Cabinet

Minutes of a meeting held at County Hall,
Colliton Park, Dorchester on 3 February 2014.

Present:
Spencer Flower (Chairman)
Robert Gould (Vice-Chairman)
Toni Coombs, Hilary Cox, Peter Finney, Jill Haynes and Rebecca Knox.

John Wilson, Chairman of the County Council, attended under Standing Order 54(1).

Members attending
Barrie Cooper, County Council Member for Bride Valley (Minutes 43-45)
Janet Dover, County Council Member for Colehill and Stapehill (Minutes 43-45)
Beryl Ezzard, County Council Member for Wareham (Minutes 43-45)
Paul Kimber, County Council Member for Portland Tophill (Minutes 37-39)
William Trite, County Council Member for Swanage

Officers Attending: Debbie Ward (Chief Executive), Mike Harries (Interim Director for Environment), Catherine Driscoll (Director for Adult and Community Services), Paul Kent (Director for Corporate Resources), Jonathan Mair (Monitoring Officer), David Phillips (Director of Public Health), Sara Tough (Director for Children's Services), Fiona King (Public Relations Officer) and Lee Gallagher (Democratic Services Manager).

For certain items, as appropriate:
John Alexander (Policy and Performance Manager), Jim McManus (Chief Accountant) and Phil Rook (Adult and Community Services Group Finance Manager).

(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: **5 February 2014.**

(2) The symbol ( ) denotes that the item considered was a Key Decision and was included in the Forward Plan.

(3) 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 **26 February 2014**.

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

Apologies for Absence
17. No apologies for absence were received.

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

Minutes
19. The minutes of the meeting held on 15 January 2014 were confirmed and signed.

Public Participation

Public Speaking

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

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

Petitions

21. There were no petitions received in accordance with the County Council's petition scheme at this meeting.

Cabinet Forward Plan

22.1 The Cabinet considered the Cabinet Forward Plan, which identified key decisions to be taken by the Cabinet and items planned to be considered in a private part of the meeting. The current plan was published on 3 January 2014 and included items on the agenda for this meeting. It was noted that the next Forward Plan included items to be considered on or following the Cabinet meeting on 26 February 2014 and was published on 28 January 2014.

22.2 The Cabinet Member for Corporate Resources indicated that an additional item would be considered on 19 March 2013 to detail the Council's move towards a corporate landlord approach to property.

Noted

The County Council Budget
Medium Term Financial Plan and Budget 2014/15 to 2016/17

23.1 The Cabinet considered a report by the Cabinet Member for Corporate Resources on the major national and local issues facing the County Council and how they affected the 2014/15 budget and financial planning for 2014/15 until 2016/17. The Cabinet meeting on 18 December 2013 agreed the basis on which further development of the budget for 2014/15 and the financial plan for the following years should continue, subject to clarification of the detail in the Local Government Finance Settlement received on the same day. (The report is attached to these minutes as Annexure 1 – page 13.)

23.2 The Cabinet Member for Corporate Resources introduced the report as the final iteration to be recommended to the County Council on 13 February 2014 that had been updated to include clarity arising from the finance settlement and how the Council was addressing the £2.4M gap to present a balanced budget for 2014/15. Although the report contained lots of updates there was still uncertainty about the referendum limit in relation to a Council Tax increase. It was noted that the budget had been prepared on an assumption of a 1.99% Council Tax increase, which was under the current limit of 2%, subject to final confirmation from Government.

23.3 He outlined the measures that had been taken to address the £2.4M budget gap, which included the incorporation of the previous year's Council Tax Freeze Grant into the base budget which had reduced the overall savings target of the Forward Together Programme from £47M to £43.3M over the next three years. Some public health grant funding had also been made available in respect of public health objectives, which was commended by the Cabinet Member for Communities and Public Health. These actions had closed the gap in 2014/15 to £0.5M. This would be covered by contingency, balances and reserves.

23.4 Although there was confidence that the basis of the budget was sound, the Cabinet Member for Corporate Resources drew attention to the following risks to the budget strategy:

- A 2% cap on business rates, and the future of the Business rates Retention Scheme.
- The removal of uncertainty in relation to the New Homes Bonus Scheme.
- The need to address the financing arrangements in terms of the minimum and maximum operating ranges particularly in the current period of transformation.
- Management action to address ongoing structural overspends on specific services.
- Government policy development, including major changes in respect of social care.

23.5 He also highlighted the high degree of uncertainty for budget planning beyond 2016/17, but insisted that pressures on Local Government finance would remain.

23.6 The Cabinet noted the very extensive consultation with both members of the Council and the public, which included consideration of the budget proposals by the Audit and Scrutiny Committee and Overview Committees in January 2014, and that no significant proposals for change had been recommended from these Committees.

23.7 The Cabinet Member for Education and Communications asked for clarification in respect of the consultation arrangements with communities and the business sector, and plans for consultation with residents moving forward. The Director for Corporate Resources confirmed that a business consultation event was held on 24 January 2014 which included representatives from businesses, the Local Enterprise Partnership, community care, and housing. The proposed Council Tax increase was generally accepted, and concerns were raised in relation to good communication links (roads, business enterprise, and superfast broadband) and skills available so business development was not impaired. It was also felt that less well maintained roads could affect businesses and there was a lack of business sites and employment land, which was an ongoing difficulty. The engagement was generally very positive and representatives were keen to re-engage, and suggested that the Council be included in Group 16 meetings. The Cabinet Member for Corporate Resources was encouraged by the understanding across all sectors of the challenges the Council faced and the willingness to get involved and shape the Corporate Plan and feed into priorities for Dorset. The Cabinet Member for Education and Communications supported engagement through this type of consultation and advocated face to face meetings.

23.8 The Cabinet Member for Education and Communications confirmed that the financial risk and impact from schools choosing to convert to academies would be offset through the Modernising Schools Programme Board, as agreed through the School's Forum. She also clarified that schools improvement service would be reconfigured as a traded service which could be affected if schools did not buy back into the services provided.

23.9 In relation to Special Educational Needs (SEN) and Children Out Of School (COOS) transport, the Cabinet Member for Education and Communications championed the work to reduce the financial deficit, but there was still more to be done. It was noted that a lot of research and data analysis of journeys and procurement was being undertaken. She hoped that there would be good news soon.

23.10 The Cabinet Member for Communities and Public Health asked if it would be possible for Public Health financial information to appear in the Partnerships section of the budget instead of appearing with Adult and Community Services. The Director for Corporate Resources explained that this would be the intention for the future.

23.11 The Cabinet Member for Adult Social Care supported the proposals in relation to Adult and Community Services, but highlighted that, as one of the Council's largest budget pressures, the work to address transformation needed to have the appropriate level of pace to ensure that changes were made at the correct time. She also drew attention to the challenges faced as a result of the recent Care Bill and that a lack of information was a definite issue as there had not been enough to progress planning on service change, only to react as and when information was made available.

23.12 The Cabinet Member for Children's Safeguarding and Families drew particular attention in respect of fostering and adoption. It was noted that Dorset's Children's Services was one of highest ranked authorities regarding changes to the adoption process across the Country. Dorset had been recognised by the Minister in this regard and asked to share good practice across other councils. The Cabinet Member indicated that although the Council was doing well there was still a lot to learn from other authorities.

23.13 The Cabinet Member for Environment summarised the progress of the Environment Directorate to meet the concerns raised through the consultation with the business sector to keep highways in as good a state as possible to maintain transport links and economic viability. She indicated that problems were caused as a result of too much snow, and too much water, and that there would be the need to address the underlying issues associated with the investment required for roads in Dorset. She explained that this was the first time that she had experienced an overspend in the Directorate which was largely the result of delayed savings on bus subsidy which had been an area of particular engagement with residents to ensure that there was no disproportionate effect on any one area of County.

23.14 The Cabinet noted that the Director for Corporate Resources, as the Section 151 officer, had made a judgement that the budget proposals for 2014/15 were robust and sound, which was particularly positive in a period of significant pressure and transformation.

Resolved

24.1 That the risks associated with the structural budget deficit which is not covered in the budget strategy be noted.

24.2 That the service issues and risks associated with the savings approved in Appendix 5 of the Cabinet Member's report to the Cabinet meeting on 18 December 2013 be noted, together with the feedback from Overview Committees and other sources concerning these.

24.3 That the overall impact on the contingency budget for 2014/15 as a result of the current budget strategy be noted.

24.4 That the Council Tax increase to be applied in 2014/15 of 1.99% and 2% for subsequent years, for planning purposes be confirmed.

24.5 That the changes proposed in paragraph 7.5 of the report to raise the limits for maintenance of the authority's balances be approved.

24.6 That the Director for Corporate Resources (Chief Financial Officer) be requested 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 2014/15.

RECOMMENDED

25. That the County Council be recommended to approve:

(i) the revenue budget strategy for 2014/15 to 2016/17;

(ii) the budget requirement and precept for 2014/15; and

(iii) the position on general balances and reserves.

Reason for Recommendations

26. To enable work to continue on refining and managing the County Council's budget plan for 2014/15 to 2016/17 and beyond.

Asset Management Capital Priorities

27.1 The Cabinet considered a report by the Cabinet Member for Corporate Resources on the priorities for capital spending and capital control totals for planning purposes for 2014/15 until 2016/17. (The report is attached to these minutes as Annexure 2 – page 37.)

27.2 The Cabinet Member for Corporate Resources explained the consideration of capital priorities at the Cabinet meeting held on 18 December which altered the priority ranking of the Capital Programme to reflect the emphasis on the future transformation work, and to defer the project on the Dorset History Centre. He explained that he had presented the proposals to the Audit and Scrutiny Committee and no alternative proposals were raised. The proposals would now form a recommendation to the County Council for decision on 13 February 2014.

27.3 He then highlighted the importance of a policy to limit the cost of the Capital Programme in order to manage the programme for the future and reduce borrowing. He then explained that all priorities enhanced the Council and enabled investment and development for the future.

27.4 The Cabinet Member for Education and Communications took the opportunity to remind the Cabinet of its duty in relation to schools' basic need. She referred to a report considered by the Cabinet in December 2012 which supported the responsibility of the Council to ensure that there were sufficient school places as a basic need. It was envisaged that there would be a shortfall of 1703 primary school places in 2015. She then highlighted that grant funding in excess of £7M through the Government's grant settlement would be passported to the Modernising Schools Programme to ensure that basic need pressures were met. It was noted that the grant funding level for 2014/15 was £6.4M.

27.5 The Cabinet Member for Communities and Public Health supported the budget in the difficult financial climate, and was encouraged by the investment being made for the future benefit of the people of Dorset.

27.6 The Cabinet Member for Children's Safeguarding and Families drew attention to the investment being made in the children's services social care system, which should be more proactively publicised to explain the changes and the impact that this would have on service delivery and the residents of Dorset. It was agreed that this would be taken on board.

27.7 The Cabinet Member for Environment explained that she was supportive of the capital programme which included improvements to the Haywards Bridge, which whilst not unsafe, was in urgent need of maintenance. She also drew attention to work relating to the salt barn which was needed to meet Environment Agency requirements.

27.8 A further significant development in future years in relation to capital assets would be the work with Bournemouth Borough Council on a Strategic Waste Facility which would make the Materials Recycling Facility in Hurn redundant and the site surplus could potentially realise a significant capital receipt.

27.9 The Leader of the Council emphasised the importance of the Capital Programme and how it would influence the future of Dorset.

RECOMMENDED
28. That the County Council be recommended to:
(i) Agree the revised (planning) control totals for the capital programme 2013/14 to 2016/17 as referred to in Appendix 1 of the Cabinet Member's report, subject to overall consideration of the MTFS;
(ii) Approve the inclusion of the projects, detailed in Appendix 2 of the report, in the capital programme 2014/15 to 2016/17;
(iii) Agree to ring fence the initial (£1.526M) capital receipts from the East Dorset Civic Centre scheme to balance the over commitment;
(iv) Reaffirm agreement to achieving a policy where the underlying need to borrow does not increase by 2016/17 unless funded from other sources;
(v) Authorise the Chief Financial Officer to make adjustments to the phasing of payments between years if necessary when the capital programme is finalised.

Reason for Recommendations
29. The available resources after taking account of committed projects were insufficient to meet all the new bids. It was therefore necessary to ring fence capital receipts from the East Dorset Civic Centre project to enable the proposal to be funded.

Treasury Management Strategy Statement and Prudential Indicators for 2014-15

30.1 The Cabinet considered a report by the Cabinet Member for Corporate Resources on the Council's Treasury Management Strategy Statement and Prudential Indicators for 2014-15. (The report is attached to these minutes as Annexure 3 – page 47.)

30.2 The Cabinet Member for Corporate Resources explained that the CIPFA Prudential Code highlighted particular aspects of the planning of capital expenditure and the funding of that expenditure. The Code required the publication and monitoring of Prudential Indicators which showed the scope and impact of capital spend. In addition, there were separate requirements under the CIPFA Treasury Management Code to publish a Treasury Management Strategy.

30.3 The Director for Corporate Resources introduced the technical report and explained the aspects of financial management covered by the Prudential Indicators and Limits, the Minimum Revenue Provision Statement, Treasury Management Strategy and the Investment Strategy. It was also noted that a further update on the progress of recovery of funds from Icelandic Banks would be provided outside of the meeting.

RECOMMENDED
31.1 That the County Council be recommended to approve:
- The Prudential Indicators and Limits for 2014/15 to 2016/17;
- The Minimum Revenue Provision (MRP) Statement;
- The Treasury Management Strategy; and
- The Investment Strategy.

31.2 That delegated authority be granted to the Chief Financial Officer to determine the most appropriate means of funding the Capital Programme.

Reasons for Recommendations
32.1 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.

32.2 The report recommended the indicators to be applied by the Council for the financial years 2014/15 to 2016/17. The successful implementation of the Code would assist in the Council's objective of developing 'public services fit for the future'.

Corporate Performance Monitoring Report - Second Quarter 2013-14 (1 July – 30 September 2013)

33.1 The Cabinet considered a report by the Cabinet Member for Corporate Resources in relation to corporate performance monitoring for the second quarter of 2013-14. The report contained analyses of the Council's progress against its corporate aims and presented the Corporate Balanced Scorecard.

33.2 The Chief Executive reported that performance for the second quarter had been further supported by as much information as possible in relation to the third quarter to the end of December 2013. She explained that for the first time benchmarking information had been included in the report, and would form part of the core analysis in the future to reflect areas across the Country and provide a challenge to Dorset's performance.

33.3 Cabinet members welcomed the benchmarking information and maps as a key comparator which would be developed further, and noted that the format was improving. It was recognised that some areas would be difficult to compare, but it was important where possible to show how Dorset related to other Councils which could improve the view often expressed locally that the Council's performance was poor. When compared to other authorities in terms of spend and funding the Council achieved well.

