Dorset County Council

Cabinet

Minutes of a meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 1 February 2017.

Present:

Robert Gould	Leader of the Council (Chairman)
Peter Finney	Deputy Leader and Cabinet Member for Environment, Infrastructure and Highways
Robin Cook	Cabinet Member for Organisational Development and Transformation
Deborah Croney	Cabinet Member for Learning, Skills and Children's Safeguarding
Jill Haynes	Cabinet Member for Adult Health, Care and Independence
Rebecca Knox	Cabinet Member for Health, Wellbeing and Communities

Members Attending:
Hilary Cox, as Vice-Chairman of the County Council
Paul Kimber, County Councillor for Portland Tophill

Officers Attending:
Debbie Ward (Chief Executive), Richard Bates (Chief Financial Officer), Helen Coombes (Interim Director for Adult and Community Services), Mike Harries (Director for Environment and the Economy), Jonathan Mair (Monitoring Officer), Sara Tough (Director for Children's Services), Michael Carhart-Harris (Senior Communications Officer) and Lee Gallagher (Democratic Services Manager).

For certain items, as appropriate:
John Alexander (Senior Assurance Manager - Performance), Andrew Martin (Service Director - Highways), Jim McManus (Chief Accountant) and Matthew Piles (Service Director - Economy).

(Notes:(1) In accordance with Rule 16(b) of the Overview and Scrutiny Procedure Rules the decisions set out in these minutes will come into force and may then be implemented on the expiry of five working days after the publication date. Publication Date: **Tuesday, 7 February 2017**.

(2) These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Cabinet to be held on **Wednesday, 8 March 2017**.

(3) **RECOMMENDED** in this type denotes that a decision of County Council is required.)

Apologies for Absence

18 Apologies for absence were received from Cllr Andrew Cattaway, Cllr Colin Jamieson and David Phillips (Director of Public Health).

Code of Conduct

19 There were no declarations by members of disclosable pecuniary interests under the Code of Conduct.

Minutes

20 The minutes of the meeting held on 18 January 2017 were confirmed and signed.

Public Participation

21 Public Speaking

There were no public questions received at the meeting in accordance with Standing Order 21(1).

There were no public statements received at the meeting in accordance with Standing Order 21(2).

Petitions

There were no petitions received at the meeting in accordance with the County Council's Petition Scheme.

Cabinet Forward Plan

22 The Cabinet considered the draft Forward Plan, which identified key decisions to be taken by the Cabinet on or after the next meeting. It was noted that a report on Concessionary Travel would be addressed outside of the meeting and an item would be reinstated on to the Forward Plan on an appropriate date.

Noted

Medium Term Financial Plan (MTFP) and Budget 2017/18 to 2019/20

23 The Cabinet considered a report by the Leader of the Council on the development of the budget and Medium Term Financial Plan (MTFP) throughout the year regarding Council Tax and Social Care Precepts, expenditure allocation and savings measures.

Cllr Robert Gould introduced the report in detail, and explained the elements comprising the budget and development of the MTFP, which included the challenges facing the Council in coming years and included continued pressure on Adult Social Care, Looked After Children and Special Educational Needs Transport. It was confirmed that the contingency budget would need to increase from £2.3m to £2.9m due to the scale of risks detailed within the report, and due to the need to work at the lower end of reserves and balances. It was noted that the Forward Together Programme would continue to drive savings required in 2017/18 of £22.1m, with £49.4m required in total over the next three years.

Members discussed a range of budget areas, which included the recognition of inward investment from the DfE for reinvigorating social care which would lead to reducing budget pressures; the need for clarity regarding the future Business Rates Retention Scheme; the Council's approach to asylum seeking children; recognition of a 15% market increase in the cost of adult social care; the impact of inflation and procurement opportunities pending Brexit; the cost of Looked After Children and anticipated reductions due to a focus on early prevention; and the impact of more targeted Youth Services.

In relation to Local Government Reorganisation, it was understood that there was an estimated implementation cost of £25m, but the funding was not yet forthcoming from Government, and it was unclear if councils that were not willing to change would contribute to the reorganisation.

The Cabinet expressed the need to explain the position in relation to Adult Social Care to the public as the introduction of the Social Care Precept was not a solution and there was much more funding required to solve the funding problem as a national issue.

Members discussed the Forward Together Programme in terms of the challenges ahead, and it was noted that an audit report on the programme, including its governance, would be available in March 2017 which would include a number of learning points to strengthen the current arrangements. Reference was also made to budget management performance following a training programme and tools being introduced for managers as a result of a financial control audit and plan. It was noted specifically that there had been no breaches of financial rules. It was felt that the Cabinet would need to be clearer about challenging and monitoring risks within the programme and budget management.

Resolved
That subject to confirmation of funding levels once the final settlement is received:
1. Consider the service issues and risks associated with the savings measures arising from the updated Forward Together programme, set out in Appendix 2 of the report, and agree these as the measures upon which any relevant consultation takes place (these are also the measures which the flexible use of capital receipts strategy will support).
2. Note the outcome of the Authority's review of reserves and balances and the risks associated with the use of reserves to balance the budget over the planning period and the impact this will have on the starting position for new Local Government structures in Dorset from 1 April 2019.
3. Confirm the Council Tax increase of 1.99% for 2017/18 and the assumption of 2% annual increase across the remainder of the planning period.
4. Confirm a Social Care Precept of 3% for both 2017/18 and 2018/19 and 0% for 2019/20.

RECOMMENDED
1. That the County Council be recommended to approve:
a) the revenue budget strategy for 2017/18 to 2019/20
b) the budget requirement and precept for 2017/18
c) the position on general balances and reserves
2. That the Chief Financial Officer present to the County Council a schedule setting out the Council Tax for each category of dwelling and the precepts on each of the Dorset Councils for 2017/18.
3. That the Budget Strategy Task and Finish Group continue in order to develop savings proposals to address budget gaps over the remainder of the MTFP period.
4. That the role of the Forward Together Programme is clarified to ensure managers are held to account for their budgets and ensure that specific, measurable actions are put in place to ensure budgets at risk are managed within the funding parameters agreed by Elected Members.

Reason for Decisions and Recommendations
To approve the Council Tax increase for 2017/18 and to enable work to continue on refining and managing the County Council's budget strategy for the remaining MTFP period.

Asset Management Capital Priorities
24 The Cabinet considered a report by the Cabinet Member for Organisational Development and Transformation on the priorities for capital spending over the next three years, including Capital Bids for 2017/18 and the Capital Funding Policy. This report follows previous consideration by the Cabinet on 18 December 2016 where it was agreed to reassess the programme given the financial position of the Council, and the forthcoming budget announcement from Government, to focus on the highest and immediate priorities.

Members praised a number of capital related approaches to build credibility and secure external funding from Government and other sources including the use of a Highways Asset Management Plan to secure a Pothole Action Fund and from the National Productivity Investment Fund to improve local road networks. Compliments were also expressed in relation to the receipt of £150k for the Living and Learning Programme through the Councils' One Public Estate bid.

In relation to the One Public Estate, it was recognised that there was continued work on Dorset-wide public asset management. Members also acknowledged the consideration by the Local Enterprise Partnership and the Growth Board regarding progress and delivery of a strategic approach asset management, including housing. It was agreed that a report would be submitted to Cabinet in due course in relation to Joint Asset Management.

Cllr Paul Kimber addressed the Cabinet to raise concern about air quality and steps to improve traffic congestion. It was confirmed that the highways improvement programme used specific criteria including congestion, but there was no separate programme to address air quality, and that this was a responsibility of district and borough councils. It was also noted that issues relating to micro particles and air quality did not relate solely to traffic and congestion, and that there was investment by Public Health into monitoring equipment to better understand the complexities of air quality including mapping. Members were encouraged to continue to promote Dorset's natural environment and to promote healthy and active lifestyles.

RECOMMENDED
That the County Council be recommended to approve the bids to be included in the capital programme 2017/18 to 2019/20.

Reason for Recommendation
The available resources after taking account of committed projects were insufficient to meet all the new bids in their entirety. It was therefore necessary for the Cabinet to confirm priorities for inclusion in the Capital Programme.

Treasury Management Strategy Statement and Prudential Indicators for 2017-18

25 The Cabinet considered a report by the Leader of the Council regarding the planning of capital expenditure and the funding of that expenditure, in accordance with the CIPFA Prudential Code, in addition to the publication and monitoring of Prudential Indicators and a Treasury Management Strategy.

RECOMMENDED
That the County Council be recommended to approve:
1. The Prudential Indicators and Limits for 2017/18 to 2019/20.
2. The Minimum Revenue Provision (MRP) Statement.
3. The Treasury Management Strategy.
4. The Investment Strategy.
5. Delegation to the Chief Financial Officer to determine the most appropriate means of funding the Capital Programme.

Reasons for Recommendations
1. The Prudential Code provided a framework under which the Council's capital finance decisions were carried out. It required the Council to demonstrate that its capital expenditure plans were affordable, external borrowing was within prudent and sustainable levels and treasury management decisions were taken in accordance with professional good practice. Adherence to the Prudential Code was mandatory as set out in the Local Government Act 2003.
2. The report recommended the indicators to be applied by the Council for the financial years 2017/18 to 2019/20. The successful implementation of the code would assist in the Council's objective of developing 'public services fit for the future'.

Corporate Plan: Outcomes focused monitoring report

26 The Cabinet considered a report by the Cabinet Member for Organisational Development and Transformation regarding the Corporate Plan based on an outcomes focused approach as a new approach to performance reporting, and was reflected in the new Overview and Scrutiny Committees which were also based on the Council's corporate aims. Members noted that training would be held on 8 and 9

February 2017 regarding outcomes based accountability.

The new reporting format was welcomed by members. Suggestions made at the meeting related to the need to focus on a smaller number of performance indicators as the top priorities facing the Council, to have as much up to date information as possible in the report including those that link with Dorset Police and the Community Safety Partnership, and to ensure that benchmarking was relevant to Dorset. It was noted that suggestions regarding the format were welcomed outside of the meeting through liaison with the Senior Assurance Manager, and work was underway to refine the number of indicators by the Planning and Learning Group during 2017.

The Cabinet requested that performance information should be aligned with the Council's budget and that efforts should be progressed to make this possible.

Consideration was given to the reporting of indicators where the Council was not the responsible body, and it was felt that there was a need to know the responsible body and how the outcome was being addressed.

Reflections of the new approach of Overview and Scrutiny Committees was highlighted, as the recent round of meetings in January 2017 had considered performance information in detail and particular outcomes were being selected and scrutinised. Scrutiny would include consideration of performance data alongside financial information and relevant experience.

Resolved
1. That the evidence of Dorset's position with regard to the outcome indicators in Appendix 1 of the report be noted.
2. That the progression in the available evidence in support of the agreed outcomes in the corporate plan be noted.
3. That members liaise with the Senior Assurance Manager regarding the refinement of performance indicators and future reports.

Reason for Decisions
The 2016-17 Corporate Plan provided an overarching strategic framework for monitoring progress towards good outcomes for Dorset. The outcome indicators summarised in the report provided enhanced evidence to the Cabinet, the Audit and Governance Committee and the three Overview and Scrutiny committees so that progress against the corporate plan could be monitored effectively.

Consideration of the Proposals to implement a Regional Adoption Agency (RAA)

27 The Cabinet considered a report by the Cabinet Member for Learning, Skills and Children's Safeguarding on the creation of a Regional Adoption Agency (RAA) in partnership with Bournemouth Borough Council and the Borough of Poole from July 2017.

Further to commitment being given by the Cabinet in February 2016, members welcomed the progress to establish an RAA, including the participation of Families for Children (a Voluntary Adoption Agency). The RAA would manage adoption services, those deemed suitable for adoption, target recruitment and prospect adopters, and provide special guardianship. It would also remain as an aim to form the agency as a Local Authority Trading Company in due course.

The Head of Care and Protection, and officers involved in the development of the RAA were congratulated for their hard work.

Resolved
1. That the establishment of a Regional Adoption Agency (the proposed Regional Adoption Agency would combine the adoption services of Bournemouth Borough

Council, Dorset County Council and the Borough of Poole, working in partnership with Families for Children, a voluntary adoption agency) be approved.
2. That the Business Case for the Pan Dorset model of a Local Authority Single Hosted (LASH) model for delivery of adoption services be approved.
3. That the hosting arrangement be approved, for Bournemouth Borough Council to host the adoption agency on the behalf of the three local authorities.
4. That the proposed name for the new RAA: *Aspire Adoption*, be approved.
5. That delegated authority be granted to the Director for Children's Services, after consultation with the portfolio Holder for Children's Safeguarding, to make minor amendments to the business case following further discussions with Bournemouth Borough Council and the Borough of Poole.
6. That delegated authority be granted to the Director for Children's Services, after consultation with the portfolio holder for Children's Safeguarding to agree appropriate governance arrangements for Aspire Adoption.
7. That delegated authority be granted to Bournemouth Borough Council under section 101 of the Local Government Act 1972, the County Council's Adoption and Children Act 2002 function relating to adoption services, to discharge on behalf of the County Council and as host of the Regional Adoption Agency.

<u>Reasons for Decisions</u>
1. Councils have a statutory duty to provide adoption services to all those affected by adoption living in their area. Services to meet those responsibilities are required to meet legislative requirements and Minimum Standards for Adoption Services and are inspected regularly by Ofsted to ensure they do so.
2. The move towards a proposed Regional Adoption Agency would not discharge the Council of its statutory responsibilities but would affect far reaching changes in how those functions were organised and managed. While Bournemouth, Dorset and Poole all continued to provide high performing adoption services, central government expected that Regional Adoption Agencies would be better able to target the recruitment of prospective adopters, speed up the matching and placement of children, improve adoption support services and may create efficiency savings.
3. The Education and Adoption Act which came into force in April 2016 provided the Secretary of State with the power to order local authority adoption agencies to combine services if they do not voluntarily do so.

Changes to Dorset's Concessionary Travel Scheme

28 The Cabinet considered a report by the Cabinet Member for Environment, Infrastructure and Highways regarding Dorset's Concessionary Travel Scheme.

In relation to a petition received from residents of Shroton, it was agreed that the details would be forwarded to Cllr Deborah Croney so that she could explore if there were any opportunities for a community transport scheme.

It was highlighted that in addition to open school routes, there was potential to use the fleet supporting Adult and Community Services, and that it would be helpful to progress the opportunity. It was noted that this was a current workstream of the Holistic Transport Board and would consider Special Educational Needs transport alongside these vehicles, in addition to working with the NHS and Clinical Commissioning Group.

The opportunities regarding post 16 education were also highlighted, as the approach proposed would enable more options for young people to access their choice of school or college for further education.

The Cabinet was informed that a newsletter would be published for all members soon regarding the work of the Holistic Transport Board, contract arrangements, community transport and toolkit.

Resolved
That the cessation of Dorset’s concessionary travel enhancement, ending free travel before 9.30am when there is no service until after 10.30am be approved, to be implemented from August 2017 to coincide with the start of new public transport contracts.

Reasons for Decision
1. To better align Dorset County Council’s concessionary travel scheme with the English National Concessionary Travel Scheme.
2. To encourage service providers to open more schools routes to the public when the new contract model for passenger transport was implemented in September 2017. Helping to ensure that, as far as possible, people would be part of inclusive communities and not feel lonely or isolated.
3. To provide financial savings that would allow Dorset County Council to allocate resources effectively. Helping to ensure that local taxpayers got the best value for money.

Notification of a scheme exceeding £500,000 - A30 resurfacing, Stour Hill to Somerset County Boundary

29 The Cabinet considered a report by the Cabinet Member for Environment, Infrastructure and Highways on the A30 resurfacing from Stour Hill to the Somerset County Boundary.

Resolved
That the scheme be approved to proceed on 5 March 2017 as programmed.

Reason for Decision
Failure to address this now could see further deterioration of the road surface that might incur revenue liabilities in the form of reactive repairs and third party claims.

Funding strategy for supporting Dorset's communities through its voluntary and community sector (VCS) and its parish and town councils (PTCs) from April 2017

30 The Cabinet considered a report by the Cabinet Member for Health, Wellbeing and Communities regarding the continued involvement of the Voluntary and Community Sector (VCS) and parish and town councils in the delivery of the County Council’s corporate objectives.

Cllr Rebecca Knox drew attention to the support provided by the Council and the work to improve outcomes through grants and allocation of funding. The level of staff volunteering at the County Council was also highlighted, including the award from Dorset Community Action as ‘Best Voluntary Organisation’ in 2016. The new Strategy would be kept under review and developed over time.

In terms of performance monitoring of outcomes as a result of allocation of grants, it was noted that there were contractual obligations as part of the arrangement which included measurement against Council priorities, and strict criteria. Bringing the service back into the Council also provided closer transactional visibility.

Members discussed the allocation of funds to partner organisations, and it was noted that although the amounts decreased over a two year period, it remained constant for Dorset Association of Town and Parish Councils at a level of £25k. The funding would be used to enable engagement through transformation and devolution work with town and parish councils which was vital in the coming years, albeit that this could be reviewed in due course.

Resolved
1. To ensure Dorset’s most vulnerable residents have access to information, advice and guidance and to organisations that can provide the support required. This will be

achieved through a funding allocation for year one of £103,500 and year two £98,353 to organisations that provide the appropriate information and guidance to residents. This will be delivered by the provision of a 2 year strategic grant.

2. To support volunteering and the volunteering infrastructure across Dorset to maximise the impact to Dorset's most vulnerable communities through a funding allocation for year one of £54,000 and year 2 £51,300 to a support organisation that promotes volunteering, matches tasks to organisations and will continue to promote the Council's volunteering scheme in line with the corporate outcomes. This will be delivered by the provision of a 2 year strategic grant.

3. To continue to build the capacity of the Voluntary and Community Sector and Parish and Town Councils through support, advice and training to organisations so that the sector can participate in service delivery to meet the objectives of residents and the Council, to be achieved through a funding allocation of £90,000 for year one and £85,500 for year 2 for support to Organisations and funding allocation of £25,000 per annum to help build the capacity of Town and Parish Councils. This will be delivered by the provision of a 2 year strategic grant.

4. To continue but limit the provision of the Dorset Innovation Fund to one round of applications per year to enable funding for smaller innovative projects targeted at Dorset's most vulnerable communities and lever new money into the County which supports the councils ambition of reducing demand for its services through connecting people to the right support early. This will be achieved through a funding allocation of £85,000 to provide direct grants and some match funding often required by other grant providers as a condition of grant awards.

5. To agree that all grant agreements across the County Council will be recorded using the Council's contract and grant management system.

Reason for Decisions

Dorset's voluntary and community sector and its parish and town councils remained vital to support, enable and improve the quality of life of Dorset's communities and residents. The outcomes of the recommendations would assist the County Council to deliver the priorities as outlined in the Corporate Plan.

Dynamic Purchasing System - Passenger Transport

31 The Cabinet considered a report by the Cabinet Member for Environment, Infrastructure and Highways regarding the contract arrangement for the current Dynamic Purchasing System (DPS), used for procurement of passenger transport services in Dorset, which was due to expire on 30 April 2017. Assurance that the contract would be futureproofed and flexible was provided, particularly given any potential reorganisation of Local Government in Dorset.

