts include:

(i) Increased fly tipping felt to be due to charges for bulky waste (seven groups)

(ii) Increased number of pot holes (five groups)

(iii) Reduced street lighting (two groups).

52 Four groups suggested that impacts have been felt more significantly in rural areas, particularly regarding bus routes.

53 When the twenty groups where asked to consider the specific proposals for reductions in 2016/17, ten indicated support for the approach and the identified reductions and no groups disagreed.

54 Most groups (fifteen groups) stressed the need for ongoing consultation regarding specific reductions and requested that at each point more information should be provided.

55 The consultation strongly supported the need to continue the innovative approach, (eight groups), partnership/collaborative working (eight groups), and the protection of front line services (four groups) particularly those for vulnerable people (three groups) wherever possible. It was indicated that where possible we should continue to target reductions from back office and senior posts (thirteen groups).

56 The need to maximise income by introducing and increasing charges was stressed (nine groups) as well as continuing to attract inward investment including European markets and funding (three groups). Another suggestion was to identify further savings through the expansion of sharing and charging for services at a regional level such as IT or human resources (seven groups).

57 The use of reserves to meet savings targets was supported by seven groups whilst 1 group questioned the use of reserves for revenue as it could impact on interest received.

58 During the discussions, many of the groups (five groups) highlighted the need to consider council owned buildings and land, with the aim of reducing costs and bringing in income through sale. In particular:

(i) Unoccupied buildings

(ii) Buildings which are expensive to run

(iii) Industrial and commercial units

59 Co-location of services with other organisations such as police, fire or community buildings was suggested by seven groups.

Other discussions included:

(i) Concerns about the impact of reducing AAP Area Budgets (seven groups), whilst one group suggested that these budgets should be reduced further

(ii) Six groups commented on the impact of savings in rural areas, some stressing that rural proofing should be applied in future savings.

(iii) More innovative use of community assets such as community groups and centres (four groups)

(iv) Focus provision of certain services and facilities on a smaller number of centres. Suggestions included:
   (a) AAPs (two groups)
   (b) Leisure centres (two groups)
   (c) Libraries (one group).

(v) Reconsider reductions in funding to the voluntary and community sector and/or reduce the impact on the sector by considering other options such as offering support, rent reductions or help with human resources (two groups).

60 In relation to the adult social care precept, eighteen groups indicated that they would support the introduction of the 2% precept. Two of these groups would have supported a 4% or higher precept if this were possible. One group disagreed with the introduction of an additional precept on the basis that it would not have significant impact in their view and one group could not reach an agreement.

61 When asked how the adult social care precept could be used, a range of responses was received, however the following areas were most frequently mentioned:

(i) Services to keep older people in their own homes, including support for carers and families (twelve groups)

(ii) Services for those with Dementia/Alzheimer (five groups)

(iii) Services to enable efficient transition from hospital to home (five groups).

62 Other comments about the introduction of the adult social care precept focused on the need for efficiency, smarter working arrangements and effective links between NHS and council services.

63 In addition to being represented at the consultation events, key partners were invited to submit comments on the Council's budget proposals and to identify if any of the proposals would have a negative impact on their organisation's priorities and workload.

64 Three key partners, the police, fire service and the County Durham Association of Local Councils provided written responses on the council's overall approach to managing its budget. Their responses indicated a full appreciation of the position that the council is in and support the approach to the reductions to date. They specifically supported the continued protection of front line services for vulnerable people where possible. The responses supported continued collaboration, partnership working and on-going dialogue relating to the budget reductions in order to avoid duplication, minimise impact and maximise value for money.

65 In addition to the cross cutting responses, a small number of specific comments where received and these have been passed onto the relevant services for consideration as part of specific consultation.

## Scrutiny Committee Feedback

66 Scrutiny members met on the 26 January 2016 to consider the December and January MTFP 6 reports. The Chairman of the Overview and Scrutiny Management Board presented the members' comments from these meetings at the Cabinet meeting on 17 February and these are summarised below.

67 A summary of the Chairman's comments are shown below.

68 Overall, members of the Corporate Issues Overview and Scrutiny Committee were supportive of the extensive analysis and work undertaken on behalf of Cabinet in analysing the implications of the Government's spending review and the Local Government Finance Settlement. In particular, they wanted to thank officers for their hard work in interpreting and explaining the medium term financial outlook for the Council.

69 The Committee noted that whilst the provisional Revenue Support Grant and some details on specific grants had been received, there remained considerable uncertainty in terms of the final settlement and the figures for public health, Better Care Fund and New Homes Bonus. The Committee felt that this level of uncertainty at such a late stage in budget setting was unacceptable and that the Council should continue to make representations to Central Government with regard to the timeliness of funding figures.

70 Turning to the likely level of the final settlement figure, members remained extremely concerned about the high level of savings required by local government and this Council over the next four years, but welcomed the new methodology adopted by Central Government which will mean a fairer approach to budget cuts, if followed through in the final settlement.

71 In terms of the individual savings proposals, two members of the committee had particular concerns in relation to the proposed Area Action Partnership savings which they suggested should be delayed, although this was not supported by the whole committee. In the future, members of the committee agreed that they would like to see greater detail in the savings proposals for consideration by scrutiny, and that this detail should be provided if possible at an earlier stage in the MTFP process. Feedback from the final scrutiny session which is taking place on Friday 19 February will be provided to the full council meeting by the chair of Overview and Scrutiny Management Board.

## Medium Term Financial Plan Strategy

72 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.

73 Throughout the period covered by the MTFP (1) 2011/12 through to MTFP (6) 2019/20, the cumulative savings required has risen from £123m to £258m. It is therefore clear that it will become increasingly difficult to protect frontline services going forward.

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

(i) £153.2m of savings will have been delivered by 31 March 2016.

(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 even higher savings over time.

(iii) The number of employees earning over £40,000 since 2011 has reduced by 34% and has therefore significantly reduced management costs.

(iv) Proportionately, 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 (6) that there would be a reduction in posts of 1,950 by the end of 2014/15 with the actual figure being broadly in line with this forecast. Looking ahead with the significant savings requirements over the next two years, the Council is expecting to see further reductions in the workforce. For 2016/17 the forecast is a further reduction of around 400 posts including the deletion of an anticipated 60 vacant posts.

(vii) Following the abolition of the national Council Tax Benefit system in 2013 and despite government funding reductions for the Local Council Tax Reduction Scheme, the Council has been able to maintain a scheme that protects all working age households in line with the support they would have previously received under the Council Tax Benefit system. This is a significant achievement and the Council is one of small number of Councils that have been able to maintain this support at a time when working age households are suffering from continued impacts of the government's welfare reforms.

(viii) The council has been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.

75 The benefits 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 smooth delivery of the savings targets and enabled a managed implementation of proposals across financial years.

76 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 the implementation and delivery on time, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the ongoing financial challenges across this medium term financial plan and beyond, where savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and 'smooth in' reductions across financial years.

77 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 (6) have identified unavoidable impact on vulnerable people, the Council works hard with partners to minimise this impact as far as possible. In MTFP (6), support has been continued to protect working age people on low incomes through the continuation of the existing Council Tax Reduction Scheme. 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 delivering cashable efficiency savings since local government reorganisation. This includes rationalisation of Council buildings and IT systems as well as implementing significant 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) **Work with the community:** The Council is a forerunner in asset transfer, having successfully transferred a number of leisure centres, a golf course, community buildings and children's centres 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 to community groups so long as there is a business case supporting the sustainability of the transfer.

(iv) **Fees and 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.

78 It is clear that austerity will continue over the four year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66m in 2011/12, the Council is likely to face two more years where the savings 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 £258m since 2011/12 up to 2019/20 and means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of services.

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

80 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 49% of business rates raised locally. Economic regeneration has always been the top priority for the Council. Unfortunately the practical consequences of these changes shifts risks once managed nationally to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the Council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years and pre-date the introduction of Business Rates Retention.

(iii) The Chancellor of the Exchequer's 2015 Autumn Statement confirmed the government's aspiration that local authorities will be able to retain 100% of business rates collected locally by the end of this parliament. The transfer of 100% of business rates would result in local government as a whole receiving more income than would be required. On this basis, the government has confirmed that additional service responsibilities will be transferred to local government. Although the transfer of service responsibilities will be consulted upon, the government has indicated at this stage that they would favour transferring Public Health funding and Attendance

Allowance payments (currently administered by the Department of Works and Pensions) into the Business Rate Retention Scheme. The transfer of Attendance Allowance in particular is likely to result in local authorities facing a range of additional risks in terms of demand.

(iv) The government's proposed Welfare Reform changes carry 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.

(v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply and are not currently recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget.

81 Since clarity has been received in relation to RSG settlements up to 2019/20, there can be some confidence in the savings targets over the next four years. On that basis, detailed savings plans have been developed for 2016/17 and high level indicative savings plans for 2017/18, three of which would deliver additional savings in 2018/19 and 2019/20 if ultimately delivered.

82 Over the coming months work will continue on refining the plans for 2017/18 and developing additional savings plans and strategies for the period 2018/19 and 2019/20. The certainty in terms of RSG settlements in those years will be helpful in terms of financial planning, although delivery of the scale of savings that we need to in these years will be extremely challenging and cuts in front line services will be inevitable.

**Revenue Budget for 2016/17**

83 Regular updates on the development of the 2016/17 budget have been agreed by Cabinet since July 2015. These updates have provided detail upon the forecast resources available, budget pressures and the savings required to balance the budget. This report provides details on the final position.

**Base Budget Pressures in 2016/17**

84 Base budget pressures have been reviewed over the last year. Table 6 provides detail of the final position on the 2016/17 Base Budget pressures.

**Table 6 – 2016/17 Base Budget Pressures**

| Pressure | Amount |
|---|---|
| | £m |
| Pay Inflation | 3.300 |
| Price Inflation | 2.500 |
| Corporate Risk Contingency Budget | (3.000) |
| Employers Nat. Insurance increase – State Pension changes | 4.500 |
| Costs associated with the National Living Wage | 4.000 |
| Single Status implementation | 4.537 |
| Employer Pension Contributions | 0.900 |
| Employee Increments | 2.581 |
| Pension Fund Auto Enrolment | 0.100 |
| Climate Change Levy | 0.200 |
| Care Act Grant | 1.100 |
| Local Lead Flood Grant – transferred into RSG | 0.047 |
| CAS Demographic and Hyper Inflationary Pressures | 1.000 |
| Use of Earmarked Reserve in CAS | 4.150 |
| **TOTAL PRESSURE** | **25.915** |

**Additional Investment**

85 Additional budget provision is required for price inflation, the cost of the forecast pay award, costs in relation to employer pension contributions and employee increments.

86 The introduction of a national living wage from April 2016 has resulted in the Council facing a forecast £4m budget pressure in 2016/17 due to likely increases in contract prices including adult social care contractors where salaries paid by care providers are often at or near to the national minimum wage.

87 The Council faces significant budget pressures in relation to the implementation by the government of the Single State Pension which results in an increase in employer national insurance contributions for the Council. Similarly the Council has been utilising earmarked reserves for a number of years to delay the impact of costs in relation to demographic pressures in adult services and costs relating to the implementation of single status in 2012. The ongoing costs in this regard have been introduced as a base budget pressure.

88 The 2016/17 budget will allow the Council to continue to invest in infrastructure growth. Under normal circumstances an additional £2m of revenue would be provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels forecast and Interest rates continue to be at historically low levels. On this basis, it is forecast that the current budget available for prudential

borrowing will be able to absorb the costs associated with the capital bids detailed within this report without the need for additional revenue funding. A key priority of the Capital Programme continues to be regeneration and job creation within the local economy.

**Savings Methodology**

89 To date, the Council has delivered the savings required on schedule where each of the years 2011/12 to 2015/16 annual savings targets have been achieved totalling £153.2m.

90 The savings target for 2016/17 is £36.847m. Public Health expenditure is forecast to be reduced by £4.3m in line with the government reduction in the Public Health specific grant. In addition £1.622m of the BSR will be utilised to delay the impact of savings upon front line services as well as the £2.617m 2015/16 Collection Fund surplus. Savings required to realise the remaining £28.286m of savings are detailed in Appendix 4 apportioned across each Service Grouping along with 'Corporate' savings.

91 Based upon the four year settlement provided by the government, the Council has also developed high level indicative savings plans for 2017/18 which are also detailed in Appendix 4. Over the coming months the Council will develop savings plans for 2018/19 and 2019/20 and these will be reported to Cabinet during the development of MTFP (7).

92 The revised forecast of savings up to 2019/20 is detailed in Table 7.

**Table 7 – Total Savings 2011/12 to 2019/20**

| **Period** | **Savings** |
|---|---|
| | £m |
| 2011/12 to 2015/16 | 153.2 |
| 2016/17 to 2019/20 | 104.3 |
| **TOTAL** | **257.5** |

**2016/17 Net Budget Requirement and Council Tax**

93 After taking into account base budget pressures and additional investment, the Council's recommended Net Budget Requirement for 2016/17 is £401.515m. The financing of the Net Budget Requirement is detailed in Table 8:

**Table 8 – Financing of the 2016/17 Budget**

| Funding Stream | Amount |
|---|---|
| | £m |
| Revenue Support Grant | 77.140 |
| Business Rates | 54.841 |
| Business Rates – Top Up Grant | 60.996 |
| Collection Fund Surplus | 2.617 |
| Council Tax | 185.798 |
| New Homes Bonus | 10.182 |
| New Homes Bonus Reimbursement | 0.267 |
| Education Services Grant | 5.407 |
| Section 31 – Small Business Rate Relief | 2.432 |
| Section 31 – Empty Property and Retail Relief | 0.160 |
| Section 31 – Settlement Funding Adjustment | 1.675 |
| **TOTAL** | **401.515** |

94 The Gross and Net Expenditure Budgets for 2016/17 for each Service Grouping are detailed in Appendix 5. A summary of the 2016/17 budget by service expenditure type, based upon the CIPFA classification of costs is detailed in Appendix 6.