33.4 The Cabinet Member for Education and Communications explained that in relation to the benchmarking map on young people Not in Employment, Education or Training (NEET) which currently performed well, the rest of the Country was now improving and it was necessary to keep ahead. She highlighted the importance to expand apprenticeship opportunities. The Leader of the Council also took the opportunity to reinforce the importance of promoting opportunities in the form of apprenticeships through 'earn to learn' initiatives.

<u>Noted</u>

North Dorset Local Plan 2011 – 2026 Part 1: Pre Submission Consultation

34. The Cabinet considered a report by the Interim Director for Environment on North Dorset District Council's consultation on its Pre-submission Draft Local Plan. It was noted that the report was considered by the Environment Overview Committee at its meeting held on 23 January 2014 and as a result an officer holding response had been sent to the District Council which was presented to the Cabinet for ratification.

<u>Resolved</u>

35. That the response contained in the Interim Director's report be ratified.

<u>Reasons for Decision</u>

36.1 To ensure that the Duty to Cooperate would be fulfilled;

36.2 The interests of the County Council as set out in the Corporate Plan were reflected in the North Dorset Local Plan 2011 – 26; and that the Strategy's proposals were deliverable insofar as this was dependent on the County Council in providing essential infrastructure.

Adoption of Bournemouth, Dorset and Poole Minerals Core Strategy

37.1 The Cabinet considered a report by the Cabinet Member for Environment in respect of the adoption of the Bournemouth, Dorset and Poole Minerals Core Strategy, which had, during May 2013, been examined through a series of public hearings by an independently appointed planning inspector who had subsequently made recommendations for the modification of the Plan to provide for its legal compliance and robustness. Consultation on the modifications took place during the summer of 2013, with responses to these representations being forwarded to the inspector for her deliberation in preparing the report.

37.2 The Cabinet Member for Environment summarised the extensive work on the Strategy which would form the core policy base by which specific sites would be judged. She also mentioned that the Strategy had been considered in detail by the Bournemouth, Dorset and Poole Minerals and Waste Joint Advisory Committee, and by the Environment Overview Committee at its meeting held on 23 January 2014.

37.3 The County Council Member for Portland Tophill addressed the Cabinet and highlighted the need to establish Minerals Liaison Committees. He explained that this process was being followed in Portland as most of the quarrying had been built in and around estates which presented difficulties in respect of rights of way, health and enjoyment of the coast line. The Cabinet Member for Environment welcomed the proposed Committee, but also confirmed that this related more to the next stage when specific sites were being developed.

RECOMMENDED

38.1 That the County Council be recommended to adopt the Bournemouth, Dorset and Poole Minerals Strategy, subject to its inclusion of the main modifications set out in the Inspector's Report;

38.2 That, subject to 38.1 above, to confirm that the date of adoption will be either 18 March 2014 or two weeks after the date of the last of the three Council meetings for Bournemouth, Dorset and Poole councils, whichever is the later;

38.3 That officers be authorised to make those additional (non-material) modifications to the Plan which were the subject of consultation, together with any other additional modifications which benefit the clarity of the Plan;

38.4 That the County Council notes that the Plan will require a resolution to adopt it by all three Councils before it is formally adopted.

Reason for Recommendations

39. To secure an up-to-date Minerals Strategy in accordance with the local Development Scheme, which would contribute to Corporate Aim 4: Safeguard and enhance Dorset's unique environment and support our local economy.

Dorset Minerals and Waste Development Scheme: Adoption of Proposed Revised Milestones

40. The Cabinet considered a report by the Cabinet Member for Environment on progress with the Dorset Minerals and Waste Local Development Scheme, which set out milestones for the Minerals Strategy, Mineral Sites Plan and Waste Plan. It was noted that the report was considered by the Environment Overview Committee at its meeting held on 23 January 2014.

Resolved

41.1 That the revised Minerals and Waste Development Scheme milestones for 2013-2016 be agreed;

41.2 That officers be authorised to insert the adoption milestone for the Minerals Strategy, on the soonest practicable date, once full adoption by all three Mineral Planning Authorities is confirmed (likely to be March 2014); and

41.3 That officers be authorised to make any changes to the local Development Scheme to account for the updated milestones.

Reason for Decisions
42. To provide an up-to-date development scheme which reflected the intended coverage of minerals and waste policies for Bournemouth, Dorset and Poole, in accordance with the Planning and Compulsory Purchase Act 2004 (as amended).

The Reconfiguration of Phoenix House, Blandford

43.1 The Cabinet considered a joint report by the Leader of the Council and the Cabinet Member for Adult Social Care on the reconfiguration of Phoenix House, Blandford as a residential care home for adults with a learning disability. It was noted that the report was considered by the Adult and Community Services Overview Committee at its meeting held on 22 January 2014.

43.2 The Cabinet Member for Adult Social Care introduced the report and clarified that the purpose of the report was to appropriately address the needs of learning disability service users with complex needs in order to provide them with the most appropriate provision, and that it was not related to the use of buildings. She further explained that it was necessary to review the provision to ensure that the best service could be provided. In consultation with service users it was noted that this would need to be done on an individual basis and that the alternative provision needed to fit the needs of the service user.

43.3 It was also explained that following the relatively recent replacement of the previous building and learning disability provision in the area, there had been a national move away from this model of residential care to alternative community provision. It was also noted that the business case for the service had been based on 90% occupancy and the reality showed 34% use of the services provided.

43.4 The Cabinet Member for Adult Social Care clarified that the Overview Committee supported the proposals, but had asked to see the results of consultation before the Cabinet consideration in May 2014.

43.5 The County Council Member for Blandford addressed the Cabinet as the local member. He expressed concern that in his view Phoenix House provided appropriate support services to users, carers and parents and that the premises had only been open less than two years. Further concern was explained that the facility had cost £4M to deliver services for specialist cases and that the recharge cost of some £680k per year was unclear. The Adult and Community Services Group Finance Manager indicated that further information would be provided for the member following the meeting.

43.6 The local member agreed that in-depth consultation needed to be undertaken with individuals, and that detailed consultation with staff was also needed. He explained that he had been contacted by users of the facility and it was the Council's duty to provide support. He felt that it would be a shame to sell a property such as Phoenix House.

43.7 The County Council Member for Colehill and Stapehill addressed the Cabinet as service users of the respite service lived within her electoral division. She informed the Cabinet that the users were extremely distressed that the facility could close. She was concerned that alternative options for the use of the building had been explored in June 2013 but the current report did not clarify the outcome of investigations into conversion of the ground floor into residential accommodation, or use of a learning disability framework provider for short term breaks. She felt that some people would not be able to go into the community to receive support.

43.8 As a result of her concerns, she asked that the issues raised be considered before any final decision was taken on the future of the building or any potential closure.

43.9 The Cabinet Member for Adult Social Care reinforced the need for the consultation exercise to take place to identify if alternative provision would be the correct course of action, and for this to form the basis of any review. She highlighted that consideration of the future of the building would only be looked at if alternative accommodation was a viable option.

43.10 The Director for Adult and Community Services confirmed that Phoenix House had been provided at a high standard, but that the national picture had changed following its completion to one that looked for an alternative to an institutional approach and promoted independent alternatives where possible. She further explained that the Department of Health was very clear that it did not expect to see this kind of building used in the future and expected the use of community based alternatives where possible.

43.11 The Cabinet Member for Education and Communications highlighted that there was a need to personalise care to provide the best and most appropriate quality of care. She felt that tailoring support to an individual's needs was achieved through a non-institutional environment. In addition, she raised concern that the communication strategy in the Cabinet Member's report was crucial to consultation and engagement but it had not yet been completed. She asked that it be completed at the earliest opportunity, and include the relevant timescales.

43.12 The Chairman of the County Council explained that a service user lived within his electoral division who he had reassured, and had explained that considerable consultation would take place to look for the best outcomes for service users. He asked officers to ensure that the future service needs be taken into account as this particular user would most probably escalate to full time support in the next few years. The Cabinet Member for Adult Social Care confirmed that this would be reflected in the consultation and assessment of needs.

43.13 The County Council Member for Wareham expressed her support for the retention of the services provided by Phoenix House and informed the Cabinet of the distress caused to a resident in her electoral division as a result of the potential closure. She asked that provision should be made for individuals to address their complex needs.

43.14 The Leader of the Council thanked all members for their contributions and reiterated the need to carry out a review in a transparent way, and for the communications plan to be suitably completed to provide information for users, carers and staff about the steps to be followed throughout the consultation process.

Resolved

44.1 That consultation be undertaken with service users and families on the proposed closure of Phoenix House and the nature of alternative provision;
44.2 That individual service user reassessments be carried out to determine alternative provision;
44.3 That consultation be undertaken with staff and Trades Unions on the impact of the closure proposal;
44.4 That the outcome of the consultations and future recommendations for Phoenix House be reported back to the Adult and Community Services Overview Committee in April 2014, and to the Cabinet in May 2014; and
44.5 That subject to the decision to close Phoenix House following consultation that the property be disposed of on the terms to be agreed by the Director for Environment.

Reason for Decisions
45. The proposal to close Phoenix House contributed to the County Council's aim to protect and enrich the health and wellbeing of Dorset's most vulnerable adults and to provide innovative and value for money services.

Questions from Members of the Council
46. No questions were asked by members under Standing Order 20.

Meeting Duration: 10.00am – 11.30am

ANNEXURE 1

Cabinet

Dorset County Council

Date of Meeting	3 February 2014
<u>Cabinet Member</u> Robert Gould – Cabinet Member for Corporate Resources <u>Lead Director</u> Paul Kent – Director for Corporate Resources	
Subject of Report	**Medium Term Financial Plan and Budget 2014/15 to 2016/17**
Executive Summary	This report provides the final update on the major national and local issues facing the County Council and how they affect the 2014/15 budget and financial planning for the next three years. The Cabinet meeting on 18 December 2013 agreed the basis on which further development of the budget for 2014/15 and the financial plan for the following years should continue, subject to clarification of the detail in the Local Government Finance Settlement (the Settlement) which was received on the day of the meeting. The Provisional Settlement figures (final Settlement figures should be received in early February) were broadly in line with our budget assumptions for 2014/15, so no change to our budget strategy is required. However, the position for 2015-2017 changed quite significantly and this paper provides an update on the funding changes and risks still inherent in some of those funding streams. The Forward Together Programme totals are also impacted by the changes announced in the Settlement. Until now we have been working to a three-year savings target of £47M but the changes announced in the Settlement, reduced this to just over £43M. More detail on the changes is given in this paper. Our budget and financial planning for the next three years still

	assumes increases in Council Tax of just under 2%. We still await a formal announcement of referendum limits for Council Tax increases, though rumours abound of the limit being reduced from 2% to 1.5% or even lower, and that this could be complicated yet further by application of different limits to different types of authority. There is also concern that Government might consider specific action against Authorities that have consistently increased Council Tax by marginally less than the referendum limit. It is unlikely that Dorset County Council will fall into this category, despite this year's proposed 1.99% increase, having frozen Council Tax for the past three years. On 18th December, Cabinet was advised of a budget gap of £2.4M for 2014/15. Since then, indications from the billing authorities of the likely taxbase for 2014/15 are that it has increased beyond our budgeted assumptions and that there would also be a surplus on the collection funds. In addition, it will be agreed that some of the Public Health Grant will be made available for County Council Services as part of the transfer of Public Health to Local Authorities. All of this means that the budget gap has closed to around £0.5M. The Director for Corporate Resources (Chief Financial Officer) has confirmed that he is comfortable, this year, to fund this from contingency, general balances and reserves as part of the Council's transformation. A balanced budget has therefore been achieved at this point, although changes to the referendum limit may need further action. The December Corporate Performance Management Information (CPMI) shows that the Council predicts its final outturn to be very close to budget for 2013/14. However, this overall position masks underlying overspends in key service budgets as follows: Adult & Community Services £2.1M Children's Services £2.6M Environment £1.4M These figures in themselves are still only part of the story, as they include elements of one-off funding which reduce the *structural* overspend as we cannot count on the funds in the base budget. There is also the current year overspend (over and above one-off funding) to consider which again, is not addressed in the budget. Such one-off funding includes £0.8M from Children's Services in addition to the reported overspends on SEN/COOS transport (£0.8M), independent sector placements (£2.1M) and fostering and adoption (£0.6M). In the Environment Directorate, £0.8M of measures has been agreed in Dorset Passenger Transport to reduce expenditure, so the structural overspend is in the region of £0.6M. In Adult and Community Services, vulnerable budgets are under severe pressure with overspends in Leaning Disability (£3.1M), Older People Residential Care placements (£1.8M) and domiciliary care (£0.5M) due to demand for services and are

	already projected to be over-committed at the start of 2014/15. It is estimated that this base budget pressure is currently around £3M to £4M though this has been mitigated by one-off funding in 2013/14 of £1.1M. Further thought will need to be given to how the Council addresses this base budget issue. It is anticipated that Pathways to Independence will address some part of the base budget problem but not all of it. These overspends are offset by underspends in corporate areas, such as interest receivable/payable and transfers from reserves. A number of actions are also still in train to reduce the anticipated overspend in service budgets this year (the predicted overspend has reduced by £2.4M since August).
Impact Assessment:	Equalities Impact Assessment: This high level update does not involve a change in strategy. As the strategy 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 budget position and funding changes for 2014/15 and the following two years.
	Risk Assessment: Major risks that influence the development of the financial strategy include: • views taken on changes in grant funding, inflation rates, demographic and other pressures and income from Council Tax; • success in delivering the savings anticipated from the Forward Together programme; • judgement of the appropriate level for reserves, balances and contingency, to minimise the risk of an unmanageable overspend without tying up funds unnecessarily • pressures arising in 2013/14 that had not been factored into the budget and the Authority's expected ability to deal with them, either through temporary measures in the year, or as permanent measures having a longer-term impact • late changes to the referendum limits, meaning a referendum would be necessary for the assumed Council Tax increase

	• the continuing impact of the Academies programme and the risk of schools with significant deficits becoming sponsored Academies through adverse Ofsted outcomes. Having considered the risks in this paper, using the County Council's approved risk management methodology, the level of risk for 2014/15 has been identified as: Current Risk: MEDIUM Residual Risk: LOW Members should be aware that whilst this level of risk is assessed for the first year of the MTFP, there is still considerable risk associated with getting to a balanced budget position for 2015/16 and a further escalation in 2016/17. The Forward Together paper presented to 15 January Cabinet was assessed as a HIGH current risk and this must also be assumed to apply to 2015/16 and beyond for the Authority's MTFP.
	Other Implications: None.
Recommendation	The Cabinet is asked to consider the contents of this report and (i) consider the risks associated with the structural budget deficit which is not covered in the budget strategy; (ii) consider the service issues and risks associated with the savings approved in Appendix 5 to the 18th December 2013 Cabinet paper, and the feedback from Overview Committees and other sources concerning these; (iii) note the overall impact on the contingency budget for 2014/15 as a result of the current budget strategy; (iv) confirm or revise the Council Tax increase to be applied in 2014/15 of 1.99% and 2% for subsequent years, for planning purposes; (v) recommend to the County Council: a) the revenue budget strategy for 2014/15 to 2016/17 b) the budget requirement and precept for 2014/15 c) the position on general balances and reserves; (vi) agree the changes proposed in para 7.5 to raise the limits for maintenance of the authority's balances; (vii) require the Director for Corporate Resources (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 2014/15.
Reason for Recommendation	To enable work to continue on refining and managing the County Council's budget plan for 2014/15 to 2016/17 and beyond.
Appendices	Appendix 1 - CPMI for December 2013 Appendix 2 - Summary of budget changes in the MTFP Appendix 3 - Summary of Forward Together targets

	Appendix 4 - Summary of BWG proposals Appendix 5 - Provisional budget and precept summary 2014/15
Background Papers	Society of County Treasurers' briefing papers Spending Review 2013 CPMI for October 2013 MTFP updates to Cabinet 17th July 2013, 6th November 2013, 18th December 2013 Chancellor's Autumn Statement 2013 Provisional Local Government Finance Settlement 2014/15 and 2015/16
Officer Contact	Name: Jim McManus, Chief Accountant Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

1. Background

1.1 The Medium Term Financial Strategy (MTFS) 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 fourth and final of the year to update Members on the current financial position and the forecast for the next three years.