Resolved

That the implementation of a new Dynamic Purchasing System from 1 May 2017 onwards, on terms to be agreed by the Service Director Economy after consultation with the portfolio holder, be approved.

Reasons for Decision

1. To meet the authority's statutory duty in respect of Special Educational Needs and Children in Care travel and to supplement any gaps in the Council's statutory provision of Home to School transport.

2. To contribute to the authority's corporate priorities of providing travel assistance for users, whilst facilitating independence and promoting economic growth.

Recommendations from Committees

32 The Cabinet considered the following recommendation.

Economic Growth Overview and Scrutiny Committee - 25 January 2017

33 Recommendation 6 - Notice of Motion: Clause 21 of the Bus Bill/ Bus Subsidies Working Group

The Cabinet received a minute from the Economic Growth Overview and Scrutiny Committee meeting held on 25 January 2017, and noted that although Clause 21 had been removed by the Lords, it was possible that the Commons could reinstate it. Members supported the recommendation and the Leader of the Council agreed to add his name to the letter.

Resolved

That the approach taken by the Committee and their broad support for the principle of the motion be endorsed, and that the Leader of the Council would add his name to the letter being written by the Chairman of the Economic Growth Overview and Scrutiny Committee, portfolio holder and Director for Environment and the Economy.

Questions from County Councillors

34 No questions were asked by members under Standing Order 20.

Meeting Duration: 10.00 am - 12.00 pm

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Cabinet

Dorset County Council

Date of Meeting	1 February 2017
Cabinet Member Robert Gould – Leader Lead Officer(s) Richard Bates – Chief Financial Officer	
Subject of Report	**Medium Term Financial Plan (MTFP) and Budget 2017/18 to 2019/20**
Executive Summary	This report provides the final update on the major national and local issues facing the County Council and how they affect the 2017/18 budget and financial strategy for the three years to the end of the current spending review period. The Cabinet meetings on 14th December 2016 and 18th January 2017 agreed the basis for final development of the budget and MTFP, subject to the finalisation of the Forward Together programme and the risks surrounding the savings targets therein. This paper summarises the development of the budget and MTFP throughout the year, culminating in recommendations for Cabinet to propose to County Council regarding Council Tax and Social Care Precepts, expenditure allocation and savings measures. Recommendations are also included to ensure members understand and are kept informed of the ongoing management of risks inherent in the budget and how the County Council will need to manage its reserves and balances if there is agreement to transition to new Local Government structures across the county. The budget monitoring information for 2016/17 has been routinely provided through the regular MTFP updates to Cabinet. Appendix 1 sets out the latest (December) forecast, predicting an overspend of some £9.6m. The root causes of the overspend have been drawn to Members' attention during the year and are not repeated here. Focus will remain on reducing the overspend as far as possible, by 31 March to minimise the adverse impact on the base budget position for 2017/18. Directors have made their best attempts possible to assess the impact of current and future years' pressures and build them into the MTFP to ensure we understand the size of the Forward Together programme that

	must be delivered and balance this against judicious use of reserves and balances. This has been a key consideration of the S151 Officer in considering his statutory duty to ensure a balanced, achievable budget.
Impact Assessment:	Equalities Impact Assessment: This update does not involve a change in strategy. As the strategies for managing within the available budget is developed, the impact of specific proposals on equality groups will be considered.
	Use of Evidence: This report draws on proposals and funding information published by the Government, briefings issued by such bodies as the Society of County Treasurers and the content of Dorset County Council reports and financial monitoring data.
	Budget: The report provides an update on the County Council's previously reported budget position for the period 2017/18 and the following two years. Major risks that influence the development of the financial strategy include: • views taken on changes in grant funding, business rates growth, inflation rates, demographic and other pressures and income from locally raised tax, including the Social Care Precept; • success in delivering the savings anticipated from the existing Forward Together programme and a further, significant transformation beyond that point to manage within our medium-term funding limits; • judgement on the prudent use of reserves, balances and contingency; • pressures arising that have not been factored into the budget and/or the Forward Together programme.
	Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: HIGH Residual Risk HIGH
	Other Implications: None.

Recommendation	The Cabinet is asked to consider the contents of this report and, subject to confirmation of funding levels once the final settlement is received: (i) consider the service issues and risks associated with the savings measures arising from the updated Forward Together programme, set out in Appendix 2 and agree these as the measures upon which any relevant consultation takes place (these are also the measures which the flexible use of capital receipts strategy will support); (ii) note the outcome of the Authority's review of reserves and balances and the risks associated with the use of reserves to balance the budget over the planning period and the impact this will have on the starting position for new Local Government structures in Dorset from 1 April 2019; (iii) confirm the Council Tax increase of 1.99% for 2017/18 and the assumption of 2% annual increase across the remainder of the planning period; (iv) confirm a Social Care Precept of 3% for both 2017/18 and 2018/19 and 0% for 2019/20; (v) recommend to the County Council: a) the revenue budget strategy for 2017/18 to 2019/20 b) the budget requirement and precept for 2017/18 c) the position on general balances and reserves; (vi) require the Chief Financial Officer to present to the County Council a schedule setting out the Council Tax for each category of dwelling and the precepts on each of the Dorset Councils for 2017/18 (vii) agree to continue the Budget Strategy Task and Finish Group in order to develop savings proposals to address budget gaps over the remainder of the MTFP period; (viii) that the role of the FT Programme is clarified to ensure managers are held to account for their budgets and ensure that specific, measurable actions are put in place to ensure budgets at risk are managed within the funding parameters agree by Elected Members.
Reason for Recommendation	To approve the Council Tax increase for 2017/18 and to enable work to continue on refining and managing the County Council's budget strategy for the remaining MTFP period.
Appendices	1 – CPMI for December 2016 2 – Summary of Forward Together programme and savings proposals for 2017/18 3 – Provisional budget and precept summary 2017/18
Background Papers	Provisional Local Government finance settlement Comprehensive Spending Review 2015 Autumn Statement 2016

	Society of County Treasurers' briefing papers MTFP updates to Cabinet on 29/06/2016, 28/09/2016, 14/12/2016 and 18/01/2017
Officer Contact	Name: Jim McManus, Chief Accountant Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

1. Background

1.1 The Medium Term Financial Plan (MTFP) sets out the key financial arrangements and assumptions on which the County Council's budget is based. It underpins delivery of the County Council's Corporate Plan. This report is the fifth and final of the year to update Members on the current financial position and the forecast for the remaining three years of the MTFP.

1.2 When Cabinet considered the budget strategy on 18th January 2017, Members agreed a number of strategies, including for Council Tax, the Social Care Precept, use of collection fund surpluses and use of capital receipts. Earlier in the year Members had also agreed other strategies including for inflation, wage growth, demographic factors and capital financing, through the Budget Strategy Task and Finish Group. It was also understood that more detailed measures for savings from transformation in the Forward Together programme would also come to the February meeting once fuller consideration had been given to the robustness of the revised programme by Directorate Management Teams.

1.3 These savings proposals and the assessment of the risk and potential impact of these upon the County Council's reserves and balances are the final building blocks in our financial model and must be clearly understood to ensure the risk to the organisation's financial security is managed robustly. These savings are set out in Appendix 2.

1.4 Cabinet is therefore asked to recommend the Budget Strategy to the County Council. In determining the Strategy, Council must take account of the following:

- the resources available; particularly through council tax and Social Care Precept, the settlement and the impact of the funding formula over the MTFP period;
- the present national economic situation and the Government's adherence to the fiscal tightening strategy to balance the national budget in the longer term;
- advice and information issued by the Government, including the report of the Spending Review 2015 and the Chancellor's Autumn Statement issued in November 2016;
- the Prudential Code for Borrowing and the County Council's capital financing policy;
- the County Council's corporate aims and priorities, agreed by the Cabinet;
- the potential impact of the strategy on service provision and the Council's performance in key service areas;
- the risks associated with reducing funding for current services or not addressing budget pressures;

- the risks associated with the Forward Together programme savings and the elimination of the structural budget deficit over the MTFP period;
- the material use of reserves and balances;
- the turbulence in funding and associated risk that will continue throughout the MTFP period, particularly from the 100% business rates retention programme.

2. Development of the budget and MTFP

Opening position

2.1 Members may recall from the June report that the opening position for the year was a budget gap across the three years of the MTFP as shown in the table, below.

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**Total £000**
Original budget gap	(15.3)	(25.2)	(12.4)	(12.3)	(65.2)
Forward Together savings	9.0	6.4	1.0	-	16.4
Transitional funding	3.0	3.0	(3.0)	-	3.0
Rural Services Delivery Grant	1.1	0.5	(0.5)	-	1.1
No negative RSG (Grant adj)	-	-	2.1	(2.1)	-
Use of contingency, reserves etc	2.2	-	-	-	2.2
Remainder to be found	-	(15.3)	(12.8)	(14.4)	(42.5)
Social Care Precept	-	4.0	4.2	4.5	12.7
Residual budget gap	-	(11.3)	(8.6)	(9.9)	(29.8)

2.2 The starting point was therefore, the pursuit of savings of around £29.8m over the 3 year period to 31 March 2020. To support this, Cabinet established the Budget Strategy Task & Finish Group to consider how the organisation could progress its budget strategy alongside the Forward Together programme and deliver savings whilst transforming the organisation. The Group met monthly throughout the year, challenging and amending budget assumptions and receiving various presentations from Directors and their senior managers to understand and develop budget proposals of which Cabinet were kept abreast through the MTFP update reports.

Outturn, forecast of outturn and cost pressures during the year

2.3 As part of the development of the 2016/17 budget, Members were mindful of the forecast overspend against service budgets in 2015/16 (final outturn £3.6m overspend on service budgets) and the continuing impact this would have on the base budget if the root causes were not dealt with. In response Members increased the base budget for Children's Services by £3m as well as providing for an additional £4m of one-off funding in 2016/17 to help reduce the number of children in care to the 400 mark advised by the Director as being the appropriate level when compared to similar local authorities. Members also agreed to levy the new, Adult Social Care Precept as part of the budget strategy, delivering an additional £3.8m of funding to the Adult & Community Services Directorate.

2.4 However, despite these measures, cost pressures have continued throughout 2016/17 to the extent that the Authority's latest forecast of outturn is an overspend of nearly £10m. Whilst Directors and their teams continue to take action to reduce spend, a more fundamental review of the Forward Together programme has also been carried out. This has involved Directors and their leadership teams reviewing and assessing the real savings prospects from the existing Forward Together programme alongside cost pressures that have arisen and not been fully dealt with in the current year.

2.5 As noted elsewhere, the measures in the programme which Directors are confident in their ability to deliver are now set out in Appendix 2 for review by Members and subsequent consultation with overview and scrutiny committees where necessary. This fundamental review now sees Directors pursuing £18.3m of transformational savings across their services in 2017/18. Whilst there is therefore some time to work on the remaining budget gap for 2018/19 (and 2019/20 will be heavily dependent upon the outcomes of the 100% business rates retention work), measures to balance the budget for 2017/18 must be taken.

Local Government finance settlement

2.6 The provisional settlement was announced by the Secretary of State for Communities and Local Government, Sajid Javid, on 14th December 2016. Much of it was already known to us - in that Members had signed-up to the Government's four-year funding deal, so despite the fact that we will continue to press our case around negative RSG in 2019/20, there was at least the knowledge that the majority of our funding was known and was being planned for with relative certainty. The summary funding table from the 18th January MTFP report is repeated, below, for completeness.

	2015-16	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m	£m
Settlement Funding Assessment	73.290	56.143	43.584	38.650	29.885

2.7 As well as general funding there were also announcements confirming arrangements for the withdrawal of Education Services Grant, a new Adult Social Care Support Grant and adjustments to the Social Care Precept, all of which were covered in more detail in the last report and were the subject of particular recommendations which Cabinet agreed.

Collection fund surpluses and growth in the base

2.8 As the budget strategy work developed, Members will also recall the most recent update around the growth of 0.9% in the Council Tax base (our assumption was 0.75%) and the £3.47m of surpluses declared on the collection funds which will form part of the precept for 2017/18. This additional growth in excess of our assumption in the CT base is worth £320k to our base budget. An assumption had also been made earlier in the budget process that £0.5m of collection fund surpluses could be built into the base budget.

Flexible use of capital receipts

2.9 The January update report provided a revised strategy for the flexible use of capital receipts which Members approved, subject to the provision of the formal list (Appendix 2) of transformation projects which the £2m of capital receipts would be used to fund in the first two years of the MTFP (a further £1m would be applied to transformation costs in 2016/17).

Pension fund valuation

2.10 Again, the January update provided information to indicate that there would be additional pension fund costs over the MTFP period and beyond in order to deal with the results of the most recent valuation exercise.

3 Council tax strategy

3.1 Cabinet has been clear and consistent in its strategy for council tax throughout recent financial planning rounds. Because of the sustained reductions in funding, Cabinet has decided that it has been and will continue to be necessary to increase council tax by 1.99% across the MTFP period.

3.2 In addition to this, from 2016/17 Government allowed Local Authorities with social care responsibilities to levy up to an additional 2% on council tax as the Social Care Precept. On top of this, Members will recall the Secretary of State's announcement at the time of the provisional settlement in December 2016 that councils could alter the phasing of the Social Care Precept over the next three years. Local authorities are now able to levy up to an additional 3% in any year but the flexibility is still capped at 6% overall increase across the three years to the end of the current Parliament.

3.3 The Cabinet agreed in January to a change in the budget assumptions, moving from the Adult Social Care Precept increasing by 2% per annum to increasing by 3% in 2017/18 and 2018/19 and then zero in 2019/20. The flexibility in front-loading this increase delivers £6m additional funding over the three-year period, as set out in the January update report. Members are however reminded that whilst this approach has been agreed by Cabinet, it is still subject to recommendation to County Council which must agree council tax as part of the budget setting process.

3.4 Any funding delivered through the Social Care Precept must be used for adult social care. If Members agree the 3% increase it will therefore all be applied to that Directorate's budget. This does not, however, mean that the Adult & Community Services budget simply increases by this amount. This budget remains the highest area of the Council's spend and clearly cannot be protected from either efficiency savings or other budget reductions, such is the continuing magnitude of the funding change.

4 Contingency, reserves and balances

4.1 The 2016/17 base budget for contingency was £2.3m. As usual, it has been subject to a broad range of calls this year but the December CPMI is positive in anticipating an underspend of £0.5m. This position is likely to improve further, depending on redundancies to be confirmed before 31 March, which will be capitalised, and confirmation of the other anticipated calls on the fund. The contingency budget set for 2017/18 has been increased to £2.9m.

4.2 We have also carried out our usual review of reserves, to ensure sufficient funding is made available to deal with specific pressures we have acknowledged in this paper - and elsewhere during the MTFP process. These include:

- transitional funding required to deal with the sharper reduction in Education Services Grant (ESG);
- funding to support the transformation process and to enable savings in SEN Transport that have not been achieved as quickly as originally anticipated;

- the final £1m of the £5m total, one-off funding to support children in care, agreed as part of the 2016/17 budget round;
- timing of savings within Adult & Community Services (see paragraph 6.2).

4.3 The authority's balances (the general fund) opened 2016/17 at £14.6m. Whilst we have identified some savings to mitigate the overspend - including repairs and maintenance and capitalisation of redundancy costs - the eventual outturn for this year will still impact on balances and could pull us towards the lower end of our operating range of £10m.

4.4 It is therefore still imperative that we continue to do everything in our power to reduce spend in the remainder of the year. The Chief Executive has recently written to all staff with a reminder of the budget pressures and the need for continuing, careful consideration of every item of expenditure.

4.5 It is worth reminding Members of the scale of our operating range:

Absolute minimum	Operating range	Maximum
0.8% of gross spend	1% to 2% of gross spend	2.5% of gross spend
£8.0m	£10m to £20m	£25m

5 Forward Together position and prospects

Adult & Community Services

5.1 The Adult & Community Services budget has a current base budget pressure of £7.6m of which the majority is associated with Adult Social Care. Although considerable savings have been made by the Directorate in recent years the underlying net expenditure has continued to increase mainly due to increases in the cost of care. The Directorate is also committed to making savings within the Forward Together programme of £4.6m & £4.1m in 2017/18 and 2018/19 respectively.

5.2 The budgets for 2017/18 and 2018/19 have been set within stretching parameters. No general inflationary increases have been applied across the Directorate budgets however, it has been assumed that Social Care fees/costs would increase by 2.5% and all non-social care services have also absorbed the pay award and incremental drift.

5.3 After the application of the 2% Social Care Precept the base deficit in the budget for 2017/18 is £7.5m. When the Forward Together target is added to this the total savings required to balance the budget is £12.1m.

5.4 The proposed savings programme for 2017/18 has been drawn up by the Directorate Management Team in response to the budget pressures and will make use of the Transformation fund to help implement it. Appendix 2 gives a summary of the proposed savings programme, totalling £7.1m. The gap remaining after the savings is £5m. If approved, the application of a further 1% precept (£2.1m) and the new Adult Social Care Support Grant (£1.5m) the gap reduces to £1.4m.

5.5 The proposed savings programme is stretching. The savings associated purely with Social Care amount to 4.5% of the available budget however they are all achievable and relate to working more efficiently and economically, rather than reductions in services. They are not without risk though. Those risks being, amongst others:

- Market conditions and price,

- Wider market Care work force capacity,
- NHS / Sustainability and Transformation Plan (STP) / Better Care Fund (BCF) assumptions,
- Capacity and capability.

Children's Services

5.6 The original saving proposals put forward as part of the 2016/17 to 2019/20 forward together programme identified savings of £1.775m for 2017/18 and a further £1.2m for 2018/19. However, it was also agreed that Directorates would have to fund any internal pressures including the cost of staff increments and current overspends. In addition there are the well reported cost pressures that have been incurred during 2016/17 in relation to the cost of children in care, agency staff and SEN transport. This has meant that the Children's Services savings target for 2017/18 has been inflated by £3.404m to £5.179m. £1m of this will be funded corporately by increasing the SEN transport budget, meaning that the Directorate has identified savings of £4.179m, details of which are summarised in Appendix 2.

5.7 The Forward Together for Children programme has been developed to tackle these cost pressures and to deliver additional savings from within the Directorate. So whilst there are pressures across three main areas, it is also acknowledged that efficiencies can be found from elsewhere within the Directorate.

5.8 The number of looked after children has averaged 493 for the financial year to date. This has resulted in significant cost pressures, with the looked after children budget forecast to overspend by £6.2m. The long term number of children in care for Dorset is thought to be around a central number of 400 children at any one time, which is in line with the average of our statistical neighbours. The numbers have now plateaued and officers are confident that numbers can be successfully brought down during the year. The MTFP has provided a further £1m of ongoing funding to support looked after children and also set aside one off funding of £1m. This additional funding should be sufficient to cover the costs anticipated in 2017/18.