95 The government has confirmed that the Council Tax Referendum Limit for 2016/17 remains at 2%. In addition the government has also announced that local authorities which provide adult social care services also have the flexibility to increase council tax by a further 2% through an adult social care precept. A 3.99% council tax increase would generate additional income of £7.1m in 2016/17 which will enable the Council to protect front line services whilst also covering significant base budget pressures such as the additional costs associated with the introduction of the national living wage.

96 The 2016/17 council tax base which is the figure utilised to calculate council tax income forecasts, was approved by Cabinet on 18 November 2015 as 133,892.4 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

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

**(i) Approve the identified base budget pressures included in paragraph 84.**

**(ii) Approve the investments detailed in the report.**

**(iii) Approve the 2016/17 savings plans detailed in Appendix 4.**

**(iv) Approve a 2016/17 3.99% increase in Council Tax.**

**(v) Approve the 2016/17 Net Budget Requirement of £401.515m.**

**How the Medium Term Financial Plan (MTFP (6)) 2016/17 to 2019/20 has been developed.**

98 The following assumptions have been utilised in developing the MTFP (6) budget model which is set out in Appendix 7.

(i) Government grant reductions for the MTFP(6) period have been developed utilising information from the Final Local Government Finance Settlement. The published RSG reductions for the period 2017/18 to 2019/20 are detailed below. By 2019/20 the RSG received by the Council will have reduced to an estimated £27.6m.

**Table 9 – MTFP (6) RSG Reductions**

| Year | Funding Reduction |
|---|---|
| | £m |
| 2017/18 | (21.140) |
| 2018/19 | (14.140) |
| 2019/20 | (14.240) |

(ii) The government has announced significant reductions of circa 15% in Public Health grant over the next four years. At this stage it is expected that the forecast £4.3m reduction in 2016/17 will be realised through reductions in Public Health expenditure. In later years however the reduction will increase the overall Council savings target. The ability to achieve savings in Public Health from 2017/18 will therefore be considered alongside all other Council priority services.

(iii) The Government has announced a consultation process relating to the revision of the New Homes Bonus (NHB) scheme. The key aim in this respect is to reduce the national sum allocated to NHB in 2016/17 of £1.4bn to at least £600m by 2019/20. The sum saved through this adjustment will contribute to an increase in the BCF which is covered later in this report. The Council presently receives £10.2m from the NHB and it is likely that this will significantly reduce over the next four years. It is not possible to accurately predict the reduction in NHB as the consultation process, which runs until March 2016, includes a wide range of options. To be prudent at this stage the Council is forecasting an annual reduction of £2m in NHB in the three years 2017/18 to 2019/20.

(iv) The Council is also forecasting that there will be continued reductions in both the Education Services Grant (ESG) and the Benefit Administration grants. In the Autumn Statement the Chancellor of the Exchequer announced that there would be a review of all statutory duties carried out by local authorities in relation to Education. The ESG reimburses the Council for carrying out such duties and it is expected that this funding stream will reduce significantly. To be prudent at this stage it is forecast that these two grants will reduce in each year between 2017/18 and 2019/20 by a total of £1.4m.

(v) The additional BCF allocations detailed in Table 3 have also been built into the MTFP. The additional allocation begins with a £2.4m in 2017/18 increasing to £23.1m in 2019/20 It is not clear at this stage if there are any specific grant conditions in relation to this funding stream or whether there may be specific expenditure commitments. It is felt prudent however to include these sums in our financial planning at this stage.

(vi) 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 (6) are detailed in the table below:-

**Table 10 – Pay and Price Inflation Assumptions**

| Year | Pay Inflation | Price Inflation |
|---|---|---|
| | % | % |
| 2017/18 | 1.5 | 1.5 |
| 2018/19 | 1.5 | 1.5 |
| 2019/20 | 1.5 | 1.5 |

(vii) Forecasts have also been included in relation to the impact of the National Living Wage over and above the 1.5% inflation allowance. Over the period 2017/18 to 2019/20 the Council expects to receive requests from a broader range of contractors requesting price increases due to the impact of the National Living Wage. Over this period there will also be an increasing pressure on the Council's salary budget. The annual budget pressure is forecast to be between £6m and £6.6m for the period 2017/18 to 2019/20.

(viii) The triennial review of the pension fund will also take place during 2016. The instability in the UK stock market, poor bond returns and problems in emerging markets are expected to all impact upon the value of the pension fund. It is also forecast that local government pension funds may become partly responsible for annual pension increases which are currently the responsibility of government. Having taken all of these things into account a £5m budget pressure has been included for 2017/18 to reflect the forecast increase required in employer pension fund contributions for the Council.

(ix) Continuing forecast budget pressures in relation to Concessionary Fares, Energy Prices and CAS Demographics and Hyper Inflation whilst also introducing a £1.2m pressure in 2017/18 in relation to the apprentice levy which in reality is a tax on large organisations.

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

(xi) It is assumed that the Council will continue to utilise the flexibility to increase Council tax by the additional 2% adult social care precept over the referendum limit. On this basis it is forecast that annual council tax increases will be 3.99% across the MTFP (6) period.

99 High level indicative savings planned are included at Appendix 4 in relation to 2017/18, three of which would deliver additional savings in 2018/19 and 2019/20 if ultimately delivered. At this stage it is forecast that £11.6m of the BSR will be utilised in 2017/18 to delay the impact of savings upon front line services. Additional savings plans however will need to be developed to achieve the following residual savings targets for 2018/19 and 2019/20.

**Table 11 – Savings to be Identified**

| Year | Savings Target |
|---|---|
| | £m |
| 2018/19 | 24.577 |
| 2019/20 | 14.945 |

100 It is forecast that £13.3m of the £30m BSR will be utilised to support the MTFP in 2016/17 and 2017/18. The residual balance of £16.7m will be available to support the budget in later years.

101 The MTFP (6) forecasted budget model is attached at Appendix 7.

**Financial Reserves**

102 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.

103 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 £31m.

104 Each earmarked reserve, with the exception of the Schools' reserve, is kept under review and formally 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.

105 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".

106 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.

107 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 18 November 2015. A range of reserves are being utilised to support MTFP (6). Details are as follows:-

(i) **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 and was replenished again in 2015/16 when a further £10m was contributed. At the end of 2015/16 it is presently forecast that the balance on the reserve will be £16.2m i.e. a sum of £35.7m will have been expended over the 2011/12 to 2015/16 period in support of the MTFP. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (6) period. This reserve will continue to be closely monitored.

(ii) **Budget Support Reserve -** It is forecast that £1.6m of the £30m BSR will be utilised to support the MTFP in 2016/17 and £11.6m in 2017/18. The residual balance of £16.3m will be available to support the budget in later years

(iii) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable re-profiling of when MTFP savings are realised. A sum of £0.210m is to be utilised in 2016/17.

108 Between the period 2011/12 to 2016/17 it is forecast that circa £70m of reserves, including the BSR, will have been utilised to support the MTFP. 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 £30m.

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

**Table 12 – MTFP (6) Model Summary**

| | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **Total** |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | **£m** |
| Reduction in Resource Base | 10.932 | 13.343 | (2.270) | (1.037) | **20.968** |
| Budget Pressures | 25.915 | 23.450 | 17.050 | 16.900 | **83.315** |
| **Savings Required** | **36.847** | **36.793** | **14.780** | **15.863** | **104.283** |

## Recommendations

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

**(i) Agree the forecast 2016/17 to 2019/20 MTFP (6) financial position.**

**(ii) Set aside sufficient sums in Earmarked Reserves as is considered to be 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 £30m.**

## Capital Budget 2015/16 to 2018/19

111 The revised 2015/16 to 2018/19 capital budget was approved by Cabinet on 18 November 2015. Table 13 details the latest revised capital budget for the period 2015/16 to 2018/19 including the revisions approved by Cabinet whilst also providing details of the financing. Further details of the current Capital Programme can be found at Appendix 8.

**Table 13 – Current Capital Budget 2015/16 to 2018/19**

| Service Grouping | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| ACE | 3.991 | 3.307 | 0.144 | 0 | 7.442 |
| CAS | 40.683 | 21.962 | 0.742 | 0 | 63.387 |
| Neighbourhoods | 40.903 | 35.222 | 4.449 | 4.150 | 84.724 |
| RED | 34.543 | 61.077 | 9.784 | 0 | 105.404 |
| Resources | 11.616 | 9.026 | 0 | 0 | 20.642 |
| **TOTAL** | **131.736** | **130.594** | **15.119** | **4.150** | **281.599** |
| **Financed by** | | | | | |
| Grants and Contributions | 52.318 | 38.960 | 0.467 | 0 | 91.745 |
| Revenue and Reserves | 13.167 | 0.072 | 0 | 0 | 13.239 |
| Capital Receipts | 16.631 | 15.883 | 7.897 | 0 | 40.411 |
| Borrowing | 49.620 | 75.679 | 6.755 | 4.150 | 136.204 |
| **TOTAL** | **131.736** | **130.594** | **15.119** | **4.150** | **281.599** |

## Capital Considerations in the MTFP (6) Process

112 Service Groupings developed capital bid submissions during the summer 2015 alongside the development of revenue MTFP (6) proposals. The Capital Member Officer Working Group (MOWG) had 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.

113 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**

114 The following 2016/17 capital grants allocations were assumed when MTFP (5) was approved at County Council on 25 February 2015.

**Table 14 – 2016/17 Capital Grants Assumed in MTFP (5)**

| Grant | Amount |
|---|---|
| | **£m** |
| LTP – Highways Maintenance | 11.886 |
| LTP – Integrated Transport | 2.789 |
| School Capitalised Maintenance | 5.635 |
| Disabled Facilities | 2.970 |
| General Social Care | 1.572 |
| **TOTAL** | **24.852** |

115 Specific capital programmes were included in MTFP (5) financed from these assumed allocations. The majority of allocations have now been confirmed with the following impact:-

(i) **Local Transport Plan (LTP) - Highways Maintenance - £10.897m**
In 2015/16 the Government top sliced Local Authorities LTP Highways Maintenance allocation to form an Incentive Fund and Challenge Fund. This resulted in a significant reduction in the forecast grant allocation. The 2016/17 allocation of £10.897m is £0.989m less than originally forecast and the budget was revised and approved by Cabinet in November 2015.

(ii) **LTP – Integrated Transport £2.789m**
The government confirmed the 2016/17 allocation as part of the 2015/16 local government finance settlement.

(iii) **Schools Capitalised Maintenance/Basic Need - £5.400m**
The Department for Education (DfE) have confirmed that the allocation for 2016/17 will be £5.4m, this is a reduction of £0.235m on the 2015/16 allocation. It is expected that the 2017/18 allocation will be similar. The 2016/17 budget will need to be reduced by £0.235 to reflect the reduction in grant.

(iv) **Disabled Facilities Grant (DFG) - £4.891m**
In 2015/16 the council received £2.970m for DFG and an additional £1.572m General Social Care Grant. Both funding streams were paid through BCF. In 2016/17 the DFG element has been significantly increased to £4.891m with no allocation for the General Social Care Grant. The General Social Care Grant was previously utilised to support the overall capital programme and it is intended that £1.572m of the new BCF allocation does likewise. This will leave £3.319m to invest in DFG, a £349k uplift on the 2016/17 forecast.

116 The table overleaf provides details of the actual 2016/17 capital grant allocations, along with the indicative allocation for 2017/18 included in plans. If the actual allocations for 2017/18 vary from the forecast then the capital budget may need to be adjusted accordingly.

**Table 15 – Capital Grants Utilised in Support of the MTFP (6) Capital Programme**

| Capital Grant | 2016/17 | 2017/18 |
|---|---|---|
| | £m | £m |
| Disabled Facilities | 4.891 | 4.891 |
| LTP - Highways | 10.897 | 10.567 |
| LTP – Integrated Transport | 2.789 | 2.689 |
| School Maintenance | 5.400 | 5.400 |
| Devolved Schools Capital | 1.378 | 1.378 |
| **Total** | **25.335** | **24.925** |

## Capital Receipt Forecast

117 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.

118 In a small number of circumstances, primarily in relation to former schools sites, capital receipts via land sales are ring fenced to particular schemes. 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.

119 In the Autumn Statement the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform. Additional details were included in the local government finance settlement in this regard.

120 The government has identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:-

(i) Qualifying expenditure is expenditure on any project designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

(ii) The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure.

(iii) Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

(iv) The Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas.

(v) Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

121 The government believes that it is important that individual authorities demonstrate the highest standard of accountability and transparency. The draft guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.

122 At this stage it is not considered that there are a large range of opportunities for the Council to utilise this new flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g. from contingencies or from reserves. Notwithstanding this it is recognised that it would not be unreasonable for the Council to consider utilising this new flexibility to finance severance costs associated with the MTFP process.

123 On that basis to ensure that the Council has this option available it will be recommended that as part of the Council's overall approach to efficiency that it is noted at this stage that capital receipts could be utilised to finance severance costs.

124 If this option is taken up there will be a natural impact upon the financing of the capital programme. In former years the Council has set a target of £10m of capital receipts income to support the capital programme. A target of £10m

is in place for 2016/17 which was included in MTFP (5). It is also recommended at this stage that a £10m sum is included in the 2017/18 capital financing budget.

125 If a decision is made and agreed by Cabinet in the future to utilise capital receipts to finance severance costs then the impact upon the capital financing budget will need to be considered

126 During 2016/17 there may be other opportunities that manifest for the Council to utilise this new capital receipts flexibility to finance service transformation and reform one off costs. If there is a business case in this regard Cabinet approval will be sought and the case in question included in a formal Efficiency Strategy.

**Prudential Borrowing**

127 In previous years an additional £2m of revenue was provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels and forecast and Interest rates continue to be at historically low levels. On that basis it is forecast that the current budget available for prudential borrowing will be able to absorb the costs associated with the capital bids detailed within this report. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant.

**Approval of Additional Capital Schemes**

128 A comprehensive 2016/17 capital programme was approved as part of MTFP (5) 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.

129 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 (6) capital programme. Full details of the additional schemes can be found in Appendix 9.