1.2 When Cabinet considered the budget strategy in December 2013, it agreed that proposals for savings in 2014/15 put forward by the Budget Working Group be adopted as the basis for consultation and further development. It further agreed that the detailed budget be prepared on the basis of a 1.99% increase in Council Tax rather than taking a further round of CT Freeze Grant. The difference between Freeze Grant at 1% and a 1.99% increase in Council Tax is around £1.9M.

1.3 Cabinet is now 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 the provisional Settlement from the Government, including continued availability of CT Freeze Grant;
- the present national economic situation and the Government's adherence to the fiscal tightening strategy and extension of the austerity programme to bring the national budget back to balance;
- advice and information issued by the Government, including the report of the Spending Review published in July 2013 and the Chancellor's Autumn Statement issued in December 2013;
- 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 response of the Overview Committees that met in January to the draft strategy and savings proposals;
- the feedback from public and business consultation;
- the risks associated with reducing funding for current services or not addressing budget pressures;
- the position regarding reserves and balances;
- the likelihood that a referendum will be required if the Council wishes to raise the council tax by more than 1.99% in 2014/15 and the possibility that the threshold might well be set lower than this in future years;
- the turbulence in funding and associated risk that will arise in 2014/15 onwards, particularly from the localisation of business rates.

2. Provisional Local Government Finance Settlement

2.1 The provisional Settlement for 2014/15 and 2015/16 was published on 18 December 2013, the same day as the Cabinet meeting considering the previous MTFS update report. The final Settlement is expected in early February.

2.2 The headline figures for Dorset for 2014/15 were broadly in line with our budget assumptions, but a summary of the main changes in the Settlement are set out below, along with our own extrapolation of 2016/17 figures.

	2014/15 £M	2015/16 £M	2016/17 £M
Budget gap reported at 18 Dec Cabinet	(2.4)	(8.5)	(19.6)
Settlement Funding Assessment		(2.2)	(3.7)
Education Services Grant	0.2		
S31 Grant for 2% Business Rates cap	0.4		
Council Tax Freeze Grants "baselined"			7.0
Budget gap as a result of Settlement changes	**(1.8)**	**(10.7)**	**(16.3)**

2.3 As well as these more significant items, there were also announcements regarding changes in other areas, such as the New Homes Bonus scheme, where we had previously assumed that a portion of the Authority's Grant could be lost in top-slicing for the Single Local Growth Fund. These changes are not all identified here in detail, but are set out in Appendix 2 where a complete picture of all the changes is provided.

2.4 The Council's response to the Consultation on the Provisional Settlement endorsed that of the Society of County Treasurers and stated our concerns about the continuing delay to the announcement of the Council Tax increase referendum limits. There has been widespread reporting and rumour that the cap could be reduced from 2% to 1.5% or even further but Government is still silent on the issue.

2.5 In its response to the Provisional Settlement Consultation, the Society of County Treasurers focused on several key points; all supported by Dorset:

- acceptance that the Settlement must follow the Autumn Statement, but concern that this year the consultation period is only 17 working days, again, spanning the festive period
- positive feedback for the way in which the Settlement information had been posted to the gov.uk website in a much more user-friendly and accessible way
- the decision not to transfer any portion of the New Homes Bonus funding into the Single Local Growth Fund
- support for the Government's plans to help businesses subject to the 2% cap on business rates being fully funded by Central Government
- concern over the spending power calculation and its presentation to the public; it is misleading and Government should instead explain to Council Tax payers the difficulties being faced by Local Authorities
- disappointment with the proposal to remove funding from Authorities to compensate the Treasury for loss of revenue as a result of falling out of the Carbon Reduction scheme
- alarm over the ending of the Local Welfare Provision grant in 2015/16
- support for the Government rolling-in Council Tax Freeze Grant to baseline funding
- concern over the impact that there is no plan to review baseline funding levels for the business rates retention scheme until 2020 and that this could unfairly disadvantage

certain equality groups, such as older people, who are heavily reliant upon local authority services

- extreme concern over the late date on which referendum limits will be announced; this may be too late for some Authorities as budget discussions will be too far advanced.

3. Update financial position

3.1 As noted, Appendix 2 sets out details of the main inputs to the budget and MTFP process. A summary of the three-year position is set out in the table, below.

Provisional budget summaries for 2014-15 to 2016-17

Assumed council tax increase		*1.99%*	*2.00%*	*2.00%*
Band D equivalent tax		*£1,191.51*	*£1,215.36*	*£1,239.66*
		2014-15	2015-16	2016-17
		£M	£M	£M
Previous year's budget		273.2	272.2	265.4
Base adjustments re grants and one-offs etc		-0.4	0.0	-0.0
		272.8	272.2	265.4
Move in specific grants applied as general funding		2.6	1.8	0.8
Commitments provided for:				
- Resource Allocation Model		6.7	7.8	7.8
- Other central commitments		0.4	2.6	3.4
- Reduce provision for pay award to 1%		-0.6	-1.6	
Total budget requirement before savings		**282.0**	**282.7**	**277.4**
Estimated budget available		**272.2**	**265.4**	**261.1**
Savings required	(3-year total: -43.3)	-9.8	-17.3	-16.2
Savings found by:				
- Meeting Future Challenges 2011/12 prog		-1.4		
- Budget Working Group proposals		-8.3	-6.3	
- Use of contingency, reserves, balances		-0.1		
- Remainder still to be found to avoid scaling		-0.0	-11.0	-16.0

3.2 Although we have now achieved a balanced budget for 2014/15, we have not yet resolved the structural budget overspend arising in front-line service budgets in 2013/14. The most significant of these are set out in executive summary and are not repeated here in detail. This makes it difficult to be certain that the savings targets set for the Forward Together Programme will be sufficient to balance the budget in future years. Both areas continue to have major risks for the Authority's future financial position and must be managed extremely robustly.

3.3 As mentioned elsewhere in this report, considerable uncertainty still exists over the actual yield the Authority will achieve from the business rates retention scheme. 2014/15 is the first year in which the scheme is in full operation and in which the impact for the Authority will be real. It could of course, be positive as well as negative, but unlike its predecessor scheme, the risk now lies with Local Authorities rather than with central Government.

3.4 In addition, Billing Authorities also have until late January to agree their local schemes for Council Tax support. Changes could impact on the County Council and the timing would be such that it would too late to factor them into the Budget Strategy. In the short-term, this would need to be met from the contingency budget and/or reserves and balances.

4. Council Tax strategy

4.1 Funding for a further Council Tax freeze in 2014/15 and 2015/16 was announced in SR2013. Authorities that freeze or reduce their Council Tax bills will receive a grant equivalent to a 1% increase on 2013/14 Band D Council Tax levels. However, there is no guarantee that this 1% increase will become part of the base budget funding as it is currently being offered only for 2014/15 and 2015/16.

4.2 When it met in December, Cabinet agreed to pursue a Budget Strategy of a 1.99% increase in Council Tax for 2014/15 and a 2% increase for the following 2 years. The council tax referendum limit was 2% for 2013/14 and our working assumption has been that this will be the same across all years of the Medium Term Financial Plan. However, there is still considerable uncertainty and risk, that this figure will be reduced or that Government will find some other punitive device to deal with Authorities that have increased Council Tax at a rate which is marginally below the referendum limit.

4.3 If Freeze Grant were to be considered as an option for future years, or if a cap or other device to restrict Council Tax increases were to be implemented, the impact for Dorset would be around £1.9M for each 1%.

5. Feedback from January Overview Committees and other Service considerations

5.1 In December, the Cabinet agreed the savings measures set out in Appendix 5 of the MTFP update paper and asked Overview Committees to consult on taking these measures forward. Overview Committees debated those items at their meetings during January. There were some general concerns around possible delays in achieving some of the savings, but other than this and the risks set out elsewhere in this report, there were no specific comments to feed back. The list of measures is also set out again in this paper as Appendix 4.

5.2 As well as these concerns, which Cabinet agreed to consider as part of its overall deliberations on the Budget Strategy, the base budget concerns set out in the executive summary are also are highlighted for Members' attention. These are not dealt with anywhere else in our Strategy other than the actions which Directors and managers have in hand to reduce and keep down the overspend in 2013/14. Unless they are resolved in some way, they continue to pose a structural, financial risk for us in the future.

5.3 Appendix 1 shows the December forecast of outturn for the Authority, but this includes some one-off funding, which must be taken into consideration when determining the size of the structural budget overspend in 2013/14.

6. Forward Together position

6.1 The Forward Together report taken to Cabinet on 15th December set out the key projects intended to address the budget shortfall over the MTFP period. It quotes a figure of £47M as the target for savings required. Having worked our way through the detail of the Provisional Settlement, and as can be seen from the table at 3.1, the revisions to the funding assumptions mean that our working total for savings has reduced to £43.3M.

6.2 The paper also pointed out, at para 6.3, that one of the risks associated with management of the programme alongside the budget, was the accurate capture, recording and reporting of costs and savings. To this end, Appendix 3 sets out a comprehensive picture of where we are. The figures that have been incorporated into the budget/MTFP are clearly annotated as being secured (marked as being in the BWG savings); those within the programme but not yet included in the MTFP are unsecured. It is also important to note, however, that there is still no guarantee that these savings will be *achieved*.

7. Contingency, reserves and balances

7.1 The 2013/14 base budget for the contingency fund was £2.9M. There has been the usual range of calls on contingency this year eg carbon permits, £0.3M; Superfast Broadband top-up, £0.3M; contribution to Better Together, £0.3M and provision for redundancies of around £1M. However, there have also been payments back into the fund; items such as the write-back of previous impairment costs of Icelandic bank deposits (£0.8M), LACSEG refund (£0.3M) and outcomes from the new funding arrangements for vehicles (£3M) mean that our latest forecast is that around £3M will be unspent at the end of the current year. This underspend is reported within the CPMI figures at Appendix 1. The contingency budget for 2014/15 is currently approximately £2.4M; a similar starting position to 2013/14, adjusted by the £0.5M that has been agreed to support the 2014/15 Budget Strategy.

7.2 General Balances themselves have been swelled this year, by the review of reserves that was approved by Cabinet at its 6 November meeting. The release of reserves that are no longer needed for their original purposes means that our Balances are currently forecast to close the year at around £18M. This includes the underspend on contingency shown above.

7.3 As yet there have been no requests to carry forward projected underspends from 2013/14. It is my recommendation to Cabinet that it is far too early to consider any such requests given the progress that must be made with the Forward Together programme over the next three years.

7.4 The County Council's strategy in respect of General Balances was established following a review in December 2004. It was agreed that the definition of gross spending for the purpose of calculating the level of balances should comprise the gross capital and revenue budgets plus the amount of outstanding borrowing. This will be around £1bn in 2014/15. The framework for assessing the level of balances was agreed as follows:

Absolute Minimum	Operating Range	Maximum
0.6% of gross spend	0.8% to 1.4% of gross spend	1.6% of gross spend
£6.0m	£8.0m to £14.0m	£16.0m

7.5 From a historical perspective, we are therefore anticipating our balances being above the maximum level that we would maintain. However, as we have already noted elsewhere, there is significant risk around the savings that are to be delivered from the Forward Together programme. It is therefore my recommendation that the framework for assessing levels of balances is revised upward as follows:

Absolute Minimum	Operating Range	Maximum
0.8% of gross spend	1.0% to 2.0% of gross spend	2.5% of gross spend
£8.0m	£10.0m to £20.0m	£25.0m

7.6 The level of earmarked reserves is reviewed after the accounts are closed each year. At the end of 2012/13, our reserves ran to £56M in total, with £22M of this being unspent grant that is needed to fund expenditure in 2013/14 (hence £34M was "true" earmarked reserves).

7.7 It is generally very difficult to predict what our reserves will be at the end of each year; much depends on the use of grant during the year and any unfulfilled conditions relating to these at the year end. After taking into account the deletion of the Medium Term Financial Strategy Reserve (£3M) and the Vehicle Replacement Reserve (£3M) already approved by the Cabinet, it is estimated that our reserves will be around £30M at the end of 2013/14. Since reserves are largely earmarked for specific purposes e.g. the Insurance Fund, PFI etc. there is very little scope for further reduction in 2014/15, although the level of reserves will continue to be kept under review.

8. Consultation and equality matters

8.1 In previous years, the Council's primary route for consultation with the public has been through the Citizens Panel and through our web-site dorsetforyou.com. There is also a statutory requirement to consult with the business community.

8.2 This year, details of the draft revenue and capital budget proposals have been posted on the web-site and articles on the Council's budget strategy and Forward Together programme have appeared in the local press. Detailed consultation with service users and other stakeholders is taking place in respect of the individual proposals for savings set out in Appendices 3 and 4. There is also a meeting with representatives of the business community arranged for 24 January, to gain a better understanding of their priorities in preparing for the next Corporate Plan.

8.3 The Peer Review in July 2013 pointed to the need to undertake more meaningful engagement and consultation with residents. To that end a programme of engagement with local residents is planned for this Summer in order to set out the issues facing the council and encourage a dialogue with residents over priorities for services in future years. The Leader and Chief Executive will also be holding meetings with staff and partners across the county to listen to their views. This will in turn influence development of the Council's Corporate Plan and budget priorities for 2015/16 and beyond.

