

# County Durham and Darlington Fire and Rescue Authority



17 February 2011

## Revenue and Capital Budgets 2011/12, incorporating the Medium Term Financial Plan 2011/12 to 2014/15

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### Joint Report of Jeff Garfoot, Treasurer and Susan Johnson, Chief Executive

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#### Purpose and Structure of the Report

- 1 The purpose of the report is to enable the Authority to:
  - approve a revised revenue budget for 2010/11;
  - set a revenue budget for 2011/12;
  - approve the Medium Term Financial Plan;
  - approve the capital budgets for 2011/12 to 2014/15;
  - determine the Fire Authority precept;
  - approve the associated resolutions.
  
- 2 The report is divided into 11 sections:
  - Section A - Background (page 2)
  - Section B - Strategic Aims and Objectives (page 3)
  - Section C - Budget Consultation (page 4)
  - Section D - Local Government Finance Settlement (page 5)
  - Section E - Revenue Budget (page 6)
  - Section F - Medium Term Financial Plan (page 8)
  - Section G - Capital Programme and Budget (page 13)
  - Section H - Fire Authority Precept (page 15)
  - Section I - Prudential Code (page 18)
  - Section J - Treasury Management (page 23)
  - Section K - Summary of Recommendations (page 36)

## **SECTION A**

### **BACKGROUND**

- 1 A meeting of the Audit and Finance Committee was held on 31 January 2011 to consider the revenue and capital budgets, together with the Medium Term Financial Plan. This report incorporates the recommendations of the Committee regarding the overall budget amount and the level of council tax for 2011/12. The Chair of the Audit and Finance Committee will provide an update to the meeting on the recommendation of the Audit and Finance Committee.

## SECTION B

### STRATEGIC AIMS AND OBJECTIVES

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

#### **Protecting and Preventing**

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

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

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

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

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

- 2 The Authority places significant importance on ensuring that investments made in delivering and improving services are aligned to the strategic aims and objectives. In addition, efficiencies that are identified are assessed in relation to their impact on the Authority achieving strategic aims.

- 3 **It is recommended that Members confirm the strategic aims and objectives against which investment and efficiency decisions are made.**

## SECTION C

### BUDGET CONSULTATION

#### Residents

- 1 The Authority has undertaken consultation with:
  - Area Action Partnership representatives throughout County Durham;
  - A Citizen's Panel meeting where members of the public were invited to comment on the Integrated Risk Management Plan proposals;
  - Meetings with the public, partners and parish councils in Durham and Darlington;
  - Website based questionnaires.
- 2 The budget proposals outlined in this report were discussed with stakeholders at all of the events held. The consultation feedback was extremely positive in relation to the Authority's Integrated Risk Management Plan (IRMP) proposals and the 2011/12 budget proposals. Feedback received from the consultation supports the budget proposals to balance the 2011/12 budget as set out in this report.

#### Business Community

- 3 Two consultation meetings were arranged with representatives of non-domestic ratepayers. No representatives from the business community attended the consultation meetings. Consultation on the budget and efficiency savings has also taken place with representative bodies on a regular basis over a number of months.
- 4 **It is recommended that Members take into account the views of those consulted as they consider the budget and Medium Term Financial Plan proposals.**

## SECTION D

### LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2011/12

- 1 The provisional local government finance settlement was issued on 13<sup>th</sup> December 2010 providing grant information for the next two years. The final settlement was confirmed on 31<sup>st</sup> January 2011. No grant announcements have been made beyond this two year period.
- 2 The key elements of the Authority's settlement for 2011/12 are:
  - Formula Grant totals £13.149m - This is a cash reduction of £1.380m or 9.5% in comparison to the 2010/11 grant allocation
  - The reduction in funding for this Authority is among the highest of all Fire Authorities which appears to be due to changes in the grant distribution mechanism
  - Due to the significant grant reduction in 2011/12, the Authority has been allocated £143,545 by way of floor damping, contributed by other Fire Authorities above the level of the floor
- 3 **It is recommended that Members note the grant settlement.**

## **SECTION E**

### **REVENUE BUDGET**

#### **Introduction**

- 1 This section deals with the revised revenue budget for 2010/11 and the revenue budget requirement for 2011/12.

#### **Revised Revenue Budget 2010/11**

- 2 During the year the revenue budget is monitored and reports outlining spending against budget are regularly considered. Estimates are revised as pressures and opportunities for savings are identified, and virement is exercised in accordance with the financial regulations of the Authority.
- 3 The latest forecast revenue expenditure position reveals a projected underspend of £1,253,199 against original budget. In the main this is due to savings in staffing costs and contingencies.
- 4 This offers the opportunity to consider various options in 2010/11 including transfers to reserves in part to address some of the risks facing the Authority. Members will be aware that the Authority is facing significant financial challenges over the medium term and may wish to consider the use of any under spend to assist in meeting these challenges through establishing specific earmarked reserves. The options will be further considered as part of the 2010/11 closing of accounts process when the actual outturn position is known. The revised 2010/11 estimates are set out in Appendix A.
- 5 **The following resolutions are recommended to the Authority:**
  - (a) That the revised revenue budget for 2010/11, summarised above and detailed in Appendix A be approved;
  - (b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2010/11.