5.9 In relation to agency costs additional savings of £734k have been identified to cover the expected costs of agency during 2017/18 as the recruitment and retention programme is fully embedded. It is anticipated that there will be no agency requirement by March 2018, as outlined in the Progress and Next Steps in regard to Care and Protection report to Cabinet on 18 January 2017.

5.10 In relation to SEN transport, expenditure has remained stubbornly high at around £8.5m for the last three years despite plans to reduce this. Recent analysis of data shows 889 children for whom the County Council provides some travel assistance. This significantly higher than the initial data on which the savings target was calculated. As a consequence over optimistic budget assumptions resulted in a premature saving of £1.25m being taken in 2016/17. It is proposed that £1m of this is reversed in 2017/18 for a year to provide time for the efficiencies to be delivered. This will mean that pressures of around £1m will be required to be tackled during 2017/18, but the major review of special schools transport route retender in the summer and a review of eligibility, as well as the deployment of passenger assistants, is expected to deliver these savings.

Environment & Economy

5.11 For 2016/17 the currently predicted overspend is £610k, with reasonable prospects that this will reduce in the closing months of the financial year although this will be difficult. There is some under achievement of 2016/17 Forward Together savings targets, offset to some degree by planned underspends on 'business as usual' services.

5.12 For 2017/18 the Forward Together savings programme has been reviewed and updated, taking into account current views of the Environment and Economy leadership team on this and further issues identified during the construction of the revenue budget. It is acknowledged that the updated programme is ambitious.

5.13 Following the work to re-shape and re-focus Environment, Economy and Highways services in 2015, further work has been undertaken to review this and refine the new service models to ensure the transformation intended has resulted in the expected benefits and impacts. Each service area, including ICT and Emergency Planning are undertaking further work. This has inevitably resulted in a wider range of initiatives than might otherwise be anticipated.

5.14 The updated savings plan is shown within Appendix 2.

5.15 The Department for Transport has very recently announced a new allocation (the National Productivity Investment Fund) of £2.492m for Dorset County Council. This will be of benefit to the capital, rather than revenue budget.

Public Health

5.16 The Public Health grant for Dorset County Council for 2017/18 has been confirmed at £15.715m. The detailed budget for the partnership will be formerly approved at the Joint Public Health Board on 6th February.

Dorset Waste Partnership

5.17 For 2016/17 the currently predicted underspend is £1.28m (on a net budget of £34.2m) across the whole partnership, with the Dorset County Council share of the predicted underspend being £823k.

5.18 The Dorset Waste Partnership (DWP) revenue budget for 2017/18 of £33.1m was agreed at the Joint Committee meeting of 16 January 2017, with a recommendation that partner councils include their share (as agreed through the Inter Authority Agreement) in their own budgets. Dorset County Council has a share of 64.32%, which implies an amount of £21.289m to be included.

5.19 Although not part of the formal Forward Together programme, the figures for 2017/18 are calculated on the assumption that the DWP can achieved £1.149m (Dorset County Council share being £700k) of savings for the partnership through measures such as contract renewal savings, changes to winter opening hours at household recycling centres, a review of 'Bring Banks' and a reassessment of the average life of bins. All of these savings are already being realised to a considerable degree.

Chief Executive's Department

For 2017/18 the Forward Together savings programme has been reviewed and updated, and has now identified savings of £1.132m for the Chief Executives Department. Once you take account of the movement of IT services into the Environment Directorate this is within £20k of the original target.

5.20 Of the target £762k has already been achieved, £156k is on course to be delivered and £214k requires more work. The £214k that requires more work falls across HR and Legal Services and it is planned to be dealt with by internal reviews of the services. Details are shown in Appendix 2.

Remaining/corporate issues

5.21 There are two main areas of savings in the Forward Together programme where progress, monitored by the FT Board, has been reassessed and now needs rebasing.

5.22 It is becoming clear that savings from the Way We Work (Property) programme are lagging and that budget of £0.3m is required for the savings which were either double-counted (Youth Service) or wrongly included (depreciation) in the original plans. This can be provided from the excess growth in the taxbase compared to the original budget assumptions.

5.23 The other area is SEN transport where the Board has again recognised that sustainable savings cannot be found from the budget in the short-term. Funding of £1m has therefore been applied as part of the 2017/18 budget round to smooth the delivery of these savings. This has been funded through a reduction in the Buildings Repairs and Maintenance budget (£0.75m) which was significantly underspend it the current financial year and from capital financing savings resulting from the review of the capital programme which are detailed in the capital priorities report.

Local Government Reorganisation

5.24 If the reorganisation of local councils within Dorset proceeds, then funding will be required to achieve the transition. A total of £2.5m would be required for the initial transitional resources which would need to be found by the 9 authorities. The costs beyond that point which are estimated at a further £22.5m would be capitalised and the costs borne by the successor authorities.

5.25 The proposed split of the £2.5m would see Dorset County Council contributing £274,700 in 2017-18 and a further £417,800 in 2018-19. The costs for 2017-18 can be met from the sum set aside in the current years' budget.

6 Updated financial position

6.1 Working all of these issues into the financial planning model for 2017/18 delivers a gross budget gap of £18.3m. It has been necessary to recalculate this figure as part of the review of the FT Programme so that Directors know the precise size of the budget gap they are filling. It can then be seen (through Appendix 2) that the incorporation of changes to the Forward Together programme's financial targets, the budget gap is reduced to £1.4m.

	Adult & Community	Children	Environment & Economy	Chief Executive's	Corporate	Total
	£k	£k	£k	£k	£k	£k
Forward Together Targets 17/18	4,592	1,775	1,906	1,656	620	10,549
Adjustment for movement between Directorates			1,165	(545)	(620)	0
	4,592	1,775	3,071	1,111	0	10,549
Remaining Budget Pressure (Savings to be identified)	7,499	3,404	1,702	21		12,626
	12,091	5,179	4,773	1,132	0	23,175
Additional Funding	(3,582)	(1,000)	(300)			(4,882)
Net savings to be found	8,509	4,179	4,473	1,132	0	18,293
Plan (as per Appendix 2 - excluding partnerships)	(7,110)	(4,179)	(4,473)	(1,132)		(16,894)
Remaining Budget Gap	1,399	0	0	0	0	1,399

6.2 In addressing this gap, it is worth pointing out that the Adult & Community Services Director has identified potential savings in 2018/19 that will offset the budget gap in 2017/18 – the budget can therefore be balanced over the two-year period. It is therefore suggested that this gap is addressed through use of one-off monies (collection fund surpluses).

6.3 Members might recall that a planning assumption had already being made to use £0.9m of the general fund in 2017/18 to achieve a balanced budget. Continuation of that assumption along with the new £1.4m use of collection funds plus the £0.5m assumption we had already incorporated into the MTFP is presented together in the table, below, to clarify the total funding made available from these one-off sources.

Provisional budget summaries for 2017/18 to 2019/20

Assumed council tax increase			*4.99%*	*4.99%*	*1.99%*
Band D equivalent tax			*£1,326.87*	*£1,393.11*	*£1,420.83*
			2017/18	2018/19	2019/20
			£M	£M	£M
Previous year's budget			264.9	264.1	266.2
Move in specific grants applied as general funding			0.1	2.6	2.4
Commitments provided for:					
- Resource Allocation Model			2.0	2.6	3.1
- Other central commitments			15.8	8.4	10.0
- Collection Fund surplus			3.5		
Total budget requirement before savings			**286.2**	**277.7**	**281.7**
Estimated budget available			**264.1**	**266.2**	**265.8**
Savings required	3-year total:	-49.4	-22.1	-11.5	-15.8
Savings found by:					
- Forward Together programme			-18.3	-9.5	
- Use of Collection Fund/Balances (One Off)			-2.8	-0.8	-0.5
- Use of Capital Receipts (One Off)			-1.0	-1.0	
- Remainder still to be found to avoid scaling			0.0	-0.2	-15.3

7 Consultation and equality

7.1 This high level update of the Budget Strategy does not, in itself, involve a change in strategy and therefore does not require an impact assessment. However, as the strategy for managing within the available budget is developed and as particular courses of action are formulated and consulted upon, Directorate Management teams will take forward specific impact assessments for relevant equality groups and consult with overview and scrutiny committees where necessary.

7.2 The major public consultation exercise carried out this year was focused primarily on Local Government Reorganisation. Whilst this work dealt with many aspects of governance, accountability, structure and reporting, financial management was a critical consideration and a great deal of work went into ensuring Members, Officers, communities and individuals across the County were better informed of the financial imperatives facing the nine Dorset Authorities.

7.3 The results of this consultation work have been reported to Members, along with reports from Opinion Research Services, Local Partnerships and PWC to ensure Members had all the information they needed when voting on LGR in January 2017.

8 Risk assessment

8.1 A number of risks have been identified and reviewed during this annual update of the MTFP and budget setting round, which include:

- the possibility that the Forward Together programme (including the inclusion of unsolved base budget issues carrying forward for 2016/17) fails to deliver transformation at the level that is required over the MTFP to deliver the necessary savings, or that the programme needs additional investment to realise the savings that have been identified ;
- economic performance does not match the expectations of central Government plans and even more austerity measures are applied to our funding;
- continuing risks from the Business Rates Retention scheme as the risks lie materially with local authorities, not with central Government;
- there is a risk that Government policy across a range of services will impact on the demands on our resources, most specifically the Dilnot reforms for adult social care;
- improved Better Care Fund – there are significant, continuing risks that this funding will be accompanied by new burdens or responsibilities or that the fund will be encumbered in some way. Only £1.5m of the funding due to the County Council has been factored into the base budget from 2018/19;
- the risk of an increase in the numbers of Unaccompanied Asylum Seeking Children which will bring budget pressures with them if sufficient support funding is not made available from Central Government. Cabinet debated UASC concerns at the 18th January meeting and will be actively monitoring the situation;
- the risk any further overspends on service budgets in the context of the reduced level of our general balances.

9 Statutory declarations

9.1 Section 25 of the Local Government Act 2003 requires all financial officers with *Section 151 responsibilities* to make a statement regarding the robustness of estimates and the adequacy of reserves at the time the budget is set. The Council has a statutory duty to "have regard to the report when making decisions about the calculations''.

9.2 There are also other safeguards aimed at ensuring local authorities do not over-commit themselves financially. These include:

- the Chief Financial Officer's powers under section 114 of the Local Government Act 1988, which require a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget;
- the Local Government Finance Act 1992, which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the 'balanced budget requirement';
- the Prudential Code, introduced under the Local Government Act 2003, which has applied to capital financing and treasury management decisions from 2004/05;
- the assessment of the financial performance and standing of the authority by the external auditors, who give their opinion on the financial standing of the authority and the value for money it provides as part of their annual report to those charged with governance.

9.3 The robustness of the budget critically depends on the maintenance of a sound financial control environment including effective financial management in each of the Council's service directorates. Dorset's Scheme of Financial Management sets out the responsibilities of all those involved in managing budgets and incurring commitments on behalf of the County Council. It was substantially reviewed and rewritten to coincide with the introduction of DES and updated again in January 2014 to reflect the changes made to Contract Procedure Rules and the Scheme of Delegation. Under the scheme, managers are required to identify savings to offset overspends elsewhere on budgets for which they are responsible. I will be writing to each Director and Head of Service to remind them of their obligations under the County Council's *Scheme of Financial Management*.

9.4 Whilst budgets are based on realistic assumptions, some budgets are subject to a degree of estimating error as actual expenditure can be determined by factors outside the Council's control, for example demand-led budgets such as provision for adults with a learning disability. It is also generally not appropriate or affordable to increase budgets to reflect overspends in the previous year. A reasonable degree of challenge to manage within the resources available is necessary and monitoring of expenditure, in order to take corrective action if necessary, is particularly important during a time of budget reductions.

9.5 The Council has well-developed arrangements for the monitoring of budgets during the year, which are reported through the Corporate Performance Management Information system (CPMI), published via SharePoint. This includes detailed information on the ''Top 20 Budgets'' and Cost Centre expenditure against budget, which is updated on a monthly basis.

9.6 Technical aspects of the budget process applied for 2017/18 have been similar to recent years. The Resource Allocation Model (RAM) again provides a robust starting point for addressing inflationary, demographic and volume pressures in an open and fair manner. It provides a sound platform on which to build and develop future medium term financial strategies and budgets.

9.7 Member involvement in budget development has been exercised particularly through meetings of the *Forward Together Board* and the *Budget Strategy Task & Finish Group*. It is also suggested that the Budget Group should continue to meet monthly, especially given the risks involved in the transition to new Local Government structures in the county, with its very specific focus and challenge, to develop savings proposals.

9.8 Senior Members and officers worked well together to bring forward proposals for consultation that would balance the budget in 2017/18. All-member briefings were held in September and December. Portfolio Holders have taken a lead on all budget proposals presented to the Cabinet and the overview committees.

9.9 In addition to the above and discussions at committees, members have had access to the four earlier, detailed budget reports which have provided the national and local context for the medium term financial plan and budget strategy. These reports included an update for the provisional local government finance settlement. The budget strategy has also been covered in meetings of the Audit and Governance Committee.

9.10 Taking all these factors into consideration, I consider that the estimates prepared in line with the strategy explained in this report are robust. However, the challenge of managing expenditure within them should not be underestimated; particularly given our short-term dependence on reserves and the need to deliver significant savings through transformation. Close monitoring will be required during the year and prompt corrective action must be taken whenever planned savings are not being delivered and progress toward a balanced budget for 2017/18 is not sustained. The position outlined above, regarding the authority's projected general fund balance makes achievement of our savings targets critical.

Richard Bates
Chief Financial Officer
January 2017

Appendix 1

CPMI – December 2016

Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year 2016-17 'Above Line' Net Budget Only £000's	Forecast £000's	October Projected Under/(Over) Spend £000's	November Projected Under/(Over) Spend £000's	December Projected Under/(Over) Spend £000's
Children's Services Directorate						
Childrens Service Budget						
Pre September 16 structure	Sara Tough	6,387	7,259	(1,338)	(1,032)	(872)
Care & Protection	Vanessa Glenn	21,368	29,438	(7,613)	(7,933)	(8,070)
Design & Development	Patrick Myers	6,251	5,635	365	437	616
Partnerships and Performance	Jay Mercer	21,449	29,216	(7,553)	(7,720)	(7,768)
Directors Office	Sara Tough	1,881	1,830	262	(67)	50
Application of Contingency	Richard Bates	0	(4,000)	4,000	4,000	4,000
DSG Services	Jay Mercer	7,431	7,628	(89)	(70)	(198)
Children's Services Total including DSG		64,767	77,007	(11,965)	(12,385)	(12,240)
DSG Funding (overspend to be carried forward)	Sara Tough	(7,435)	(12,507)	5,245	5,065	5,072
Children's Services (Non DSG) Total		57,331	64,500	(6,721)	(7,320)	(7,169)
Adult & Community Services Directorate						
Adult Care Service User Related	Harry Capron	59,178	65,119	(3,309)	(5,602)	(5,941)
Adult Care	Harry Capron	19,515	18,997	1,541	906	518
Commissioning and Performance	Helen Coombes	36,568	36,207	41	187	362
Early Help & Communities	Paul Leivers	8,405	8,354	22	21	51
Director's Office	Helen Coombes	651	282	328	379	369
Adult & Community Services total		124,317	128,959	(1,377)	(4,109)	(4,642)
Environment and the Economy Directorate						
Economy, Planning & Transport	Maxine Bodell	2,019	1,987	(24)	32	32
Dorset Travel	Andy Shaw	15,741	16,115	(449)	(449)	(374)
Business support Unit	Jan Hill	574	559	4	16	15
Coast & Countryside	Phil Sterling	2,631	2,684	(68)	(72)	(52)
Estates & Assets	Peter Scarlett	(1,582)	(1,279)	(192)	(198)	(302)
Buildings & Construction	David Roe	95	(322)	455	455	417
Pooled R&M	David Roe	78	78	0	0	0
Network Management	Simon Gledhill	1,284	1,247	3	2	37
Network Development	Tim Norman	715	715	6	5	(0)
Network Operations	Martin Hill	4,159	4,145	13	13	14
Fleet Services	Sean Adams	(32)	(53)	1	22	21
Emergency Planning	Simon Parker	212	212	(3)	(3)	0
Director's Office	Mike Harries	414	660	(248)	(247)	(246)
Streetlighting PFI	Tim Norman	3,824	3,824	0	0	0
ICT	Richard Pascoe	5,923	6,093	(85)	0	(170)
Environment and the Economy Directorate Total		36,054	36,664	(588)	(423)	(610)
Chief Executives						
Chief Executives Office	Debbie Ward	366	307	59	59	59
Partnerships	Karen Andrews	245	259	(16)	(14)	(14)
Communications	Karen Andrews	235	228	7	7	7
Policy and Research	Karen Andrews	422	489	(49)	(44)	(66)
Commercial Services	Karen Andrews	652	679	(26)	(26)	(26)
Governance and Assurance	Mark Taylor	642	638	1	5	4
Assistant Chief Executive		241	206	35	35	35
Legal & Democratic Services	Jonathan Mair	2,004	2,111	(107)	(107)	(108)
Financial Services	Richard Bates	(260)	(254)	(15)	(6)	(6)
Human Resources	Sheralyn Huntingford	1,540	1,491	0	49	49
Directorate Wide	Richard Bates	0	0	0	0	0
Cabinet	Richard Bates	3,467	3,492	(45)	(30)	(25)
Chief Executives Total		9,554	9,645	(157)	(72)	(91)
Partnerships						
Dorset Waste Partnership	Karyn Punchard	20,717	19,894	794	823	823
RIEP		0	0			
Public Health	David Phillips	(2)	(1,377)	700	1,375	1,375
Partnerships Total		20,715	18,517	1,494	2,198	2,198
Central Finance						
General Funding	Richard Bates	(9,787)	(9,677)	(2)	0	(111)
Capital Financing	Richard Bates	25,574	25,253	(96)	307	321
R&M	Richard Bates	1,244	1,244	0	0	0
Contingency	Richard Bates	(8,255)	(8,755)	0	500	500
Precepts/Levy	Richard Bates	677	677	0	0	0
Central Finance	Richard Bates	(264,860)	(264,860)	0	0	0
Central Finance Total		(255,407)	(256,118)	(97)	807	711
Total Above Line Budgets		(0)	14,674	(12,691)	(13,983)	(14,674)
Excluding DSG Budgets		(7,435)	2,167	(7,446)	(8,918)	(9,602)

Appendix 2

Savings Measure	17/18	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required	
Adult & Community Services			
Fair Charges for Care Support · Application of equitable Fairer Charging Policy resulting in increased income	1,000,000	Amber	
Care and Support Reviews & Market Management · Reviewing care packages ensuring quality and best value can be demonstrated in line with Care Act. Improving purchasing and 'pooling budgets' with NHS to improve market management effectiveness	4,260,000	Amber	
Directorate Vacancy Factor · Application of a vacancy factor across all areas of the directorate	500,000	Amber	
Increased Chargeable Services & Improving Efficiency within Early Help & Community Services · Further income generation · Making use of additional marketing · Further refine non-pay budgets across all services	450,000	Amber	
Greater use of technology and telecare to support independence · Ensuring all available income to support living independently is focused on utilising technology inc telecare, community equipment and disabled facilities adaptations is used in a way that maximises efficiency and outcomes	400,000	Amber	
Modernisation of building based day services & Reduction ASC service delivery in non-eligible Care Act areas · Ensuring direct service delivery promotes independence and spend prioritises Care Act eligible Dorset residents	500,000	Amber	
	7,110,000		