**Table 16 – Additional Capital Schemes for 2016/17 and 2017/18**

| Service Grouping | 2016/17 | 2017/18 |
|---|---|---|
| | £m | £m |
| ACE | 0 | 2.100 |
| CAS | 1.143 | 6.778 |
| Neighbourhoods | 1.289 | 20.581 |
| RED | 1.949 | 17.158 |
| Resources | 0 | 3.424 |
| **Total** | **4.381** | **50.041** |

130 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 overleaf:-

**(i)** **Highways Maintenance (2017/18 - £15.567m)** In line with previous years, a sum in addition to the LTP grant will be invested into highways maintenance. The sum of £5m will be especially important in light of the Government top slicing of LTP grant nationally.

**(ii)** **Unadopted Highway Maintenance (2017/18 - £1m**) 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 (2017/18 - £1.050m)** 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 Sherburn Road Retail Link Road (2017/18 - £1.8m)** Investment will create a link road to relieve congestion on Dragon Lane and the Dragonville retail area.**(iv)** **Town Centre Master Plans (2017/18 - £1.5m)** This budget will enable continued investment to continue delivery of action plans within the Cabinet approved Town Centre Masterplans.

131 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 17 – New MTFP (6) Capital Programme**

| Service Grouping | 2015/16 | 2016/17 | 2017/18 | 2018/19 | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| ACE | 3.991 | 3.307 | 2.244 | 0 | 9.542 |
| CAS | 40.683 | 23.105 | 7.520 | 0 | 71.308 |
| Neighbourhoods | 40.903 | 36.511 | 25.030 | 4.150 | 106.594 |
| RED | 34.543 | 63.026 | 26.942 | 0 | 124.511 |
| Resources | 11.616 | 9.026 | 3.424 | 0 | 24.066 |
| **TOTAL** | **131.736** | **134.975** | **65.160** | **4.150** | **336.021** |
| **Financed by** | | | | | |
| Grants and Contributions | 52.318 | 40.452 | 25.392 | 0 | 118.162 |
| Revenue and Reserves | 13.167 | 0.072 | 0 | 0 | 13.239 |
| Capital Receipts | 16.631 | 15.883 | 17.897 | 0 | 50.411 |
| Borrowing | 49.620 | 78.568 | 21.871 | 4.150 | 154.209 |
| **TOTAL** | **131.736** | **134.975** | **65.160** | **4.150** | **336.021** |

### Recommendation

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

**(i) Approve the revised 2015/16 Capital Budget of £131.736m and the 2016/17 Capital Budget of £134.975m.**

**(ii) Approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from additional capital grants, from capital receipts and from prudential borrowing.**

**(iii) Note the option for the Council to utilise capital receipts to finance severance costs utilising the new flexibilities in this regard. The utilisation of such flexibility will require the approval of Cabinet**

**(iv) Approve the MTFP (6) Capital Budget of £336.021m for 2015/16 to 2018/19 detailed in Table 17.**

## 2016/17 Savings Proposals

### Assistant Chief Executive

133 To date spending reductions of just over £4m have been achieved over the course of MTFP (1) – (5). In 2016/17 a further £0.8m is required and in 2017/18 £1m bringing the total amount of savings since 2011 to nearly £6m.

134 The service grouping continues to identify opportunities to work more efficiently whilst providing support to the Council through a period of ongoing and considerable change as well as meeting increasing service demands arising for example from welfare reforms, co-ordinating our approach to migration, information management and freedom of information requests.

135 Since 2011 much of the service grouping's savings have been realised through reduction of management and support services. For 2016/17, whilst further savings will come from these areas including the reduced salary for the new Chief Executive, we are proposing further reductions to AAP budgets of £20,000 to reduce allocations to £100,000 for each AAP and grants to community groups including Durham Community Action and Gay Advice in Durham and Darlington.

136 To mitigate these reductions we will be seeking to maximise other funding that is available to continue to support the priorities identified through the AAPs and those groups affected by the reduction in grants. A further allocation of £10,000 per AAP has been committed for 2016/17 to allow AAPs to implement or continue schemes to help tackle the impact of Welfare Reforms and anti-poverty actions in their area.

137 Even with these reductions these service areas have still had a lower percentage reduction than the overall reduction for the service grouping and the Council as a whole which is in line with the feedback received through the several public consultations undertaken on the MTFP.

138 For 2017/18 a full review of the service grouping is proposed in order to identify the savings required. All service areas will be considered including front line areas such as AAPs.

### Children and Adults Services

139 Spending reductions of over £71m have been achieved over the course of MTFP (1) – (5). In 2016/17 additional savings of £17.3m are required together with £20.0m of savings in 2017/18, which will bring the total savings requirement since 2011 up to circa £108m.

140 The service continues to be faced with a significant amount of change both internally and externally including the continuing demographic pressures arising from an ageing population with increasingly complex needs and support requirements, ongoing NHS changes, social care reforms and changes in funding for schools and inspection frameworks.

141 In 2016/17 efficiency savings will be made through a restructure of Adult Care Services to meet the requirements of the Care Act, the delivery of the Looked after Children Reduction Strategy reducing the need for residential care, further improvements to the commissioning of services including transport, reviewing the fostering service and reviewing support services.

142 In addition, the service will be seeking to increase the income received across a number of areas including secure services welfare and step down beds, selling surplus adoptive or foster care places, through the provision of learning and skills to young people and a review of the adult social care charging policy.

143 Some of the 2016/17 proposals that affect frontline services are savings arising from policy changes made in previous years, such as changes to day care provision, plus the continued focus on a consistent and effective use of the existing eligibility criteria. A major transformation programme is currently underway in the Children's Service to reduce the cost and incidence of children being looked after and taken into care.

144 In 2017/18 savings proposals being considered include building on the improvements already made to commissioning by developing a more integrated approach, further savings from efficiencies in the provision of children's care and continued savings from the consistent application of eligibility criteria for social care services to adults. A review of the in-house County Durham Care and Support is also being considered for 2017/18.

145 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 alongside the development of opportunities to work in a more integrated way with external partners.

**Neighbourhood Services**

146 Spending reductions of £25.3m have been achieved over the course of MTFP (1) - (5) with a further £3.5m required in 2016/17 and £2.9m in 2017/18. Since 2011 the total amount saved by 2017/18 will be £31.7m.

147 Throughout the previous MTFPs, Neighbourhood Services has focused on delivering its savings through more efficient delivery of services and whilst it is continuing to focus on this strategy it is becoming increasingly difficult to avoid changes to front line services that will not result in some impact in local communities.

148 Areas where further efficiency reviews will be carried out in 2016/17 include Fleet Management, Technical Services and Environmental Health. In addition there are further savings associated with rationalising office accommodation and from recycling credits paid to third parties.

149 Proposals for 2016/17 also affect both Leisure Centres and Libraries but the changes proposed will ensure there are no closures of any facilities. The Council is continuing to promote the Durham Ask to explore the potential for services such as Libraries to continue to be provided through the involvement of local organisations and groups, securing their long term future.

150 Areas where there will be changes in services currently offered include relocating the DLI collection, changes to the collection of refuse and recycling, a review of street wardens and reviewing customer services. However all of these proposals relate to changes in how the service is delivered rather than removing the service, for example whilst the number of street wardens is going to reduce the service will continue to be provided seven days a week.

151 For 2017/18 areas being considered include further efficiency reviews and additional savings from the street lighting energy reduction programme.

**Regeneration and Economic Development**

152 Spending reductions of £20.4m have been achieved over the course of MTFP (1) – (5). In 2016/17 additional savings of £1.1m are required together with £2.2m in 2017/18 resulting in a total reduction since 2011 of £23.7m.

153 During 2015 the in-house housing provider Durham City Homes together with the two ALMOs Dale and Valley Homes and East Durham Homes were transferred to a new social housing company County Durham Housing. This afforded further opportunities to deliver efficiencies within the existing RED structure. In addition, contract and price renegotiations with transport providers have provided further reductions in costs.

154 This, together with further staffing reductions through vacancy management and restructuring activity alongside a further reduction in supplies and services will provide the majority of savings for both 2016/17 and 2017/18.

155 However, some front line service areas will be affected for example the Care Connect team who provide a 24 hour service for vulnerable residents. Whilst the emergency on call service provision will still be provided the costs and nature of the service is being reviewed and will need to change.

156 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 continues to support this area as far as possible by working with a range of interested parties. In 2015 a number of successful capital schemes were established to delivery employment growth. The service works in conjunction with others including the AAPs to support local residents into employment and training.

## Resources

157 In line with the views of the public the Council has consistently prioritised higher savings targets from Resources, which has resulted in savings since 2011 of £11.8m. In 2016/17 a further £1.5m reduction is required together with £3.2m in 2017/18. This will mean from 2011 to 2017 reductions totalling £16.5m will have been made.

158 The service grouping are also managing a range of additional savings for 2016/17 from corporate areas and changes in financial policies including a review of business support functions, additional dividends and reductions in fees and charges. These proposals will deliver a further £4.0m of savings for MTFP (6).

159 All areas of the service grouping will be undergoing further reviews and restructuring during 2016/17 and 2017/18 in order to deliver the savings required in these areas.

160 In addition in 2017/18 it is proposed that the front facing revenues and benefits service be reviewed to identify efficiency savings. This will coincide with planned savings in Customer Services in Neighbourhoods. Impact on customers in terms of benefit processing times, invoice payment performance and recovery rates will be carefully balanced and mitigated as far as possible and the service will work closely with colleagues in Customer Services on these changes.

## Recommendation

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

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

## Equality Impact Assessment of the Medium Term Financial Plan

162 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans at Appendix 4. This section updates members on the outcomes of the equality impact assessment of the MTFP (6) to date, and summarises the potential cumulative impact of the 2016/17 proposals.

163 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.

164 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.

165 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.

166 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."

167 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.

168 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.

169 The process for identifying and completing impact assessments in relation to the MTFP is consistent with previous years. Services, with support from corporate equalities, 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.

170 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 2016/17 Savings Proposals**

171 A total of 35 assessments are available for Members to inform 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.

**Equality Impact Assessments by Service Grouping:**

| Service | EIAs |
|---|---|
| ACE | 3 |
| CAS | 15 |
| Neighbourhoods | 11 |
| RED | 1 |
| Resources | 4 |
| Corporate | 1 |
| **Total** | **35** |

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

**Summary of Equality Impacts of 2016/17 MTFP Proposals**

173 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.

174 ACE proposals include a service review with a potential impact on staff, a, proposed reduction in AAP revenue which will be attempted to be mitigated by third party funding, and reduction and withdrawal of grant funding. Specifically, this involves removal of residual budgets relating to

community buildings grant, reduction in grant for Durham Community Action and removal of the remaining grant funding to Gay Advice in Durham and Darlington (GADD). At this stage, prior to completing consultation, none of these proposals are thought to have specific disproportionate impacts on groups with protected characteristics except the GADD reduction which has impacts in relation to sexual orientation, age and gender including transgender. Proposals could be mitigated through third party funding.

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

(i) Some savings relate to changes from previous years which continue to produce savings in 2016/17. These include consistent and effective use of existing eligibility criteria and changes to management of in house social care provision, which have potential to impact on service users who are older people, women and disabled people. Further efficiencies in relation to management and support services are also proposed, which will impact primarily on staff.

(ii) Some savings proposals have positive impacts for service users: vulnerable children will be better supported through secure services welfare and step down beds which will generate income, and our early help approach for families will allow income to be generated by other Councils using our surplus foster care places. The increased use of the Intermediate Care Plus service will reduce costs for care through more service users regaining independence.

(iii) A further review of in-house day care services has potential impacts on services users, many of whom are older and/or disabled. It was agreed by Cabinet in January that the in-house service refocuses provision to support service users with more complex needs. The needs of other users will be met through the independent sector and community based services. A proposed re-structure of Adult Care Services to meet the requirements of the Care Act will ensure service users continue to receive a high quality service, though there will be staff reductions and changes to job descriptions which would impact on staff. Staff changes would affect a predominantly female workforce but implications for other protected characteristics have been considered to ensure fair treatment of staff throughout this process.

(iv) Review of our charging policy in respect of adult care provision has the potential to affect new service users receiving a Severe Disability Premium (SDP) who could be required to pay up to £22.93 more per week for their social care provision compared to current recipients. As well as having some form of disability, this group of service users is more likely to be female and older. This would bring the Council's policy in terms of the financial assessment of customer in receipt of this benefit in-line with other local authorities, with how disability related expenditure is treated in the financial assessment of other customers and complies with the Government's Care Act Guidance which ensures no-one is asked to pay more than they can afford. This saving is subject to further consultation. The equality impacts of this policy change will be considered as part of this decision making process.

(v) 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. This saving will be subject to further consultation and further Cabinet decision making in Autumn 2016.

(vi) A review of non-assessed services is proposing changes to charging for Care Connect, the Council's community alarm and telecare/healthcare provider which has impacts on older people, particularly women and those with a disability. The review also proposes de-commissioning some Prevention Services for over 50s which has potential impacts for women, older people, those with a disability and Lesbian, Gay, Bisexual and Transgender people; however some of the current demand will be met by Wellbeing for Life and other statutory or VCS provision. The needs of older people will be considered in any future commissioning of preventative services.

(vii) Consultation is underway on proposed changes to non-statutory home to school or college transport which have the potential to affect some children and young people including those aged 16-19 with a medical condition. These changes will apply to new applicants and measures will be put in place to mitigate against the negative impacts.

(viii) The cost of Children's Care will be reduced through the delivery of the Looked After Children Reduction Strategy reducing the need for residential care, which is a positive impact for children. It is also proposed that a small number of young people with a disability access alternative support or provision for short term activity breaks.

176 Neighbourhood Services proposals include potential impacts across all characteristics in relation to staffing whilst there are potential service impacts on age, gender and disability. Specific impacts of savings proposals include;

(i) Staffing reviews are proposed in a number of services including Fleet Management and Grounds Maintenance. These proposals are not thought to have impacts on service delivery. Fair treatment of staff will be ensured through agreed corporate HR procedures contained within the Change Management Toolkit.