#### **Revenue Budget Requirement 2011/12**

- 6 The standstill budget for 2011/12, as reported to the Audit and Finance Committee on 31 January 2011, amounts to £31,020,716. The standstill has been prepared by updating the 2010/11 budget for known variations.
- 7 Due to the current financial climate, attention has been focussed on the achievement of efficiencies and service transformational savings. Efficiency savings totalling £281,000 have been identified for 2011/12 through reductions in ill health retirements of £98,000 and savings in overtime payments of £183,000. Service transformational savings to the value of £877,000 have also been identified. Full details of all service transformational savings proposals including risk assessments, equality impact assessments, implementation plans and costings are attached at Appendices C to G.

- 8 When the efficiency gains and service transformational savings are applied to the standstill budget, the 2011/12 budget requirement is £29,862,716, summarised as follows and detailed in Appendix A.

Budget Requirement 2011/12

	£
Standstill Budget	31,020,716
Less:	
Efficiency Gains	-281,000
Service Transformational Savings	-877,000
<b>Budget Requirement</b>	<b><u>29,862,716</u></b>

- 9 **The Chair of the Audit and Finance Committee will provide an update to the meeting on the recommendation of the Audit and Finance Committee.**
- 10 **It is recommended that the Authority approve the Service Transformational Savings totalling £877,000 as set out in the business cases in Appendices C to G.**
- 11 **It is recommended that the Authority approves the revenue estimates for the year ended 31 March 2012 as summarised above and detailed in Appendix A.**

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

This section provides a summary of the Medium Term Financial Plan for 2011/12 to 2014/15.

### **Basis of the Preparation of the Medium Term Financial Plan 2011/12 to 2014/15**

#### *Resources*

- 1 The details of the local government settlement for 2011/12 are outlined in Section D. 2011/12 is the first year of a two year settlement; the final settlement for 2012/13 is £12.852m, a further reduction of £0.297m (2.26%). No announcement has been made of the settlement beyond 2013/14 however, for the purposes of this report it has been assumed that there will be a reduction in government grant of 12.5% for 2013/14 and 3.1% for 2014/15.
- 2 A Collection Fund deficit of £15,200 has been notified by Darlington Borough Council and a surplus of £55,708 has been notified by Durham County Council. Therefore, the Authority's share of Collection Fund net surplus (the excess council tax collected by Durham County Council and Darlington Borough Council over that which they had budgeted to collect) receivable in 2011/12 amounts to £40,508. No surplus or deficit has been incorporated into the plan for future years.
- 3 The Medium Term Plan has been calculated based on 0% increase in council tax levied in 2011/12 and a 1% increase for subsequent years.
- 4 Council Tax freeze grant of £0.419m has been assumed for each year included in the plan.
- 5 Members will need to review these assumptions noting that each 1% change in council tax results in a variation of £167,000.

#### *Savings*

- 6 Members have previously been made aware of the efficiency savings and the Service Transformation savings identified. Full details of the Service Transformation Projects can be found in Appendices C to G.
- 7 The savings proposals are summarised below:



<b>SAVINGS</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Efficiency Gains</b>				
Reduction in ill health retirements	0.098	0.098	0.098	0.098
Reduction in overtime payments	0.183	0.183	0.183	0.183
	<b>0.281</b>	<b>0.281</b>	<b>0.281</b>	<b>0.281</b>
<b>Transformational Savings</b>				
Review of Service Structure	0.47	0.743	0.743	0.743
Mainstream equality & diversity	0.041	0.072	0.072	0.072
Administration support review	0.068	0.102	0.102	0.102
Evaluation of training review	0.057	0.072	0.072	0.072
Removal of District Trainers	0	0.149	0.255	0.255
Review of NVQ process	0.042	0.072	0.072	0.072
Review of competency recording	0	0	0.085	0.085
Firefighter capacity: Community Safety	0.121	0.208	0.208	0.208
Firefighter capacity: Fire Safety	0.053	0.091	0.091	0.091
Firefighter capacity: Hydrant Mgmt	0.012	0.021	0.021	0.021
Firefighter capacity: IRS Monitoring	0.013	0.022	0.022	0.022
Operations: RDS crewing of ALP	0	0	0.365	0.365
Operations: Day Crewing Plus N Aycliffe	0	0	0.235	0.235
Operations: Day Crewing Plus Seaham	0	0	0.212	0.212
	<b>0.877</b>	<b>1.552</b>	<b>2.555</b>	<b>2.555</b>
<b>TOTAL</b>	<b>1.158</b>	<b>1.833</b>	<b>2.836</b>	<b>2.836</b>

### *Medium Term Financial Plan Summary*

- 8 The above assumptions and information have been incorporated in to the MTFP summary as outlined in the table below:

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Standstill Budget	31.021	31.525	32.120	32.922
Efficiency Savings	-0.281	-0.281	-0.281	-0.281
Service Transformation	-0.877	-1.552	-2.555	-2.555
ST Phase 2 Savings	0.000	0.000	-1.033	-2.011
<b>Budget Requirement</b>	<b>29.863</b>	<b>29.692</b>	<b>28.251</b>	<b>28.075</b>
Grant Income	13.149	12.852	11.243	10.897
Council Tax	16.673	16.840	17.008	17.178
Collection Fund Surplus	0.041	0.000	0.000	0.000
<b>Total Funding</b>	<b>29.863</b>	<b>29.692</b>	<b>28.251</b>	<b>28.075</b>

### **Financial Reserves**

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

10 Reserves are held as:-

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of general reserves.
- A contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.
- A means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

11 The Authority's reserves as at 1 April 2010 are as follows:

	<b>Balance at 1/4/10</b>
	<b>£m</b>
Earmarked	
Pensions	0.309
Revenue Modernisation	0.760
Capital Modernisation	3.175
Community Safety	0.414
General	3.000
<b>Total</b>	<b>7.658</b>

12 The latest analysis of the financial out turn for 2010/11 estimates an under spend of £1.253m at 31 March 2011. Members will need to consider the treatment of the under spend as part of the year end closure of accounts. This estimated under spend will increase the level of reserves to £8.911m at 1/4/11.

13 The current policy is that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain, broadly, general reserves of between 7.5% and 10% of the budget requirement, currently between £2.3m and £3.1m respectively, with a maximum general reserve of 15% of the budget requirement for the short to medium term.

## Risks

14 The Authority has embedded risk management as part of its overall control framework and reviews financial risks on a regular basis. Risks have also been fully reviewed as part of the overall budget setting process for 2011/12 and over the medium term.

15 The following risks have been considered as part of the budget setting process:

- (a) **Modernisation**  
The national FiReControl project was cancelled on the 20 December 2010. The project, which provided a network of nine regional control centres, was intended to replace the local command and control systems in local fire and rescue services. The cancellation of the project will require the Service to put in place alternative arrangements for its command and control function in the future which will require investment over the medium term. The Government is consulting on the options that are available to the Service however no details of any funding to facilitate new command and control arrangements have been made available and there is no certainty that support will be provided.

There is also a risk relating to the funding for the FiReLink radio scheme and national new dimension assets that are hosted locally by the fire and rescue service. There is a risk that the specific grant funding for these schemes will be consolidated in formula grant which may negatively impact on the Authority's overall funding position.

- (b) **Future Grant Levels**  
There is no visibility on the level of formula grant that the Authority will receive in financial years 2013/14 and 2014/15. There is a risk that the level of funding, coupled with a negative impact from any funding formula changes arising from the forthcoming resource review will adversely impact on the resources that are available over the medium term plan. Whilst prudent assumptions have been made in the medium term financial plan, this is a key risk that the Authority needs to consider.
- (c) **Capital Investment**  
A significant capital investment is being made in the Authority's estate in line with Integrated Risk Management Plan priorities. A core aim of the estate improvement strategy is to ensure that the facilities are affordable and provide value for money. The revenue implications of the Authority's capital investment plans have been considered in full as part of the budget setting process and are affordable. Provision has been made in the revenue and capital budgets for all known commitments.
- (d) **Pension Costs**  
The employers cost of pension schemes is reviewed on a regular basis by the actuary. The risk of the employer's costs increasing further over the medium term is recognised and the Authority holds a pension reserve to mitigate the short term impact of any increase. Prudent assumptions have been made in the medium term financial plan for pension increases over the medium term.
- (e) **Reserves**  
The Authority has established general and earmarked reserves as part of its overall approach to effective financial management. The reserves position is reviewed by Members on an annual basis and the reserves policy provides assurance that reserve levels are adequate.

## **Value for Money**

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

## **Recommendations**

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

## SECTION G

### CAPITAL BUDGET 2010/11 TO 2014/15

- 1 The proposed capital budget for the years 2011/12 to 2014/15 and the revised capital budget for 2010/11 are set out in Appendix B and are summarised in the table below:

Year	Capital Budget £
2010/11 Revised	1,902,442
2011/12	3,401,600
2012/13	9,779,890
2013/14	3,345,204
2014/15	1,918,394
	20,347,530

- 2 A significant amount of work has been undertaken to ensure that the capital budgets proposed for the medium term are reflective of the Authority's priorities and are affordable in terms of associated revenue expenditure. The major elements of the capital programme consist of the estate improvement plan, investment in information technology and expenditure on vehicles and equipment.
- 3 Members are aware that the Authority is committed to examining the most beneficial means of procuring capital schemes. One PFI scheme is operational incorporating new community fire stations in Bishop Auckland and Spennymoor. The Authority is seeking clarification of the funding for the second scheme which includes estate improvements at Barnard Castle, Crook, Sedgfield and Stanhope.
- 4 The remaining significant estate improvement capital schemes included in the budget are in relation to the learning and development centre and Durham station and headquarters. The Authority has committed to the acquisition of land at Bowburn for the learning and development centre and has an option to procure land at Sniperley for Durham station. Options for a new headquarters site are being considered as part of the wider strategy to release resources from the sale of the existing site.
- 5 The budget for 2011/12 takes account of the Authority's requirement to invest in a number of Information Technology projects to improve information management across the organisation. The capital programme also includes the Authority's ongoing requirements in relation to replacement vehicles and operational equipment in accordance with agreed replacement programmes.
- 6 Under the Prudential framework, the Authority is free to make its own borrowing decisions according to what is affordable as guided by the Prudential Code. With effect from 2011/12 Central Government has ceased to provide support for borrowing. Capital expenditure will be funded through unsecured borrowing,

capital grant, revenue contributions or use of reserves, depending on the financial situation at the relevant time.