Savings Measure	17/18	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required	
Chief Executives Department			
Adjustment to VCSE funding	50,000	Green	
Cross Cutting Directorate Challenge	130,000	Green	
Management Changes in HR	50,000	Green	
Restructure of Financial Services	100,000	Green	
Cross Directorate Support Services Transformation	305,000	Green	
HR Process Reviews	92,000	Green	
HR Advisory Services	35,000	Green	
Membership of Members in Local Government Pension Scheme	56,000	Yellow	
Corporate Development - Reduction of posts within structure and vacancy management	50,000	Yellow	

Financial Services process Improvements	50,000	Yellow	
HR Learning and Organisational Development Review	100,000	Amber	
Review of Legal Services	50,000	Amber	
HR Process Reviews	8,000	Amber	
HR Advisory Services	35,000	Amber	
Review of Business Support Model (part transferred to HR)	21,000	Amber	
	1,132,000		

Savings Measure	**17/18**	**Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required**	
Children's Services	£		
Youth Savings - the full year effect of the successful implementation of the review in 2016/17.	250,000	Green	
Review of Care and Support - released efficiencies, full year effect of savings.	580,000	Green	
Review of contracts and grants.	271,000	Green	
The freezing of price inflation on all non staff budgets.	219,000	Green	
Review of vacancy factors and increase in line with experience and proactive management of vacancies.	697,000	Green	
In depth review of all budgets from a zero based approached, to rationalise and consolidate savings across the Directorate.	815,600	Green	
One off saving in relation to holding the AD for Prevention and Partnerships vacant and funding the interim arrangements via grant.	120,000	Green	
Increased Income from services that are already trading - full cost recovery.	308,000	Yellow	
Commissioning review of Children's Centres within the new Family Partnership Zones, in line with contract expiries.	250,000	Yellow	
Income from charging for services not previously charged for, such as charging schools for the work relating to academy conversions, expansion of the Education Psychology service in response to demand from schools, charging for non statutory elements of the school attendance service.	293,000	Amber	
Review of Directorate and associated support functions in light of the reductions in the Education Services Grant.	375,000	Amber	
	4,178,600		

Savings Measure	17/18	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required	
Environment and Economy	£		
Environment Planning and Transport service efficiencies	39,000	Yellow	
Dorset Travel Operations - Holistic Transport phase 2	1,320,000	Amber	
Coast and Countryside - Verges and Country Parks	50,000	Yellow	
Technical Services - additional income	26,000	Yellow	
County Buildings - staff car parking income	68,000	Green	
R&M Delivery efficiencies	50,000	Yellow	
Parking Services	70,000	Yellow	
Construction Delivery	50,000	Green	
ICT - Wide Area Network and Telephony	300,000	Amber	
ICT - Customer Service Unit	140,000	Green	
'Way We Work' - property savings	384,000	Amber	
Business Support Unit - service efficiencies	91,000	Amber	
Coast and Countryside - including review of Grounds Maintenance	145,000	Amber	
County Buildings - including facilities management review	90,000	Amber	
Regulation	80,000	Green	
Emergency Planning	1,000	Green	
Economy Services - restructures	226,000	Amber	
Directorate vacancy factor	349,000	Amber	
Winter Maintenance - revised strategy	232,000	Green	
Highways and Fleet (parts) service review	136,000	Green	
Property Asset Transfer to Joint Venture	92,000	Amber	
ICT - Service Review	449,000	Amber	
Estates and Assets - service efficiencies	36,000	Amber	
Coast and Countryside - service efficiencies	49,000	Amber	
	4,473,000		

Total Transformation Savings	**16,893,600**		

Not part of main DCC Transformation Programme -

Savings Measure	17/18	RAG rating Green - Achieved Yellow - On course Amber - More work required	
Dorset Waste Partnership	£		
Savings agreed by the DWP Joint Committee (Dorset County Council share)	700,000	Green	
Public Health			
Savings agreed by the Joint Public Health Board (Dorset County Council share)	700,000	Green	

Total Savings	**18,293,600**

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Provisional budget and precept summary 2017/18

Provisional Precept and Budget Summary 2017-18

		£	£
Budget Requirement: -			264,131,013
To be met from: -	Start-up Funding Assessment		43,584,292Cr
	Council Taxpayers		220,546,721
	Estimated Surplus on Collection Funds		3,462,695Cr
	Precept required in 2017-18		217,084,026

PRECEPTS

District Councils	Tax Base 2017-18	Estimated Surplus on Collection Funds 2016-17 £.p.	Precept 2017-18 £.p.	Tax Base 2016-17	Precept 2016-17 £.p.
CHRISTCHURCH	19,624.00	331,581.00Cr	26,038,496.88	19,528.00	24,679,095.84
EAST DORSET	37,043.00	531,792.00Cr	49,151,245.41	36,824.00	46,537,434.72
NORTH DORSET	25,910.10	367,212.00Cr	34,379,334.39	25,687.70	32,463,601.51
PURBECK	19,052.10	435,857.93Cr	25,279,659.93	18,656.44	23,577,635.74
WEST DORSET	41,255.60	1,151,421.00Cr	54,740,817.97	40,881.80	51,665,601.20
WEYMOUTH & PORTLAND	20,721.30	644,831.00Cr	27,494,471.33	20,567.90	25,993,300.66
	163,606.10	3,462,694.93Cr	217,084,025.91	162,145.84	204,916,669.68

COUNCIL TAX

	2017-18		2016-17
BASIC AMOUNT	**1,326.87**		£1,263.78
		4.99%	**increase**
BAND A	**884.58**		842.52
BAND B	**1,032.01**		982.94
BAND C	**1,179.44**		1,123.36
BAND D	**1,326.87**		1,263.78
BAND E	**1,621.73**		1,544.62
BAND F	**1,916.59**		1,825.46
BAND G	**2,211.45**		2,106.30
BAND H	**2,653.74**		2,527.56

Cabinet

Dorset County Council

Date of Meeting	01 February 2017
Cabinet Member Robin Cook – Cabinet Member for Organisational Development and Transformation Local Members All members Lead Officer(s) Richard Bates – Chief Financial Officer	
Subject of Report	**Asset Management Capital Priorities**
Executive Summary	A report was brought to the December Cabinet and members agreed that it was necessary to reassess the programme given the financial position of the Council, and the forthcoming budget announcement from Government, to focus on the highest and immediate priorities. It was agreed that the capital priorities would be reported back to the Cabinet in the New Year alongside the revenue budget report. A request was also made for more information relating to the elements within the programme that depended on funding from the Council in order to access additional external funding from other sources. The report seeks to identify the priorities for capital spending over the next three years. Capital Bids for 2017/18 In autumn 2014 members attended a seminar in respect of the draft Asset Management Plan 2015/18. Members ratified continuing with the capital investment priorities currently agreed whilst agreeing to increase the categories from two to four. In adhering to these principles, capital projects have now been given an indicative ranking based on the following categories, Priority 1: Statutory Obligations, Priority 2: Invest to Save, Priority 3: Maintenance and Infrastructure, Priority 4: Other Items.

	The projects listed in Appendix 2 represent all the new bids for capital funding submitted for consideration in this round. As can be seen the available resources after taking account of committed projects are insufficient to meet all the new bids. Under the agreed assessment process, all bids are divided by the Managing Our Assets Group (MOAG) into their priority groups – Statutory Obligations, Invest to Save, Maintenance and Infrastructure and Other Items. Some bids can be a combination of these priorities. The projects are then given an indicative ranking or deferred and detailed in Appendix 3, after taking into account the capital investment strategic goals, service needs and priorities as referred to in the Asset Management Plan (AMP). Members are invited to consider the bids and identify which bids are to be included in the capital programme. The strategic goals for capital investment and the corporate priorities are based on service needs which take into account consultation feedback with the community, property users and stakeholders at both corporate as well as service delivery level. The goals and priorities are revised periodically by elected members and incorporated into the Asset Management Plan. On pages 9 and 10 of the Asset Management Plan 2015-2018 the County Council's approach to prioritising capital bids is explained. In particular, the factors that the Cabinet may wish to take into account in considering the Asset Management Group's recommended priorities are set out in Appendix 5 of this report. The Capital Funding Policy The capital programme estimated gross spend for 2016/17 is in excess of £67M and £65M for 2017/18. The cost of financing this spend depends partly on how much is funded by grants and contributions. These currently stand at £50M for 2016/17 and £38M for 2017/18. The remaining spending is predominantly funded through prudential borrowing.
Impact Assessment:	Equalities Impact Assessment: The capital bid assessment process, strategic goals and corporate priorities are set out in the Asset Management Plan which is reviewed regularly, with an updated version being published on an annual basis. The most recent equalities impact assessment was undertaken on the Asset Management Plan and identified the need to ensure that the interests and needs of the six equality groups are addressed at service level as part of the service asset management planning process, including consultation with users.
	Use of Evidence: The Asset Management Plan incorporating the capital investment

	strategy, makes use of the following sources of evidence: • The Budget and Corporate Plan • Medium Term Financial Strategy • Outcomes from a Members Seminar on 25 September 2014 • Periodic public consultation at a corporate level via the Citizens' Panel • Ongoing consultation with partners, stakeholders, users and the community at service level • National property performance data and indicators Service asset management plans, including whole life costing and cost-in-use information.
	Budget: The report provides an update on the County Council's capital budget position for 2017/18 and the following two years. A review was undertaken by officers and led to project budgets being reduced by a total of £4.75M over the MTFP period, see paragraph 2.3 for details.
	Risk Assessment: Major risks that influence the development of the capital financing strategy include: • the level of capital grant funding, inflation rates, demographic and other pressures and income from the council tax; • success in delivering the savings anticipated from the reduction in the size of the property estate by 50% and the rationalisation of the remaining estate to reduce the property maintenance backlog and to better manage the 'core' longer-term portfolio; • the anticipated amount of capital receipts to be generated and included in the capital programme; • judgement of the appropriate amount for revenue contributions to the capital programme; Having considered the risks in this paper, using the County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: MEDIUM Residual Risk: MEDIUM
	Other Implications: None.
Recommendation	The Cabinet are asked to recommend to the County Council the bids to be included in the capital programme 2017/18 to 2019/20
Reason for Recommendation	The available resources after taking account of committed projects are insufficient to meet all the new bids in their entirety. It is therefore necessary for the Cabinet to confirm priorities for

	inclusion in the capital programme.
Appendices	Appendix 1 Capital Expenditure Estimates Appendix 2 Summary of New Capital Projects Appendix 3 Proposed New Capital Projects after MOAG Appendix 4 Outline of New Capital Projects Appendix 5 Capital investment strategy and assessment criteria
Background Papers	Asset Management Report – Cabinet, December 2016; Treasury Management Strategy Statement and Prudential Indicators for 2016/17 – Cabinet, February 2016; Asset Management Plan 2015/2018 – Cabinet, March 2015.
Officer Contact	Name: Richard Bates, Chief Financial Officer Tel: (01305) 228548 Email: r.m.bates@dorsetcc.gov.uk Name: Peter Scarlett, Estates & Assets Service Manager Tel: (01305) 221940 Email: P.Scarlett@dorsetcc.gov.uk Name: Tony Diaz, Senior Finance Manager Tel: (01305) 224950 Email: t.diaz@dorsetcc.gov.uk

1. Background

1.1 As there continues to be limited resources to address the capital bids, as set out in Appendix 2, it remains necessary for there to be clear corporate priorities for capital investment. The Managing Our Assets Group (MOAG) has assessed each bid shown in Appendix 3, by reference to the corporate priorities in accordance with the principles contained in the Asset Management Plan 2015/18, Appendix 5. The capital projects have been given an indicative ranking based on the following categories, Priority 1: Statutory Obligations, Priority 2: Invest to Save, Priority 3: Maintenance and Infrastructure, Priority 4: Other Items.

1.2 In accordance with normal practice, this year's capital funding bids have been examined by the Property Management Group, (PMG), from a technical viewpoint to ensure that the proposed schemes are sound and feasible. Once assessed the bids were examined by MOAG against the current corporate capital investment priorities as set out in the Asset Management Plan 2015/18, Appendix 5. These are drawn from directorate statements and analysis of property performance/condition data, with reference to the strategic goals for capital investment.

1.3 As can be seen in Appendix 3 the bids have been given an 'Indicative ranking' by the Managing Our Assets Group. Members are invited to consider the bids and identify which bids are to be included in the capital programme. Appendix 1 details the budget flexibility that is available for new bids until the end of 2019/20.

1.4 A report was brought to the December Cabinet and members agreed that it was necessary to reassess the programme given the financial position of the Council, and the forthcoming budget announcement from Government, to focus on the highest and immediate priorities. It was agreed that the capital priorities would be reported back to the Cabinet in the New Year.

1.5 A request was also made for more information relating to the elements within the programme that depended on funding from the Council in order to access additional external funding from other sources.

2 Financial Summary and Capital Control Totals

2.1 The provisional settlement was announced by the Secretary of State for Communities and Local Government in December 2016. The majority of it was already known as Members had signed-up to the Government's four-year funding deal and we will continue to press our case around negative RSG in 2019/20.

2.2 In terms of capital funding the DfT have notified the County Council of its capital allocations and I can confirm that the Highways Maintenance Block Needs Formula, £12,364,000, and the Pothole Action Fund, £1,070,000, are in line with what we have budgeted. A new allocation, The National Productivity Investment Fund, £2,942,000, will be spent on improving local road networks, for example, highways and public transport networks to improve access to employment and housing, to develop economic and job creation opportunities. We are still awaiting confirmation of the LTP Integrated Transport budget. At present no further capital allocations from the other Government Departments have been made.

2.3 A review of the current capital programme has been undertaken by officers and summary of changes totalling in excess of £4.75M are detailed in the table overleaf.

Summary of changes	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Weymouth Relief Road		1,025	400	1,504	2,929
Other Projects	552	141			693
APT's	615	172	172	172	1,131
	1,167	1,338	572	1,676	4,753

2.4 It can be confirmed that there are no elements of any of the new bids which are dependent on funding from the Council and if unsuccessful would lead to a loss of external funds.

2.5 Following the Cabinet meeting on 14 December 2016 and to ensure delivery of the Springfield Road, Verwood Distributor Road Scheme alternative funding streams are being explored to contribute towards the cost of delivery. This includes the potential for Local Transport Plan (LTP) allocated funding in 2017/18 towards the 'Safer Routes to School' element of the scheme. There is no flexibility within the corporate capital budget to provide for any increase.

2.6 The approval of the revised capital control totals implies gross capital expenditure of £67.2M in 2016/17, £65.1M in 2017/18, £66.81M in 2018/19 and £50M in 2019/20. These control totals include utilisation of the budget flexibility. Provision for the revenue implications arising from the new projects, including capital financing and running costs, is included as a commitment in the Medium Term Financial Strategy (MTFS).

2.7 The revised control totals and anticipated commitments against them indicate that if the assumptions up to 2019/20 regarding new capital financing are included this would provide a maximum of £11.4M towards new projects and requests for additional Annual Provision Total (APT). It must be remembered this is a two year programme to ensure consistency with the revenue budget.

3 Capital Programme – Effects of the borrowing policy

3.1 The capital programme estimated gross spend for 2016/17 is in excess of £67M and £65M for 2017/18.

3.2 The cost of financing this spend depends partly upon how much is funded by grants and other contributions. These stand at around £50.034M for 2016/17 and £38.279M for 2017/18. The remaining spending is predominantly funded through prudential borrowing.

3.3 The borrowing costs are twofold – firstly the interest payable on the loans, currently around 4%, which is payable once the loan is drawn down, often towards the end of the year. The other element is the Minimum Revenue Provision (MRP) which the Council is required to make a provision (charge to the revenue account) for the repayment of any borrowings it has each financial year, regardless of whether any actual debt is repaid.

3.4 The Department for Communities and Local Government, (CLG) requires that before the start of each financial year the County Council should prepare a statement of its policy on making such provisions known as the Minimum Revenue Provision (MRP) for that year. This will be presented to the Cabinet at today's meeting within the Treasury Management Strategy Statement and Prudential Indicators for 2017-18 report.

3.5 The County Council is required to calculate for the current financial year an amount for the MRP which it considers to be prudent. The broad aim of prudent provision is to ensure that the underlying borrowing need, as expressed by the Capital Financing Requirement (CFR), is repaid over a period reasonably commensurate with the life of the capital assets that the borrowing has financed. The statement should indicate which of the options for MRP are to be followed.

3.6 The Cabinet is recommended to note the current MRP Statement approved February 2016:

For capital expenditure incurred before 1 April 2008 or which is Supported Capital Expenditure, the MRP policy will be based, as now, on the CFR.

From 1 April 2008 for all unsupported borrowing, the MRP policy will be based on the Asset Life Method. MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Directive).

3.7 As the Cabinet were informed previously, the capital programme would still be around £40M per annum, dependant on levels of grant funding by the government, but would require no additional borrowing. Effectively, this would be made up of approximately £10M LTP structural maintenance, £2.5M LTP integrated transport, £5M DfE Schools Capital, £7M Buildings structural maintenance, £3M APTs plus around £12.5M towards other capital schemes, assuming grants remain at around the current level.

3.8 This could be supplemented if the assumed grants were higher, additional grants were obtained, capital receipts generated above the level assumed and developer contributions obtained.

4 New Projects

4.1 The projects listed in Appendix 2 represent all the new projects submitted for consideration in this round. Under the agreed assessment process, all bids are then divided by the Managing Our Assets Group (MOAG) into their priority groups and then listed in an indicative ranking order or deferred after taking account of the County Council's capital priorities referred to in the Asset Management Plan 2015/18. These bids are detailed in Appendix 3. The corporate priorities are based on service needs which take into account consultation feedback with the community, property users and stakeholders at both corporate as well as service delivery level.

4.2 Members are asked to examine all the projects in order to establish priorities for inclusion in the capital programme 2017/18 to 2019/20. It is open to members to decide which projects should be included in the capital programme, subject to the overall level of resources available.

4.3 On pages 9 and 10 of the Asset Management Plan 2015/18 the County Council's approach to prioritising capital bids is explained. In particular, the factors that the

Cabinet may wish to take into account in considering MOAG's recommended priorities are detailed Appendix 5.

4.4 In November the Managing Our Assets Group, (MOAG), considered capital bids submitted for 2017/18 and beyond, which required funding in excess of £21M, Appendix 2. MOAG also agreed that that there was a need to be consistent with the revenue budget and to agree allocations for both 2017/18 and 2018/19. On review of these bids against the priorities set down in the Asset Management Plan, MOAG proposed that funding of bids relating to on-going programmes should only be allocated for 2017/18 and 2018/19, and that funding for future years should be deferred, as there are currently insufficient funds available.