(ii) Staffing reviews in other services have various potential service impacts though mitigating actions are also being proposed to lessen the negative effects. For example proposed changes in technical services (to share a Road Safety Manager with Hartlepool BC and remove direct funding for Child Pedestrian Training) could have impacts on children and families, but to mitigate the impacts funding will be sought from alternative sources. A review of refuse and recycling collection rounds may lead to a change in collection arrangements for some households. While the impact of these changes are largely on the workforce, there may also be impacts for householders with a disability. Proposed changes to Environmental Health and Consumer Protection will reduce the number of staff and change some responsibilities, any potential impacts will be mitigated through wherever possible by better use of resources.

(iii) A structural review of Customer Relations and Performance and Planning teams will impact on staff in terms of an overall reduction in numbers and changes to responsibilities. While there are potential impacts to service delivery in these areas the review aims to improve resource planning and provide a better mix of frontline staff.

(iv) Proposed changes to Neighbourhood Protection have the potential to affect groups with protected characteristics, particularly young people. This is due to reducing the number of street wardens, but the service will aim to maintain a seven day-a-week service.

(v) Changes to the DLI collection arrangements, whilst removing the current base, have the potential for positive impacts for visitors, especially those who are elderly and/or with young families because of better public transport access. Other changes include reviewing the contributions made to museums and theatres. The reductions are not thought to have specific disproportional impact on groups with protected characteristics.

(vi) Proposals to reduce the book fund will reduce the number of titles across all categories. This has the potential to impact older and disabled library users who may rely more than other groups on public services provision of special formats such as larger print sizes. However, the mix of future book purchasing will be driven by user demand so no specific library user group should be disproportionately affected by this change.

177 RED, Resources and Corporate proposals relate to further staffing restructures, residual savings as a result of previous staffing restructures and efficiencies from supplies and services. These changes are not thought to impact on service users. Fair treatment of staff will be ensured through agreed corporate HR procedures contained within the Change Management Toolkit.

**Impacts of Previous Proposed Savings and Cumulative Impacts of 2016/17 Proposals**

178 Carrying out equality impact assessments on MTFP proposals helps us to understand the cumulative impact across a range of savings proposals. Throughout the last five years of austerity, the approach of the Council has been to keep the impact of savings on front line services to a minimum, and this has greatly reduced equalities impacts on those with a protected characteristic. For example our successful transfer to local community groups of leisure centres and community facilities, the ongoing work on the Durham Ask, positive shifts to preventative work in our children's services and increases in income generated are all ways in which Durham County Council is reducing the equalities impacts of Government budget cuts. Where service reductions have been unavoidable, impacts in relation to previous proposals generally related to loss of, or reduced access to, a particular service or venue, travel to alternative provision, increased costs or charges and service re-modelling including reductions in staff. These changes had the potential to affect 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 potential impacts in relation to people with a disability, age and gender.

179 Generally, changes to universal services such as street lighting or bin collection 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 changes to leisure centres. Dedicated services such as social care, day care and home to school transport sometimes have disproportionate impacts for particular groups such as people with a disability and women, particularly those with a caring responsibility, and we have taken steps to monitor the impact and mitigate it where possible.

180 While the specific list of proposed savings in the 2016/17 MTFP are different from previous years the impacts are similar. There are potential impacts for older people, particularly those with a disability receiving social care, although some savings are the result of more older and disabled people living independently which is a positive outcome. Older social care users are also more likely to be female. Children and young people, including some with a disability are potentially affected through changes to home to school transport policy and through a new youth support strategy.

181 There are also potential impacts for community groups with a proposed reduction in grant funding, with specific impacts this year for LBGT groups. However, generally there are limited impacts identified in relation to race, religion or belief, although there is also less data and evidence available to show potential impact on these groups.

182 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 (including finding

funding from other sources), implementing new or improved ways of working, working with partners and providing transition or more flexible arrangements to reduce the initial impact.

183 There are a number of 2016/17 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.

184 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 some particular service areas they are more likely to affect male employees whilst a number of proposals relate to areas with more female employees.

185 Overall, the staffing profile still shows significantly more women employed across the Council so women are inevitably 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.

**High Level Summary of Equality Impact of 2017/18 Proposals**

186 A list of proposals contributing savings to the 2017/18 MTFP is included as Appendix 4. It is likely that the key service user impacts will relate to age, gender and disability, as for previous years. Many savings areas represent continuing savings from 2016/17, including the ACE service review, CAS application of eligibility criteria, review of care connect charging and review of home to school transport. The equalities impacts are already summarised earlier in the report and supported by impact assessments. Other proposals are at an earlier stage. As these proposals are developed, services, with support from the corporate equalities team, will be asked to identify the level of equalities assessment required. This will mean either a ‘screening’ or ‘full’ equality impact assessment will be developed depending on the extent of impact to support the decision making process.

187 Where proposals are subject to multi-stage decision making, or subject to consultation, the relevant impact assessments will be updated as further information becomes available. Final assessments will be considered in the decision making process.

## Key Findings and Next Steps

188 The equality impact assessments are vital in order to understand potential outcomes for protected groups and mitigate these where possible.

189 The main equalities impacts of the 2016/17 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 many 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.

## Recommendations and Reasons

190 **It is recommended that Members:**

**(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-making, 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

191 MTFP (1) which covered the period from 2011 to 2015 originally forecast a reduction in posts of 1,950 against a savings target of £123.5m. Since then the savings required to date have grown to over £153m yet through careful planning and forecasting, the actual impact upon workforce numbers has remained around the same level as was originally predicted.

192 Looking ahead, with the significant savings requirements over the next two years there will be further reductions in workforce numbers. For 2016/17 the forecast is a further reduction of approximately 400 posts including the deletion of an anticipated 60 vacant posts.

193 Further detailed planning is underway to identify the forecasted numbers for 2017 to 2020 and, recognising the principles adopted to date in workforce reduction exercises within Service Groupings, the Council will take all possible

steps to avoid compulsory redundancies and minimise the impact upon the workforce in these next stages of change. The continued approach of forward planning, 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 will minimise wherever possible the necessity for compulsory redundancies in the process.

194 In addition, the way that work is organised and jobs are designed will continue to be reviewed by Service Groupings, to ensure that as changes continue to be made, the Council maximises the capacity of remaining workforce through skills development and the introduction of flexibility into the way work is organised, in order to maximise the capability of the remaining workforce.

## Pay Policy

195 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.

196 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.

197 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.

198 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.

199 The Pay Policy Statement at Appendix 10 is for Council consideration and outlines the details for the authority for 2016/17, in line with the above requirements.

## Recommendations

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

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

## Risk Assessment

201 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 (6) period. Some of the key risks identified include:

(i) Ensure the achievement of a balanced budget and financial position across the MTFP (6) 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 Local Government Finance Settlement. The inclusion in this report of an Efficiency Plan should secure a four year RSG settlement from the government. There is still a risk however that a deterioration in the public finances could result in further savings targets for local government in excess of those agreed to date. .

(iv) The localisation of council tax support passed 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 (6).

### Recommendation

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

**(i) Note the risks to be managed over the MTFP (6) period.**

### Dedicated Schools Grant (DSG) and School Funding 2016/17

203 The DSG is a specific earmarked grant provided by the Government and provides the major source of funding for schools and support to them. It is notionally split into three ‘blocks’: Early Years, High Needs and Schools. Local authorities are able to transfer funding between blocks but all funding must be spent on schools and support to them.

204 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 (PVI) sector providers for 570 hours of free early education or childcare a year. A provisional allocation has been provided by the Department for Education (DfE) based on the 2015/16 allocation. The actual 2016/17 allocation will not be announced until the summer, based on the number of eligible children recorded in the January 2016 pupil census. The amount per pupil will be at the same rate as for 2015/16.

205 Funding is also provided through the Early Years Block to provide free early education places for eligible 2 year-olds from lower income households. The allocation is based on participation funding and a provisional allocation has been provided by the DfE based on census data taken in January 2015. The DfE will not announce the initial 2016/17 allocations until July 2016, which will be based on the number of eligible children participating in early education recorded in the January 2016 census. 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.

206 In addition to funding through the EYSFF, the 12 maintained nursery schools also receive funding through a formula. The formula includes a deprivation element, a lump sum and an allowance for rates. The formula funding provided in this way does not apply to nursery units in primary schools and academies or PVI providers. The funding for the 12 maintained nursery schools is topped up with £58,500 of funding transferred to the Early Years funding block from the Schools Block.

207 Early Years Pupil Premium is also funded through the Early Years block and a provisional allocation has been provided by the DfE, again based on the 2015/16 allocations. The 2016/17 allocation will be announced in the summer based on the number of eligible children recorded in the January 2016 pupil census. The rate of £0.53 per hour in 2015/16 continues into 2016/17, which equates to £302.10 for each eligible child taking up the full 570 hours of state funded early education.

208 The High Needs Block provides funding for pupils with high cost Special Educational Needs (SEN), i.e. those pupils requiring provision in specialist settings costing more than £10,000 per year or £6,000 per year of SEN provision for pupils in mainstream primary and secondary schools, and funds:

(i) Specialist placements;

(ii) Place based funding for special schools;

(iii) Top-up funding to reflect additional costs for individual pupil support; and

(iv) SEN support services.

209 The total allocation to the High Needs Block is based on historic allocations. In total £420,000 of High Needs Block funding is transferred to the Schools Block for distribution to primary and secondary schools via the Schools Funding Formula.

210 The Schools Block includes centrally retained DSG funding and provides the principle source of funding for all primary and secondary schools in respect of the education of pupils from Reception to Year 11. Primary and secondary schools receive their funding through a formula. The formula is determined by the Council after consultation with the Schools Forum and schools themselves. The formula must comply with statutory regulation. This regulation limits the discretion of local authorities in determining its formula and requires that at least 80% of funding is distributed through factors related to pupil numbers and needs. The formula set by the Council applies to all schools – maintained, academy and voluntary aided schools. There is no difference in terms of DSG funding provision save for academies receiving their funding allocations on an academic year, whereas maintained schools receive their DSG funding on a financial year basis.

211 For 2016/17 the schools formula is being changed to reduce the lump sum for primary schools from £175,000 per school to £167,500 per school, with a further reduction to £160,000 planned for 2017/18. The £1.65m of funding released will be re-allocated to secondary schools, many of which are struggling to provide a broad and balanced curriculum within current levels of funding levels. Currently, primary schools in County Durham receive a greater share of funding per pupil than the national average and the primary lump sum is significantly above the national average. For 2016/17, secondary school funding will also be increased by the utilisation of £1.65m from central DSG reserves.

212 The total allocation to the Schools Block is based on an amount for each pupil recorded in the October 2015 pupil Census. The amount per pupil is based on historic allocations, but also takes account of relative levels of need between different local authorities. In 2016/17 the DSG funding per pupil is £4,649.17, which is £8.29 more than the 2015/16 rate. The difference

reflects an adjustment for academies that were not previously included in the DSG allocation; the additional funding is offset by the removal of a lump sum allocation included in 2015/16 in respect of these academies.

213 Pupil premium for schools and academies in Durham for 2015/16 is £26.45m. Pupil Premium rates for 2016/17 will remain the same as for 2015/16 and these rates are shown in the table overleaf:

**Table 18 –Pupil Premium Rates 2016/17**

| | Amount per eligible pupil |
|---|---|
| | £ |
| Deprivation Pupil Premium – Primary | 1,320 |
| Deprivation Pupil Premium – Secondary | 935 |
| Looked After Children | 1,900 |
| Children adopted from care or who have left care | 1,900 |
| Service Children | 300 |

214 The numbers of pupils eligible for pupil premium for 2016/17 will be provided by the Education Funding Agency; overall the numbers are likely to be similar to 2015/16, but may vary more widely for individual schools.

215 DSG and Pupil Premium funding for 2016/17 is shown in the table overleaf:-

**Table 19 – DSG and Pupil Premium Funding**

| DSG Block | Amount per pupil | Pupils | DSG Allocated | Additional Funding | Total DSG Allocation |
|---|---|---|---|---|---|
| | **£/pupil** | | **£m** | **£m** | **£m** |
| Early Years Block (3-4 yr olds) | 3,866.10 | 4,494 | 17.374 | - | 17.374 |
| Early Years Block (2 yr olds) | 4,607.50 | 960 | 4.423 | - | 4.423 |
| Early Years Block (EYPP) | | | 0.553 | - | 0.553 |
| High Needs Block | - | - | 44.311 | - | 44.311 |
| Schools Block | 4,649.17 | 62,119 | 288.802 | 0.090 | 288.892 |
| **Total DSG** | | | **355.463** | **0.090** | **355.553** |
| Pupil Premium (estimated) | | | | 26.450 | 26.450 |
| **TOTAL** | | | **355.463** | **26.540** | **382.003** |

216 Primary and secondary formula funding for Academies in County Durham totals £75.140m, based on the Durham formula factors. This funding is recouped by the Education Funding Agency and allocated directly to the individual schools, leaving £280.413 of DSG funding payable to the Council for maintained schools.

217 The Government intends to begin a consultation on school funding in the spring. This is expected to include proposals for revising the allocations of funding, in particular to:

(i) Change to the basis of allocation of High Needs Block funding to reflect relative need rather than historic allocations;

(ii) To move to a national funding formula for primary and secondary schools.

218 A national funding formula for primary and secondary schools is expected to take account of relative needs (e.g. deprivation), which should benefit County Durham. It is not yet clear how much local discretion will be allowed over the new formula arrangements: the national formula could be used to distribute funding to local authorities, which would then have discretion over how this is allocated to schools or the same formula could be applied to all schools across the country. Officers will carefully consider the consultation proposals once they are received and, working with the School Forum, will model impacts and options and advise members in due course.

**Recommendation**

219 **It is recommended that Members:**

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

**Prudential Code**

220 This section outlines the Council's prudential indicators for 2016/17 to 2018/19 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.

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

222 The Annual Investment Strategy for 2016/2017 has been amended as follows:

(i) The sovereign rating in respect of the selection criteria for approved counterparties for Non UK Banks 1 has changed from AAA to AA-. This is a recommendation by Capita, the Council's Treasury Management advisor, and is intended so that the Council can fully access the list of recommended banking counterparties. In essence this change provides the Council with greater depth and diversification in respect of the counterparty list, while maintaining the principles of security and liquidity in its application.