- 7 Full provision has been made in the 2011/12 revenue budget to meet the revenue consequences of the capital programme.
- 8 **It is recommended that the Authority approves the capital budgets for 2010/11 to 2014/15.**

## SECTION H

### FIRE AUTHORITY PRECEPT

#### Council Tax Options

- 1 Taking into account the revenue resources of the Authority, the base spend and the increased spending and savings proposals detailed in previous sections, it is possible to construct a budget which would allow the Authority to freeze Council Tax at the same levels as 2010/11.
- 2 If the Authority were to precept at a level to raise sufficient funds to meet the 2011/12 Budget Requirement, a Basic Council tax of £87.84 would be required.
- 3 **Members are requested to consider the above the information and determine the level of Council Tax for 2011/12.**

#### Calculation of the Precept

- 4 The calculation of the precept takes the Authority's budget requirement and deducts from it contributions from Government in respect of Revenue Support Grant and Redistributed Non-Domestic Rates. Allowance also has to be made for the Authority's share of any surplus or deficit on Durham County Council and Darlington Borough Council collection funds.
- 5 Assuming a budget requirement of £29,862,716 the calculation is shown in the following table:

	£	£
Fire Authority's Budget Requirement		29,862,716
Less:		
Revenue Support Grant	3,104,707	
Re-distributed Non Domestic Rates	10,044,252	13,148,959
		16,713,757
Less:		
Estimated overall net surplus on Collection Funds at 31st March 2011		40,508
<b>Amount Required from Precept</b>		<b>16,673,249</b>

#### Council Tax Base

- 6 The 'council tax bases' of Durham County Council and Darlington Borough Council are used to calculate the proportion of the Fire Authority's total precept to be levied on each Authority. The tax base is the estimated full year equivalent number of chargeable 'Band D' dwellings with two or more liable adults in respect of which tax will be received. The 'council tax bases' for 2011/12 as notified to the Fire Authority are set out in the table below:

Authority	Council Tax Base	Precept
Durham County Council	155,021.10	£ 13,617,054
Darlington Borough Council	34,792.75	3,056,195
Total	189,813.85	16,673,249

### Calculation of Fire Authority's Basic Council Tax

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

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

$$\frac{\underline{\pounds 16,673,249}}{189,813.85} = 87.84$$

- 8 A Basic Council Tax of £87.84 represents 0% increase from the 2010/11 level.

### Precept Instalments

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

- (a) Durham County Council:

4 <sup>th</sup> April 2011	8 <sup>th</sup> September 2011
6 <sup>th</sup> May 2011	10 <sup>th</sup> October 2011
6 <sup>th</sup> June 2011	11 <sup>th</sup> November 2011
7 <sup>th</sup> July 2011	13 <sup>th</sup> December 2011
8 <sup>th</sup> August 2011	13 <sup>th</sup> January 2012

- (b) Darlington Borough Council:

4 <sup>th</sup> May 2011	3 <sup>rd</sup> October 2011
3 <sup>rd</sup> June 2011	1 <sup>st</sup> November 2011
4 <sup>th</sup> July 2011	1 <sup>st</sup> December 2011
2 <sup>nd</sup> August 2011	4 <sup>th</sup> January 2012
1 <sup>st</sup> September 2011	2 <sup>nd</sup> February 2012



- 10 **Based on the Budget Requirement of £29,862,716 and a Council Tax of £87.84 it is recommended that the Authority adopts the following resolutions:**

That for the year ended 31 March 2012:

- (i) the 'council tax base' for the whole of the Authority's area be 189,813.85;
- (ii) there be no Authority expenses relating to a part only of the Authority's area;
- (iii) the 'basic amount of council tax' be £87.84 (and the amount of the council tax for each category of dwelling be as follows:

<b>Valuation Band</b>	<b>(Proportion of 'Basic Amount')</b>	<b>Council Tax</b>
		<b>£</b>
A	(6/9)	58.56
B	(7/9)	68.32
C	(8/9)	78.08
D	('basic amount')	87.84
E	(11/9)	107.36
F	(13/9)	126.88
G	(15/9)	146.40
H	(18/9)	175.68

- (iv) the Budget Requirement be £29,862,716 and that, (after taking into account 'Revenue Support Grant' of £3,104,707, Redistributed Non-Domestic Rates of £10,044,252 and a net surplus on the collection fund of £40,508), precepts totalling £16,673,249 be issued to Durham County Council and Darlington Borough Council

## SECTION I

### PRUDENTIAL CODE

#### Background

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

#### Prudential Indicators

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

Capital Expenditure				
2009/10 Actual £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
2,196	1,902	3,402	9,780	3,345

- 6 Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2010 are:

Capital Financing Requirement				
2009/10 Actual £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
2,419	11,605	11,265	17,389	19,068

- 7 The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Fire Authority does not associate borrowing with particular items or types of expenditure. The Authority has an Integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority's Treasury Management Strategy and annual plan for 2011/12 is shown in Section J. The Fire Authority has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the Authority's underlying need to borrow for a capital purpose.