4.5 The Children's Services bids included a bid for School Access Initiative funds in 2018/19 and MOAG noted that allocations in previous years had already been set aside. MOAG also agreed that due to insufficient funds being available both the 2017/18 and 2018/19 Basic Need bid be agreed but reduced by £500K for each year.

4.6 In terms of the Additional Funding for Carriageway Maintenance and the Replacement of Traffic control assets bids for the Environment Directorate totalling £9.9M in total over 4 years an initial allocation of £2M was made over the first two years but following concerns over the impact of the reduction in ICT funding and the positive roads funding announcement this has been reduced slightly to £1.8M. It is recognised that due to insufficient funding being available this will put further pressure on the revenue budget and the highway maintenance backlog may increase.

4.7 Last year the Information Strategy Group submitted a bid of £750K in both 2017/18, (subsequently increased to £1M), and 2018/19 which were deferred for consideration at a later date given the pressure on the capital budget. Due to insufficient funds it has only been possible to recommend an allocation of £1M over the two years which has now been increased to £1.2M.

4.8 Appendix 3 also details three ring fenced schemes that MOAG agreed were all property related with similar aims. MOAG felt that these three schemes all contributed to the Way We Work savings target and should be agreed and financed from the capital receipts they generated.

4.9 As can be seen in Appendix 3 the proposal put forward by MOAG totals £11.4M for the period 2016/17 to 2019/20. It should be noted that the funds available place a large reliance on capital receipts especially the ring-fenced property schemes.

4.10 It should also be noted that there are also potential but diminishing risks arising from specific large projects which are not as yet addressed in the proposed capital programme. It is felt prudent to continue to retain some funds for these risk items.

5 Conclusion

5.1 As referred to in paragraph 2.7 and Appendix 1, if the assumptions for 2019/20 regarding new capital financing are included, the provisional control totals and anticipated commitments indicate that there would be £11.4M available towards new projects. It must be remembered that if this is all allocated this year there would be no new money available in the forthcoming two years. It is therefore imperative that as much flexibility as possible is retained for 2018/19 and 2019/20 to deal with any new issues that may occur.

5.2 The Cabinet is invited to set the final control totals as detailed in Appendix 1 and approve the projects for inclusion in the capital programme for 2017/18 to 2019/20.

Richard Bates,
Chief Financial Officer
January 2017

Appendix 1

DCC CAPITAL PROGRAMME 2016-17 to 2019/20 : EXPENDITURE ESTIMATES (GROSS)

DIRECTORATE	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
ENVIRONMENT	41,386	30,123	14,296	13,690
CHILDRENS	23,614	17,590	10,405	2,124
ADULT & COMMUNITY	693	2,980	4,633	395
CABINET / WHOLE AUTHORITY	13,912	5,946	2,854	1,893
DORSET WASTE PARTNERSHIP	5,614	2,682	3,856	4,657
CAPITAL FLEET REPLACEMENTS	2,294	1,360	950	683
CAPITAL R & M	4,740	5,767	5,967	5,967
Slippage	(40,000)	0	20,000	20,000
TOTAL	52,253	66,448	62,961	49,409
Contingency re Risk Items	2,499	0	0	0
(Overcommitted) / Remaining flexibility (to meet target)	2,400	6,000	3,000	0
Gross Predicted Capital Spend	57,152	72,448	65,961	49,409
Grants / Contributions	(41,872)	(26,723)	(23,252)	(15,115)
Capital Receipts	0	(3,000)	(4,000)	(1,000)
Vehicle Sales	(200)	(200)	(200)	(200)
RCCO	(4,076)	(5,126)	(5,326)	(5,326)
DWP Contributions	(5,614)	(2,682)	(3,856)	(4,657)
Additional Capital Financing Requirement	5,390	34,717	29,327	23,111
Borrowing Brought Forward	184,311	192,670	217,134	235,958
MRP	(10,003)	(10,253)	(10,503)	(10,753)
UNDER BORROWING B/FWD	102,972	90,000	90,000	90,000
UNDER BORROWING C/FWD	(90,000)	(90,000)	(90,000)	(90,000)
BORROWING REQUIREMENT	192,670	217,134	235,958	248,316
ADDITIONAL BORROWING REQUIRED	8,359	24,464	18,824	12,358
Underlying Borrowing Requirement B/FWD	287,283	282,670	307,134	325,958
Underlying Borrowing Requirement C/FWD	282,670	307,134	325,958	338,316
MRP	10,003	10,253	10,503	10,753
INTEREST	7,097	7,925	8,996	9,619
	17,100	18,178	19,499	20,372
Control Sheet	17,961	18,561	18,561	18,561
Additional budget requirement (RAM)	(861)	(383)	938	1,811
Target				
Ave Interest Rate	3.8%	3.9%	4.0%	4.0%

Appendix 2

CAPITAL PROJECTS
SUMMARY OF NEW CAPITAL PROJECT BIDS AS AT DECEMBER 2016
ORIGINAL PROPOSED NEW BIDS

		<--------------		Estimated Payments		-------------->	
	Total Payments £'000	**Before 2016-2017 £'000**	**2016-17 £'000**	**2017-18 £'000**	**2018-19 £'000**	**2019-20 £'000**	**After 2019-2020 £'000**
For start in 2017-2018 & later							
Children's Services							
School's Basic Need Programme	9,000			4,500	4,500		
School Access Initiative (SAI)	400				400		
Cabinet/Whole Authority							
County Wide Office Reconfiguration	2,893		720	1,500	673		
Capital Receipts	-4,593		-2,050	-650	-1,893		
County Hall Masterplan - Year 3	500			500			
Community Offer for Living and Learning	2,700			1,700	1,000		
Capital Receipts	-1,500				-1,500		
Environment							
Investment in Maintaining Carriageway Condition	5,900			5,900			
Replacement of Traffic Control Assets	4,000			1,000	1,000	1,000	1,000
Audit & Scrutiny Committee							
ICT project portfolio	1,750			1,000	750		
Total 2016-2017 Starts & later	21,050	0	-1,330	15,450	4,930	1,000	1,000
Resources available 2016-17 to 2019-2020	11,400	0	2,400	6,000	3,000	0	0

Appendix 3

REVISED SCHEMES MOAG PROPOSED TO PROCEED

CAPITAL PROJECTS
SUMMARY OF NEW CAPITAL PROJECT BIDS AS AT DECEMBER 2016
REVISED PROPOSED NEW BIDS

Interpretation of Asset Management Plan ranking					<--------------	Estimated Payments		-------------->			
1 %	2 %	3 %	4 %		Total Payments £'000	Before 2016-2017 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	After 2019-2020 £'000
				For start in 2017-2018 & later							
				Children's Services							
100				School's Basic Need Programme	8,000			4,000	4,000		
				Children's Services							
100				School Access Initiative (SAI)	400				400		
				Environment							
100				Replacement of Traffic Control Assets	500			250	250		
				Audit & Scrutiny Committee							
33	67			ICT project portfolio	1,200			500	700		
				Environment							
33	33	33		Investment in Maintaining Carriageway Condition	1,300			750	550		
				Total 2017-2018 Starts & later	11,400	0	0	5,500	5,900	0	0
				Ringfenced							
				Cabinet/Whole Authority							
	100			County Wide Office Reconfigeration	2,893		720	1,500	673		
				Capital Receipts	-4,593		-720	-2,000	-1,873		
				Cabinet/Whole Authority							
	100			County Hall Masterplan - Year 3	500			500			
				Cabinet/Whole Authority							
	100			Community Offer for Living and Learning	2,700			1,700	1,000		
				Capital Receipts	-1,500				-1,500		
				Total 2016-2017 Starts & later	0	0	0	1,700	-1,700	0	0
				Resources available 2016-17 to 2019-2020	11,400	0	2,400	6,000	3,000	0	0

Appendix 4

Summary of New Capital Project Bids December 2016

Children's Services
School's Basic Need
Programme

Funding is required to meet the statutory requirements placed on the Local Authority to meet the 'Basic Need' of provision of sufficient school places. Pupil numbers in Dorset are continuing to rise. The pattern is not even – rural areas continue to decline but urban areas are already experiencing significant increases. The rate of growth continues to be higher than anything previously experienced and reflects national trend. Large increases in population are forecast; especially in the major towns (any difficulties in providing places in the neighbouring authorities may also exacerbate the situation).

It is the responsibility of the local authority to ensure that there are sufficient school places - any shortfall is referred to as ‘basic need’. In January 2016 it was reported that Dorset had 28,506 primary aged pupils, up from 26,530 in January 2011. This number is expected to rise by a further 1296 by 2026. Over this period of time this increase is the equivalent of a further 6 new 1FE primary schools. Figures available now also indicate that there will be a further increase 11-18 year olds also looking for education provision from 20,756 in January 2016 to 23,615 in 2016. These figures do not take account of any new housing proposals or fully reflect the increased inward migration.

Government Funding
The central government funding provided to support Basic Need provision, whilst significant, is not sufficient to cover the extensive programme that is required.

2015-2016 Main ‘Basic Need’ allocation £7,068,000
2016-2017 Main ‘Basic Need’ allocation £7,421,000
2017-2018 Main 'Basic Need ' allocation £612,000
2018-2019 Main 'Basic Need' allocation £2,312,000
Total EFA Funding Allocation to date £17,413,000

County Council funding
The allocations received from central government have been supplemented by additional capital funding from the County Council, with £13m being allocated to support this provision over recent years. However, as with the central government funding this is not sufficient to cover the extensive programme that is required.

All LA's are continuing to experience great difficulty in providing the number of places at the required rate and the government funding falls far short of the requirements. Children's Services have continued to suspend all other major capital works (except committed projects and legal obligations i.e. urgent health and safety and SAI works) in order to focus all major capital on this key issue.

Where possible every effort is made to try to use existing surplus accommodation (reclaiming accommodation in use by others), expand existing schools (to keep costs as low as possible) and until now to minimise the number of 'new schools'. Over the next 4 years of the programme (2017-2021) projects to the initial estimated cost of £99m have been identified as being required to meet this need in the primary and middle school sectors only at this stage. A number of these projects may be delivered as new schools with the Education Funding Agency (EFA) meeting the costs as new 'Free Schools', although at this stage that cannot be guaranteed due to timescales and bidding rounds for funding. Should this route be an option available to support this provision then this could reduce this estimated cost by some £46m.

There will be funding through Section 106 contributions and CIL provision (eg £3m towards education infrastructure in Wimborne), and we do seek to claim approximately £5k per property from any major new development where improvements to provision are necessary as a consequence of the development. Current expected contributions through this route could total £44m, however, this figure is heavily caveated in that it assumes the planned levels of development occur and requires the development to only contribute to the specific impact of the development on the provision of school places. Unfortunately, in the majority of cases the trigger point for contributions are after the need to develop a school has arisen so projects have to be funded up front prior to the contributions being due or paid. We remain hopeful that future allocations from DfE will continue to assist with this programme, whilst it remains the LA's responsibility to fund Basic Need provision, certainly at existing Schools/Academies. It should also be noted that in order to keep up with the expected programme of need, we do need to continue to progress development of the identified projects and due to critical timescales for completion of some there could be a need for works to begin at a particular time and so we would need to ensure sufficient funding is available to support them at the appropriate time. It remains a problem that with insufficient funding in place, it is difficult to confirm a programme and with the implications of Core Strategies/Local Plans this will impact on the decisions taken. This work is the major focus of the Children's Services capital programme for the foreseeable future (excepting urgent Health & Safety and SAI works).

Therefore in conclusion there is a significant risk that there will be insufficient school places in Dorset as the growth in pupil numbers impacts on schools. The MSP (Basic Need) budget is fully committed at present, and with a number of large projects which will be in excess of current funding provision either about to come out of feasibility or move into the feasibility stage. There is presently insufficient funding available to provide for the identified basic need requirements over the next four years. There is no certainty as to how much housing will be provided, or how quickly, in order to accurately predict developer contributions, or the further impact on basic need of inward migration and from housing growth.

Children's Services
Schools Access Initiative (SAI)

In accordance with the Equality Act 2010 children with specific needs are integrated within mainstream schools wherever possible, with adjustment to accommodation made as far as is reasonably practical. In addition, more children with medical needs are being placed both within mainstream and special education provision, often needing adaptations to buildings to enable their successful inclusion within the school. In 2016/17 SAI funding supported 17 projects costing over £2500 in maintained schools, committing £424,000 so far this year for works to enable the inclusion of children with hearing impairments, visual impairments, physical disabilities and medical needs. It is anticipated that these needs will continue and that the demand will increase as children with more complex conditions are admitted into both mainstream and special schools. We need to be in a position to be able to respond to these needs in providing appropriate accommodation that will not disadvantage children with disabilities.

Cabinet/Whole Authority
County Wide Office Reconfiguration

The project entails the rationalisation of the office estate, retaining just eight office buildings in 7 towns (two offices are required in Ferndown to accommodate the demand for accommodation in the east of the county) and disposing of the residue. Overall (including those buildings in Dorchester already earmarked for disposal under the County Hall masterplan business case) the County Council will generate revenue savings of £970,000 per annum from the office estate and will generate capital receipts in the order of £6,000,000.

This business case for the Countywide Office reconfiguration specifically requested an investment of £2,893,000 of capital and £105,000 of revenue, which will enable the County Council to generate capital receipts of £4,562,000 and revenue savings of £409,250. The business case was approved by the Way We Work Programme Board on 22nd June 2016, including the principle of re-investing up to 75% of the capital generated from the disposal of existing office accommodation that would be freed up as part of this programme (which has been ratified by the Cabinet).

This bid is an invest to save bid, and so whilst it doesn't directly impact on the delivery of the four corporate outcomes, this investment will enable the authority to save £409,250 per annum in support costs which can be channelled into the delivery of front line services. Furthermore, the adaptation of the office space will improve working conditions in Local Offices and assist with staff retention and morale.

The business case for this programme was considered and ratified by the Way We Work Board on 22nd June. The minute records that the Programme Board agreed to support the Way We Work Property Programme Business Case.

As a consequence the programme has commenced and work started in the Weymouth Local Office in October. The funding for these works will be financed from the sale of surplus office accommodation as approved by Cabinet under resolution 40.1 of the meeting of 2nd February 2015 and this bid is not seeking any further allocation of funds from the capital bidding process. The bid is tabled for transparency purposes.

Cabinet/Whole Authority
County Hall Masterplan - The Workspaces Project (Year 3)

In June 2014 a vision for the future of the Colliton Park Campus was presented to CLT. This identified three distinct workstreams to improve the main building and the campus:

The Colliton Park Campus Project
The Front of House Project
The Workspaces Project

The business case set out the rationale for undertaking the Workspaces Project, which entailed the refurbishment of all the offices and common areas within County Hall. It identified the anticipated costs and the projected savings. It demonstrated that by improving the office accommodation and diversifying the workspace areas at least an additional 475 staff could be accommodated within County Hall and the working environment for staff would be greatly improved. Furthermore, this project would act as an enabler for the adoption of flexible working across the whole authority, adopting the principle of 'our space not my space'. This would lead to a significant reduction in the overall amount of office space that the authority occupies with the aim to generate revenue savings across the whole estate of £3.2m per annum.

To date a sum of £1.5m (£1.0m in 2015/16 and £0.5 in 2016/17) has been allocated to this programme which has enabled work to be undertaken to adapt N3w, E3, E3w, S3 and the rotunda on Level 3. In addition, works to open out the rotundas on L4 and 5 are also committed within that budget. Furthermore, the programme has been able to undertake rapid transformation of the whole of Level 4, W3 and E5 and a 'rapid transformation plus' of West Court. So, whilst the original bid estimated that the works would cost approximately £3.0m, the programme has been substantially delivered for half that amount.

The original masterplan was to refurbish the office accommodation on Levels 3, 4 & 5 of County Hall. Since the masterplan was written the County Council's strategy for office accommodation has changed and it is now seeking to centralise more staff in County Hall, supported by an updated car parking strategy and flexible working. It was therefore resolved at the WWW Programme Board in June that the programme should undertake the refurbishment of Level 2 (including the rotunda) since there are no plans to move the staff based there to any alternative accommodation. The Board felt that it was important that all County Council staff should occupy similar accommodation, adapted on WWW principles. Once the countywide office reconfiguration has been completed, Level 2 of County Hall would be the only accommodation earmarked for long term staff occupancy that wouldn't have been adapted. This bid is therefore to fund the adaptation of Level 2 of County Hall. This will provide additional staff capacity by opening out certain areas. It is also proposed that it will create further informal and formal meeting space, including a large meeting area that can act as a board room. These additional meeting spaces are key if we are to increase occupancy of County Hall, since at present the lack of meeting spaces is the single most limiting factor to the better utilisation of the office space.
The financial case for undertaking these works is based upon the fact that by improving the accommodation in County Hall, the authority will be able to accommodate significantly more staff within the building. This will free up several buildings that the authority leases in Dorchester and would generate a revenue saving of in excess of £500,000 per annum by 2021.

In addition, it would improve the condition of County Hall and save on repairs and maintenance costs. Also, the energy reduction measures would improve the energy efficiency of the building, leading to a reduction in annual running costs. The financial case presents a powerful argument for improving the infrastructure of the building. However, there is an additional, intangible strategic case which is based upon the premise that the County Council needs to change the way that it occupies its accommodation and to occupy it far more efficiently, not just in County Hall, but across the County. These works will enable the County Council to halve the amount of office accommodation that it occupies, to truly embrace flexible working and to reduce the cost of its office estate by £1.0m per annum.

Cabinet/Whole Authority
Community Offer for Living and Learning

The Community Offer for Living and Learning will review and reshape how and where we provide services in communities. This includes communities accessing services such as Children's Centre and Libraries, and more specialist services such as Day Care Services. Where services will continue to be accessed in communities they should reflect the needs and aspirations of the local community and could include:

• A place where face to face services are accessed – by or on the behalf of councils, government or health organisations.
• A place where services can be better located together to improve the people's experience
• A place where residents can be helped to access services, benefits and support online
• A place where volunteer groups and small business start-ups can deliver services
• A place to meet and socialise

We are supporting the development of joint strategic property outcomes for Dorset, to ensure our services, by working together, have the best opportunities to deliver themselves out of efficient properties, efficient in property terms i.e. low maintenance but also efficiently placed to allow citizens to access them.

Over the next 5 years, we are hoping to deliver up to 16 Living and Learning Centres across the county. These will be delivered with a range of partners including districts and boroughs, town and parishes, Health, Department of Work and Pensions, the Citizens Advice Bureau and Job Centre Plus, and the voluntary and community sector. The Way

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We Work Property Programme`s aim has always been to raise capital receipts and reinvest (ring fencing capital receipts up to the value of 75%) what is necessary to achieve its objectives without needing to rely on pump priming funds. However, for the type of service outlets within scope of the L&L programme, this is not possible. For these service outlets we need to redesign the new spaces for the services to use before we can see the release of the existing assets.
It should be noted that Finance and HR are currently progressing a financial forecast for the emerging business model for L&L. This will take in to account the potential revenue savings from property, services and HR. The L&L working group are also developing the assets and service delivery plan which will provide a better projection of the full potential of the programme.