8.4 Specific comments on the savings proposals from the overview committees are set out elsewhere on this agenda.

8.5 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.

9. Risk assessment

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

- the possibility of a referendum being required in 2014/15 or beyond to achieve the 1.99% increase in Council Tax assumed within the MTFS as this may be excess of the referendum threshold (which is still unconfirmed at the time of writing);
- the possibility of the Forward Together programme failing to deliver the level of savings that is required over the next three years, or that the programme needs additional investment to realise the savings that have been identified ;
- the economic position fails to sustain or improve upon recent positive performance and predictions and further austerity measures are taken which impact further on our funding;
- the structural budget overspend which managers are still trying to deal with in 2013/14 is not eradicated and this immediately places additional strain on resources in 2014/15 and beyond;
- the impact of more schools becoming academies, both from the perspective of the Education Services Grant adjustment and the fragmentation and financial impact that would result for the services and support to the remaining schools. There is also the continuing risk that some schools with significant deficits proceed down the Sponsored Academy route and leave the Local Authority to pick up their deficits;
- continuing risks from the Business Rates Retention scheme as the changes in the business rate yield, through empty properties, appeals and changes of classification will directly affect funding from 2014/15;
- Public Health – some continuing uncertainty of the costs and contracts that come across to the County Council and risks associated with being the hosting authority for Poole and Bournemouth Borough Councils;
- the impact of the new Single State Pension on the current national insurance contracted out rebate. This is currently estimated to cost the Authority £2.2M from 2016/17 but more details are needed to firm up these figures;
- 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, A financial model is being developed nationally to assess the financial impact of the proposed reforms, this risk has been identified and included on the Corporate Risk Register;
- Better Care fund – there are risks that plan that is agreed with health partners does not deliver the savings in line with our funding reductions to ensure that Adult Social Care is protected (a national condition), and the performance outcome targets are not reached which will mean a reduction in funding. This will mean a recovery plan will need to be required that could mean extra resources.

10. Statutory declarations

10.1 Section 25 of the Local Government Act 2003 requires all Financial Officers with ‘Section 151’ responsibilities to make a statement with regard to 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’’.

10.2 There is also a range of 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.

10.3 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 in 2013. Under the scheme, managers are required to identify savings to offset overspends elsewhere on budgets for which they are responsible.

10.4 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 not appropriate or affordable always to increase budgets in line with an overspend in the previous year. A reasonable degree of challenge to manage within the resources available is sometimes necessary, and monitoring of expenditure, in order to take corrective action if necessary, is particularly important during a time of budget reductions.

10.5 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 on the intranet. This includes detailed information on the ''Top 20 Budgets'' and Cost Centre expenditure against budget, which is updated on a monthly basis.

10.6 Technical aspects of the budget process applied for 2014/15 have been similar to recent years. The Resource Allocation Model (RAM) again provides a robust mechanism 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.

10.7 Member involvement in budget development has been exercised particularly through meetings of the Informal Cabinet. Senior members and officers worked successfully with Directors to bring forward proposals for consultation that would balance the budget in 2014/15. An all-member briefing was held in mid October and after the Cabinet meeting on 18 December. Portfolio Holders have taken a lead on all budget proposals presented to the Cabinet and the overview committees. A further briefing will be held after this Cabinet meeting (exact timing to be confirmed) to ensure that all members are fully informed before the County Council determines the budget and precept on 13 February.

10.8 In addition to the above and discussions at Committees, Members have had access to the three earlier, detailed budget reports which have provided the national and local context for the medium term financial plan and budget strategy. Development of the budget strategy has also been covered in meetings of the Audit and Scrutiny Committee.

10.9 Taking all these factors into consideration, I consider 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. Close monitoring will be required during the year and prompt corrective action must be taken whenever planned savings are not being delivered.

Paul Kent
Director for Corporate Resources
January 2014

Appendix 1

Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year 2013-14 '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						
Non-Schools Budget						
Children's & Families	Vanessa Glenn	27,199	29,139	(1,888)	(1,769)	(1,940)
Joint Commissioning	Anne Salter	6,019	6,014	(41)	(9)	4
Other Services (Non Schools Budget)		1,910	1,848	44	62	62
Early Intervention Services	Vanessa Glenn	10,496	10,310	71	223	186
Learning and Inclusion services	Helen Squibb	5,778	5,894	(73)	(83)	(115)
Total Non-Schools Budget		51,402	53,205	(1,886)	(1,576)	(1,803)
Schools Budget						
Learning and Inclusion Services (Schools Budget)	Helen Squibb	22,665	21,369	1,300	1,272	1,296
Commissioning and Schools Central Budgets	Anne Salter	2,723	2,304	249	311	419
Early Intervention Services (Schools Budget)	Vanessa Glenn	11,977	11,877	(64)	(68)	100
Children's & Families -	Vanessa Glenn	95	95	0	0	0
Total Net Central Expenditure		37,461	35,646	1,485	1,516	1,815
Dedicated Schools Grant		(228,926)	(228,926)	0	0	0
Delegated Schools Budgets		200,097	196,416	5,099	5,450	3,681
Schools Budget Total		8,632	3,136	6,584	6,965	5,496
DPT Transport costs - SEN/COOS						
DPT Transport costs - SEN/COOS		6,689	7,512	(793)	(823)	(823)
Children's Services Total (including DPT Transport excluding Schools)		58,090	60,717	(2,679)	(2,399)	(2,626)
Adult & Community Services Directorate						
Specialist Adult Services	Glen Gocoul	34,779	38,457	(3,857)	(3,701)	(3,678)
Adults Services	Andrew Archibald	64,937	65,338	(683)	(476)	(401)
Commissioning and Improvement	Alison Waller	12,444	10,439	1,944	2,002	2,005
Trading Standards	Paul Leivers	1,193	1,147	52	47	46
Registration Service	Paul Leivers	82	(1)	76	77	83
Emergency Planning	Paul Leivers	145	125	19	20	19
Drug Action and Community Safety Team	Paul Leivers	(56)	(137)	79	81	81
Library, Arts & Sports	Paul Leivers	5,097	5,033	61	38	64
Commununity Services	Paul Leivers	103	103	1	1	1
Archives & Museums	Paul Leivers	499	500	1	0	(0)
Adult & Community Services total (excluding DAL & Public Health)		119,222	121,003	(2,309)	(1,912)	(1,781)
Dorset Adult Learning - Trading Account						
Dorset Adult Learning	Paul Leivers	1	323	(300)	(311)	(322)
Dorset Adult Learning - Trading Account		1	323	(300)	(311)	(322)
Public Health						
Public Health	David Phillips	0	0	0	0	0
Public Health		0	0	0	0	0
Adult & Community Services total including DAL & Public Health		119,224	121,326	(2,609)	(2,223)	(2,103)
Environment Directorate						
Countryside Service	Dave Ayre	2,305	2,602	(150)	(320)	(297)
Highways Management	Mike Winter	3,616	3,678	46	53	(63)
Highways Operations	Andrew Martin	4,608	4,748	(55)	(13)	(141)
Planning	Don Gobbett	3,218	3,176	5	42	42
Dorset Property	Mike Harries	1,990	1,990	0	0	0
County Buildings	Mike Harries	1,114	1,114	0	0	0
County Farms	Mike Harries	(502)	(502)	0	0	0
Dorset Passenger Transport	Andrew Martin	15,731	16,630	(795)	(856)	(899)
Business Support Unit	Dave Ayre	1,185	1,240	(52)	(56)	(56)
Streetlighting PFI	Mike Winter	4,753	4,753	0	0	0
		38,018	39,431	(1,003)	(1,150)	(1,413)
Corporate Resources Directorate						
Legal & Democratic Services	Jonathan Mair	3,506	3,382	112	122	123
Communications	Sally Northeast	225	212	13	13	13
Financial Services	Richard Bates	2,706	2,698	10	2	8
ICT	Richard Pascoe	5,701	5,737	(33)	(36)	(36)
Business Transformation	Richard Pascoe	1,968	1,979	(16)	(9)	(11)
Director's Office	Paul Kent	273	273	0	0	0
Human Resources	Sheralyn Huntingford	2,266	2,295	(36)	(44)	(29)
		16,645	16,576	50	48	68
Chief Executives & Cabinet						
Chief Executives	Sam Fox-Adams	741	710	32	31	31
Cabinet		3,973	3,926	59	85	47
		4,715	4,636	91	117	79
Partnerships						
Partnerships		18,883	18,942	(105)	(59)	(59)
		18,883	18,942	(105)	(59)	(59)
Central Finance						
Corporate Income and Expenditure, including Funding		(293,380)	(296,432)	3,055	3,052	3,052
Adjustments on the General Fund Balance		27,963	24,900	3,044	2,461	3,063
R&M		1,211	1,211	0	0	0
		(264,206)	(270,320)	6,099	5,513	6,115
Total Above Line Budgets		**(0)**	**(5,556)**	**6,428**	**6,813**	**5,556**
Excluding Schools Budgets		**(8,632)**	**(8,692)**	**(156)**	**(152)**	**60**

Appendix 2

MTFS 2014/15 to 2016/17	2014/15		2015/16		2016/17	
Savings Identified (updated 17 January 2014)	**£M**	**£M**	**£M**	**£M**	**£M**	**£M**
Starting position from 2013/14		-13.5		-13.1		-12.2
Changes to funding/grant levels		-1.6		-1.9		
Changes in Funding in settlement				-2.2		-3.7
TARGET SAVING		-15.1		-17.2		-15.9
1 **Children's Services**						
Time for Transformation	0.7					
Time for Transformation (£1.1M -£0.7M)	0.4					
Universal Services review (incl property)	0.0		1.0			
Other	0.2		0.4			
		1.3		1.4		0.0
2 **Adult & Community Services:**						
Learning Disability	0.5					
Integration with Health	0.0					
S75 Funding (via CCG)	1.6					
LATC - Provider Services	0.5		1.5			
Staff Re-structuring	0.5		1.0			
DAAT	0.4		0.0			
Existing Packages of Care	0.8		0.7			
		4.3		3.2		0.0
3 **Environment**						
Environment - Lengthsman/Agencies	0.1					
Public Transport - Option 3	0.1					
Highways	0.6		0.3			
Other	0.3		0.2		0.2	
		1.1		0.4		0.2
4 **Corporate Resources**		0.8		0.1		
5 **Chief Execs**		0.1				
6 **Public Health**				0.4		
Public Health		0.5				
7 **Waste Partnership**		0.6				
Waste Partnership				-0.3		0.2
8 **Central/Corporate**						
Use of Reserves & Vehicle Financing (revenue effect)	0.2					
Capital Financing	1.6					
Contingency	0.0		1.0			
Interest Receipts	0.5					
Net inflation adjustment for 2014/15 only	0.7					
RCCO	1.0					
Shortfall so far in Forward Together savings	-0.2					
Voluntary Redundancies	0.5					
Savings from improved management of attendance	0.3					
Increase in employer's pension costs	-0.3		-0.3		-0.3	
Increase in Council Tax Base	0.7					
Collection Fund Surpluses	0.6					
Second homes	0.2					
Carbon Reduction	0.2					
Education Services Grant changes	0.2					
S31 Grant for 2% cap to Business rates increase	0.4				-0.4	
New Homes Bonus changes	-0.1		0.3		0.2	
		6.5		1.0		-0.5
Residual Gap		**0.0**		**-11.0**		**-16.1**

Identified in 6 November 2013 Cabinet paper
Identified in 18 December 2013 Cabinet paper
Identified since 18 December 2013 Cabinet paper
Base budget implications

Appendix 3

Forward Together Projects and BWG proposals

				2014/15	2015/16	2016/17		
				£	**£**	**£**		
	RESIDUAL BUDGET GAP AFTER AGREED PROPOSALS			0	11,000,000	16,000,000		
Project Ref No for Appendix 4	**Project**	**Service**	**Portfolio Lead/Director**	**£**	**£**	**£**	**£**	
1	Time For Transformation	Children's services	Rebecca Knox, Toni Coombs and Sara Tough	644,300	400,000		1,044,300	Target Savings
				644,300	400,000	0	1,044,300	Already in BWG proposals
				0	0	0	0	Additional to be delivered
2	Review of universal services	Children's services	Rebecca Knox, Toni Coombs and Sara Tough	0	1,000,000		1,000,000	Target Savings
				0	1,000,000	0	1,000,000	Already in BWG proposals
				0	0	0	0	Additional to be delivered
3	Independent care provision	Children's services	Rebecca Knox, Toni Coombs and Sara Tough	0	0	200,000	200,000	Target Savings
				0	0	0	0	Already in BWG proposals
				0	0	200,000	200,000	Additional to be delivered
4	Pathways to Independence	Adult & Community Services	Jill Haynes and Catherine Driscoll	3,800,000	3,200,000	0	7,000,000	Target Savings
				3,800,000	3,200,000	0	7,000,000	Already in BWG proposals
				0	0	0	0	Additional to be delivered
5	Better together	Adult & Community Services	Jill Haynes and Catherine Driscoll	0	0	0	0	Target Savings
				0	0	0	0	Already in BWG proposals
				0	0	0	0	Additional to be delivered
6	Better care fund	Adult & Community Services	Jill Haynes and Catherine Driscoll	0	5,200,000	0	5,200,000	Target Savings
				0	0	0	0	Already in BWG proposals
				0	5,200,000	0	5,200,000	Additional to be delivered
7	Public Health integration	Adult & Community Services	Peter Finney and David Phillips	500,000	0	0	500,000	Target Savings
				500,000	0	0	500,000	Already in BWG proposals
				0	0	0	0	Additional to be delivered
8	Way ahead	Environment	Hilary Cox and Mike Harries	286,000	500,000	714,000	1,500,000	Target Savings
				286,000	150,000	0	436,000	Already in BWG proposals
				0	350,000	714,000	1,064,000	Additional to be delivered
9	Highway service delivery model	Environment	Hilary Cox and Mike Harries	586,000	414,000		1,000,000	Target Savings
				586,000	292,000	0	878,000	Already in BWG proposals
				0	122,000	0	122,000	Additional to be delivered
10	Holistic transport review	Environment	Hilary Cox and Mike Harries	0	500,000	1,500,000	2,000,000	Target Savings
				0	0	0	0	Already in BWG proposals
				0	500,000	1,500,000	2,000,000	Additional to be delivered
11	One council	All	Robert Gould and Paul Kent	0	1,500,000	2,500,000	4,000,000	Target Savings
				0	0	0	0	Already in BWG proposals
				0	1,500,000	2,500,000	4,000,000	Additional to be delivered
12	One county	All	Spencer Flower and Debbie Ward	0	200,000	300,000	500,000	Target Savings
				0	0	0	0	Already in BWG proposals
				0	200,000	300,000	500,000	Additional to be delivered
13	Existing savings programmes	All	Robert Gould and Paul Kent	1,358,300	178,000	2,263,700	3,800,000	Target Savings
				1,358,300	0	0	1,358,300	Already in BWG proposals
				0	178,000	2,263,700	2,441,700	Additional to be delivered
14	Whole authority operating strategy	All	Spencer Flower and Debbie Ward	1,501,900	3,000,000	10,098,100	14,600,000	Target Savings
				1,501,900	50,000	0	1,551,900	Already in BWG proposals
				0	2,950,000	10,098,100	13,048,100	Additional to be delivered
				8,676,500	16,092,000	17,575,800	42,344,300	Target Savings
				8,676,500	5,092,000	0	13,768,500	Already in BWG proposals
				0	11,000,000	17,575,800	28,575,800	Additional to be delivered