- 8 CIPFA's Prudential Code for Capital Finance includes the following as a key indicator of prudence:

*"In order to ensure that over the medium term net borrowing will only be for a capital purpose the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."*

- 9 There are no difficulties envisaged for the current or future years in meeting this requirement. This view takes into account current commitments, existing plans, and the proposals contained in this budget report.
- 10 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2009/10 are:

Ratio of Financing Costs to Net Revenue Stream				
2009/10 Actual %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
0.6	1.4	1.4	1.9	3.4

## Minimum Revenue Provision (MRP) Statement

- 11 The Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP). CLG Regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options have been provided to replace the existing Regulations, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:
- i. For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:
    - **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 2).
  - ii. From 1 April 2008 for all unsupported borrowing the MRP policy will be:
    - **Asset Life Method** - MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3).

## External Debt

- 12 In respect of external debt, the Authority has set the following Authorised Limits for its total external debt, gross of investments, for the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases.

Authorised Limit for External Debt			
	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	2	9	11
Long-term liabilities	9	9	9
Total	11	18	20

- 13 The Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements.
- 14 The Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the Treasurer's estimate of the most likely, prudent but not worst-case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a

key management tool for in year monitoring by the Treasurer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified.

Operational Boundary for External Debt			
	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	2	8	10
Long-term liabilities	8	8	8
Total	10	16	18

- 15 The Authority's actual external debt at 31 March 2010 was £2.3m, comprising £1.8m borrowing and £0.5m long-term liabilities. It should be noted that actual external borrowing differs from the Authorised Limit and Operational Boundary, since actual external debt reflects the position at one point in time.

### Council Tax

- 16 The Prudential Indicators have been calculated using a 0% Council Tax increase in 2011/12 and assuming a 1% increase in subsequent years.
- 17 The capital programme outlined in Appendix B is funded by a mix of capital grants, contributions from revenue and borrowing under the prudential code.
- 18 The estimate of the incremental impact of this prudential borrowing for Band D Council Tax is:

Incremental Increase on Band D Council Tax		
2011/2012 %	2012/2013 %	2013/2014 %
0.00	1.93	3.72

### Recommendations

- 19 **It is recommended that the Authority:**
- (a) Notes the prudential indicators.
  - (b) Approves the MRP Statement
  - (c) Approves the following limits for external debt in 2011/12:
    - (i) Authorised Limit of £11m

(ii) Operational Boundary of £10m

## SECTION J

### TREASURY MANAGEMENT 2011/12

- 1 The CIPFA Code of Practice for Treasury Management in the Public Services makes the following key recommendations:
  - (i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
  - (ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities
  - (iii) They should acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this
  
- 2 The Authority has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains, as the cornerstone for effective treasury management:
  - a treasury management policy statement stating the policies and objectives of its treasury management activities. This is attached as Annex J1.
  - suitable treasury management practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. These are attached as Annex J2.
  
- 3 Reports will be presented to members of the Authority on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. The annual strategy for 2011/12 is shown in Annex J3. In implementing this strategy the Authority will give priority to security and liquidity rather than yield. However the Authority will aim to achieve the highest rate of interest consistent with proper levels of security and liquidity. In particular, Members' attention is drawn to the key objectives of the Investment Strategy which is firstly safeguarding the repayment of principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. The Authority delegates responsibility for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

## Treasury Management Indicators

- 4 The Authority has set an upper limit on its *fixed* interest rate exposures for 2011/12, 2012/13 and 2013/14 of 100% of its net outstanding principal sum.
- 5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2011/12, 2012/13 and 2013/14 of 30% of its net outstanding principal sums.
- 6 The Authority's upper and lower limits for the maturity structure of its borrowings are as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate		
	Upper Limit %	Lower Limit %
Under 12 months	20	0
12 months and within 24 months	20	0
24 month and within 5 years	30	0
5 years and within 10 years	50	0
10 years and above	100	0

- 7 The Authority does not intend to invest sums for periods longer than 364 days. This is seen as prudent interest rate risk management.

## 8 Recommendations

### It is recommended that the Authority:

- a) Adopts the key recommendations of the CIPFA code.
- b) Notes the Annual Treasury Management Strategy as set out in Annex J3.
- c) Sets an upper limit on the Authority's fixed interest rate exposures for 2011/12, 2012/13 and 2013/14 of 100% of its net outstanding principal sum.
- d) Sets an upper limit on the Authority's variable interest rate exposures for 2011/12, 2012/13 and 2013/14 of 30% of its net outstanding principal sums.