The property element of this programme is focussed on making best use of existing buildings, using ours or our partners assets, regardless of who owns them. The programme does not envisage extensive new capital builds therefore, we are seeking funding to reconfigure existing buildings to enable them to be adapted to become multifunctional so that a multitude of integrated services can be delivered from them.

Cabinet have agreed to the development of five pilot areas (Beaminster, Blandford, Weymouth, Portland, and Ferndown). By spring 2017 we aim to have a detailed service specification, property solution and outline costings (subject to consultation) for each of these areas. To achieve this, we are working with key stakeholders for each location, this is already underway in Blandford, Beaminster and Ferndown and the other pilot areas are programmed for the coming months.

Early indications from these meetings suggests the L&L offer could be provided from a single core building in each location. To ensure the development of the best building in the most accessible location, a feasibility and business case will be prepared and presented for approval before any alternations are commissioned.
The Way We Work Property Programme has a revenue savings target of £3.2 million by 2020, (some of these savings have been achieved from Countywide Office Reconfiguration Programme). To achieve additional savings we know we need to implement the changes arising from the L&L offer quickly. We expect alteration works to commence in the pilot areas during 2017/2018. Therefore we are applying for capital funding in 2017/2018, before the presentation of supporting business cases for all areas, as we are not in a position to wait until financial year 2018/2019 to begin moving forward with the delivery of the offer. It should also be noted that this programme will also produce Service delivery savings. All business cases will need to be signed off by the S151 officer and respective cabinet member before funds are committed.

The programme, as it moves into the delivery phase, will yield up capital receipts from surplus properties and these in turn may help to support further capital costs for property alterations. However, this cannot happen before spaces are adapted to allow services to move into a reduced number of service outlets.

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Environment
Investment in Maintaining Carriageway Condition

This project is intended to bridge the gap between the investment required to maintain current condition of the carriageway network, and that currently invested through Department for Transport (DfT) maintenance block funding (inclusive of the incentivised element and the additional pothole funds).

The HMEP Lifecycle Planning Toolkit indicates that approximately £16million annual investment is required to maintain the current condition of the carriageway network. Current anticipated annual investment for 2017/18 into the carriageway asset is £10.1million, leaving a shortfall of £5.9million.

This investment is required to support the four main highway strategies, which are aligned to the Corporate Objectives :

• Meeting our statutory requirement to maintain the highway
• Optimising highway safety
• Maximising opportunities for early life interventions / optimising asset life
• Promoting the economy through maintaining the condition of strategic routes and links to businesses and communities.

Carriageway condition remains the most important part of the Highways service, and the most in need of improvement, as identified through the 2015 NHT survey. The Corporate 'Ask Dorset' exercise also identified carriageway condition as one of the most important elements of the service Dorset County Council provides.

Through investing in carriageways, to bridge the gap between current investment, and that required to maintain current condition, this will support current strategies linked to the corporate objectives and to reduce the burden on the reducing revenue budget.

This will also demonstrate a support to current strategies in the Highways Asset Management Plan (HAMP), providing good evidence in our case for band 3 status in the DfT’s Self Assessment questionnaire, that links to the incentivised element of our funding.

The Government’s Road Investment Strategy shows that for every £1 spent on projects identified, the return for the government is £4 in the long term, demonstrating the clear link between investing in the nation’s roads and economic growth.

Environment
Capital Funding for Replacement of Traffic Control Assets

There are around 540 Traffic Control Assets across the County which includes Signals, Variable Message Signs, Puffin, Toucan and Zebra crossings

The average expected asset life cycle for a Traffic Control installation is 15 years.

Last year an investigation of our existing traffic control asset (241 Sites) identified that 68% of Dorset County Council's stock is now beyond this expected asset life, albeit in various stages of deterioration, and is in need of continual significant investment in order to replace this equipment.

Approximately £200,000 is spent on signal replacement each year funded from the Integrated Transport Local Transport Plan Fund (IT LTP). This equates to around 10% of the IT Block funding. The remaining IT block funds Road safety Schemes, Highway Improvements including new footways and cycleways, Rights of Way and Sustainable transport schemes.

An additional investment of £4 Million over 4 years (£1 Million/year) was requested to enable the highest priority/worst condition locations to be included in the replacement programme, £325,000 of funding was made available which has enabled us to address two of the key sites identified in last year’s proposal.

Without this continued level of additional investment, Dorset County Council will be exposed to a significant amount of risk and possible legal action should there be an accident or asset failure

Audit & Scrutiny Committee
ICT project portfolio

The capital programme has provided an average of £1m per annum in recent years to support the commissioning of small to medium ICT schemes to maintain the ICT infrastructure or provide enabling technology to support business change. The last allocation, of £1m, was made available in 2016-17. In addition, large ICT schemes seek direct allocations from the capital programme (for example, the implementation of the new social care case management system).

The financial pressure to maintain and improve service levels and outcomes, whilst balancing the budget, requires transformational change in all parts of the council. Very many of these changes are to a greater or lesser extent enabled by technology.

For example, as part of the change programme in Adult & Community Services a significant number of anticipated new ICT requirements (small to large) have been identified to support the transformation of the directorate's public services. In addition there is work already identified by the Adult & Community Services Directorate to develop an Adult Services business intelligence dashboard, work to develop the tools to mobilise the workforce by making application functionality available on mobile devices away from the office, and work already in progress to develop the integrated Dorset Care Record and procure a new contract for the Adult Care system plus a number of other smaller schemes.

The same reliance on technology will underpin change efforts across the whole council. It is no longer an effective strategy to deliberately delay investment in upgrading and maintaining the ICT infrastructure to reduce overall costs over time – a new stance is needed to keep pace with the changing organisation as we seek to employ new operating models, requiring the integration of systems and data, and to take advantage of emerging technology solutions in a more agile way. We need to maintain investment in ensuring that the ICT infrastructure is at current (or near current) versions to avoid the technology becoming a blocker to changing the way we work.

The Information & Digital Transformation Group (IDTG, name to be confirmed) replaces the Information Strategy Group following the recent review of corporate working groups. It is proposed that a Head of Service representing an area of the business chairs the group, with other Heads of Service covering other business areas and relevant support services). This group has prioritised a range of emerging ICT schemes supporting business change or infrastructure maintenance bids

Appendix 5

Our Capital Investment Strategy

The capital investment strategy is designed to deliver the outcomes set out in the County Council's corporate plan and asset management plans. It defines the authority's priorities for the allocation of its capital. These should enable the authority to enhance its assets and ensure that they are fit for purpose to support the delivery of services in line with the four outcomes to help residents be safe, independent and healthy, with an economy that is prosperous.

The Forward Together programme is key to the strategy, along with partnership working. Consultation with members and stakeholders has led to the priorities being divided into four categories, with a set of further criteria to assess each capital investment bid. It is the role of the Property Management Group to apply the criteria accordingly.
The County Council's strategic capital investment priorities are:

How the priorities are ranked

The priorities have been ranked in the following order:

Priority 1: Statutory Obligations

- to meet mandatory legal requirements e.g. health and safety, fire prevention, disabled access, road safety and public health needs
- to keep core assets in use, provide sufficient school places and maintain essential business continuity

Priority 2: Invest to Save

- to meet identified financial targets and achieve revenue savings as set out in the medium term financial strategy
- to reduce running costs and/or the need for replacement assets
- to generate net income
- to optimise the availability and application of external funding (including developer contributions)
- to achieve savings through co-location and joint shared use

Priority 3: Maintenance and Infrastructure

- Roads – to provide an efficient and safe road network through the delivery of the planned and reactive maintenance programmes in accordance with agreed performance measures
- Buildings – specifically to eliminate the backlog of priority work (i.e. in condition categories C and D as defined)

Priority 4: Other items

- All other bids that do not fall into one of the priorities above

The assessment criteria

The assessment criteria to be applied are not listed in any order of priority, they are to be considered in the round to achieve a balance between:

the imperative of capital investment priorities, to deliver the four key outcomes

v

the attractiveness in respect of the return on the investment or value for money

The role of the Property Management Group is to consider all the capital bids and attach an Indicative Ranking to each bid.

The criteria we use is as follows:

- Affordability and in particular the return from the investment in terms of revenue savings and/or capital receipts – the target being to exceed 9% return
- New assets should be multi-use and fit for purpose
- The degree that every new/refurbished asset incorporates sharing with other public/third sector partners
- Value for money – including the extent of ‘gearing’ i.e. the ratio of any external/partnership funding to County Council funding
- Investments which promote economic growth within the County should be supported acknowledging that the payback period may be longer, if there is alignment with Dorset LEP’s objectives
- Any risks relating to the delivery of the project
- The availability of resources and the potential scope for repurposing
- Other directorate or service spending requirements
- The extent to which the recommendations are consistent with the capital investment priorities set down by members
- The environmental impact of the spending being consistent with the authority’s corporate sustainability commitments

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Cabinet

Dorset County Council

Date of Meeting	1 February 2017
Cabinet Member Robert Gould – Leader of the Council Lead Officer Richard Bates – Chief Financial Officer	
Subject of Report	**Treasury Management Strategy Statement and Prudential Indicators for 2017-18**
Executive Summary	The CIPFA Prudential Code highlights particular aspects of the planning of capital expenditure and the funding of that expenditure. The Code requires the publication and monitoring of Prudential Indicators which inform Members of the scope and impact of the capital spend. In addition, there are separate requirements under the CIPFA Treasury Management Code to publish a Treasury Management Strategy. This report sets out the issues for consideration and seeks agreement to the required indicators and strategies.
Impact Assessment:	Equalities Impact Assessment: There are no equality issues that arise from this report.
	Use of Evidence: Historical trends and experiences along with professional advice and recommended best practices have been followed in the development of this strategy and the formulation of the Prudential Indicators.
	Budget: All treasury management budget implications are reported as part of the Corporate Budget.
	Risk Assessment: Having considered the risks associated with this decision using the

	County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: HIGH Residual Risk MEDIUM Treasury management is an inherently risky area of activity. This report describes those risks and the controls in place to mitigate those risks.
	Other Implications: None.
Recommendation	The Cabinet recommends to the County Council approval of: 1. The Prudential Indicators and Limits for 2017/18 to 2019/20. 2. The Minimum Revenue Provision (MRP) Statement. 3. The Treasury Management Strategy. 4. The Investment Strategy. 5. Delegation to the Chief Financial Officer to determine the most appropriate means of funding the Capital Programme.
Reason for Recommendation	The Prudential Code gives a framework under which the Council's capital finance decisions are carried out. It requires the Council to demonstrate that its capital expenditure plans are affordable, external borrowing is within prudent and sustainable levels and treasury management decisions are taken in accordance with professional good practice. Adherence to the Prudential Code is mandatory as set out in the Local Government Act 2003. This report recommends the indicators to be applied by the Council for the financial years 2017/18 to 2019/20. The successful implementation of the code will assist in our objective of developing 'public services fit for the future'.
Appendices	1. Treasury Management Investment Policy and Annexes 2. Schedule of Delegations
Background Papers	CIPFA Treasury Management Code of Practice Local Government Finance Settlement 2017/18 CIPFA Prudential Code for Capital Finance in Local Authorities
Officer Contact	Name: David Wilkes, Finance Manager (Treasury & Investments) Tel: 01305 224119 Email: D.Wilkes@dorsetcc.gov.uk

1. Background

1.1. The Treasury Management function of the Council manages the cashflow, banking, money market transactions and long term debts, and in doing so manages the risks associated with these activities with a view to optimising interest earned and minimising the costs of borrowing. The cash turnover of the Council from day to day activities is approximately £1,500m a year; with roughly £750m a year cash income and £750m cash expenditure, reflecting the fact that the Council is required to set a balanced budget. These large sums of monetary activity mean that Treasury operations within Local Government are highly regulated.

1.2. The Local Government Act 2003 introduced greater freedoms for Councils in relation to capital investment and the powers to borrow to finance capital works. To ensure that Councils use these powers responsibly, the Act requires the Council to adopt the CIPFA Prudential Code and adhere to annually produced Prudential Indicators. The underlying objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with the best professional practice. There are prudential indicators which summarise the expected capital activity and apply limits upon that activity and as a result the levels and types of borrowing. They reflect the outcome of the Council's underlying capital appraisal systems.

1.3. Within this prudential framework there is an impact on the Council's treasury management activity, as it directly impacts on its borrowing and investment activities. As a consequence the treasury management strategy is included as part of this report to complement these indicators.

1.4. This report revises the previously approved prudential indicators for 2017/18 and 2018/19, adds an extra year for 2019/20, and sets out the expected treasury operations for the next three year period. It fulfils four key legislative requirements:

a. 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);

b. The setting of the Council's Minimum Revenue Provision (MRP) Policy, which states how the Council will repay the borrowing made to fund capital purchases through the revenue account each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007, and in accordance with CLG Guidance);

c. The reporting of the Treasury Management Strategy Statement which sets out how the Council's treasury function will support the capital programme decisions, day to day treasury management and the restrictions on activity set through the treasury prudential indicators. The key indicators are required as part of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

d. The reporting of the investment strategy which sets out the Council's criteria for choosing investment counterparties and how it minimises the risks faced. This strategy is in accordance with the CLG Investment Guidance.

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

2. Treasury Management Advisers

2.1. The Council uses Capita Asset Services as its treasury management advisers. Capita provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of 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.

2.2. 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.

3. Economic Outlook and Prospects for Interest Rates

3.1. Part of Capita's service is to assist the Council to formulate a view on interest rates. The following table gives Capita's most recent forecast for UK base rates and borrowing rates from the Public Works Loans Board (PWLB).

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

3.2 When the Treasury Management Strategy for 2016/17 was agreed in February 2016, Capita's expectation, in line with most commentators, was for the Bank Rate to increase from 0.50% to 0.75% late 2016, followed by gradual increases thereafter to 1.75% by the end of financial year 2018/19. However, in order to counteract what it forecast was going to be a sharp slowdown in growth resulting from the UK's decision to leave the EU, the Monetary Policy Committee (MPC) at its meeting 4 August 2016 cut the Bank Rate from 0.50% to 0.25%.

3.3 The MPC also gave a strong steer that it was likely to cut the Bank Rate again by the end of 2016. However, economic data since August has indicated much stronger growth in the second half of 2016 than previously forecast; and inflation forecasts have also risen substantially, primarily as a result of the sharp fall in the value of sterling. Consequently, the Bank Rate was not cut again in 2016 and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

3.4 During the two-year period 2017 to 2019, when the UK is negotiating the terms for withdrawal from the EU, it is expected that the MPC will wish to avoid taking actions that could dampen growth prospects, for example by raising the Bank Rate, which will already be adversely impacted by the uncertainties of the form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in until after those negotiations have been concluded. However, if strong domestically generated inflation, for example from wage increases within the UK, were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

3.5 With so many external influences weighing on the UK, economic and interest rate forecasting remains challenging. Forecasts (and future MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, for example in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments. However, the overall longer run expectation is still for gilt yields and PWLB rates to rise, albeit gently.

3.6 Capita believes that the overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks, especially Italian.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or US Federal Reserve's rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than currently anticipated.
- Weak growth or recession in the UK's main trading partners - the EU and the US.

3.7 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include:

- UK inflation returning to significantly higher levels than in the wider EU and the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of the Federal Reserve's funds rate increases and rising inflation expectations in the US dragging UK gilt yields upwards.
- The pace and timing of increases in the Federal Reserve's funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence on holding sovereign debt (gilts).

4. Capital Programme Prudential Indicators

4.1. The Prudential Indicators (PIs) are driven by the Council's Capital Programme plans. The Capital Programme influences all borrowing decisions made by the Council and the subsequent Treasury Management activity associated with this. The PIs are also influenced by wider Council decisions and the effect of the revenue and capital proposals, included in the reports elsewhere on this agenda. All assumptions in this report are therefore consistent with the Medium Term Financial Plan.

4.2. The corporate criteria for capital investment, as laid out in the Asset Management Plan, were used to establish a list of priority projects for possible inclusion in the forward plan. The capital expenditure figures in 2015/16 and the estimates of capital expenditure to be incurred in the current and future years, that form the basis of the Prudential Indicators, are based on the Capital Programme 2017/18 to 2018/19 report.

Prudential Indicator 1 – Capital Expenditure

4.3. The first requirement of the Prudential Code is that the Authority must make reasonable estimates of the total capital expenditure it intends to incur over the following three financial years. Table 1 illustrates the actual and anticipated level of capital expenditure for the five years 2015/16 to 2019/20 and is the starting point for setting the rest of the PIs. Members will already be familiar with the figures from the quarterly Asset Management Monitoring reports to the Cabinet.

Table 1 – Capital Programme Expenditure 2015/16 to 2019/20

	2015/16 £000 Actual	**2016/17 £000 Estimate**	**2017/18 £000 Estimate**	**2018/19 £000 Estimate**	**2019/20 £000 Estimate**
Environment	39,394	41,547	31,733	15,281	15,779
Childrens	22,609	30,961	8,432	9,612	1,331
Adult & Community	655	1,646	1,056	2,442	395
Cabinet / Whole Authority	18,678	13,889	8,176	5,210	2,058
Dorset Waste Partnership	3,560	4,164	2,682	3,856	4,657
Vehicles	3,062	2,261	1,192	1,179	655
Structural Maintenance	0	9,032	7,510	7,510	7,510
Contingency & Flexibility	0	4,899	6,000	3,000	0
Slippage	0	-40,000	0	20,000	20,000
Total Capital Expenditure	**87,958**	**68,399**	**66,781**	**68,090**	**52,385**

4.4. The figures appear to show a decline in capital expenditure from 2019/20 onwards. This is because they only include expenditure that can be financed from sources that are reasonably certain at this point in time. Figures for 2018/19 and 2019/20 also include slippage from previous years and funding from already earmarked capital receipts. Assumptions have been made about the likely level of government funding in future years and may therefore require revision.

4.5. The capital expenditure figures assume a certain level of funding from borrowing for each year. Capital expenditure which cannot be immediately financed, or paid for, through revenue or capital resources (such as capital receipts), will require funding through either new borrowing or the utilisation of available cash resources pending borrowing. It is the new borrowing, together with existing borrowing, which has to be prudent, affordable and sustainable which forms the main element of the Prudential Code and drives PIs 2 to 7. Proposals on the level of borrowing for capital purposes are shown at paragraph 7.2 of this report and are set out for approval in the Revenue and Capital reports on this agenda.

Prudential Indicator 2 – The Capital Financing Requirement

4.6. The capital financing requirement (CFR) measures the Authority's underlying need to borrow for capital purposes. This figure includes all long term borrowing as well as financing that is implicit in Private Finance Initiative schemes and finance leases.

4.7. As part of a proactive and efficient Treasury Management Strategy, the Council does not differentiate between cash held for revenue purposes and cash held to fund the capital programme. At any point in time the Council has 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 and practices.