(ii) As part of a balanced approach to investment a new Non-specified Investment opportunity has been included to allow the Council to take equity shares in businesses up to a limit of £10m after taking on board due diligence.

**Recommendation**

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

**(i) Agree the Prudential Indications and Limits for 2016/17 – 2018/19 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 2016/17 contained in the Treasury Management Strategy (Appendix 11 including the detailed criteria).**

**Summary of Recommendations**

224 It is recommended that Members:-

**(a) 2016/17 Revenue Budget**

(i) Approve the identified base budget pressures included in paragraph 84.

(ii) Approve the investments detailed in the report.

(iii) Approve the 2016/17 savings plans detailed in Appendix 4 .

(iv) Approve a 2016/17 3.99% increase in Council Tax.

(v) Approve the 2016/17 Net Budget Requirement of £401.515m.

**(b) MTFP (6)**

(i) Agree the forecast 2015/16 to 2017/18 MTFP (6) 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 £30m.

**(c) Capital Budget**

(i) Approve the revised 2015/16 Capital Budget of £131.736m and the 2016/17 Capital Budget of £134.975m

(ii) Approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from additional capital grants, from capital receipts and from prudential borrowing

(iii) Note the option for the Council to utilise capital receipts to finance severance costs utilising the new flexibilities in this regard. The utilisation of such flexibility will require the approval of Cabinet

(iv) Approve the MTFP (6) Capital Budget of £336.021m for 2015/16 to 2018/19 detailed in Table 17.

**(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 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.

**(f) Pay Policy and Terms and conditions changes**

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

**(g) Risk Assessment**

(i) Note the risks to be managed over the MTFP (6) period.

**(h) Dedicated Schools Grant**

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

**(i) Prudential Code**

(i) Agree the Prudential Indications and Limits for 2016/17 – 2018/19 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 2016/17 contained in the Treasury Management Strategy (Appendix 11 including the detailed criteria).

| | | | |
|---|---|---|---|
| **Contact:** | **Jeff Garfoot** | **Tel:** | **03000 261946** |
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## Appendix 1: Implications

**Finance –** The report sets out recommendations on the 2016/17 Budget and for the MTFP (6) period 2016/17 – 2019/20.

**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 (6) 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 2016/17. It also has a fiduciary duty not to waste public resources.

## Appendix 2: SPECIFIC GRANTS

**2016/17**

| SPECIFIC GRANT | 2015/16 | 2016/17 | Variance |
|---|---|---|---|
| | £m | £m | £m |
| Public Health | 55.568 | 51.246 | -4.322 |
| Education Services Grant | 6.002 | 5.407 | -0.595 |
| Housing Benefit Administration | 2.593 | 2.482 | -0.111 |
| Extended Free Rights to Transport | 0.999 | N/K | N/K |
| LCTRS Administration | 0.874 | N/K | N/K |
| Local Reform and Community | 0.380 | N/K | N/K |
| Prisons Social Care - New Burden | 0.365 | N/K | N/K |
| Deprivation of Liberty | 0.301 | N/K | N/K |
| LCTRS New Burdens | 0.121 | N/K | N/K |
| Inshore Fisheries | 0.014 | N/K | N/K |

**NOTE**

1. The 2015/16 Public Health baseline figure has been increased to reflect the transfer of 0 - 5 years responsibilities from October 2015.
2. The 2015/16 Housing Benefit Admin Grant baseline figure has been reduced to reflect the transfer of the transfer of Fraud responsibilities to the DWP.

**Appendix 3:**

## Durham County Council Efficiency Plan

In order to receive confirmation of a four year settlement, the council must prepare an efficiency plan. The council has a strong track record on planning and performance management, which aims to minimise the numbers of plans and streamline how we manage delivery through effective performance management.

The core of our planning framework is the Sustainable Community Strategy (SCS) which sets out how we work with partners to deliver the long term vision for the county; the council plan which sets out how we will deliver our part of the SCS and how we intend to improve as an organisation. These are then translated into a linked set of service plans for each service grouping. The resourcing requirements of these plans are then set out in the linked Medium Term Financial Plan (MTFP).

Performance management reports are provided to the CDP Board and Cabinet on a quarterly basis. Scrutiny committees drill into these in more detail to ensure that the council delivers against its plan.

Since becoming unitary in 2009, the council has had an absolute focus on efficiency – initially to deliver the savings required through Local Government Review (LGR) and then through the five years of austerity so far.

Analysis of these plans quickly makes it clear that efficiency is at the heart of all our strategic thinking and planning. Some examples are given below:

**Examples of efficiency**

| | |
|---|---|
| SCS | Sharing approaches to austerity to avoid cost shunting between agencies.<br><br>Successful attraction of transformation funding e.g. on early years and community asset transfer to change how we work in collaboration across organisations.<br><br>Focus on volunteering to support service transformation.<br><br>Adoption of the Social Value Act to improve commissioning with such businesses and the voluntary sector. |
| Council Plan | Reduction of spending by £153m up to 31 March 2016, whilst maintaining (or since vesting day on 1 April 2009, improving) key PIs is evidence of increasing efficiency.<br><br>Our MTFPs have been developed and implemented using robust programme management. The MTFP is in effect an efficiency programme.<br><br>The council has had a strong track record of rationalising its estate to reduce costs and generate capital receipts where possible. Five previous civic centre sites have been or are in the process of redevelopment. Opportunities to link strategic regeneration e.g. at our Aykley Heads Civic Headquarters site, |

| | |
|---|---|
| | we are currently exploring the option to reduce the footprint of our administrative estate and exploit ICT to work more effectively. |

Our complimentary suite of plans: service plans, key strategies, e.g regeneration statement, CYPS etc. in addition to supporting strategies such as those for procurement, ICT, organisational development etc. all contain this strong focus on efficiency.

The approach to developing an efficiency plan in Durham is in itself efficient by not adding to our plans, but simply to point to our existing planning and performance framework which has delivered improved efficiency from the outset.

## Appendix 4

## Durham County Council Savings Targets for 2016/17 and 2017/18

| Total Savings Target per Service Grouping | 2016/17 | 2017/18 |
|---|---|---|
| Assistant Chief Executive’s | 832,314 | 979,393 |
| Children and Adult Services | 17,325,887 | 20,009,616 |
| Neighbourhood Services | 3,488,000 | 2,897,400 |
| Regeneration and Economic Development Services | 1,118,176 | 2,282,202 |
| Resources | 1,493,281 | 3,215,861 |
| Corporate Services | 4,028,352 | 0 |
| **TOTAL** | **28,286,010** | **29,384,472** |

## MTFP (6) SAVINGS OPTIONS

| REF | Description | 2016/17 |
|---|---|---|
| | | £ |
| ACE 21 | AAP revenue reduction | 280,000 |
| ACE 22 | ACE service review | 381,314 |
| ACE 23 | Review of grants to external bodies | 171,000 |
| | **ACE Total Savings** | **832,314** |

| REF | Description | 2017/18 |
|---|---|---|
| | | £ |
| ACE 22 | ACE service review | 979,393 |
| | **ACE Total Savings** | **979,393** |

# MTFP (6) SAVINGS OPTIONS

| REF | Description | 2016/17 |
|---|---|---|
| | | £ |
| CAS01.03 | Review of County Durham Care and Support in-house services | 235,000 |
| CAS02.01 | Eligibility Criteria – Continuation of previous changes to improve effective use of eligibility criteria | 3,000,000 |
| CAS03.01 | Increased charging income in respect of adult care provision | 167,000 |
| CAS05.01 | Service review of Policy, Planning & Performance | 737,691 |
| CAS05.03 | Day Care Review | 1,590,000 |
| CAS05.07 | Service review within Children's Services | 382,712 |
| CAS05.08 | Increased use of Intermediate Care Services | 725,000 |
| CAS05.15 | Review of youth support | 250,000 |
| CAS05.16 | Review of Education Services | 406,472 |
| CAS05.18 | Review of County Durham Youth Offending Service | 60,000 |
| CAS05.19 | Transformational change in Adult Care | 1,540,000 |
| CAS05.21 | Increased Income Generation | 1,170,000 |
| CAS05.22 | Transformational change in Children's Services | 950,000 |
| CAS05.23 | Re-negotiation of contributions to Children's Services providers | 250,000 |
| CAS06.01 | Review of non-assessed services – including community alarms, commissioning and service level agreements | 3,816,996 |
| CAS09.03 | Children's Care Efficiencies; Payment for Skills Review | 300,000 |
| CAS09.04 | Children’s Care Efficiencies: LAC Reduction Strategy | 1,505,016 |
| CAS10.0 | Review Home to School / College Transport Policies | 427,000 |
| CAS11.0 | Repayment of Cash Limit Reserve | -187,000 |
| | **CAS Total Savings** | **17,325,887** |

# MTFP (6) SAVINGS OPTIONS

| REF | Description | 2017/18 |
|---|---|---|
| | | £ |
| CAS1 | Review of social care provision | 6,000,000 |
| CAS2 | Eligibility Criteria - Consistent and effective use of existing criteria and reablement | 3,575,000 |
| CAS3 | Increased charging income in respect of adult care provision | 333,000 |
| CAS5 | Management and Support Services, staffing structures and service reviews/rationalisation service reviews/rationalisation | 6,147,616 |
| CAS6 | Review of non-assessed services | 1,500,000 |
| CAS9 | Review of Children's Care Services | 1,340,000 |
| CAS10 | Review Home to School / College Transport Policies | 295,000 |
| CAS11 | Cash Limit | 819,000 |
| | **CAS Total Savings** | **20,009,616** |

# MTFP (6) SAVINGS OPTIONS

| REF | Description | 2016/17 |
|---|---|---|
| | | £ |
| NS01.17 | Review of resources in Leisure provision | 325,000 |
| NS03.74 | Review of the Fleet Service | 400,000 |
| NS03.75 | Efficiencies within catering service | 33,000 |
| NS03.87 | Review of recycling credits | 61,000 |
| NS04.04 | Review of support for Grounds Maintenance | 150,000 |
| NS05.17 | Review of refuse and recycling collections | 225,000 |
| NS07.03 | Rationalisation of Office Accommodation | 723,000 |
| NS11.16 | Review of Technical Services | 183,000 |
| NS17.11 | Increased Income from Building and Design Services | 100,000 |
| NS24.06 | Review of Museum & Theatre service | 402,000 |
| NS25.05 | Review of Library Book Fund | 150,000 |
| NS32.01 | Review of Customer Relations, Policy and Performance | 251,000 |
| NS33.03 | Review of EHCP | 225,000 |
| NS35.01 | Review of Neighbourhood Protection | 340,000 |
| NS29.02 | Adjustment for previous years use of Cash Limit | -80,000 |
| | **NS Total Savings** | **3,488,000** |

| REF | Description | 2017/18 |
|---|---|---|
| | | £ |
| NS3 | Structural Reviews and more efficient ways of working | 718,400 |
| NS11 | Street Lighting Energy Savings | 400,000 |
| NS25 | Service Reviews within Neighbourhood Services | 1,779,000 |
| | **NS Total Savings** | **2,897,400** |

# MTFP (6) SAVINGS OPTIONS

| REF | Description | 2016/17 |
|---|---|---|
| | | £ |
| RED01 | RED service review | 400,000 |
| RED12 | Review of Contracted Bus Services | 400,000 |
| RED14 | Review of supplies, services and income across RED | 318,176 |
| | **RED Total Savings** | **1,118,176** |

| REF | Description | 2017/18 |
|---|---|---|
| | | £ |
| RED01 | RED service review | 1,800,000 |
| RED14 | Review of supplies, services and income across RED | 482,202 |
| | **RED Total Savings** | **2,282,202** |

## MTFP (6) SAVINGS OPTIONS

| REF | Description | 2016/17 |
|---|---|---|
| | | **£** |
| RES07 | Review of Human Resources | 289,627 |
| RES13 | Review of Legal and Democratic Services | 289,971 |
| RES15 | Review of Finance | 407,561 |
| RES16 | Review of ICT | 413,036 |
| RES21 | Review of Internal Audit and Risk | 93,086 |
| | **RES Total Savings** | **1,493,281** |

| REF | Description | 2017/18 |
|---|---|---|
| | | **£** |
| RES07 | Review of Human Resources | 648,422 |
| RES13 | Review of Registrars | 565,774 |
| RES16 | Review of ICT | 698,342 |
| RES19 | Review of Revenues and Benefits | 1,138,708 |
| RES21 | Review of Internal Audit and Risk | 164,615 |
| | **RES Total Savings** | **3,215,861** |

# MTFP (6) SAVINGS OPTIONS

| REF | Description | 2016/17 |
|---|---|---|
| | | £ |
| COR19 | Review of Business Support Functions | 1,050,352 |
| COR21 | Fleet Review Savings | 478,000 |
| COR22 | Freemans Reach Rental Income | 250,000 |
| COR23 | DVLR Dividend | 100,000 |
| COR24 | Capital Receipts – Income from Sales below £10k | 50,000 |
| COR25 | Self Financing Capital Schemes | 1,130,000 |
| COR26 | External Audit Fees | 70,000 |
| COR27 | Bank Charges | 50,000 |
| COR28 | Carbon Reduction Commitment | 150,000 |
| COR29 | Concessionary Fares | 300,000 |
| COR30 | Reduction in energy costs | 200,000 |
| COR31 | Reduction in fuel costs | 200,000 |
| | **Corporate Total Savings** | **4,028,352** |