## **Annex J1: Treasury Management Policy Statement**

- 1 The Authority defines its treasury management activities as:  
  
*“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*
  
- 2 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
  
- 3 The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

## Annex J2: Treasury Management Practices

### 1 TMP1 - TREASURY RISK MANAGEMENT

#### 1.1 The Treasurer shall:

- Design, implement and monitor all arrangements for the identification, management and control of the treasury management risks shown below
- Report at least annually on the adequacy/ suitability thereof, and
- Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**.

#### 1.2 *Liquidity*

The Authority will ensure it has adequate, but not excessive, cash resources, borrowing arrangements, overdraft or standby facilities, to enable the Authority at all times to have the level of funds available which are necessary for the achievement of its service objectives.

#### 1.3 *Interest Rates*

The Authority will manage its exposure to fluctuations in interest rates with a view to containment of its net interest costs, or securing its interest revenues, in accordance with the amounts provided in the Revenue Estimates in accordance with **TMP6 Reporting requirement and management information arrangements**.

#### 1.4 *Credit and Counterparties*

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit the Authority's investment activities to the instruments, methods and techniques referred to in **TMP4 Approved Instruments, methods and techniques**.

#### 1.5 *Rescheduling & Refinancing of Debt*

The Authority will ensure that all borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

## 1.6 *Legal and Regulatory*

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. The Authority will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under **TMP1.4 Credit and Counterparties**, the Authority will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Authority will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

## 1.7 *Fraud, Error and Corruption, and Contingency Management*

The Authority will seek to ensure that it has identified the circumstances which may expose the Authority to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Accordingly, it will design and implement suitable systems and procedures, and will maintain effective contingency management arrangements to counter such risks.

## 1.8 *Market Risk*

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums invested.

## **2 TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT**

2.1 The Authority will actively work to promote best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.

## **3 TMP3 - DECISION-MAKING AND ANALYSIS**

3.1 The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

## **4 TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

4.1 The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy that is shown in Annex J3.

## **5 TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

- 5.1 The Authority's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.
- 5.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 5.3 If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer will ensure that the reasons are properly reported in accordance with **TMP6 Reporting requirements and management information arrangements**, and the implications properly considered and evaluated.
- 5.4 The Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.
- 5.5 The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 5.6 The Treasurer will fulfil all delegated responsibilities in respect of treasury management in accordance with Authority's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

## **6 TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

- 6.1 Regular reports will be prepared for consideration by the Authority on:
- the implementation of its treasury management policies
  - the effects of decisions taken and the transactions executed in pursuit of those policies
  - the implications of changes resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the treasury management function
- 6.2 As a minimum, Authority will receive:
- an Annual Report on the strategy and plan to be pursued in the forthcoming year

- an Annual Report on the performance of the treasury management function in the previous year and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and Treasury Management Practices

## **7 TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- 7.1 The Authority will account for its treasury management activities in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements.
- 7.2 The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

## **8 TMP8 - CASH AND CASH FLOW MANAGEMENT**

- 8.1 All Authority monies shall be aggregated for treasury management purposes and will be under the control of the Treasurer. Cash flow projections will be prepared on a regular and timely basis, and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1.2 Liquidity**.

## **9 TMP 9 - MONEY LAUNDERING**

- 9.1 Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.

## **10 TMP 10 - STAFF TRAINING AND QUALIFICATIONS**

- 10.1 The Authority will seek to appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

## **11 TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS**

- 11.1 When external service providers are employed by the Authority, the Treasurer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the methods by which service providers' value will be assessed will be properly agreed and documented, and subjected to regular review.
- 11.2 Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, Authority Standing Orders and Financial Regulations plus legislative requirements will always be

observed. The monitoring of such arrangements rests with the Treasurer.

## **12 TMP 12 - CORPORATE GOVERNANCE**

- 12.1 The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 12.2 The Authority has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the Treasurer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## **Annex J3: Treasury Management Strategy 2011/12**

The CIPFA Code of Practice for Treasury Management in the Public Services recommends that the Authority draw up an annual Treasury Management Strategy before the start of each financial year, which it may vary at any time.

In implementing this strategy, the Authority will give priority to security and liquidity, rather than yield. However, the Authority will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. In order to achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the Authority's approach to borrowing and the use of external managers.

### **1. Borrowing Strategy 2011/12 – 2013/14**

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the Authority will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Treasurer and treasury consultants will monitor prevailing rates for any opportunities during the year.

Continuing to postpone borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

### **2. Investment Strategy 2011/12 – 2013/14**

#### **2.1 Key Objectives**

The primary objectives of the Authority's investment strategy are firstly safeguarding the repayment of the principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. With the current economic background, the current investment climate has one over-riding risk consideration; that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

#### **2.2 Risk Benchmarking**

A development in the revised Codes and the CLG consultation paper is the

consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature.

These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the mid year or Annual Report.