4.8. External borrowing arises from long term funding of capital spend and short term cash management if required, and as such can fluctuate over a number of months and years. In contrast, the capital financing requirement reflects the Council's underlying need to borrow for a capital purpose. The CIPFA Prudential Code 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."

4.9. This basically means that the Council can only borrow for capital purposes and only for the capital expenditure it has set out and approved over the course of its three year capital programme. Estimates of the end of year capital financing requirement for the Council for the current and future years and the actual capital financing requirement at 31 March 2016 are:

Table 2 Capital Financing Requirement (CFR) 2015/16 to 2019/20

	2015/16 £000 Actual	2016/17 £000 Estimate	2017/18 £000 Estimate	2018/19 £000 Estimate	2019/20 £000 Estimate
Borrowing Requirement	287,313	293,675	310,974	330,629	344,665
Long Term Liabilities	38,933	34,798	31,176	27,554	23,900
CFR	**326,246**	**328,473**	**342,150**	**358,183**	**368,565**

Prudential Indicator 3 – Ratio of Financing Costs to Net Revenue Stream

4.10. PI 3 expresses the net costs of financing the capital programme as a percentage of the funding receivable from the Government and council tax payers, expressed as a ratio. The net cost of financing includes interest and principal repayments, netted off by interest receivable in respect of any cash investments held.

Table 3 – Interest and repayment costs as a proportion of the Net Revenue Budget

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Financing Ratio	7.96%	7.51%	7.69%	7.74%	7.96%

Prudential Indicator 4 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

4.11. This indicator estimates the extra cost of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council. Where new capital expenditure is to be financed by borrowing there will be an additional financing cost, this PI represents it in terms of its impact on the level of council tax. It does not mean that council tax will increase by this amount as corresponding efficiencies are made elsewhere in the budget. It acts to illustrate the impact of the capital investment decisions on council tax if taken in isolation.

4.12. Capital expenditure decisions financed by borrowing could in fact feed through to a reduction in the level of council tax if the investment made allows savings to be realised, for example, the capital investment on building a new multi storey car park, might generate sufficient income to cover financing costs and make a surplus thus enabling a reduction to the level of council tax.

4.13. The figures below represent the extra estimated cost in each year of the additional borrowing if it were all funded from council tax.

Table 4 Impact of capital expenditure decisions on the level of Council Tax

	2017/18 £	**2018/19 £**	**2019/20 £**
Cost of capital programme on Band D Council Tax	7.93	8.94	6.34

5. Minimum Revenue Provision Policy Statement

5.1. The Council is required to make a provision (charge to the revenue account) each year towards the repayment of its underlying borrowing requirements, regardless of whether any actual debt is repaid. The Department for Communities and Local Government, (CLG) requires that before the start of each financial year the Council should prepare a statement of its policy on making such provisions, known as the Minimum Revenue Provision (MRP) for that year.

5.2. The Council is required to calculate for the forthcoming financial year an amount of MRP which it considers to be prudent. The broad aim of prudent provision is to ensure that its underlying borrowing need, as expressed by the CFR, is repaid over a period reasonably commensurate with the life of the capital assets that the borrowing has financed. The statement should indicate which of the allowed options for MRP are to be followed.

5.3. The Council is recommended to approve the following MRP Statement:

a) For capital expenditure incurred before 1 April 2008 or which is Supported Capital Expenditure, the MRP policy will be based, as now, on the CFR.

b) From 1 April 2008 for all unsupported borrowing, the MRP policy will be based on the Asset Life Method. MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must also be applied for any expenditure capitalised under a Capitalisation Directive).

6. Treasury Management Strategy 2017/18 to 2019/20

6.1. The capital expenditure plans summarised in Section 4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the service activity. This involves the organisation of the cash flow and, where capital investment plans require, the organisation of appropriate borrowing facilities.

6.2. The treasury management service is therefore an important part of the overall financial management of the Council's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

6.3. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised 2011). The Council adopts the Code of Practice on Treasury Management and its revisions, which in itself is a key Prudential Indicator that it has complied with. As a result of adopting the Code, the Council also agreed to create and maintain a Treasury Management Policy Statement (TMPS) which states the policies and objectives of the Council's Treasury Management activities.

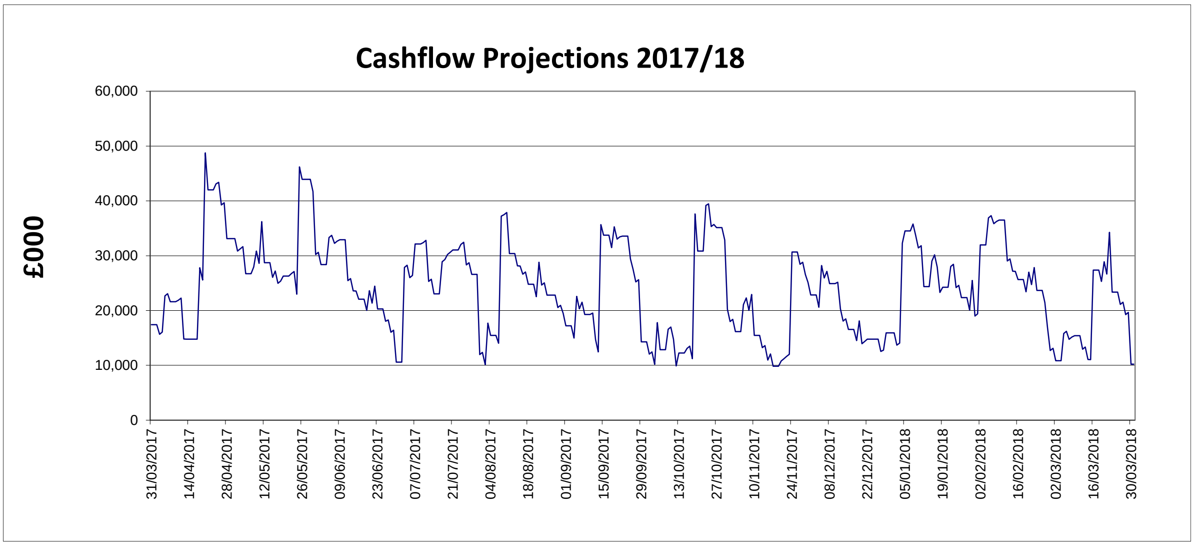
6.4. It is a requirement for an annual strategy to be reported to the Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

Day to Day Cash Management Activity

6.5. The Council's cash balances will fluctuate throughout the year as income is received and expenditure is made. Chart 1 shows the projected cashflow forecast for 2017/18 which is based on high level budget figures, historic trends and other information. It shows cash balances fluctuate between major receipt days, when government grant or the council tax precepts are received and major payment days such as the employees' pay day. The maximum level of cash balances is expected to be around £50m with the minimum level being £10m. Expected interest earnings are based on the cash flow as set out below (average balance approximately £24m) assuming an average interest rate of 0.30%.

6.6. The Council is by law expected to set a balanced budget, meaning that its cash inflows should broadly match its cash outflows over the medium term. The chart provides a useful guide to officers when formulating the borrowing and investment strategy.

Chart 1 – Dorset County Council Cashflow Forecast 2017/18



Borrowing Strategy

6.7. The Council can borrow long term funds from three main sources:

a) The Public Works Loans Board (PWLB) is the government agency that provides long term funding to local authorities, with loans priced according to the gilt markets. Loans can be taken for periods of 1 to 50 years at fixed or variable rates.

b) The Banking Sector also offer long term 'market' loans. The Council will consider borrowing from banks and financial institutions on a long term basis if this method of funding is advantageous compared to any other options available. Institutions have in the past offered loans up to 70 years and on a forward delivery basis.

c) Internal Borrowing from Revenue Balances can be used to fund the capital programme. Cash balances are built up over time from the Council's on-going activities, and as the Council builds up reserves and makes provisions these are reflected in the cash balances it holds. The cash held can be used to finance the capital programme, instead of borrowing externally. In reality the decision to borrow from cash balances will depend on the prevailing interest rate environment.

6.8. The borrowing strategy is affected by the economic outlook and prospects for interest rates. The low short term investment returns (currently less than 0.5%) compared to the cost of long term borrowing (currently approximately 3.0%) has meant the Council has been using its cash balances to fund capital spend rather than borrow. This has resulted in the Council's level of debt being significantly less than its CFR. This strategy means the Council is expected to be 'under borrowed' by approximately £80m at 31 March 2017. This has been deemed to be a prudent approach because of the low investment returns and relatively high counterparty risk.

6.9. However, with borrowing costs anticipated to increase at some stage over the next three years, and given the current high level of internal borrowing, attention needs to be given to the balance between internal and external borrowing. Over the next two years it may be prudent to borrow at lower rates and incur a cost of carry (the difference between the rate of interest earned on investments against the cost of borrowing), in the knowledge that future long term borrowing is likely to be higher.

The Chief Financial Officer will continue to monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances when making borrowing and investment decisions.

6.10. Officers regularly consider opportunities to reschedule borrowing whereby debts at a higher rate of interest are repaid and rescheduled at a lower interest rate. However, changes to the restructuring penalties (premiums) charged by the PWLB have made such restructurings expensive and therefore unviable at current market rates.

7. Treasury Management Prudential Indicators 2017/18 to 2019/20

7.1. The Prudential Code places a number of restrictions on the debt management activities of the Council. These are to restrain the activity of the treasury function within certain limits to manage risk and reduce the impact of any adverse or sudden movements in interest rates. However, the limits have to be with sufficient flexibility to allow costs to be minimised and performance maximised.

Prudential Indicator 5 – External Debt

7.2. The Council needs to ensure that its long term gross debt does not exceed the projected CFR for the third year of the capital programme plans (the 2019/20 projected CFR in the case of this plan). This prevents the Council from over borrowing in the long term and thereby taking on excessive levels of debt, which could be unaffordable or unsustainable. However, it does provide the Council with the flexibility to borrow in advance of need if borrowing rates are favourable, or they are expected to increase.

7.3. External debt and other long term liabilities (including PFI contract and finance lease commitments) is expected to stand at £250m at 31 March 2017, significantly less than the CFR, which is estimated to stand at £328m at the same date, representing underborrowing of approximately £80m. The breakdown of this plus estimates of borrowing for 2017/18 to 2019/20 are summarised in Table 5.

Table 5 External Debt 2015/16 to 2019/20

External Debt	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Debt at 1 April	215,124	184,341	213,521	233,521	253,521
Expected change in Debt	-30,783	29,180	20,000	20,000	20,000
PFI / Finance Lease Liabilities	42,042	39,007	36,007	33,007	30,007
Expected change in PFI Liabilities	-3,035	-3,000	-3,000	-3,000	-3,000
Actual gross debt at 31 March	**223,348**	**249,528**	**266,528**	**283,528**	**300,528**
CFR	**326,246**	**328,473**	**342,150**	**358,183**	**368,565**
Under / (Over) Borrowing	**102,898**	**78,945**	**75,622**	**74,655**	**68,037**

Prudential Indicators 6 and 7 – Operational Boundary and Authorised Limits for External Debt

7.4. These indicators are at the core of the Prudential Code and reflect the limits that the Council imposes upon itself in relation to external borrowing.

7.5. The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In the majority of cases this should be a level similar to the CFR, plus an allowance for any short term borrowings that might be required for cash management purposes or unexpected calls on capital resources. It is the key management tool for in year monitoring of the Council's expected capital and cashflow borrowing position.

Table 6 Operational Boundary for External Debt 2016/17 to 2019/20

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Borrowing	335,000	335,000	340,000	350,000
Other long term liabilities	40,000	38,000	36,000	35,000
Total Operational Boundary	**375,000**	**373,000**	**376,000**	**385,000**

7.6. The proposed operational boundaries for external debt set out in Table 6 are based on the most likely, prudent, but not worst case scenario to allow for unusual cash movements, for example. For reference purposes they include the estimated level of CFR, and estimated levels of borrowing for each year. The policy of limiting the size of the CFR is reflected in the proposed operational boundary, which will be capped at the maximum level of the CFR plus £10m to allow for any short term cashflow borrowing. These limits separately identify borrowing from other long term liabilities such as finance leases.

7.7. The Authorised Limit for external debt uses the operational boundary as the starting point but includes a margin to allow for unusual and unpredicted cash movements. By its very nature, this margin is difficult to predict and it will be necessary to keep it under review for future years.

7.8. The Authorised Limit may not be affordable or sustainable in the long term, but represents the absolute maximum level of debt the Council can hold at any given time. It is a statutory limit determined under section 3 (1) of the Local Government Act 2003, and any breach will be reported to the County Council, with the Government having the option to control the plans of the Council. An allowance has been added to the operational boundary to provide for the possibility of extra borrowing becoming available during the year as the result of the Government supporting further schemes, as well as providing some headroom if the projection of cashflow borrowing were to change.

7.9. In respect of its external debt, it is recommended that the County Council approves the authorised limits, set out in Table 7, for its total external debt for the next three financial years.

Table 7 Authorised Limit for External Debt 2016/17 to 2019/20

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Borrowing	355,000	355,000	360,000	370,000
Other long term liabilities	42,000	40,000	38,000	37,000
Total Authorised Limit	**397,000**	**395,000**	**398,000**	**407,000**

7.10. The Council is asked to delegate authority to the Chief Financial Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities on both the operational boundary and authorised limits. Any such changes made will be reported to the Council at its next meeting following the change.

Prudential Indicators 8, 9 and 10 – Limits on interest rate exposure and maturity of debt

7.11. These three PIs are designed to minimise exposure to fluctuations in interest rates and refinancing risks, and also cap the interest costs of borrowing to provide stability to this area of the Council's finances. The indicators are detailed below and illustrated in Table 8 and Chart 2:

a) Upper limit on fixed interest rate exposure – this identifies a maximum revenue cost of interest paid on fixed rate debts and is intended to prevent the Council from being locked into rates of interest that it cannot easily exit.

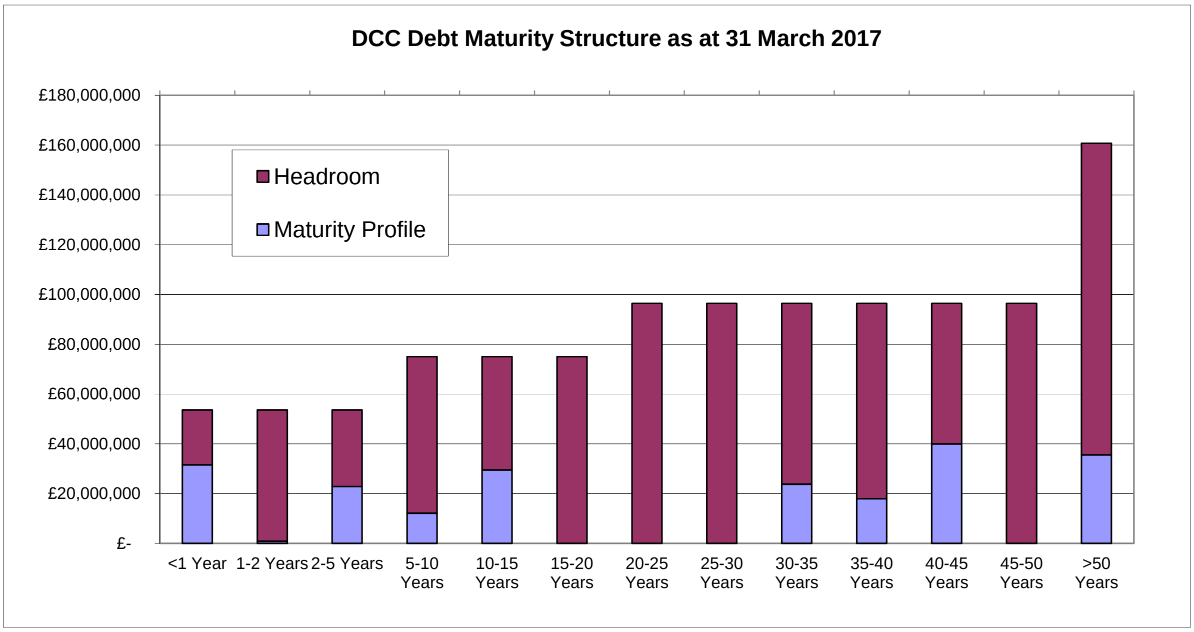
b) Upper limit on variable interest rate exposure – this identifies a maximum revenue cost of interest paid on variable debts, which is designed to minimise the budget exposure of the Council to movements in interest rates, a sudden increase in variable interest rates can cost the Council a significant sum of money, which this limit is intended to cap.

c) Maturity Structure of Borrowing – this identifies the maximum level of exposure to loans maturing (being repaid) in any given year. The rationale is to prevent the Council from having adverse cashflow difficulties if a large proportion of its loans have to be repaid in the same year. Chart 2 shows the current maturity profile, in relation to the limits that have been set.

Table 8 – Limits on Interest Exposure and Maturity of Debt

	2017/18 Upper £000	2018/19 Upper £000	2019/20 Upper £000
PI 8 Limits on net fixed interest rates payments	11,000	12,000	13,000
PI 9 Limits on net variable interest rate payments	2,000	2,000	2,000
PI 10 Maturity Structure of fixed interest rate borrowing 2017/18		**Lower**	**Upper**
Under 12 Months		0%	25%
12 Months to 2 Years		0%	25%
2 Years to 5 Years		0%	25%
5 Years to 10 Years		0%	35%
10 Years to 15 Years		0%	35%
15 Years to 20 Years		0%	35%
20 Years to 25 Years		0%	45%
25 Years to 30 Years		0%	45%
30 Years to 35 Years		0%	45%
35 Years to 40 Years		0%	45%
40 Years to 45 Years		0%	45%
45 Years to 50 Years		0%	45%
50 Years and above		0%	75%

Chart 2: Debt maturity limits compared to actual debt maturity profile at 31 March 2017



8. Annual Investment Strategy

8.1. Cash balances are invested on a daily basis using the London Money Market, call accounts, pooled money market funds and by making deposits with the Council's bank. Longer term investments can also be made; and in the current market, such investments earn more interest than the shorter term investments, however, there is a balance to be achieved between ensuring availability of cash to pay the bills and taking advantage of these higher interest rates. In the current banking and financial climate there is also a higher risk of counterparty default. In practice there will be a range of investments, but with a current bias heavily towards shorter term deposits.

8.2. The primary objectives of the Council's investment strategy are detailed in the Investment Policy detailed in Appendix 1. The objectives, in order of priority, are:

a) The security of funds invested – ensuring that the funds will be repaid by the counterparty to the Council at the agreed time and with the agreed amount of interest;

b) The liquidity of those funds – ensuring the Council can readily access funds from the counterparty;

c) The rate of return – ensuring that given a) and b) are satisfied that return is maximised.

8.3. The Investment Policy takes into account the economic outlook and the position of the banking sector in assessing counterparty security risk. Since the banking crisis of 2008, there continue to be underlying concerns about both the shape of the economy and the stability of the banking sector meaning the operational investment strategy adopted by the Council has tightened the controls already in place in the approved investment strategy. In doing so the Council will ensure:

- 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.