Appendix 4

Budget Working Group

Summary of savings identified 2014/15

	Description/Impact	Forward Together Project Reference (from Appendix 3)	2014/15 £	2015/16 £	2016/17 £
Chief Executive					
Chief Executive's Office	Reduce unplanned expenditure. **Risk: Low:** but reduced ability to respond to ad-hoc requests e.g. consultancy support / new initiatives.	14	10,000		
Civil Society	Reduce grants pot available to voluntary and community sector organisations to £282,000. **Risk: Low:** some reduced ability of voluntary / community sector to mitigate impact of public sector cuts.	14	30,000		
Corporate Management	Make "Your Dorset" publication self financing. This may involve distribution via e-bulletin rather than hard copy. **Risk: Low**	14	54,400		
	Reduce budget for corporate subscriptions. **Risk: Low**	14 14	10,000		
	Forego the inflation uplift on budgets for 2014-15. **Risk: Low**	14	16,500		
	Total		**120,900**	**0**	**0**
Corporate Resources					
Coroners	Base budget reduction to reflect savings realised on existing contracts. **Risk: Low**	14	50,000		
Financial Services	Use of insurance funds/reserve (including insurance section staff charged to the fund). **Risk: Low**	14	200,000		
	Restructure of Financial Services including budgeting and budget monitoring efficiencies. **Risk: Medium:** further reduction in capacity whilst finance support in significant demand.	14	50,000		
	Increase the budgeted level of procurement contract rebates in line with historic trends.	14	50,000		

Legal and Democratic Services	Members expenses – removing some areas of consistent underspend within the budget. **Risk: Low**	14	10,000		
	Reduction in printing through replacement of Commis and use of mobile devices by members. **Risk: Low**	14	20,000		
	Members' expenses – review of allowances. Risk: Medium: currently subject to independent review	14	10,000		
	Legal Services - assume a higher level of ad hoc income in line with historic trends. **Risk: Low**	14	20,000		
IT and Business Transformation	ICT staffing (not replacing certain posts). **Risk: Medium:** high demand on ICT at present	14	136,000		
	Additional income from Poole BC for use of DPSN and Hampshire CC for DR. **Risk: Low**	14	20,000		
	Lower support costs from replacement of backup and storage technology. **Risk: Low**	14	135,000		
	Reduction in staff capacity from efficiency improvements. **Risk: Low**	14	20,000		
Communications	Assume a higher level of ad hoc income in line with historic trends. **Risk: Low**	14	10,000		
Human Resources	Review of transactional processes using service design methodology, development of e-forms and automation of manual processes. **Risk: Medium:** technology may limit automation of processes, conflicting priorities, review of processes may not deliver anticipated savings	14	50,000	50,000	
	Total		**781,000**	**50,000**	**0**
Adult & Community Services					
Adult Social Care: Pathways to Independence	*Note : These proposals have already been considered and agreed at a special Adult and Community Services Overview Committee on 2 December 2013*				
	Increase in section 75 funding agreed with CCG. **Risk: Low**	4	1,600,000		

	Development of a Local Authority Trading Company (LATC) for a range of in-house provider services that deliver residential, nursing, respite, day care and reablement services. This will have the ability to raise income from self funders and other Authorities and will enable savings to be achieved from the current budget. **Risk: Low**	4	500,000	1,500,000	
	Staff restructuring across the directorate. **Risk: Low**	4	500,000	1,000,000	
	Review existing packages of care. **Risk: Medium**	4	800,000	700,000	
Drug and Alcohol Team	Funded by the Public Health Grant – agreed in the legal agreement. **Risk Low**	4	400,000		
	Total		**3,800,000**	**3,200,000**	**0**
Children's Services					
Whole Directorate	Time for Transformation – organisational design to put in place a tighter and 'narrower' structure which provides a more integrated approach to the delivery of services for children and young people and takes account of the changing relationship with schools, whilst also delivering savings (sum in excess of £700,000 already in budget strategy). **Risk: Medium**	1	375,000		
	Parenting Programme. **Risk: Low**	1	35,000		
	Buildings revenue budget reduction. **Risk: Medium**	1	50,000		
	Advisory service – consultants costs. **Risk: Low**	1	25,300		
	Joint working with Bournemouth & Poole on Youth Offending Team. **Risk: Low**	1	34,000		
	Review of business and administration and also increase to trading target. **Risk: Low**	1	75,000	150,000	
	Youth Opportunity Fund. **Risk: Low**	1	50,000		
	Aspirational targets from further work on universal services, further integration of service delivery and extending trading. **Risk: High**	2		1,000,000	
	Further integration of service delivery. **Risk: Medium**	1		250,000	
	Total		**644,300**	**1,400,000**	**0**

Environment					
Countryside and Business Support	Advertising and Sponsorship Income – appointment of a company to sell sites. **Risk: Medium** / **High:** based upon experience to date	8		50,000	
	Review of Integrated Countryside Service. **Risk: Low**	8	50,000	50,000	
Highways: Grounds Mtce	Implementation of new management regime. **Risk: Low**	8		50,000	
Highways Management	Reduction from two to one Heads of Service. **Risk: Low**	9	29,000	87,000	
Highways Improvements & Systems	Further savings through implementation of new Highways Management System. **Risk: Low**	9	25,000	25,000	
Developer-related Infrastructure	Further saving in street lighting energy due to roll out of part-night burn policy. **Risk: Low**	9	100,000	75,000	
	Conversion of illuminated bollards to LED lamps (Investment to save funded by Street Lighting Sinking Fund). **Risk: Low**	9		25,000	
Bridge Management & Structures	Capitalise 6-yearly Principal Bridge Inspections in line with many other LHAs. **Risk: Low**	9	4,000		
	Senior Technician to spend more of his time covering vacancies in Structures Team on capital funded project work. **Risk: Low**	9		10,000	
Strategy & Community Liaison	Make permanent the 0.5fte secondment of DHO Pavement Management Engineer to cover vacant full time Dorset Highways Asset Manager role - 0.5fte saving. **Risk: Low**	9	25,000		
Traffic Management	Saving through return of Traffic Engineering element of Christchurch Highways Agency. **Risk: Low**	9	30,000	30,000	
	Reduction in Dorset Strategic Road Safety Partnership funding to level of Bournemouth and Poole combined - as past of a move to Partnership becoming self financing. **Risk: Low**	9	83,000		
	School Crossing Patrols – increase threshold for approval. **Risk: Medium**	9		40,000	

Dorset Highways Operations	On Street Parking Enforcement removal of Agency. **Risk: Medium**	9	200,000		
	Restructure of Construction and Maintenance management with possible removal of post and amalgamation of Group Managers. **Risk: Low**	9	90,000		
Planning	Various staff and operational savings, including reductions in training and other whole-Division budgets. **Risk: Low**	8	35,000		
Whole Service	Review of Head of Service posts and reduce by at least 1. **Risk: Low**	8	106,000		
	Deletion of vacant posts and adjustments in hours. **Risk: Low**	8	10,000		
	Reduction in revenue funded posts (E&A Group). **Risk: Low**	8	75,000		
	Increased income from Fire Risk Assessments and renewals. **Risk: Low**	8	10,000		
	Total		**872,000**	**442,000**	**0**
Public health (not included in Appendix 5 to 18/12/2013 Cabinet paper)					
		7	500,000		
	Total		**500,000**	**0**	**0**
Existing savings programmes (not included in Appendix 5 to 18/12/2013 Cabinet paper)					
		13	1,358,300		
	Total		**1,358,300**	**0**	**0**
Partnerships					

Waste Partnership	The total estimated budget requirement includes the County Council's share of the provisional estimates for DWP for 2014/15 calculated last year. The updated estimates have been subject to a series of challenges by each Partner Council over recent weeks. They reflect the latest position on developing the partnership, particularly the success in the early tranches of the roll-out of the recycle for Dorset service which has achieved greater levels of diversion from residual waste streams than had been expected. **Risk: Low**	14	600,000		
	Total		**600,000**	**0**	**0**
	Grand Total		**8,676,500**	**5,092,000**	**0**

Appendix 5

Provisional Precept and Budget Summary 2014-15

		£
Budget Requirement: -		272,423,210
To be met from: -	Start-up Funding Assessment	81,683,804Cr
	Council Taxpayers	190,739,406
	Estimated Surplus on Collection Funds	454,743Cr
	Precept required in 2014-15	190,284,663

PRECEPTS

District Councils	**Tax Base 2014-15**	**Estimated Surplus on Collection Funds 2013-14**	**Precept 2014-15**	Tax Base 2013-14	Precept 2013-14
		£.p.	**£.p.**		£.p.
CHRISTCHURCH	19,095.00	0.00	22,752,436.65	18,857.00	22,030,444.53
EAST DORSET	36,194.00	0.00	43,126,561.52	35,828.00	41,857,494.12
NORTH DORSET	25,847.60	181,999.00Cr	30,798,422.71	25,453.00	29,736,485.37
PURBECK	18,301.55	0.00	21,807,010.05	18,333.71	21,419,090.06
WEST DORSET	40,130.30	0.00	47,816,816.37	39,965.40	46,691,177.17
WEYMOUTH & PORTLAND	20,128.10	272,744.00Cr	23,983,415.56	20,026.50	23,396,759.69
	159,696.55	454,743.00Cr	190,284,662.86	158,463.61	185,131,450.94

COUNCIL TAX

	2014-15	2013-14
BASIC AMOUNT	**£1,191.54**	£1,168.29
		1.99% increase
BAND A	**794.36**	778.86
BAND B	**926.75**	908.67
BAND C	**1,059.15**	1,038.48
BAND D	**1,191.54**	1,168.29
BAND E	**1,456.33**	1,427.91
BAND F	**1,721.11**	1,687.53
BAND G	**1,985.90**	1,947.15
BAND H	**2,383.08**	2,336.58

ANNEXURE 2

Cabinet

Dorset County Council

Date of Meeting	3 February 2014
<u>Cabinet Member</u> Robert Gould – Cabinet Member for Corporate Resources <u>Lead Director</u> Paul Kent – Director for Corporate Resources	
Subject of Report	**Asset Management Capital Priorities**
Executive Summary	The report seeks to confirm the priorities for capital spending and set the capital control totals for planning purposes for the next three years. Capital Bids for 2014/15 On 18 December the Cabinet resolved that the following new projects as set out in Appendix 2, be provisionally included in the Capital Programme 2014/15 to 2016/17:- • Whole Authority provision for business change, cost effectiveness improvements and infrastructure maintenance through ICT, • Implementation of replacement adult social care system (AIS), • Implementation of replacement Children's Social Care system (RAISE), • Implementation of replacement Library Management System, • East Dorset Civic Centre, • School's Basic Need Programme, • Hayward Main Bridge, • Schools Access Initiative (SAI), • Salt Barn - Charminster Depot, • Children's Services – Additional APT, • Assets and Workstyle Rollout County Hall (Spaces for

<table>
<tr><td></td><td>Work)

These schemes would increase capital spending by £18.938M during the period 2014/15 to 2016/17.

Last February the Cabinet also reaffirmed its previous decision to move to a new capital funding policy. This policy will limit the cost of borrowing impacting on the revenue account each year which will therefore control the overall level of borrowing. The aim of the policy is to get to a position in 2016/17 where the underlying need to borrow does not increase unless funded from other sources. This effectively limits the size of the Capital Programme to grant funding, capital receipt funding, Revenue Contributions to Capital Outlay (RCCO), plus a sum equivalent to the Minimum Revenue Provision each year.

Capital expenditure is also required to be set aside for risks arising from projects which are not as yet quantifiable and therefore not addressed in the proposed capital programme. A contingency allocation has been made to cover these risk items.</td></tr>
<tr><td rowspan="3">Impact Assessment:</td><td>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. In the event that the process, goals or priorities are revised upon review then an assessment of the impact on equalities and diversity issues is undertaken. The Asset Management Plan 2012-15 took into account the outcome of the latest consultation with the Citizen's Panel on asset management and capital investment strategy. After the Asset Management Plan was finalised equality impacts assessment were undertaken.</td></tr>
<tr><td>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
• 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.</td></tr>
<tr><td>Budget:

As members will be aware the coalition Government's Spending Review 2013 (which effectively only covered 2015/16) was</td></tr>
</table>

	published in the summer. The working assumptions for Dorset County Council's budget planning appear broadly in line with the assumptions in the Spending Review and the Cabinet received an update on the Medium Term Financial Plan at the 18 December Cabinet meeting. This year's funding position will not be confirmed until early February. A consequence of this is that assumptions will have to be made as to any potential capital funding that will be received for 2014/15 and onwards. The impact of these assumptions will be considered by the Cabinet when setting the Medium Term Financial Strategy in February. Last year it was clear that the pressure on the revenue budget to finance the capital programme had reached a critical level. The Cabinet reaffirmed its decision that due to the implications on the revenue budget of the capital programme a move towards no increase in the underlying need to borrow unless funded from other sources was agreed. Appendix 1 gives details of the current capital programme and the flexibility available to achieve the desired zero increase in revenue budget requirement by 2016/17.
	Risk Assessment: Major risks that influence the development of the capital financial 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 25% 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: LOW
	Other Implications: None.
Recommendation	The Cabinet is asked to recommend to the County Council that: (i) the revised (planning) control totals for the capital programme 2013/14 to 2016/17 as referred to in Appendix 1 be agreed subject to overall consideration of the MTFS; (ii) the projects detailed in Appendix 2 be included in the capital

	programme 2014/15 to 2016/17; (iii) the initial (£1.526M) capital receipts from the East Dorset Civic Centre scheme will need to be ring fenced to balance the over commitment; (iv) members reaffirm their agreement to achieving a policy where the underlying need to borrow does not increase by 2016/17 unless funded from other sources; (v) the Chief Financial Officer be authorised to make adjustments to the phasing of payments between years if necessary when the capital programme is finalised.
Reason for Recommendation	The available resources after taking account of committed projects are insufficient to meet all the new bids. It is therefore necessary to ring fence capital receipts from the East Dorset Civic Centre project to enable the proposal to be funded.
Appendices	Appendix 1 Capital Expenditure Estimates Appendix 2 Summary of New Capital Projects
Background Papers	Asset Management Report – Cabinet, December 2013; Treasury Management Strategy Statement and Prudential Indicators for 2013/14 – Cabinet, February 2013; Asset Management Plan 2012/2015 – Cabinet, March 2012.
Officer Contact	Name: Richard Bates, Head of Financial Services Tel: (01305) 228548 Email: r.m.bates@dorsetcc.gov.uk Name: Peter Scarlett, Estates & Assets Manager Tel: (01305) 221940 Email: P.Scarlett@dorsetcc.gov.uk Name: Tony Diaz, 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 relating to service needs, it remains necessary for there to be clear corporate priorities for capital investment. The Asset Management Group (AMG) has assessed each bid by reference to the corporate priorities in accordance with the principles contained in the Asset Management Plan 2012-15.