Security - The Authority's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.08% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area, the Authority seeks to maintain:

- Bank overdraft of £0.25m
- Liquid short term deposits of at least £0.5m available with a week's notice
- Weighted Average Life benchmark is expected to be 0.25 years (3 months), with a maximum of 0.5 years (6 months)

Yield - Local measure of yield benchmarks is:

- Investments - Internal returns above the 7 day London Interbank Bid Rate (LIBID)

### **2.3 Investment Counterparty Selection Criteria**

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Authority will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Authority for approval as necessary. These criteria are separate to those which choose Specified and Non-Specified investments, as they provide an overall pool of counterparties considered high quality that the Authority may use, rather than defining what its investments are.



The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside of the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

## **2.4 Specified Investments**

Specified Investments are defined as those satisfying the following conditions:

- a) Denominated in sterling
- b) To be repaid or redeemed within 12 months of the date on which the investment was made
- c) Do not involve the acquisition of share capital or loan capital in any body corporate
- d) Are made with the UK Government, local authorities, parish councils, community councils, or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency.

The criteria for providing a pool of high quality investment counterparties are:

### **Banks 1 - Good Credit Quality**

The Authority will only use banks which:

- (a) Are UK banks; and/or
- (b) Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA;
- (c) And have, as a minimum, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):
  - i. Short Term – F1
  - ii. Long Term – A
  - iii. Individual / Financial Strength – C- (Fitch / Moody's only)
  - iv. Support – 3 (Fitch only)

### **Banks 2 - Guaranteed Banks with suitable Sovereign Support**

In addition, the Authority will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

- (a) wholesale deposits in the bank are covered by a government guarantee;
- (b) the government providing the guarantee is rated “AAA” by all three major rating agencies (Fitch, Moody’s and Standard & Poors); and
- (c) the Authority’s investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

### **Banks 3 - Eligible Institutions**

The Authority is an eligible institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.

**Banks 4 - The Authority’s own banker** for transactional purposes if the bank falls below the above criteria although in this case balances will be minimised in both monetary size and time.

### **Building Societies**

The Authority will use all Societies which meet the ratings for banks outlined above.

### **Money Market Funds – AAA**

**UK Government** (including gilts and the Debt Management Account Deposit Facility (DMADF))

**Other Local Authorities, Parish Councils etc.**

## **2.5 Non - Specified Investments**

Non-Specified investments are those not meeting the definition in the Specified Investments section above. It is proposed that during 2011/12, the Authority will not invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

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

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

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

The time and monetary limits for institutions on the Authority’s Counterparty List are as follows:

	<b>Fitch (or equivalent)</b>	<b>Money Limit</b>	<b>Time Limit</b>
Limit 1 Category	AAA	£4m	1 year
Money Market Funds	AAA	£4m	1 year
Limit 2 Category	AA	£4m	1 year
Eligible Institutions	AA	£4m	1 year
Limit 3 Category	A	£1m	3 months
Eligible Institutions	A	£1m	3 months
UK Government		unlimited	6 months
Other Local Authorities		£2m	1 year

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

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

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

The estimated impact of a 1% increase or decrease in interest rates to the estimated treasury management income for the Authority in 2011/12 is an increase or decrease of £70,000.

## **3. External Managers (Other than those relating to the Pension Fund)**

The Authority may, upon the recommendations of the Treasurer, appoint one or more external managers to manage the short-term investment of surplus Authority money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.

## **SECTION K**

### **SUMMARY OF RECOMMENDATIONS**

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

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

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

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

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

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

That Members note the grant settlement.

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

##### **Revised 2010/11 Revenue Budget Recommendations** (page 6)

That the Authority adopts the following resolutions:

- (a) That the revised revenue budget for 2010/11 be approved;
- (b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2010/11.

##### **2011/12 Revenue Budget Recommendations** (page 6)

- (a) That the Authority approves the Service Transformational Savings totalling £877,000 as set out in the business cases in Appendices C to G.
- (b) That the Authority approves the revenue estimates for the year ending 31 March 2012 as detailed in Appendix A.

#### **SECTION F** – Medium Term Financial Plan (page 8)

That the Authority:

- (a) Agrees the Medium Term Financial Plan.

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

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

That the Authority approves the capital budgets for 2010/11 to 2014/15.

**SECTION H** – Fire Authority Precept (page 15)

That Members determine the level of Council Tax for 2011/12 based on the Budget Requirement of £29,862,716. Based on the recommendation of the Audit and Finance Committee, it is recommended for the year ending 31/3/12:

- (i) That the 'council tax base' for the whole of the Authority's area be 189,813.85
- (ii) That there be no Authority expenses relating to a part only of the Authority's area
- (iii) That the Authority freezes the council tax at the 2010/11 level, at £87.84 for a Band D property
- (iv) That the Budget Requirement be £29,862,716 and that, (after taking into account 'Revenue Support Grant' of £3,104,707, Redistributed Non-Domestic Rates of £10,044,252 and a net surplus on the collection fund of £40,508), precepts totalling £16,673,249 be issued to Durham County Council and Darlington Borough Council

**SECTION I** – Prudential Code (page 18)

- (a) That the Authority notes the prudential indicators.
- (b) That the Authority approves the MRP Statement.
- (c) That the Authority approves the following limits for external debt in 2011/12:
  - (i) Authorised Limit of £11m
  - (ii) Operational Boundary of £10m

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

- (a) That the Authority formally adopts the key recommendations of the CIPFA code.
- (b) That the Authority notes the Annual Treasury Management Strategy.
- (c) That the Authority sets an upper limit on its fixed interest rate exposures for 2011/12, 2012/13 and 2013/14 of 100% of its net outstanding principal sum.
- (d) That the Authority sets an upper limit on its variable interest rate exposures for 2011/12, 2012/13 and 2013/14 of 30% of its net outstanding principal sums.