- 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 explained in Annex A of the Investment Policy. Risk of default by an individual borrower is minimised by placing limits on the amount to be lent.

8.4. The Policy introduces further measures that are taken to minimise counterparty risk, as a result officers work to:

- a prescribed list of countries that it can invest in;
- a list of institutions that it can invest with,
- maximum cash limits that can be invested with these institutions, and
- restrictions on the length of time investments can be held with these approved institutions.

8.5. The counterparty list is maintained by Capita who monitor it on a real time basis. The Council receives a weekly update, but a new list can be distributed at any time if there is any adverse news about any of the institutions on it.

8.6. In addition to the restrictions that the Council places upon itself to maximise security, ensure liquidity and maximise yield, the prudential code sets limits on the maximum period of time monies can be invested for. These are illustrated in Table 9 below

Table 9 Prudential Indicator 11: Maximum principal sums invested >364 days

	2017/18 £000	2018/19 £000	2019/20 £000
Maximum amount invested > 364 Days	20,000	20,000	20,000
% of which can be up to 2 years	100%	100%	100%
% of which can be up to 3 years	75%	75%	75%
% of which can be up to 4 years	50%	50%	50%
% of which can be up to 5 years	25%	25%	25%

9. Sensitivity to Interest Rate Movements

9.1 The Council's accounts are required to disclose the impact of risks on the Council's treasury management activity. 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. Table 10 highlights the estimated impact of a 1% increase or decrease in all interest rates to the estimated treasury management costs or income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Table 10 Impact on Revenue Budget of a 1% change in Interest Rates

	Variable Rate Debt / Investments £000	**2017/18 Estimated + 1% £000**	**2017/18 Estimated - 1% £000**
Interest on Borrowing[1]	0	0	0
Investment Income[2]	24,000	240	(240)
Net Benefit / (Cost) to Council		240	(240)

1) The Council is not expected to hold any variable rate debt in 2017/18.

2) Average projected balances for 2017/18.

10. Risk Assessment

10.1. The primary risks to which the County Council is exposed in respect of its treasury management activities are adverse movements in interest rates and the credit risk of its investment counterparties. Either may jeopardise the Authority's ability to maintain its financing strategy over the longer term.

10.2. The net interest costs of the Authority are not significant in relation to its overall revenue budget. Significant changes in the level of interest rates are unlikely to result in an unmanageable burden on the budget position of the County Council.

10.3. Treasury Management risk can be reduced in the following ways:

- diversification of lending by setting criteria and limits for investment categories and individual borrowers. Risk is controlled by the formulation of suitable criteria for assessing and monitoring the credit risk of borrowers and the construction of the lending list comprising time, type, sector and specific counterparty limits. This is covered in more detail in the following section.
- balancing cash flow needs, as determined by the forecast, with the outlook for interest rates, whilst ensuring enough cover for emergencies
- use of money market funds and longer term lending to enhance diversification.

10.4. In addition, the CIPFA Code requires the policy to show who is responsible for which decision, the limits on the delegation and reporting requirements. This has been in place for some years and is reproduced at Appendix 2.

10.5. The Council's Treasury Management Practices document sets out in detail the systems and processes (including internal checks) that have been introduced to reduce the risk of losses due to fraud, negligence and error.

11. Performance Indicators

11.1. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

11.2. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing – Average rate of borrowing for the year compared to average available;
- Debt – Change in the average cost of debt year on year;
- Investments – Internal returns above the 7 day LIBID rate.

11.3. In managing Treasury Management performance a number of annual benchmarking exercises are done to monitor the relative performance and to ensure best practice, this benchmarking includes these performance indicators and represents the most effective way of managing performance. A review of performance is presented as part of the Outturn Report each year.

12. Member and Officer Training

12.1. The high level of risk inherent in treasury management means officers need to be adequately experienced and qualified. Officers attend national treasury management events and training courses and have twice yearly strategy and review meetings with Capita, as well as regular contact over the telephone.

12.2. A training session for all elected Members was held in April 2014 and run by Capita to explain the basics and outline the responsibilities that Members have in relation to treasury management. It is Dorset County Council policy to offer training to Members where it is felt to be appropriate and relevant, and it is planned to arrange a further session in 2017/18.

13. Conclusion

13.1. This report sets out the Treasury Management Strategy for 2017/18 to 2019/20 and, in particular, shows the anticipated cash flow for the Council and how in practice this is to be managed to optimise interest earnings and minimise borrowing cost whilst meeting daily cash needs.

13.2. An extensive risk analysis has been carried out on the treasury management operation supported by the County Council's treasury management advisers, Capita Asset Services, and it is considered that a high level of risk avoidance has been established by the combination of policies and working practices in place. Particular attention is given to the quality of lenders used and the processes used on a day to day basis to avoid any losses due to fraud, negligence, and error.

13.3. Various options exist regarding the precise manner in which the capital programme is financed, and these are highlighted in paragraph 6.7. The Code of Practice provides that final decisions on the actual financing of capital expenditure, rests with the Chief Financial Officer after taking advice from Capita.

13.4. As required by the Code, the report sets out the required Prudential Indicators and in accordance with the guidance any revisions required will be brought to the Cabinet for approval.

Richard Bates
Chief Financial Officer
January 2017

APPENDIX 1

Dorset County Council - Investment and Credit Worthiness Policy

1. Investment Policy

1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

1.2 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. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

1.3 Ratings will not be the sole determinant of the quality of an institution; 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 advisers to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

1.4 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.

1.5 Investment instruments identified for use in the financial year are listed in Annex A of this Policy under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices schedules.

2. Creditworthiness Policy

2.1 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 this 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 Annex A - Specified and Non-Specified investments; 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.

2.2 Risk of default by an individual borrower is minimised by placing limits on the amount to be lent. These limits use, where appropriate, credit ratings from Fitch, Standard and Poors, and Moodys Credit Rating Agencies. All banks and building societies used by Dorset County Council will have a long-term rating of at least A- and a minimum short term rating of F1. Long-term ratings vary from AAA (the highest) down to D the lowest. Short-term ratings vary from F1+ (the highest) down to D. Individual ratings vary from A (the highest) down to E, and these are now being replaced by viability ratings (aaa the highest, to c the lowest) and estimate how likely the bank is to need assistance from third parties. The limits to be used are set out in paragraph 2.6.

2.3 The Chief Financial Officer 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 type of investment instrument are either Specified or Non-Specified investments as it provides an overall pool of counterparties considered to be high quality that the Council may use, rather than defining what types of investment instruments are to be used.

2.4 Credit rating information is supplied by the Council's treasury management advisers, Capita Asset Services, 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 monitored and 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 Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Security

2.5 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

i. Sovereign Ratings

2.5.1 The Council will only lend to counterparties in countries with the highest sovereign Credit Rating of AAA. The maximum that can be deposited with banks in any one sovereign is £30m at any time. The exception to both rules is the United Kingdom.

ii. Counterparties with Good Credit Quality

2.5.2 The Council will lend to counterparties with the following counterparty ratings:

Table 1 Counterparty Ratings

Category	**Minimum Credit Rating**	**Limit**
Any Local Authority	n/a	£15 Million
Banks & Building Societies	Short F1, Long A-	£15 Million
Money Market Funds	AAA	£15 Million (individual)
Money Market Funds Notice Account	AAA	£10 Million (individual)
UK Government including gilts and the Debt Management Account Deposit Facility (DMADF)	n/a	no limit

2.5.3 Where a counterparty is part of a larger group, it is appropriate to limit the Council's overall exposure to the group. Individual counterparties within the group will have their own limit, but will be subject to an overall limit for the group. The limit for any one group will be £15M, except in the case of the four major UK banking groups where the limit is £20M.

iii. Part Nationalised Banking Groups

2.5.4 The Council will continue to use banking groups whose ratings fall below the criteria specified above if that banking group remains part nationalised, up to a limit of £20M for the group.

iv. Council's own banker

2.5.5 The limit for the Authority's own bank is £20M, however, due to occasional short term unexpected cashflows this limit may be breached. For this reason additional flexibility of an additional £1M is allowed to cover such movements, and to minimise the transaction costs involved with moving small sums of money. Over the long term the £20M should be the maximum. The breaches of the £20M limit will be monitored and reported to the Chief Financial Officer on a monthly basis.

2.5.6 If the Council's own banker, NatWest, fell below the Council's criteria, it would continue to be used for transactional and clearing purposes with the maximum balances deposited with them overnight being limited to £500k.

v. Major UK Banks

2.5.7 The Council may invest up to £20M with each of the four major UK banking groups, Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, and The Royal Bank of Scotland PLC (which owns the Council's bank, National Westminster Bank PLC), taking into account the restrictions of group limits and any other limits which apply. These four banking groups were added explicitly to the Treasury Management Strategy with the rationale that in a worst case scenario, all of the Council's cash could be placed across these four banks.

vi. Use of Additional Information other than Credit Ratings

2.5.8 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.

Liquidity

2.6 Liquidity is defined as an organisation "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts 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" (CIPFA Treasury Management Code of Practice).

2.7 In addition it is prudent to have rules for the balance of investment between short term and longer term deposits to maintain adequate liquidity. They are:

i. Fixed Term Investments

2.8 A minimum cash balance of £10M must be maintained in call accounts or instant access Money Market Funds. Any amount above this can be invested in fixed term deposits.

ii. Call Deposits

2.9 The amount of call deposits (instant access accounts) should be a minimum of £10M to allow for any unforeseen expenditures, up to a maximum of 100%. From time to time, it may be necessary for call deposits to fall below £10M, when this occurs it should be for no more than one working day. The breaches of the £10M limit will be monitored and reported to the Chief Financial Officer on a monthly basis.

iii. Time and Monetary limits applying to Investments

2.10 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):

Table 4 – Time and Monetary Limits

	Minimum Long Term and Short Term Counterparty Rating (LCD Approach)	**Money Limit**	**Time Limit**
Any Local Authority	n/a	£15 Million	5 Years
Banks & Building Societies	AA- / F1+	£15 Million	5 Years
Banks & Building Societies	A- / F1	£15 Million	364 Days
Major UK Banks*	n/a	£20 Million	5 Years
Money Market Funds	AAA	£15 Million (individual)	Overnight
Money Market Funds	AAA	£10 Million (individual)	7 Day Notice
UK Government including gilts and the DMADF	n/a	Unlimited	6 Months
Part Nationalised Banking Groups	n/a	£20 Million	5 Years
Council's Own Banker	n/a	£20 Million	Overnight
*(Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC and The Royal Bank of Scotland PLC)			

iv. Longer Term Instruments

2.11 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-Specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will be limited to counterparties rated AA- long term, and F1+ short term. The level of overall investments should influence how long cash can be invested for. For this reason it has been necessary to introduce a sliding scale of limits that depend on the overall size of cash balances. The smaller the size of the overall cash balances the more important it is that the money is kept liquid to meet the day to day cashflows of the organisation. Likewise if cash balances are large, a greater proportion of the funds can be invested for longer time periods. Table 5 sets out the investment limits.

Table 5 Time Limits for Investments over 365 days

Time Limit	**Money Limit invested with Counterparties rated AA- - F1 + and above – or UK 4 Major Banking Groups**	
Projected Annual Balances	**%**	
More than 1 year, no more than 2 years	100%	£20M
More than 2 years, no more than 3 years	75%	£15M
More than 3 years, no more than 4 years	50%	£10M
More than 4 years, no more than 5 years	25%	£5M
In Total £M		**£20M**

2.12 In the normal course of the council's cash flow operations it is expected that both Specified and Non-Specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

2.13 A summary of the proposed criteria for investments is shown in Annex B, and a list of counterparties as at 11 January 2017 in accordance with these criteria is shown as Annex C to this policy for information.

Investment Policy - Treasury Management Practice 1- ANNEX A

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The CLG issued Investment Guidance on April 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sector Guidance Notes. This Council adopted the Code during 2002 and will apply its principles to all investment activity. In accordance with the Code, the Chief Financial Officer has produced the Council's treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is set out below.

Strategy Guidelines

The main strategy guidelines are contained in the body of the treasury strategy statement (the Investment Strategy).

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 Office, UK Treasury Bills or gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set

additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). This would include investments greater than 1 year in duration. It is proposed that counterparties will be restricted to those in the specified category above when investing for more than a year. In total these longer term loans will be limited to £50M of the total investment portfolio and this has been determined with regard to the forecasts of future cash flow.

The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer, and if required new counterparties which meet the criteria will be added to the list.

Summary of Investment Criteria

INVESTMENT POLICY ANNEX B

Paragraph	Criteria	Minimum Rating		Maximum Investment and Exceptions
		Long	Short	
Sovereign Limit for All Loans				
2.5.1	**AAA Sovereign Rating**	n/a	n/a	£20 Million with any one sovereign, UK no limits
Notice Money				
A minimum of 10% of total investments, up to a maximum of 100%				
2.5.5	**Council's own Banker**	n/a	n/a	£20 Million
2.5.2	**Money Market Funds**	AAA		£15 Million individual
2.5.2	**Money Market Fund Notice Account**	AAA	n/a	£10 Million individual
Fixed Term Investments				
Limited to the amount of excess balances for that term less a margin of £10 Million				
Up to 6 months				
2.5.2	**UK Government including gilts and DMADF**			Unlimited
Up to 364 Days				
2.5.2	**Any Local Authority**			£15 Million
2.5.2	**Banks & Building Societies**	A-	F1	£15 Million Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 2.5.4, 2.5.5, 2.5.6, 2.5.7 for exceptions
2.5.7	**Four Major UK Banking Groups**: Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	N/a	N/a	£20 Million
Up to 5 years				
2.5.7	**Major Banks & Building Societies**	AA-	F1+	£15 Million per bank Note that no more than £15 Million can be invested with banks in the same group where the highest rated counterparty has a minimum of these ratings See 2.5.4, 2.5.5, 2.5.6, 2.5.7 for exceptions
2.5.4	**Part Nationalised Banking Groups:** Lloyds Banking Group PLC, The Royal Bank of Scotland PLC (including National Westminster Bank PLC)	n/a	n/a	£20 Million

INVESTMENT POLICY ANNEX C

Counterparty list as at 10 January 2017

	Lowest Long Term Rating*	Lowest Short Term Rating*	Money Limit (£M)	Time Limit
UK Banks and Building Societies				
HSBC Bank PLC	AA-	F1+	£20M	5 YEARS
Lloyds Banking Group:				
Bank of Scotland PLC	A+	F1	£20M (group)	5 YEARS
Lloyds Bank PLC	A+	F1	£20M (group)	5 YEARS
Royal Bank of Scotland Group:				
National Westminster Bank	BBB+	F2	£20M (group)	5 YEARS
Royal Bank of Scotland	BBB+	F2	£20M (group)	5 YEARS
Barclays Bank	A	F1	£20M	5 YEARS
Santander UK Plc	A	F1	£15M	364 DAYS
Standard Chartered Bank	A+	F1	£15M	364 DAYS
Nationwide Building Society	A	F1	£15M	364 DAYS
Goldman Sachs International Bank	A	F1	£15M	364 DAYS
Close Brothers Ltd	A	F1	£15M	364 DAYS
Sumitomo Mitsui Banking Corporation Europe Limited	A	F1	£15M	364 DAYS
Coventry Building Society	A	F1	£15M	364 DAYS
Leeds Building Society	A-	F1	£15M	364 DAYS
Yorkshire Building Society	A-	F1	£15M	364 DAYS
UBS Ltd	A+	F1	£15M	364 DAYS
Abbey National Treasury Services	A	F1	£15M	364 DAYS
Australian Banks				
National Australia Bank Limited	AA-	F1+	£15M	5 YEARS
Australia and New Zealand Banking Group	AA-	F1+	£15M	5 YEARS
Commonwealth Bank of Australia	AA-	F1+	£15M	5 YEARS
Macquarie Bank Limited	A	F1	£15M	364 DAYS
Westpac Banking Corporation	AA-	F1+	£15M	5 YEARS

	Lowest Long Term Rating*	**Lowest Short Term Rating***	**Money Limit (£M)**	**Time Limit**
Canadian Banks				
Canadian Imperial Bank of Commerce	AA-	F1+	£15M	364 DAYS
Bank of Montreal	AA-	F1+	£15M	364 DAYS
Bank of Nova Scotia	AA-	F1+	£15M	364 DAYS
National Bank of Canada	A+	F1	£15M	364 DAYS
Royal Bank of Canada	AA	F1+	£15M	5 YEARS
Toronto-Dominion Bank	AA-	F1+	£15M	5 YEARS
Danish Banks				
Danske A/S	A	F1	£15M	364 DAYS
German Banks				
Landwirtschaftliche Rentenbank	AAA	F1+	£15M	5 YEARS
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	£15M	5 YEARS
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	£15M	364 DAYS
Landesbank Baden-Wuerttemberg	A-	F1	£15M	364 DAYS
NRW Bank	AAA	F1+	£15M	5 YEARS
Luxembourg Banks				
European Investment Bank	AAA	F1+	£15M	5 YEARS
Singaporean Banks				
DBS Bank Ltd.	AA-	F1+	£15M	5 YEARS
Oversea-Chinese Banking Corporation	AA-	F1+	£15M	5 YEARS
United Overseas Bank Limited	AA-	F1+	£15M	5 YEARS
Swedish Banks				
Nordea Bank AB	AA-	F1+	£15M	5 YEARS
Svenska Handelsbanken AB	AA	F1+	£15M	5 YEARS
Swedbank AB	AA-	F1+	£15M	364 DAYS
Skandinaviska Enskilda Banken AB	AA-	F1+	£15M	364 DAYS
Swiss Banks				
UBS AG	A+	F1	£15M	364 DAYS
Credit Suisse AG	A	F1	£15M	364 DAYS

APPENDIX 2

Policy of Delegation

The Code requires the policy of delegation to show who is responsible for which decision, the limits on the delegation and reporting requirements.

The code also requires the responsibilities of council, committee and Chief Officers to be set out. In summary they are as follows: -

The County Council – approval of recommendations from the Cabinet and annually the borrowing limits.

The Cabinet – approval of the Treasury Management Strategy Statement, and from time to time the review of the Treasury Management Strategy Statement.

Audit & Governance Committee – to ensure effective scrutiny of the treasury management strategy and policy, through receiving regular reports from the Chief Financial Officer.

The Chief Financial Officer – approval of draft policy statement, regular monitoring of activities and reporting on these activities to Committee.

Chief Treasury & Pensions Manager – monitor implementation of policy, review policy, preparation of monitoring reports for the Chief Financial Officer, appointment of money brokers and advisers.

Finance Manager (Treasury & Investments) – monitor day to day implementation of policy set and approval of deals on a day to day basis.

Investment Technician – carry out day to day deals in accordance with policy.

Head of the paid service – the Chief Executive – that the system is laid down and resourced and that the Chief Financial Officer makes the required regular reports to elected members.

Monitoring Officer – the Head Legal Services – ensuring compliance by the Chief Financial Officer.

Internal Audit – the policing of the arrangements.

In addition to these delegations there is in place a comprehensive system of checks within Corporate Resources involving several members of staff, which operates on each individual money deal
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