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 AMG against the corporate capital investment priorities as set out in the Asset Management Plan 2012-15. These are drawn from directorate statements and analysis of property performance/condition data, with reference to the strategic goals for capital investment.

1.3 The Cabinet meeting in December considered both the 'Indicative ranking' assessed against the Asset Management Plan 2012-15 and the proposed ranking provided by the Cabinet Portfolio Holder for Corporate Resources. The Cabinet Portfolio Holder for Corporate Resources explained that the bids had been ranked in accordance with the agreed criteria, but on reviewing the bids it was felt that the ranking should be amended so that more recognition was given to those bids that aligned with the aims and ambitions of the Forward Together programme.

1.4 As can be seen in Appendix 2 the Cabinet endorsed the ranking proposal submitted by the Cabinet Portfolio Holder for Corporate Resources.

2 Financial Summary and Capital Control Totals

2.1 The Spending Review 2013 (which effectively only covered 2015/16) was published in the summer and the consequences have been reported in the latest Medium Term Financial Plan. This year's funding position is expected to be confirmed in early February. A consequence of this is that assumptions will have to be made as to any potential capital funding that will be received for 2014/15 and onwards.

2.2 The approval of the revised capital control totals implies gross capital expenditure of £120.3M in 2013/14, £78.2M in 2014/15, £62.3M in 2015/16 and £48.4M in 2016/17. These control totals include utilisation of the budget flexibility on new projects. 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).

2.3 The revised control totals and anticipated commitments against them indicate that if the assumptions for 2016/17 regarding new capital financing are included this would provide a maximum of £17.412M towards new projects and requests for additional Annual Provision Total (APT). It must be remembered that the new policy reaffirmed by the Cabinet in February will limit the cost of borrowing impacting on the revenue account each year which will therefore control the overall level of borrowing. The aim of the policy is to get to a position in 2016/17 where the underlying need to borrow does not increase unless funded from other sources. This effectively limits the size of the Capital Programme to grant funding, capital receipt funding, Revenue Contributions to Capital Outlay (RCCO), plus a sum equivalent to the amount of debt repaid each year e.g. through the Minimum Revenue Provision.

3 Capital Programme – Effects of the borrowing policy

3.1 The capital programme has grown very significantly over the past decade. The estimated gross spend for 2013/14 is in excess of £120M and £78M for 2014/15.

3.2 The cost of financing this spend depends partly upon how much is funded by grants and other contributions. These stand at around £56.997M for 2013/14 and £53.780M for 2014/15. 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 which is 4% of the capital financing requirement as at the end of the previous year. There is therefore a delay of up to a year in most of the costs feeding through. This effectively means that the cost of the significant 2013/14 capital programme feeds through mainly into the 2014/15 revenue budget.

3.4 Looking forwards at the capital programme, there are a large number of schemes to which the Council is already committed (e.g. Purbeck Review, Bridport HRC, Superfast Broadband etc). It will therefore take a number of years to reduce the burden on the revenue budget without seriously affecting the existing programme.

3.5 As the Cabinet were informed last year, the capital programme for 2015/16 and beyond would still be around £40 to 45M 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, £7M DfE Schools Capital, £10M Buildings structural maintenance, £3M APTs plus around £12.5M towards other capital schemes, assuming grants remain at around the current level.

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

4 New Projects

4.1 At the December meeting of the Cabinet the projects listed in Appendix 2 represent the bids endorsed by the Cabinet which aligned more closely with the aims and ambitions of the Forward Together programme. The Cabinet also agreed to the proposal to defer consideration of an extension to the Dorset History Centre whilst other opportunities were explored.

4.2 Currently, each service area has a small annual provision, typically between £250,000 and £400,000 per annum in order to undertake minor works or improvements without reference to the Cabinet. Expenditure against these budgets is monitored by the Asset Management Group. As a result of significant pressures on the Children's Service APT's, Appendix 2 also contains a bid where additional APT is required.

4.3 In terms of the Dorchester Transport and Environment Plan, it is proposed that an update on the consultation process to date be subject to a report to the Cabinet in the near future. This will allow the Council the opportunity to assess whether the revised scheme still meets the original objectives and cost benefits proposed.

4.4 As can be seen in appendix 2 new bids total £18.938M for the period 2013/14 to 2016/17 against the available funds of £17.412M and it must be remembered that there is a further commitment of £6M for next year.

4.5 There are also risks arising from specific projects which are not as yet quantifiable and therefore not addressed in the proposed capital programme. A contingency allocation has been made to cover these risk items

5 Conclusion

5.1 As referred to in Appendix 1 if the Cabinet confirm their decision made on 18 December 2013 that the proposal submitted by the Portfolio Holder for Corporate Resources more closely aligns with the Forward Together mandate and therefore all the new bids detailed in Appendix 2 are agreed, the initial (£1.526M) capital receipts from the East Dorset Civic Centre scheme will need to be ring fenced to balance the over commitment.

5.2 The Cabinet is invited to set the final control totals as detailed in Appendix 1 and confirm their priorities for inclusion in the capital programme for 2014/15 to 2016/17.

Paul Kent, Director for Corporate Resources
January 2014

APPENDIX 1

DCC CAPITAL PROGRAMME 2013-14 to 2016/17 : EXPENDITURE ESTIMATES (GROSS)

DIRECTORATE	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000	
ENVIRONMENT	42,585	32,515	16,939	16,275	
CHILDRENS	44,664	9,257	10,720	1,160	
ADULT & COMMUNITY	3,041	779	335	335	
CORPORATE RESOURCES	10,872	12,576	10,730	5,084	
CABINET	1,258	1,924	3,195	235	
DORSET WASTE PARTNERSHIP	8,278	8,193	6,258	4,107	b
STRUCTURAL MAINTENANCE	9,572	10,321	8,510	8,260	
TOTAL	**120,270**	**75,565**	**56,687**	**35,456**	
Contingency re Risk Items	0	2,641	1,117	0	
Remaining flexibility (to meet target)	0	0	4,472	12,940	
Gross Predicted Capital Spend	**120,270**	**78,206**	**62,276**	**48,396**	
Grants / Contributions	(37,702)	(34,820)	(25,564)	(19,478)	
Unringfenced Grants	(148)	(148)	(148)	(148)	
Capital Receipts	(1,000)	(1,000)	(1,000)	(2,324)	a
RCCO	(9,869)	(8,869)	(8,869)	(8,869)	
Contribution from R&M revenue reserve		(750)	(500)	(250)	
DWP Contributions	(8,278)	(8,193)	(6,258)	(4,107)	b
Additional Capital Financing Requirement	**63,273**	**24,426**	**19,937**	**13,220**	
Borrowing Brought Forward	182,084	206,529	218,494	225,491	
MRP	(10,844)	(12,461)	(12,940)	(13,220)	
UNFINANCED CAPITAL B/FWD	89,016	105,000	105,000	105,000	
anticipated slippage	(12,000)				
UNFINANCED CAPITAL C/FWD	(105,000)	(105,000)	(105,000)	(105,000)	
BORROWING REQUIREMENT	**206,529**	**218,494**	**225,491**	**225,491**	
ADDITIONAL BORROWING REQUIRED	24,445	11,965	6,997	0	
Underlying Borrowing Requirement B/FWD	*271,100*	*311,529*	*323,494*	*330,491*	
Underlying Borrowing Requirement C/FWD	*323,529*	*323,494*	*330,491*	*330,491*	

a = Capital Receipts adjusted to ensure target Underlying Borrowing Requirement remains around £330K unless financed directly from service revenue budget savings or reserves.
b = Provisional subject to confirmation by the DWP joint committee.

Extract from 6 February 2013 Cabinet report: The Cabinet also reaffirmed its previous decision to move to a new capital funding policy. This policy will limit the cost of borrowing impacting on the revenue account each year which will therefore control the overall level of borrowing. The aim of the policy is to get to a position in 2016/17 where the underlying need to borrow does not increase unless funded from other sources. This effectively limits the size of the Capital Programme to grant funding, capital receipt funding, Revenue Contributions to Capital Outlay (RCCO), plus a sum equivalent to the Minimum Revenue Provision each year.

APPENDIX 2

Proposals by Robert Gould, Cabinet Portfolio Holder for Corporate Resources

CAPITAL PROJECTS
SUMMARY OF NEW CAPITAL PROJECT BIDS AS AT DECEMBER 2013
REVISED PROPOSED NEW BIDS

	Corporate Priority 1 %	Corporate Priority 2 %	Indicative ranking assessed against the AMP 2012-15		Total Payments £'000	<-------------- Estimated Payments Before 2013-2014 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000	--------------> After 2016-2017 £'000
				For start in 2014-2015 & later							
1	50	50	8	**Whole Authority** Whole Authority provision for business change, cost effectiveness improvements and infrastructure maintenance through ICT	4,000			2,000	1,000	1,000	
2	100		6	**Adult & Community Services** Implementation of replacement adult social care system (AIS)	3,000			250	1,500	1,250	
3	100		5	**Children's Services** Implementation of replacement Children's Social Care system (RAISE)	2,000			250	1,000	750	
4	100		4	**Adult & Community Services** Implementation of replacement Library Management System	1,200			400	800		
5		100	11	**Whole Authority** East Dorset Civic Centre	3,000			1,000	2,000		
6	100		1	**Children's Services** School's Basic Need Programme	9,000					3,000	6,000
7	100		2	**Environment** Hayward Main Bridge	1,548			160	1,388		
8	100		3	**Children's Services** Schools Access Initiative (SAI)	400					400	
9	100		7	**Environment** Salt Barn - Charminster Depot	390			390			
10	50	50	8	**Children's Services** Increase in APT	100			100			
11		100	12	**Whole Authority** Assets and Workstyle Rollout County Hall (Spaces for Work)	300			300			
				Total 2014-2015 Starts & later	24,938	0	0	4,850	7,688	6,400	6,000
Deferred	25	75	10	**Adult & Community Services** * Dorset History Centre Ext'	1,052		20	99	753	180	

* The Dorset History Centre bid is for 55% of the total capital costs and will require contributions from Bournemouth and Poole for the remaining 45%.

ANNEXURE 3

Cabinet

Dorset County Council

Date of Meeting	3 February 2014
Officer	Chief Financial Officer
Subject of Report	**Treasury Management Strategy Statement and Prudential Indicators for 2014-15**
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: *How have the following contributed to the development of this report?**	Equalities Impact Assessment: - There are no equality issues that arise from this report.
	Use of Evidence: Historical trends and experiences along with best professional advice and practices have been followed in the development of this strategy and the formulation of the Prudential Indicators.
	Budget - Risk Assessment: The strategy provides for total new borrowing of £11.5m over the 3 year period at a cost of £0.92m per annum. Risks implicit in the Treasury Management Strategy are set out in Section 8 and are considered in detail in Appendix 1.
Recommendation	The Cabinet recommends to the County Council approval of:

	1. The Prudential Indicators and Limits for 2014/15 to 2016/17. 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 2014/15 to 2016/17. 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 The Formula Grant Settlement 2014/15 CIPFA Prudential Code for Capital Finance in Local Authorities
Report Originator and Contact	Name: Tom Wilkinson, Finance Manager (Treasury & Investments) Tel: 01305 224119 Email: t.p.wilkinson@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 in excess of £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 12 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 2014/15 and 2015/16, adds an extra year for 2016/17, 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. Capital Programme Prudential Indicators

2.1. 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.

2.2. At its meeting on 14 December 2011, the Cabinet agreed to a new capital funding policy, which limits the cost of borrowing charged to the revenue account each year and thereby controlling the overall level of borrowing. The aim of the policy is to arrive at a position in 2016/17 where the underlying borrowing requirement stabilises at around £330m. This effectively limits the size of the Capital Programme to grant funding, capital receipt funding, Revenue Contributions to Capital Outlay (RCCO), plus a sum equivalent to the Minimum Revenue Provision each year.

2.3. 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 2012/13 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 2014/15 to 2016/17 report. The figures quoted in this report are therefore subject to amendment depending on decisions made by the Cabinet when considering that report.

Prudential Indicator 1 – Capital Expenditure

2.4. 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 2012/13 to 2016/17 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 2012/13 to 2016/17

	2012/2013 £000 Actual	2013/2014 £000 Estimate	2014/2015 £000 Estimate	2015/16 £000 Estimate	2016/17 £000 Estimate
Environment	26,950	42,585	32,515	16,939	16,275
Childrens	15,961	44,664	9,257	10,720	1,160
Adult & Community	2,099	3,041	779	335	335
Corporate Resources	3,350	10,872	12,576	10,730	5,084
Cabinet	167	1,258	1,924	3,195	235
Dorset Waste Partnership	5,446	8,278	8,193	6,258	4,107
Structural Maintenance	7,385	9,572	10,321	8,510	8,260
REFCUS[1]	13,917	0	0	0	0
Contingency & Flexibility		0	2,641	5,589	12,940
Slippage		-12,000			
TOTAL	**75,275**	**108,270**	**78,206**	**62,276**	**48,396**

2.5. The figures appear to show a decline in capital expenditure. This is because they only include expenditure that can be financed from sources that are reasonably certain at this point in time. Figures for 2013/14 and 2014/15 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.

2.6. 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 5.2 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

2.7. 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.

2.8. 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.

2.9. 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

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[1] Revenue Expenditure Funded from Capital Under Statute – This type of expenditure includes capital grants made to voluntary groups or other third parties in meeting some of the policy aims of the Council. The assets can not be capitalised by the Council as they are not in their direct control or ownership.