**Appendix 5**
**Budget Summary - By Service Grouping**

| 2015/16 Original Budget £000 | 2015/16 Projected Outturn £000 | | 2016/17 Gross Expenditure £000 | 2016/17 Gross Income £000 | 2016/17 Net Expenditure £000 |
|---|---|---|---|---|---|
| | | **Council Controlled Budgets** | | | |
| 10,163 | 9,256 | Assistant Chief Executive | 12,024 | 2,576 | 9,448 |
| 251,450 | 252,655 | Children and Adults Service | 473,685 | 225,822 | 247,863 |
| 104,236 | 108,021 | Neighbourhood Services | 227,856 | 122,152 | 105,704 |
| 25,459 | 26,120 | Regeneration and Development | 67,445 | 42,188 | 25,257 |
| 15,855 | 17,033 | Resources | 73,341 | 57,059 | 16,282 |
| 4,501 | 3,902 | Corporate Costs | 4,399 | 164 | 4,235 |
| 5,690 | 2,380 | Contingencies | 6,194 | 0 | 6,194 |
| **417,354** | **419,367** | | **864,944** | **449,961** | **414,983** |
| | | **Non Council Controlled Budgets** | | | |
| 0 | 0 | Schools | 335,857 | 333,705 | 2,152 |
| 0 | 0 | Benefits | 190,759 | 190,759 | 0 |
| **0** | **0** | | **526,616** | **524,464** | **2,152** |
| **417,354** | **419,367** | ***NET COST OF SERVICES*** | **1,391,560** | **974,425** | **417,135** |
| -48,977 | -48,977 | Reversal of Capital Charges | | | -55,478 |
| 38,530 | 45,773 | Interest payable and similar charges | | | 37,401 |
| -1,641 | -4,132 | Interest and investment income | | | -1,641 |
| | | **Levies** | | | |
| 16,076 | 16,076 | North East Combined Authority | | | 15,439 |
| 415 | 415 | Environment Agency - Flood Defence | | | 426 |
| 64 | 64 | North East Inshore Fisheries Conservation Authority | | | 64 |
| **421,821** | **428,586** | ***NET OPERATING EXPENDITURE*** | | | **413,346** |
| -54,809 | -54,809 | Business Rates - local share | | | -54,841 |
| -60,491 | -60,491 | Top up Grant | | | -60,996 |
| -100,240 | -100,240 | Revenue Support Grant | | | -77,140 |
| -500 | -500 | Estimated net Surplus on Collection Fund | | | -2,617 |
| -8,322 | -8,323 | New Homes Bonus | | | -10,182 |
| -377 | -377 | New Homes Bonus - re-imbursement | | | -267 |
| -4,998 | -5,094 | Section 31 Grant | | | -4,267 |
| -6,002 | -5,975 | Education Services Grant | | | -5,407 |
| -11,511 | -16,230 | Use of Earmarked Reserves | | | -11,621 |
| -437 | -3,894 | Use of Cash Limit Reserves | | | -210 |
| 0 | 1,481 | Use of General Reserve | | | 0 |
| **174,134** | **174,134** | ***AMOUNT REQUIRED FROM COUNCIL TAX PAYERS*** | | | **185,798** |

**Appendix 6**
**Budget Summary - By Expenditure and Income Type**

| | Original Budget 2015/16 | 2015/16 Projected Outturn Position | Original Budget 2016/17 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Employees | 470,911 | 479,681 | 496,890 |
| Premises | 50,757 | 51,136 | 51,911 |
| Transport | 47,915 | 40,841 | 41,422 |
| Supplies & Services | 111,589 | 125,827 | 120,650 |
| Agency & Contracted | 307,725 | 307,345 | 309,756 |
| Transfer Payments | 204,317 | 202,826 | 208,831 |
| Central Costs | 96,263 | 97,685 | 75,253 |
| Direct Revenue Financing | 0 | 125 | 0 |
| Other | 18,603 | 20,078 | 25,175 |
| Capital Charges | 48,977 | 48,977 | 55,478 |
| Contingencies | 5,690 | 2,380 | 6,194 |
| **GROSS EXPENDITURE** | 1,362,747 | 1,376,901 | 1,391,560 |
| **Income** | | | |
| - Specific Grants | 580,428 | 571,943 | 584,069 |
| - Other Grants & contributions | 53,488 | 72,811 | 68,748 |
| - Sales | 5,966 | 6,484 | 8,881 |
| - Fees & charges | 104,473 | 99,678 | 106,341 |
| - Rents | 6,494 | 7,126 | 8,787 |
| - Recharges | 186,789 | 189,790 | 190,682 |
| - Other | 7,755 | 9,702 | 6,917 |
| **Total Income** | 945,393 | 957,534 | 974,425 |
| **NET COST OF SERVICES** | 417,354 | 419,367 | 417,135 |
| Capital charges | -48,977 | -48,977 | -55,478 |
| Interest and Investment income | -1,641 | -4,132 | -1,641 |
| Interest payable and similar charges | 38,530 | 45,773 | 37,401 |
| **Levies** | | | |
| North East Combined Authority | 16,076 | 16,076 | 15,439 |
| Environment Agency - Flood Defence | 415 | 415 | 426 |
| North East Inshore Fisheries Conservation Authority | 64 | 64 | 64 |
| **Net Operating Expenditure** | 421,821 | 428,586 | 413,346 |
| Less: | | | |
| Use of Reserves: | | | |
| Earmarked Reserves | -11,511 | -16,230 | -11,621 |
| Cash Limit | -437 | -3,894 | -210 |
| General | 0 | 1,481 | 0 |
| **Net Budget Requirement** | **409,873** | **409,943** | **401,515** |
| Financed by:- | | | |
| Business Rates - local share | -54,809 | -54,809 | -54,841 |
| Top up Grant | -60,491 | -60,491 | -60,996 |
| Revenue Support Grant | -100,240 | -100,240 | -77,140 |
| Amount required from council tax payers | -174,134 | -174,134 | -185,798 |
| Estimated Net Surplus on Collection Fund | -500 | -500 | -2,617 |
| New Homes Bonus | -8,322 | -8,323 | -10,182 |
| New Homes Bonus - re-imbursement | -377 | -377 | -267 |
| Section 31 Grant | -4,998 | -5,094 | -4,267 |
| Education Services Grant | -6,002 | -5,975 | -5,407 |
| **Total Financing** | **-409,873** | **-409,943** | **-401,515** |

# APPENDIX 7 : Medium Term Financial Plan - MTFP (6) 2016/17 - 2019/20 Model

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Government Funding** | | | | |
| Government RSG Funding Reduction | 23,210 | 21,140 | 14,140 | 14,240 |
| Reduction in Public Health Grant | 4,322 | 1,263 | 1,363 | 1,363 |
| Reduction in Education Services Grant | 595 | 1,000 | 1,000 | 1,000 |
| Reduction in Benefit Admin Grant | 200 | 400 | 400 | 400 |
| Town and Parish Council RSG Adjustment | -131 | -190 | -173 | -90 |
| Business Rates - RPI increase (0.8%/1.5%/2%/2%) | -438 | -820 | -1,110 | -1,130 |
| Top Up Grant - RPI increase (0.8%/1.5%/2%/2%) | -504 | -930 | -1,270 | -1,300 |
| Better Care Fund | 0 | -2,400 | -11,000 | -9,700 |
| **Other Funding Sources** | | | | |
| Council Tax Increase (1.99% per annum) | -3,556 | -3,675 | -3,800 | -3,900 |
| Council Tax Adult Social Care Precept (2% increase) | -3,574 | -3,695 | -3,820 | -3,920 |
| New Homes Bonus - Reduction from 2017/18 onwards | -1,860 | 2,000 | 2,000 | 2,000 |
| Council Tax/Business Rate Tax Base net increase | -3,400 | -750 | 0 | 0 |
| Bus. Rates 2014/15 Collection Fund Surplus - Adjustment | 500 | 0 | 0 | 0 |
| NHS Funding - Social Care Transformation | -4,432 | 0 | 0 | 0 |
| **Estimated Variance in Resource Base** | **10,932** | **13,343** | **-2,270** | **-1,037** |
| | | | | |
| Pay inflation (1.5% - 1.5% - 1.5% - 1.5%) | 3,300 | 3,200 | 3,100 | 3,000 |
| Price Inflation (1.5% - 1.5% - 1.5% - 1.5%) | 2,500 | 2,400 | 2,300 | 2,200 |
| Corporate Risk Contingency Budget | -3,000 | 0 | 0 | 0 |
| | | | | |
| **Base Budget Pressures** | | | | |
| Employer Nat. Insurance increase - State Pension changes | 4,500 | 0 | 0 | 0 |
| Costs Associated with National Living Wage | 4,000 | 6,000 | 6,000 | 6,600 |
| Single Status Implementation | 4,537 | 0 | 0 | 0 |
| Additional Employer Pension Contributions | 900 | 5,000 | 1,000 | 1,000 |
| Employee Increments | 2,581 | 0 | 0 | 0 |
| Energy Price Increases | 0 | 500 | 500 | 500 |
| Concessionary Fares | 0 | 100 | 100 | 100 |
| Pension Fund Auto Enrolment | 100 | 550 | 550 | 0 |
| Climate Change Levy - Impact upon Landfill income | 200 | 0 | 0 | 0 |
| Apprentice Levy | 0 | 1,200 | 0 | 0 |
| Care Act Grant - Transferred into RSG | 1,100 | 0 | 0 | 0 |
| Local Lead Flood Grant - Transferred into RSG | 47 | 0 | 0 | 0 |
| CAS Demographic and Hyper Inflationary Pressures | 1,000 | 2,500 | 1,500 | 1,500 |
| Use of Earmarked Reserve in CAS | 4,150 | 0 | 0 | 0 |
| | | | | |
| Prudential Borrowing to fund new Capital Projects | 0 | 2,000 | 2,000 | 2,000 |
| **TOTAL PRESSURES** | **25,915** | **23,450** | **17,050** | **16,900** |
| | | | | |
| **SUM REQUIRED TO BALANCE BUDGET** | **36,847** | **36,793** | **14,780** | **15,863** |
| | | | | |
| **Savings Plans** | -28,286 | -29,384 | -1,851 | -918 |
| **Savings to be Identified** | 0 | 0 | -24,577 | -14,945 |
| **Public Health Savings** | -4,322 | 0 | 0 | 0 |
| **Previous Years Shortfall** | 0 | 1,622 | 11,648 | 0 |
| **Utilisation of Collection Fund Surplus** | -2,617 | 2,617 | 0 | 0 |
| **Utilisation of Budget Support Reserve** | -1,622 | -11,648 | 0 | 0 |
| **TOTAL SAVINGS REQUIRED** | **-36,847** | **-36,793** | **-14,780** | **-15,863** |

## Appendix 8:
## Durham County Council Current Capital Programme - 2015/16 To 2018/19

| Service Grouping | Scheme | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|
| **ACE** | Members Neighbourhood Fund | 2,804,637 | 1,764,000 | - | - |
| **ACE** | Community Buildings | 776,539 | 694,303 | 143,910 | - |
| **ACE** | AAP Capital Budgets | 409,221 | 336,000 | - | - |
| **ACE** | Community Facilities in Crook | - | 513,007 | - | - |
| **ACE Total** | | **3,990,397** | **3,307,310** | **143,910** | **-** |
| **RES** | Civica Pension Fund Administration System | 170,150 | - | - | - |
| **RES** | Applications and Development | 25,000 | - | - | - |
| **RES** | Broadband / Digital Durham | 8,761,200 | 6,216,261 | - | - |
| **RES** | Code of Connection Compliance | 10,000 | 10,000 | - | - |
| **RES** | Corporate Mail Fulfilment | 66,811 | - | - | - |
| **RES** | Homeworking | 120,000 | 80,000 | - | - |
| **RES** | Learning Gateway | 73,894 | - | - | - |
| **RES** | Sharepoint Architecture | 50,000 | - | - | - |
| **RES** | Tanfield Power Upgrade | - | 250,000 | - | - |
| **RES** | Archiving of obsolete systems based on non supported hardware. | - | 200,000 | - | - |
| **RES** | Replacement of Desktop ICT Equipment | 1,008,148 | 1,250,000 | - | - |
| **RES** | Dark Fibre installations and Circuit/Microwave Upgrades | 450,524 | - | - | - |
| **RES** | Ongoing Server replacement | 200,956 | 155,000 | - | - |
| **RES** | Tanfield Datacentre Core Swiching Replacement | 63,790 | - | - | - |
| **RES** | Tanfield Datacentre LAN Switching Replacement | 265,427 | 200,000 | - | - |
| **RES** | Mobile Device Management | 165,000 | 195,000 | - | - |
| **RES** | Wireless Network Replacement | 125,000 | 125,000 | - | - |
| **RES** | Email Upgrade | - | 155,000 | - | - |
| **RES** | Big Data | 20,000 | 130,000 | - | - |
| **RES** | RES Electronic Voting Equipment | 40,000 | 60,000 | - | - |
| **RES Total** | | **11,615,900** | **9,026,261** | **-** | **-** |
| **RED** | Town centres | 2,463,464 | 4,494,710 | 2,135,930 | - |

| Service Grouping | Scheme | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|
| **RED** | Industrial Estates | 560,300 | 11,476,315 | 1,000,000 | - |
| **RED** | Barnard Castle Vision | 364,035 | 142,059 | - | - |
| **RED** | Office Accommodation | 66,077 | 2,317,897 | - | - |
| **RED** | Gypsy Travellers | 26,745 | 660,873 | - | - |
| **RED** | Eastgate | - | 150,000 | 360,830 | - |
| **RED** | Durhamgate | 285,305 | 35,000 | - | - |
| **RED** | North Dock Seaham | 754,057 | 250,000 | 329,558 | - |
| **RED** | DFG/FAP | 3,530,617 | 3,520,000 | 2,092,250 | - |
| **RED** | Housing Renewal | 1,897,621 | 1,560,430 | 491,648 | - |
| **RED** | Minor (ED&H) | 672,094 | 33,000 | 225,817 | - |
| **RED** | Chapter Homes | 1,500,000 | 2,000,000 | 600,000 | - |
| **RED** | Capitalised Structural Maintenance | 6,527,381 | 8,320,591 | 28,775 | - |
| **RED** | Renew Tech | 714,530 | 3,235,177 | - | - |
| **RED** | WCTC | - | 750,000 | - | - |
| **RED** | Minor (P&A) | 265,093 | 35,000 | - | - |
| **RED** | Minor (SPP) | 243,936 | 348,543 | 250,000 | - |
| **RED** | LTP | 3,233,465 | 2,789,000 | - | - |
| **RED** | Transit 15 | 104,029 | - | - | - |
| **RED** | Trans Major | 9,810,466 | 18,923,463 | 2,269,164 | - |
| **RED** | Transport Corridors | 1,215,335 | - | - | - |
| **RED** | CCTV | 92,950 | - | - | - |
| **RED** | Minor (T&CS) | 215,424 | 34,580 | - | - |
| **RED Total** | | **34,542,924** | **61,076,638** | **9,783,972** | **-** |
| **NEI** | Outdoor Play Areas and Parks | 2,742,868 | 661,926 | 70,403 | - |
| **NEI** | Leisure Centre Maintenance | 369,980 | 305,296 | - | - |
| **NEI** | Culture and Museums | 188,467 | - | - | - |
| **NEI** | AAP Schemes - Sport and Leisure | 79,110 | 2,000 | - | - |
| **NEI** | Newton Aycliffe Library / Library Modernisation | 156,142 | 950,483 | - | - |
| **NEI** | Waste Transfer Stations / Leachate Control | 2,895,223 | 7,435,714 | - | - |
| **NEI** | Stanley CAP | 1,480,282 | 550,000 | | |