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**APPENDIX A  
(Amended)**

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

**REVENUE BUDGET**

Original Estimate 2010/11 £	Revised Estimate 2010/11 £	Budget Heading	Original Estimate 2011/12 £
		<b>Employees</b>	
16,917,718	17,033,842	Operational personnel - Pay and Allowances	16,393,195
3,453,799	3,040,035	Non-uniformed personnel - Pay and Allowances	2,638,734
		<b>Pensions</b>	
2,507,638	3,251,401	Employers Contributions	2,849,455
646,000	646,000	Ill Health and Injury Pensions	552,930
264,742	269,352	Recruitment & Training	264,781
19,480	19,480	Employees Insurances	20,000
27,195	39,759	Other	47,537
<b>23,836,572</b>	<b>24,299,869</b>		<b>22,766,632</b>
1,428,415	1,408,125	<b>Premises</b>	1,442,947
855,748	885,516	<b>Transport</b>	830,386
3,269,837	3,470,870	<b>Supplies &amp; Services</b>	3,964,631
1,528,286	1,528,286	<b>Capital Charges</b>	2,017,672
-164,730	-771,517	<b>Income</b>	-810,179
725,330	658,309	<b>Contingencies</b>	236,248
<b>31,479,458</b>	<b>31,479,458</b>	<b>NET EXPENDITURE</b>	<b>30,448,337</b>
-1,528,286	-1,528,286	<b>Reversal of Capital Charges</b>	-2,017,672
1,450,990	1,450,990	<b>Capital Financing</b>	1,432,051
-117,670	-117,670	<b>Contributions from Reserves</b>	0
<b>31,284,492</b>	<b>31,284,492</b>	<b>BUDGET REQUIREMENT</b>	<b>29,862,716</b>

## APPENDIX B

**COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY****CAPITAL BUDGETS 2010/11 (REVISED) AND 2011/12 TO 2014/15**

Capital Project Details	Total Estimated Cost	Revised Estimate 2010/2011	Estimate 2011/2012	Estimate 2012/2013	Estimate 2013/2014	Estimate 2014/2015
<b>Existing Commitments</b>	£	£	£	£		£
<b>Due for Completion by 31/3/2011</b>						
Equipment	230,482	230,482	-	-	-	-
Vehicles	318,628	318,628	-	-	-	-
Premises	671,000	671,000	-	-	-	-
ICT	682,332	682,332	-	-	-	-
<b>TOTAL EXISTING COMMITMENTS</b>	<b>1,902,442</b>	<b>1,902,442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>New Commitments</b>						
<b>Due for Completion by 31/3/2012</b>						
Equipment	144,600	-	144,600	-	-	-
Vehicles	1,195,000	-	1,195,000	-	-	-
Premises	1,266,000	-	1,266,000	-	-	-
ICT	796,000	-	796,000	-	-	-
	<b>3,401,600</b>	<b>-</b>	<b>3,401,600</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Due for Completion by 31/3/2013</b>						
Equipment	184,620	-	-	184,620	-	-
Vehicles	472,770	-	-	472,770	-	-
Premises	8,842,000	-	-	8,842,000	-	-
ICT	280,500	-	-	280,500	-	-
	<b>9,779,890</b>	<b>-</b>	<b>-</b>	<b>9,779,890</b>	<b>-</b>	<b>-</b>
<b>Due for Completion by 31/3/2014</b>						
Equipment	93,115	-	-	-	93,115	-
Vehicles	439,049	-	-	-	439,049	-
Premises	2,709,000	-	-	-	2,709,000	-
ICT	104,040	-	-	-	104,040	-
	<b>3,345,204</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,345,204</b>	<b>-</b>
<b>Due for Completion by 31/3/2015</b>						
Equipment	229,750	-	-	-	-	229,750
Vehicles	468,523	-	-	-	-	468,523
Premises	1,114,000	-	-	-	-	1,114,000
ICT	106,121	-	-	-	-	106,121
	<b>1,918,394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,918,394</b>
<b>TOTAL NEW COMMITMENTS</b>	<b>18,445,088</b>	<b>1,902,442</b>	<b>3,401,600</b>	<b>9,779,890</b>	<b>3,345,204</b>	<b>1,918,394</b>
<b>TOTAL ALL COMMITMENTS</b>	<b>20,347,530</b>	<b>1,902,442</b>	<b>3,401,600</b>	<b>9,779,890</b>	<b>3,345,204</b>	<b>1,918,394</b>