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."*

2.10. 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 2013 are:

Table 2 Capital Financing Requirement Actual and Forecast 2012 – 2017

As at 31 March	2012/13 £000 Actual	2013/14 £000 Estimate	2014/15 £000 Estimate	2015/16 £000 Estimate	2016/17 £000 Estimate
Debt	271,100	311,529	323,494	330,491	330,491
Long Term Liabilities	44,443	46,000	48,000	50,000	52,000
CFR	**315,543**	**357,529**	**371,494**	**380,491**	**382,491**

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

2.11. 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

2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
6.56%	7.30%	8.38%	8.94%	9.16%

2.12. In simple terms, this PI is similar to expressing a household's mortgage interest and repayment costs as a proportion of its income. The policy to limit the growth of the unfunded part of the capital programme will result in this ratio stabilising from 2016/17.

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

2.13. 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.

2.14. 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 profit thus enabling a reduction to the level of council tax.

2.15. The figures below represent the extra estimated cost in each year of the additional borrowing if it were all funded from council tax. This indicator does need to be considered in the context of our revised capital funding policy, and by 2016/17 there is no additional borrowing expected to be taken, resulting in a neutral impact on the level of council tax.

Table 4 Impact of Capital Expenditure decisions on the level of council tax

	2014/15 £000	2015/16 £000	2016/17 £000
Cost of capital programme on Band D council tax.	2.25	3.49	0.00

3. Minimum Revenue Provision Policy Statement

3.1. 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. 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.

3.2. The County Council is required to calculate for the current 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 options for MRP are to be followed.

3.3. Whilst the CLG Regulations revoke previous MRP requirements, councils are allowed to continue historical accounting practice.

3.4. 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).

4. Treasury Management Strategy 2014/15 to 2016/17

4.1. The capital expenditure plans summarised in Section 2 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.

4.2. 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.

4.3. 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.

4.4. 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.

4.5. The strategy document covers:

a) An update on deposits held with the Icelandic Banks;
b) A consideration of the economic outlook and the prospects for interest rates;
c) An outline of the forecast cash position of the Council;
d) The borrowing strategy;
e) The prudential indicators that affect the borrowing strategy;
f) The investment strategy for the year;
g) An analysis of sensitivities to interest rates;
h) The Performance Indicators;
i) Treasury Management Advice;
j) Member and Officer Training.

Icelandic Banks Update

4.6. Members will be aware that Dorset County Council is one of over 120 local authorities who have funds on deposit with Icelandic banks. The total sum at risk nationally has been assessed at approaching £1 Billion. Between 17 March 2008 and 21 August 2008, Dorset Council made six temporary loans to two Icelandic banks, Landsbanki, and Heritable (a UK subsidiary), totalling £28.1 Million. These were fixed term loans at interest rates of between 5.80% and 6.20% repayable between October 2008 and March 2009. At the time these loans were made, both banks met the criteria set by the Treasury Management Policy.

Heritable

4.7. A claim was registered at an early stage with the administrators, Ernst & Young for £13,276,929, being the principal outstanding and interest accrued to 7 October 2008.

4.8. Ernst & Young have made 14 separate repayments to date; the most recent of these being received on 23 August 2013 for £2,222,161, following the sale of the Heritable mortgage book. The total amount returned to date is £12,482,617 or 94% of the claim. This is significantly more than the Administrator's estimate of recovery, which until this latest settlement was estimated at a maximum of 90%. As a result of write offs, the carrying value of the outstanding loans in the accounts was £1,372k, meaning that following this latest payment, the difference of £850k has been returned to reserves.

4.9. The Administrator is due to provide an update on the next stage of the claim, which is dependent upon a court case, which if successful could see a further payment to take the recovered sums to almost 100%, if unsuccessful a smaller amount would be received. Any additional recoveries would also be returned to the Council's reserves.

Landsbanki

4.10. Dorset County Council also has deposits frozen with Landsbanki, and this process is progressing significantly slower than Heritable as it is being conducted under Icelandic law. The principal outstanding was £15,000,000. There has been a significant amount of work on behalf of local authorities by Bevan Brittan, Kent County Council and the London Borough of Barnet. The authorities are members of the "Resolution Committee" that has been placed in charge of running Landsbanki by the Icelandic Financial Services Authority (the "FME").

4.11. The Winding Up Board of Landsbanki have released a number of payments in Pounds Sterling, Euros, and US Dollars since February 2012. The latest payments were received between 13 and 17 September 2013 and when converted into Sterling came to £779,514.40, bringing to total repaid to date to £8,117,753.05. Bevan Brittan anticipates that priority creditors will now recover 100% of the value of deposits in Landsbanki, although the full amount is not expected to be received until 2019. The Council's total claim in sterling terms is £15,553,176.72.

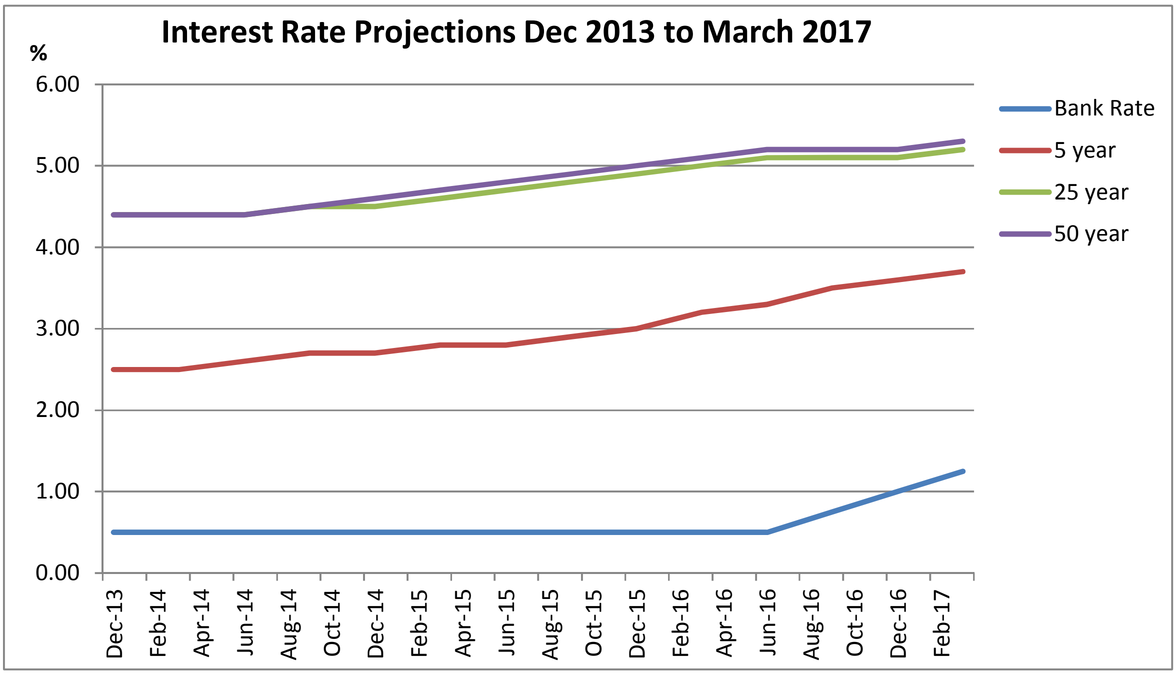
4.12. The County Council is investigating opportunities to recover some of the outstanding amounts sooner and a verbal update on the progress of this will be provided at this meeting.

Economic Outlook and Prospects for Interest Rates

4.13. The Council has appointed Capita Treasury Services as its treasury management adviser, and part of this service is to assist the Council to form a view on interest rates. Chart 1 shows Capita's interest rate projections for key borrowing rates to March 2017, these are based on the medium term economic outlook. Both the

Capita forecast and other economic commentators are predicting that interest rates will rise from their current historic low levels over the next 2-3 years, with Capita predicting the base rate increasing in June 2016 and steadily rising thereafter to around 1.25% by March 2017. The cost of borrowing from the Public Works Loans Board (PWLB), whose rates are priced off the gilts markets is also expected to increase steadily over the period, increasing from around 4.5% to around 5.25% for long term maturities of more than 25 years.

Chart 1 – Interest Rate Outlook 2014-2017



4.14. The economic recovery in the UK since 2008 had been the slowest in recent history. However, growth rebounded in quarter 1 and 2 of 2013 to surpass all expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. Wage growth continues to be slow and remains significantly below CPI inflation so disposbale income and living standards are under pressure.

4.15. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but the US has seen reasonable growth, cuts in government expenditure and tax rises, meaning the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

a) Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

b) Investment returns are likely to remain relatively low during 2014/15 and beyond;

c) Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy adopted by Dorset County Council of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, these benefits have probably been maximised and the risks now lie with avoiding even higher borrowing costs when additional borrowings required to finance new capital expenditure and to refinance maturing debt, over the medium term;

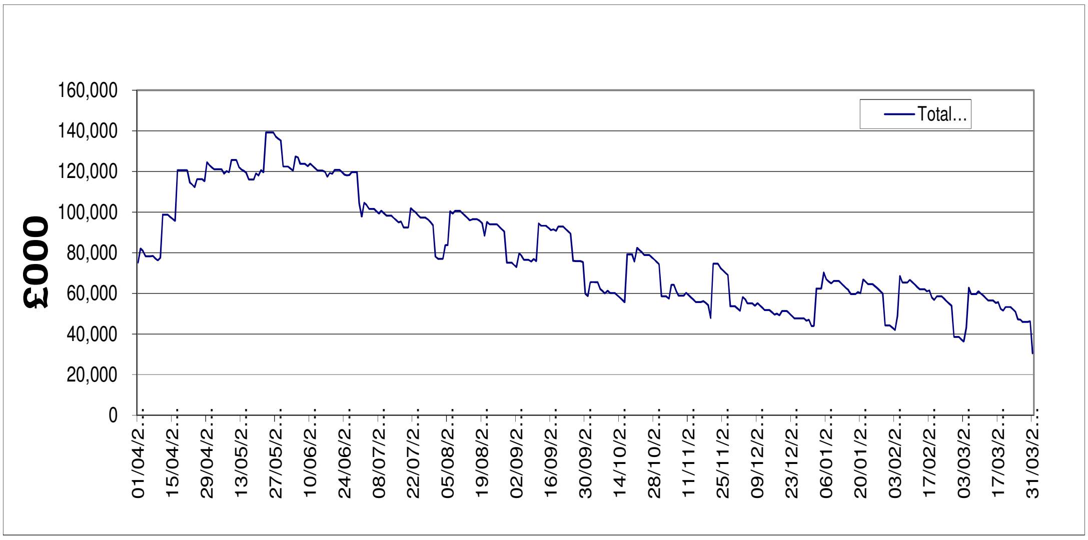
d) There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss caused by high borrowing costs and low investment returns.

Day to Day Cash Management Activity

4.17. The Council's cash balances will fluctuate throughout the year as income is received and expenditure is made. Chart 2 shows the projected cashflow position assuming that no additional borrowing is taken. 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 £130m with the minimum level being £10m in March 2015.

4.18. The Council is by law expected to set a balanced budget, meaning that its cash in flows should broadly match its cash outflows over the medium term. The reduction seen in Chart 2 reflects the planned capital programme expenditure throughout the year and the fact that the main £60m Revenue Support Grant from central government for the year is paid to the Council during April. The chart provides a useful guide to officers when formulating the borrowing and investment strategy. The projections show that the Council will be required to borrow to finance the approved capital programme before the end of the financial year. The borrowing and investment strategy is therefore vital to the effective management of these cashflows.

Chart 2 – Dorset County Council Cashflow Forecast 2014/15



4.19. This cash flow forecast is based on the high level budget figures and historic trends. The budget for interest earnings is based on the cash flow as set out above (average balance £69m) with an average interest rate of 0.75%.

Borrowing Strategy

4.20. The borrowing strategy is influenced by the capital funding policy approved by Cabinet in December 2011 to limit the size of the capital programme to a level which does not require additional borrowing, which will result in a levelling off of the CFR and total external debt held by the Council in future years.

4.21. 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, these tend to take the form of Lender Option Borrower Options (LOBO) loans, which can be taken over periods of 40-70 years. The LOBOs usually have a fixed rate of interest for a period of time (normally 1 – 10 years) at the start of the loan, after which the lender has the option to change the interest rate. If the option is called the borrower then has an option whether to accept or repay the loan. The risks are that the borrower is left with higher refinancing costs at the time of the option, or that market rates have fallen during the option period and the borrower is locked into uncompetitive rates.

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 ongoing 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.

4.22. The borrowing strategy is affected by the economic outlook and prospects for interest rates. The low investment returns (c.0.75%) compared to the cost of borrowing (>4%) 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 it’s CFR. This strategy means the Council is expected to be ‘under borrowed’ by more than £100m at 31st March 2014. This has been deemed to be a prudent approach because of the low investment returns and relatively high counterparty risk.

4.23. However, with borrowing costs forecast to increase, and given the current high level of internal borrowing, attention needs to be turned to adjusting 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 Director for Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic approach to changing circumstances when making borrowing and investment decisions.

4.24. 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.

5. Treasury Management Prudential Indicators 2014/15 to 2016/17

5.1. 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

5.2. 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 2016/17 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.

5.3. External debt and other long term liabilities (including PFI contract and finance lease commitments) is expected to stand at £260.4m at 31 March 2014, significantly less than the CFR, which is estimated to stand at £357.5m at the same date, representing underborrowing of £97m. The breakdown of this plus estimates of borrowing for 2014/15 to 2016/17 are summarised in Table 5.

Table 5 – External Debt Actual and Estimates 2012-2017

External Debt	**2012/13 Actual £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Debt at 1 April	181,965	182,084	213,984	218,484	225,484
Expected change in Debt	119	31,900	4,500	7,000	0
PFI / Finance Lease Liabilities	46,900	44,443	46,443	48,443	50,443
Expected change in PFI Liabilities	-2,457	2,000	2,000	2,000	3,000
Actual gross debt at 31 March	**226,527**	**260,427**	**266,927**	**275,927**	**278,927**

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

5.4. 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.

5.5. 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 2013-2017

	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Borrowing	333,000	333,000	333,000	333,000
Other long term liabilities	47,000	49,000	51,000	53,000
Total Operational Boundary	**380,000**	**382,000**	**384,000**	**386,000**

5.6. 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. The increase in the other long term liabilities reflects the continued roll out of the street lighting PFI programme. This should be complete by 2016 and thereafter other long term liabilities will start to reduce.

5.7. 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.

5.8. 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.

5.9. 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 2013-2017

	2013/14	**2014/15**	**2015/16**	**2016/17**
	£'000	**£'000**	**£'000**	**£'000**
Borrowing	353,000	353,000	353,000	353,000
Other long term liabilities	47,000	49,000	51,000	53,000
Total	**400,000**	**402,000**	**404,000**	**406,000**

5.10. The Council is asked to delegate authority to the Director for Corporate Resources, 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

5.11. 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.