| Service Grouping | Scheme | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|
| **NEI** | CRM System | 767,640 | 943,380 | 288,980 | - |
| **NEI** | Vehicle and Plant Replacement | 3,273,772 | - | - | - |
| **NEI** | Waste Infrastructure Capital - Refuse Collection | - | 87,616 | - | - |
| **NEI** | Fleet Management System / Live Track System | 187,696 | - | - | - |
| **NEI** | Street Scene | 652,045 | 163,196 | - | - |
| **NEI** | AAP Schemes - Direct Services | 39,085 | - | - | - |
| **NEI** | Highways Maintenance | 25,131,627 | 24,122,157 | 4,089,588 | 4,149,588 |
| **NEI** | Highways Bridges Maintenance | 2,348,083 | - | - | - |
| **NEI** | Wolsingham Depot | 591,341 | - | - | - |
| **NEI Total** | | **40,903,361** | **35,221,768** | **4,448,971** | **4,149,588** |
| **CAS** | LD Provider Services | 60,119 | - | - | - |
| **CAS** | Planning & Service Strategy | 132,201 | 101,000 | 314,962 | - |
| **CAS** | PFI | 60,195 | - | - | - |
| **CAS** | BSF | 13,240,044 | 5,528,002 | - | - |
| **CAS** | Support For Childs Homes | 53,635 | - | - | - |
| **CAS** | CAS AAP Scheme | 4,017 | - | - | - |
| **CAS** | Increased Provision for Two Year Olds | 408,000 | - | - | - |
| **CAS** | Public Health | - | 784,000 | - | - |
| **CAS** | Drugs Commissioning DACT | 35,656 | 72,000 | - | - |
| **CAS** | Drug & Alcohol Premises Upgrade | 200,000 | 500,000 | - | - |
| **CAS** | School Devolved Capital | 4,532,288 | - | - | - |
| **CAS** | DFE School Capital Inc Basic Need | 19,703,622 | 14,673,624 | 426,558 | - |
| **CAS** | DSG Structural Maintenance | 431,860 | 238,000 | - | - |
| **CAS** | School Modernisation | 607,487 | - | - | - |
| **CAS** | PSBP - Additional Works Not Covered by EFA | 200,000 | - | - | - |
| **CAS** | Free School Meals Support | 214,068 | 65,608 | - | - |
| **CAS** | Secure Services | 798,843 | - | - | - |
| | | **40,682,035** | **21,962,234** | **741,520** | **-** |
| | | **131,734,617** | **130,594,211** | **15,118,373** | **4,149,588** |

**Appendix 9**

## Durham County Council Additions to the 2016/17 - 2017/18 MTFP Capital Programme

| SERVICE | SCHEME | BACKGROUND | 2016/17 | 2017/18 | TOTAL |
|---|---|---|---|---|---|
| | | | £ | £ | £ |
| **ACE** | **Members Neighbourhood Budget** | In order to fulfil their roles as community champions and to work in partnership with AAPs to address local priorities in their communities, elected members each had an original allocation of £10,000 capital per annum. This was also matched with a revenue allocation of £10,000 per annum leaving a total annual allocation per member of £20,000. A base adjustment has been previously made for £4,000 of the revenue allocation to be transferred to capital, leaving a capital allocation of £14,000 for each member. | 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 has a total funding allocation of £100,000 for local projects and investments. of this sum £24,000 is in relation to capial investment. | 0 | 336,000 | 336,000 |
| | | **ACE Sub Total** | **0** | **2,100,000** | **2,100,000** |
| **CAS** | **Devolved Capital** | This capital grant is allocated to individual schools to invest in school infrastruture. | 1,378,000 | 1,378,000 | 2,756,000 |
| **CAS** | **DFE Capital Maintenance** | This capital grant paid by the DfE to local authorities is allocated and determined by school condition and weighted pupil numbers and should be used to ensure that the council addresses the poor condition of the existing school estate and increasingly to provide resources for additional pupil places in areas of demographic growth. The allocation for 2016/17 is £235k less than the sum included in MTFP (5) | **-235,000** | 5,400,000 | 5,165,000 |
| | | **CAS Sub Total** | **1,143,000** | **6,778,000** | **7,921,000** |

| SERVICE | SCHEME | BACKGROUND | 2016/17 | 2017/18 | TOTAL |
|---|---|---|---|---|---|
| **NEI** | **Department for Transport (DfT) - 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 | 10,567,000 | 10,567,000 |
| **NEI** | **Adopted Highway Maintenance** | DfT 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.<br><br>The approved bid for 2016/17 is £3,500,000. The 2017/18 bid has been uplifted by £750,000 to £4,250,000 to compensate for the expected fall in the LTP budget of £329,000 in 2017/18 and to allow for inflation. This will maintain the combined LTP and DCC adopted highway maintenance budget constant in real terms.<br>This bid also incorporates the re-allocation of the former LAMA budget. | 0 | 5,000,000 | 5,000,000 |
| **NEI** | **Unadopted Highway Maintenance** | Durham County Council owns 42km of unadopted carriageway and 202km of unadopted footway together with other associated assets (gullies, kerbs, markings etc).<br><br>Funding has previously been approved in 2015/16 and 2016/17 to bring unadpopted highway up to adoptable standard. An additional amount of £1,000,000 is requested to continue the process of eradicating unadopted highways. | 0 | 1,000,000 | 1,000,000 |
| **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.<br><br>The bid for 2017/18 maintains the budget at the same level as 2016/17.<br>Progress reports on these schemes will be brought to MOWG on a regular basis. | 0 | 1,050,000 | 1,050,000 |
| **NEI** | **Street Lighting Column Replacement** | The Council has an inventory of 67,527 street lighting columns of which 10,010 currently exceed their service life of 40 years.<br><br>There is a pressing need to supplement the street lighting LTP capital budget to enable the replacement of 1,625 columns per annum going forward on a risk based approach at a total cost of £2,112,500 per annum.<br><br>The estimated street lighting LTP capital budget in 2017/18 is £359,000. Therefore, the bid is for the balance required to replace 1,625 columns which is £1,753,500. | 0 | 1,754,000 | 1,754,000 |

| SERVICE | SCHEME | BACKGROUND | 2016/17 | 2017/18 | TOTAL |
|---|---|---|---|---|---|
| **NEI** | **Durham City Centre Conservation Area Refurbishment Project** | This bid is for a 4 year programme to refurbish the public realm of Durham City Centre Conservation Area that is in poor condition including:<br>- North Road<br>- Old Elvet Bridge<br>- North & South Bailey<br>- Claypath<br><br>The schemes are all prestige areas that require high specification materials that cannot be funded from existing budgets. Areas that require standard materials will continue to be maintained from existing budgets.<br><br>This programme has been developed in conjunction with RED's Economic Development & Housing. The works will be planned around forthcoming developments with RED to maximise developer contributions to the works. | 800,000 | 800,000 | 1,600,000 |
| **NEI** | **Fixed Play Sites** | The Council has been developing a framework for the fair distribution of fixed play sites, this has identified a number of settlements which do not have the minimum offer of fixed play. A funding strategy is to be developed, including the use of match funding , to create or enhance these sites. | 260,000 | 260,000 | 520,000 |
| **NEI** | **DLI Relocation of Collection & Durham City Art Gallery** | This investment will support the MTFP (6) saving to reduce costs in caring for and displaying the DLI collection. The solution identified with full support of the DLI Trustees (who own the collection) is to display a smaller section of the collection working in partnership with others. This process will begin with a five year initial exhibition at Palace Green Library in partnership with Durham University including a series of annual temporary exhibitions to support the stories. The medal collection will also accompany this initial loan. All medals will be available on demand. Education support services will be retained around these exhibitions.<br>The base location of the collection when it is not on display or loan will be Sevenhills, Spennymoor, where the special care work and research on the collection will take place. Moving from the DLI Museum builing will also result in the loss of the Art Gallery space. However, the programing budget has been retained and the intention is to work towards a permanent space, but in the meantime the intention is to maximize the use of other spaces in the city and countywide.<br>The capital investment will ensure that the required fit out for the required buildings can be completed. | 229,000 | 150,000 | 379,000 |
| | | **NEI Sub Total** | **1,289,000** | **20,581,000** | **21,870,000** |
| **RED** | **Local Transport Plan (LTP) - Integrated Transport** | Local Transport Plan - Transport Improvements - The Third Local Transport Plan was introduced in 2011. There were two funding block allocations from the DfT- Integrated Transport and Maintenance Funding. From 2015/2016 onwards the Integrated Transport element will be given to the Combined Authority to distribute to the local authorities in line with DfT indicative allocations.<br>Although the DfT has increased the overall national budget for the Integrated Transport Block, a portion of this has been allocated to the Single Growth Fund, which has subsequently led to a reduction in the direct ITB allocation for both the Combined Authority and DCC. In addition, £100,000 of the allocation will be retained by the Combined Authority towards regional initiatives. | 0 | 2,689,000 | 2,689,000 |
| **RED** | **Structural Capitalised Maintenance** | Capitalised Maintenance - Continuing programme of planned work, alterations and adaptations to reduce the backlog maintenance of the Councils non-schools property portfolio and to meet obligations under relevant legislation such as the Equalities Act and Fire Safety Orders. | 0 | 5,000,000 | 5,000,000 |

| SERVICE | SCHEME | BACKGROUND | 2016/17 | 2017/18 | TOTAL |
|---|---|---|---|---|---|
| RED | **Aykley Heads Project Development** | Aykley Heads has around 6.8ha of developable area for business and employment. The site is currently a successful business and employment location, providing a home to over 30 businesses in a range of professional and scientific sectors, business support organisations such as the North East Chamber of Commerce and has recently attracted the accounting firm Mazars, the NHS and Atom Bank. The capital allocation will identify and procure a delivery model, establish associated costs and undertake site preparation works including footpath, lighting, initial highway works and environmental improvements to allow the site to be brought forward for development. | 0 | 250,000 | 250,000 |
| RED | **Office Accommodation Programme (OAP2)** | One of the key objectives of OAP2 is to progress further rationalisation of office accommodation and improve space utilisation. This is predicated on maximising the existing council estate and with this in mind a review of OA has been conducted. At this time further work on utilisation of the strategic sites is underway which will lead to a costing exercise. | 1,250,000 | 1,250,000 | 2,500,000 |
| RED | **Business Development** | To make available a capital budget to enable the development of incubator business units to support and incentivise the development of small and medium size enterprises. This investment is clearly in line with the councils top prioty to support regeneration and economic development with a clear focus upon both job creation and job protection. | 100,000 | 400,000 | 500,000 |
| RED | **Durham City Riverside Improvements** | Proposals to implement essential access linkages and adjacent improvements to the environment between and around Freemans Reach and Milburngate House development sites. A capital allocation is required to contribute to the design and construction of improvements to pedestrian and cycling movements in the area including options to improve across the River Wear. Estimated total costs total costs could be in the region of £4m. This allocation could lever in match funding including regional transport funds and Section 106 contributions from adjacent developments. | 0 | 250,000 | 250,000 |
| RED | **Bishop Auckland - Market Place Enhancement Works** | Auckland Castle Trust now have planning consents in place to develop the heritage attraction. It is anticipated that there will be 200,000 visitors per annum visiting the attraction. There is a need to ensure that both pedestrians and vehicles can safely access and use the space in the Market Place. There is a need to make improvements to the public realm on the entrance to the Market Place from Durham Road and to provide a safe road crossing between the Market Place and Auckland Castle. Works include repairing and resurfacing sections of highway, repairing paving and forming 2 new raised road crossings. | 0 | 250,000 | 250,000 |
| RED | **Disabled Facilities Grant - DCLG** | Disabled Facilities 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 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 identified 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% and for those 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 longer at home. | 349,000 | 3,319,000 | 3,668,000 |
| RED | **Financial Assistance Policy (FAP)** | Tackling the existence of Category 1 Hazards under the Housing Health and Safety Rating System (HHSRS) within private sector housing stock and ensuring the current statutory minimum standard for housing is achieved in order to meet the Decent Homes Standard. | 0 | 200,000 | 200,000 |

| SERVICE | SCHEME | BACKGROUND | 2016/17 | 2017/18 | TOTAL |
|---|---|---|---|---|---|
| **RED** | **Empty Homes Loans** | The Empty Homes loan is available to help meet the cost of improvements or repairs to bring the long term empty private sector property back into use for both private sector landlords and those purchasing to use as their principal residence. Loans from 2015/2016 will be recycled over a 5 year period.<br><br>The 2015/2016 budget is fully committed and beyond this there is a waiting list of 83 homes which if supported (with the maximum loan) would require funding up to £1.245M. | 250,000 | 250,000 | 500,000 |
| **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 allocation of £200,000 was approved for 2016/2017 to commence development work and this request is the balance of the estimated funding required. | 0 | 1,800,000 | 1,800,000 |
| **RED** | **Town Centre Masterplan Priorites** | Continued investment to deliver priorities identified in Town Centre Masterplans.<br>During the period 2010/2011 to 2014/2015, £8M of the Town Centres budget has been spent across the County's Town Centres on improvements to the public realm; a countywide Targeted Buildings Improvement (TBI) scheme and key regeneration projects in a number of the Towns. These works have included the renewal of the public realm in Bishop Auckland Market Place, Consett, Stanley, and Seaham. The budget has also provided support to businesses across the county in terms of the TBI scheme which has refurbished or brought back into use over 170 retail properties. The Town Centre programme has levered in significant private sector investment (in excess of £2.5M) to support and create new businesses and employment opportunities. The budget has also provided support to enable sites to be brought forward for development e.g. acquisitions at North East Industrial Estate in Peterlee and partnership arrangements at Seaham Colliery with the HCA as well as the King James School building with the South Durham Enterprise AgencyThe current approved Town Centres programme has been established to support the projects identified in the 12 Regeneration Masterplans. In particular, the programme is supporting the delivery of additional car parking at North Bondgate to provide capacity for the expected increase of visitors to Bishop Auckland following the opening of the attractions at Auckland Castle, support for the acquisition programme at North East Industrial Estate and Railway Street in Seaham and improvements to the public realm in Consett Town Centre. A new project within the current programme is to help regenerate North Road in Durham City through public realm improvements and TBI's. The programme also continues to provide support to the TBI scheme across the County. The new Town Centre programme will continue to deliver a range of public realm improvements; TBI schemes; and provide funding for individual regeneration projects across the County Towns. | 0 | 1,500,000 | 1,500,000 |
| | | **RED Sub Total** | **1,949,000** | **17,158,000** | **19,107,000** |

| SERVICE | SCHEME | BACKGROUND | 2016/17 | 2017/18 | TOTAL |
|---|---|---|---|---|---|
| **RES** | **Accommodation Project - ICT Bid** | This investment will promote and accelerate changes towards new ways of working for the Council's workforce, utilising emerging technologies, linked to plans for office accommodation changes over the next 10 years. The imperative behind any actions to create a more flexible workforce and workplace. | 0 | 831,000 | 831,000 |
| **RES** | **Replacement desktop program** | If, within this context service transformation is to be realised, the Council now has the opportunity to link existing strategies and action plans to promote and accelerate changes towards new ways of working for the Council's workforce, utilising emerging technologies, linked to plans for office accommodation changes over the next 10 years. | 0 | 1,000,000 | 1,000,000 |
| **RES** | **Vulnerability Scanning Solution** | It is imperative to vulnerability scan the entire network. One laptop that is configured to do this work and it can take days to scan our servers and network kit as well as the PCs/laptops. The council will purchase a solution that will allow this to be done in hours and not days and weeks. | 0 | 100,000 | 100,000 |
| **RES** | **Logging Replacement** | The council has a Logging solution that when we bought it was licensed for three years. This is a statutory requirement for decurity compliance. This is a central repository of the logging data that we are required to collect for compliance requirements | 0 | 90,000 | 90,000 |
| **RES** | **Datacentre Refresh** | The datacentres require investment to ensure that they support the infrastructure of the Council. This is linked to three key systems, the Computer Room Air Conditioning(CRAC), Uninterruptable Power Supply (UPS) , and Fire Suppression. CRAC - The computer rooms must be continually cooled. The current primary cooling system (Eco-Cooling) cannot maintain operation in certain weather conditions (humidity at the ends of the ranges), and requires CRAC as a backup. All of the these key systems are nearing the end of their economic life and require replacement. | 0 | 661,200 | 661,200 |
| **RES** | **Server Replacement** | This is the ongoing server replacement bid which replaces the server hardware on a rolling programme of renewal. This ensures that the servers are up to date and within warranty and is the main ICT hardware for all corporate systems within the Council. | 0 | 100,000 | 100,000 |
| **RES** | **New Storage Platform for Tanfield datacentre** | The original parts of the current storage platform will soon be 5 years old. We intended to purchase new storage for Tanfield, move critical systems onto this then remove the 5 year parts of the current storage and retain those elements which are less than 5 years old. | 0 | 330,000 | 330,000 |
| **RES** | **Wide Area Network (WAN) Capacity Upgrade and Remodelling** | The Council's Core Wide Area Network(WAN) was specified in 2011 and more than exceeded the required functionality for the last 4 years, it was designed as a 1G bandwidth partially resilient network. The Wide Area Network interconnects all nodes (buildings, exchanges) enabling ICT service provision across the estate.<br>It has enabled significant growth of online services for the Council over this period such as Telephony, Datacentre Services, Email, Finance Systems, Internet Access, File sharing, all ICT systems are now provided over the WAN. Analysis shows the reliance on these services is set to grow continually as cloud services and remote working are more greatly utilised.<br>The WAN requires capital investment to be able to support the growth of existing and new online services. OFCOM govern the prices of fibre provision within the Telecommunications market and recent changes in Openreach pricing structures mean that with capital investment a new design is possible which will increase the core capacity and resilience of the WAN but can remain with current revenue budget. | 0 | 312,000 | 312,000 |
| | | **RES Sub Total** | **0** | **3,424,200** | **3,424,200** |
| | | **TOTAL** | **4,381,000** | **50,041,200** | **54,422,200** |

## Appendix 10

# Durham County Council Pay Policy Statement 2016/17

## 1 Introduction

This policy outlines the key principles of Durham County Council's (DCC) pay policy for 2016/17 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 February 2015 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

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

## 3 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.

## 4 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.

## 5 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 | 185,000 | 0 |
| Assistant Chief Executive | 120,000 | 0 |
| Corporate Directors | 140,000 | 0 |
| Director of Public Health | 103,848 | 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; £110,000, 96,900 and £75,500

The Corporate Management Team and Heads of Service pay levels were actually assessed in 2008 in preparation for the new authority by external assessors and the levels over £100,000 have not been increased since that time. Heads of Service on less than £100,000 were given a 1% increase similar to other NJC for Local Government Services employees. Following the retirement of the previous Chief Executive, the salary of this post was reviewed and set at £185,000.

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 posts 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.

## 6 The Authority's Policy on the Remuneration of its Lowest Paid Workers

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.

Following the implementation in 1 January 2015 of the 'Durham Living Wage' the lowest paid workers from 1 April 2016 will receive the minimum of Spinal Column Point 10 (£7.89 per hour) for all Durham County Council employees (subject to the NJC 2016/17 Pay Award being accepted). This equates to workers (outside of apprenticeship schemes) remunerated in Durham on a minimum full time equivalent annual rate of pay of £15,238 (excluding allowances). This is the Council's definition of 'lowest paid workers'.

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

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 £1.4bn 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 12:1, against figures published by Government of an expectation to always be below 20:1 in local government.

In addition, during 2016/17 the employer will contribute 13.8% of pensionable pay to the pension fund for all employees in the Local Government Pension Scheme.

## 8 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.

## 9 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.

## 10 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.

## 11 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.

## 12 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 2016/17

### Summary

In accordance with statutory guidance and the Council's Financial Procedure rules, this report presents the proposed Treasury Management Strategy for 2016/17, 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 2016/17
   - Annual Investment Strategy 2016/17
   - Prudential Indicators 2015/2019
   - Minimum Revenue Provision Policy 2016/17

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 2016/17**

This report covers the following issues in respect of 2016/17:

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. Minimum Revenue Provision (MRP) Policy
ix. 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 2015, with comparators for 31 March 2015 and a forecast position for 31 March 2016:

| | 31-Mar-15 (£m) | Average Rate (%) | 31-Dec-15 (£m) | Average Rate (%) | 31-Mar-16 (£m) | Average Rate (%) |
|---|---|---|---|---|---|---|
| Borrowing | 457.375 | 4.46 | 245.629 | 4.05 | 245.623 | 4.05 |
| Investments | 149.962 | 0.71 | 208.151 | 0.76 | 150.000 | 0.76 |
| Net Debt | 307.413 | | 37.478 | | 95.623 | |

Borrowing has fallen by £212m in 2015/16 as a result of debt attributable to the HRA being repaid as part of the housing stock transfer.

Investment levels are forecast to remain broadly the same at the end of March 2016 as they were at March 2015.

## ii. Capital Financing Plans

### Housing Revenue Account (HRA)

As a result of the housing stock transfer on 13 April 2015, the figures shown in the tables in respect of the HRA contained in this report will be for 2014/15 and 2015/16 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 | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Non-HRA | 119.386 | 138.929 | 140.994 | 72.863 | 8.424 |
| HRA | 42.826 | - | - | - | - |
| **Total** | **162.212** | **138.929** | **140.994** | **72.863** | **8.424** |
| **Financed by:** | | | | | |
| Capital receipts | 12.976 | 16.631 | 15.883 | 17.897 | - |
| Capital grants and contributions | 82.858 | 52.318 | 40.452 | 25.392 | - |
| Revenue and reserves | 21.581 | 13.167 | 0.072 | - | - |
| **Net financing need for the year** | **44.797** | **56.813** | **84.587** | **29.574** | **8.424** |

**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.

| | **2014/15 Actual** | **2015/16 Estimate** | **2016/17 Estimate** | **2017/18 Estimate** | **2018/19 Estimate** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Capital Financing Requirement** | | | | | |
| CFR – non housing | 392.459 | 432.094 | 498.063 | 506.604 | 493.418 |
| CFR - housing | 244.000 | - | - | - | - |
| **Total CFR** | **636.459** | **432.094** | **498.063** | **506.604** | **493.418** |
| **Movement in CFR** | **29.199** | **-204.365** | **65.969** | **8.541** | **-13.186** |
| **Movement in CFR represented by** | | | | | |
| Net financing need for the year (above) | 44.797 | 56.813 | 84.587 | 29.574 | 8.424 |
| HRA non-dwelling impairment | 0.132 | - | - | - | - |
| Housing Stock Transfer | - | -244.000 | - | - | - |
| Less MRP/VRP and other financing movements | -15.730 | -17.178 | -18.618 | -21.033 | -21.610 |
| **Movement in CFR** | **29.199** | **-204.365** | **65.969** | **8.541** | **-13.186** |

**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.

| | **2014/15 Actual** | **2015/16 Estimate** | **2016/17 Estimate** | **2017/18 Estimate** | **2018/19 Estimate** |
|---|---|---|---|---|---|
| | **%** | **%** | **%** | **%** | **%** |
| Non-HRA | 6.16 | 7.33 | 7.97 | 9.13 | 9.57 |

*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.

| | **2015/16 Estimate** | **2016/17 Estimate** | **2017/18 Estimate** | **2018/19 Estimate** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| Council tax - band D | 0.00 | 0.80 | 5.47 | 4.50 |

## 1.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below. 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.

| | **2014/15 Actual** | **2015/16 Estimate** | **2016/17 Estimate** | **2017/18 Estimate** | **2018/19 Estimate** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| External Debt | | | | | |
| Debt at 1 April | 436.833 | 457.375 | 245.623 | 260.609 | 285.594 |
| Expected change in Debt | 20.542 | -211.752 | 14.986 | 24.985 | 14.984 |
| Other long-term liabilities (OLTL) | 49.685 | 48.164 | 50.604 | 51.106 | 52.464 |
| Expected change in OLTL | -1.521 | 2.440 | 0.502 | 1.358 | -2.461 |
| **Actual gross debt at 31 March** | **505.539** | **296.227** | **311.715** | **338.058** | **350.581** |
| **The Capital Financing Requirement** | **636.459** | **432.094** | **498.063** | **506.604** | **493.418** |
| **Under / (over) borrowing** | **130.920** | **135.867** | **186.348** | **168.546** | **142.837** |

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 2016/17 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 5 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.

| Operational Boundary | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Borrowing | 382.000 | 447.000 | 454.000 | 443.000 |
| Other long term liabilities | 51.000 | 52.000 | 53.000 | 51.000 |
| Total | 433.000 | 499.000 | 507.000 | 494.000 |

**Prudential Indicator 6 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.

| Authorised limit | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Borrowing | 432.000 | 497.000 | 504.000 | 493.000 |
| Other long term liabilities | 54.000 | 55.000 | 56.000 | 54.000 |
| Total | 486.000 | 552.000 | 560.000 | 547.000 |

**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:

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| **Interest rate Exposures** | | | |
| | **Upper** | **Upper** | **Upper** |
| Limits on fixed interest rates based on net debt | 100% | 100% | 100% |
| Limits on variable interest rates based on net debt | 30% | 30% | 30% |
| **Maturity Structure of fixed interest rate borrowing 2016/17** | | | |
| | | **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 2016 | 0.50 | 2.00 | 3.40 | 3.20 |
| Jun 2016 | 0.50 | 2.10 | 3.40 | 3.20 |
| Sep 2016 | 0.50 | 2.20 | 3.50 | 3.30 |
| Dec 2016 | 0.75 | 2.30 | 3.60 | 3.40 |
| Mar 2017 | 0.75 | 2.40 | 3.70 | 3.50 |
| Jun 2017 | 1.00 | 2.50 | 3.70 | 3.60 |
| Sep 2017 | 1.00 | 2.60 | 3.80 | 3.70 |
| Dec 2017 | 1.25 | 2.70 | 3.90 | 3.80 |
| Mar 2018 | 1.25 | 2.80 | 4.00 | 3.90 |
| Jun 2018 | 1.50 | 2.90 | 4.00 | 3.90 |
| Sep 2018 | 1.50 | 3.00 | 4.10 | 4.00 |
| Dec 2018 | 1.75 | 3.10 | 4.10 | 4.00 |
| Mar 2019 | 1.75 | 3.20 | 4.10 | 4.00 |

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to

+0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

In the Eurozone (EZ), the European Central Bank (ECB) announced a massive €1.1 trillion programme of quantitative easing (QE) in January 2015 to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

- Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 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.

## v. 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 2016/17 treasury operations. The Corporate Director Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

## vi. 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.

## vii. 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.

## viii. 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.

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.
- Equity shareholding in businesses of not more than £10m as part of a balanced approach to investment after taking on board due diligence.

**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 - £250k
- 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:

1 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 | AA- | AA- | AA- |
| Short Term | F1 | P1 | A-1 |
| Long Term | A- | A3 | A- |

(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 | 6 months |
| 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 |

### v. 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)

### ix. 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 (ie 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.