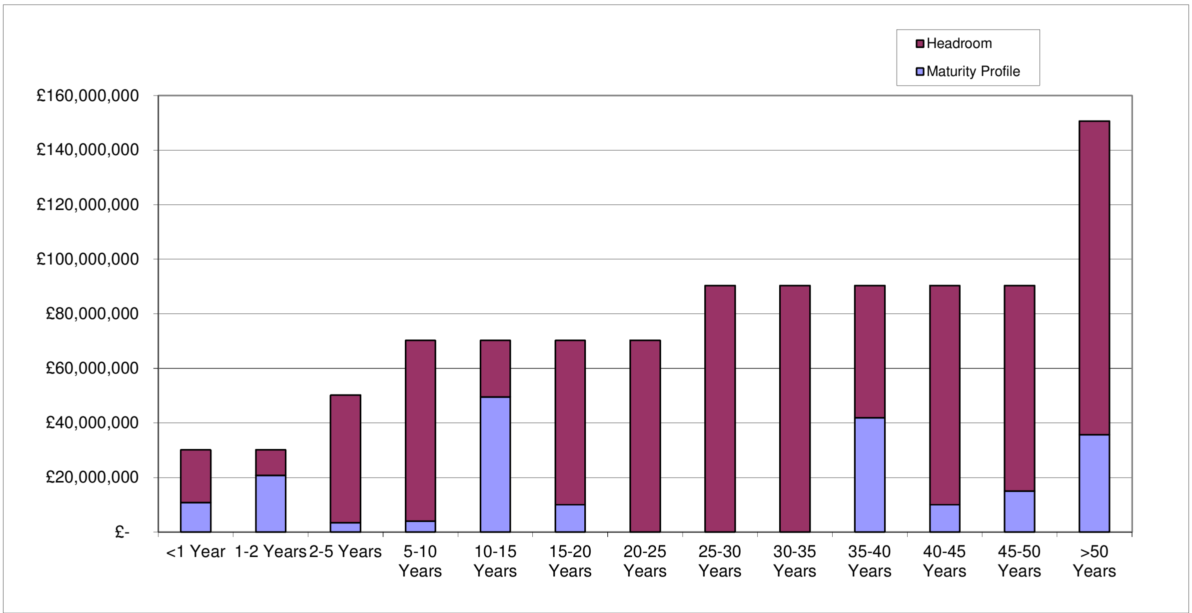
b) Upper limit on variable interest rate exposure – this identifies a maximum revenue cost of interest paid on variable debts, which is designed to minimise the budget exposure of the Council to movements in interest rates, a sudden increase in variable interest rates can cost the Council a significant 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 3 shows the current maturity profile, in relation to the limits that have been chosen.

Table 8 – Limits on Interest Exposure and Maturity of Debt

	2014/15	2015/16	2016/17
	Upper	**Upper**	**Upper**
PI 9 Limits on net fixed interest rates payments	£11,000,000	£12,000,000	£13,000,000
PI 10 Limits on net variable interest rate payments	£2,000,000	£2,000,000	£2,000,000
PI 11 Maturity Structure of fixed interest rate borrowing 2013/14		**Lower**	**Upper**
Under 12 Months		0%	15%
12 Months to 2 Years		0%	15%
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%
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 3 – Debt Maturity Limits compared to Actual Debt Maturity Profile Projected at 31 March 2014



6. <u>Annual Investment Strategy</u>

6.1. 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.

6.2. 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.

6.3. 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.

6.4. 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.

6.5. 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.

6.6. In respect of liquidity, the Council seeks to maintain a weighted average life benchmark of around 1.0 years with a maximum of 2.0 years. As at 13 January 2014 the Weighted Average Life of the Council's investments was 6 months. This reflects that the Council had £20m of investments at this time maturing in over one year, £5m maturing in more than six months time, £5m in less than three months and all other investments (£44.8m) held in instant access Call Accounts or Money Market Funds.

6.7. 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.

Table 9 Prudential Indictors 12 – Maximum principal sums invested >364 days

	2014/15 £m	**2015/16 £m**	**2016/17**
Maximum Total Principal sums invested > 364 days	30	30	30
% of which can be up to 2 years	100%	100%	100%
% of which can be up to three years	75%	75%	75%
% of which can be up to four years	50%	50%	50%
% of which can be up to five years	25%	25%	25%

7. Sensitivity to Interest Rate Movements

7.1. 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 Debts/ Investments	**2014/15 Estimated + 1%**	**2014/15 Estimated - 1%**
Revenue Budgets			
Interest on Borrowing	£10,000,000	(£100,000)	+£100,000
Investment Income*	£22,000,000	+£220,000	(£220,000)
Net benefit / (cost) to Council		**+£120,000**	**(£120,000)**
*average projected balances			

8. Risk Assessment

8.1. 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.

8.2. 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.

8.3. Treasury Management risk is minimised 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.

8.4. 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.

8.5. 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.

9. Performance Indicators

9.1. 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. 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.

9.2. 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. The latest benchmarking for the County Council reveals that borrowing costs are in the lowest quartile and investment returns are in the highest quartile of the 89 Local Authorities surveyed. A comprehensive review of performance is presented as part of the Outturn Report in July.

10. Treasury Management Advisers

10.1. The Council uses Capita Asset Services as its treasury management consultants. 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;

10.2. 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.

11. Member and Officer Training

11.1. 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 Capitat, as well as regular contact over the telephone.

11.2. A training session for all elected Members was held in October 2012 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 further sessions will be arranged in the future.

12. Conclusion

12.1. This report sets out the Treasury Management Strategy for 2014/15 to 2016/17 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.

12.2. 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 revised 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.

12.3. Various options exist regarding the precise manner in which the capital programme is financed, and these are highlighted in paragraph 4.20. The Code of Practice provides that final decisions on the actual financing of capital expenditure, rests with the Director for Corporate Resources after taking advice from Capita. The Strategy provides for total new borrowing of £11.5 Million over the 3 year period at an additional revenue cost of £0.92 Million per annum.

12.4. 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.

Paul Kent

Director for Corporate Resources

January 2014

APPENDIX 1

1. Dorset County Council - Investment and Credit Worthiness 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 has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflect in the eyes of each agengy. Using the Capita Asset Services ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

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

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 The aim of the policy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk, with the intention to provide security of investment and minimisation of risk.

1.6 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. Support ratings vary from 1 (the highest) down to 5 and estimate the likelihood that support from a sovereign or parent would be received by the bank should it become necessary. Local authorities are not generally rated. The limits to be used are set out in paragraph 2.8.

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 at least annually. This criteria is separate to that which chooses Specified and 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 its investments are.

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

2.5 Credit rating information is supplied by the Council's treasury management advisors 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 in real time 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.

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

2.7 Security and Liquidity benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Annual Report.

Security

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

i. Sovereign Ratings

2.8.1 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

2.8.2 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-, Viability bb+*, Support 3	£15 Million
Money Market Funds	AAA	£15 Million (individual)
Money Market Funds Notice Account	AAA	£10 Million (individual)
UK Government including gilts and the DMADF	N/a	no limit

* Fitch introduced ‘Viability Ratings’ in July 2011 as a replacement for ‘Individual Ratings’. Viability Ratings represent Fitch’s primary assessment of the intrinsic creditworthiness of an institution on a scale from aaa-f.

2.8.3 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 £30m.

iii. Guaranteed Banks and Building Societies with Suitable Sovereign Support

2.8.4 The Council will use banks and building societies whose ratings fall below the criteria specified above if all of the following conditions are met:

(a) wholesale deposits in the organisation are covered by a government guarantee;

(b) the government providing the guarantee is rated “AAA” by all three major rating agencies (Fitch, Moody’s and Standard & Poors); and

(c) the Council’s investments with the organisation are limited to amounts and maturities within the terms of the stipulated guarantee, up to a maximum of £15 Million each.

iv. Eligible Institutions

2.8.5 The Council will use banks and building societies whose individual and support ratings fall below the criteria specified above if the organisation was an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008. These banks must have the necessary short and long term ratings

F1 and A- respectively or equivalent. These institutions have been subject to suitability checks before inclusion.

v. Council's own banker

2.8.6 The limit for the Authority's own bank is £30 Million, however, due to occasional short term unexpected cashflows this limit may be breached. For this reason additional flexibility of an additional £1 Million is allowed to cover such movements, and to minimise the transaction costs involved with moving small sums of money. Over the long term the £30 Million should be the maximum. The breaches of the £30 Million limit will be monitored and reported to the Chief Financial Officer on a monthly basis.

2.8.7 It is inconceivable that the Council would not be able to use its own banker, NatWest for transactional purposes if the bank fell below the Council's criteria, if this occurred then NatWest would continue to be used for transactional and clearing purposes with the maximum balances deposited with them overnight being limited to £500k.

vi. Major UK Banks

2.8.8 The Council may invest up to £30 Million 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.

vii. Use of Additional Information other than Credit Ratings

2.8.9 Additional requirements under the Code of Practice now 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.

2.9 Security is a subjective area to measure and assess. Whilst the approach above embodies the security considerations of credit ratings, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. Table 2 shows average defaults for differing periods of investment grade products for Fitch, Moody's and Standard and Poors long term rating category over the period 1990 to 2011.

Table 2 Long term risks of default

Years	1	2	3	4	5
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%
BB	1.22%	3.24%	5.34%	7.31%	9.14%
B	4.06%	8.82%	12.72%	16.25%	19.16%
CCC	24.03%	31.91%	37.73%	41.54%	45.22%

2.10 The Council's minimum long term rating criteria is "A", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.08% of the total investment (e.g. for a £1m investment the average loss would be £800). This is only an average – any specific counterparty loss is likely to be higher, but these figures do act as a proxy benchmark for risk across the portfolio.

2.11 The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is 0.20% historic risk of defaults when compared to the whole portfolio.

2.12 This means that the highest investment risk that the Council would take would be with a 'A' rated counterparty over a one year time frame, and with a 'AA' rated counterparty over two to five years. In addition the security benchmark for each individual year is:

Table 3 Security Benchmarks

	Term of investment in years				
	1	2	3	4	5
Maximum	0.08%	0.06%	0.08%	0.14%	0.20%
Minimum Credit Rating	A	AA-	AA-	AA-	AA-

2.13 These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. Where a counterparty is not credit rated a proxy rating will be applied.

Liquidity

2.14 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).

2.15 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

2.16 A minimum cash balance of £10 Million 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

2.17 The amount of call deposits (instant access accounts) should be a minimum of £10 Million 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.

iii. Time and Monetary limits applying to Investments

2.18 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	£30 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
Guaranteed Organisations	A- /- F	£15 Million	In Accordance with Guarantee
Eligible Institutions	A- / F	£15 Million	6 Months
Council's Own Banker	N/a	£15 Million	Overnight
*(Barclays Bank PLC, HSBC Bank PLC, Lloyds Banking Group PLC and The Royal Bank of Scotland PLC)			

ii. Longer Term Instruments

2.19 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%	£30M
More than 2 years, no more than 3 years	75%	£22.5M
More than 3 years, no more than 4 years	50%	£15M
More than 4 years, no more than 5 years	25%	£7.55M
In Total £M		**£30M**

2.20 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.

2.21 A summary of the proposed criteria for investments is shown in Annex B, and a list of counterparties as at 15 January 2014 in accordance with these criteria is shown as Annex C to this policy for information.

2.22 The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio. The WAL can be calculated by multiplying the term of a loan by the weighting of that loan to the portfolio to give an average term for all loans. A shorter WAL would generally embody a lower risk to the portfolio in terms of counterparty risk and interest rate risk.

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. The CLG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy. 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 Director of Finance has produced its 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. A local authority.

3. An investment scheme that has been awarded a high credit rating by a credit rating agency, this can include money market funds rated by the Standard and Poor's, Moody's or Fitch rating agencies.

4. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum 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.

5. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

6. Part Nationalised Banks

7. Supranational bonds of less than one year's duration

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 Sector 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	Viability	Support	
Sovereign Limit for All Loans						
2.8.1	**AAA Sovereign Rating**	N/a	N/a	N/a	N/a	£30 Million with any one sovereign, UK no limits
Notice Money						
A minimum of 10% of total investments, up to a maximum of 100%						
2.8.6	**Council's own Banker**	N/a	N/a	N/a	N/a	£30 Million
2.8.2	**Money Market Funds**	AAA				£15 Million individual
2.8.2	**Money Market Fund Notice Account**	AAA	N/a	N/a	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						
2.8.2	**UK Government including gilts and DMADF**					100%
2.8.5	**Eligible Institutions**, where the organisation was an Eligible Institution for the HM Treasury Credit Guarantee Scheme announced on 13 October 2008	A-	F1			£15 Million - £30 million
Up to 364 Days						
2.8.2	**Any Local Authority**					£15 Million
2.8.2	**Banks & Building Societies**	A-	F1	bb+	3	£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 2.8.4, 2.8.5, 2.8.6, 2.8.7 for exceptions
2.8.8	**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	N/a	N/a	£30 Million
Up to 5 years						
2.18	**Major Banks & Building Societies**	AA-	F1+	bb+	3	£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 2.8.4, 2.8.5, 2.8.6, 2.8.7 for exceptions
Other periods						

2.8.4	**Guaranteed Counterparties with Sovereign Support**, where: a) Wholesale deposits in the organisation are covered by a government guarantee b) The government providing the guarantee is rated AAA by all three major rating agencies c) The Council's investments with the organisation are limited to amounts and maturities within the terms of the guarantee, up to a maximum of £15 Million.					In accordance with guarantee

INVESTMENT POLICY ANNEX C

Counterparty list as at 15 January 2013

	Lowest Long Term Rating*	Lowest Short Term Rating*	Support Rating	Money Limit (£m)	Time Limit
UK Banks and Building Societies					
HSBC Bank PLC	AA-	F1+	1	30m (M)	5 YEARS
Lloyds Banking Group:					
Bank of Scotland PLC	A	F1	1	30m (M) Group	5 YEARS
Lloyds Bank PLC	A	F1	1	30m (M) Group	5 YEARS
Royal Bank of Scotland Group:					
National Westminster Bank	A-	F2	1	30m Own Bank (M) Group	5 YEARS
Royal Bank of Scotland	A-	F2	1	30m (M) Group	5 YEARS
Barclays Bank	A	F1	1	30m (M)	5 YEARS
Santander UK Plc	A	F1	1	15m	364 DAYS
Standard Chartered Bank	A+	F1+	1	15m	364 DAYS
Nationwide Building Society	A	F1	1	15m	364 DAYS
Goldman Sachs International	A	F1	0	15m	364 DAYS
Citibank International Plc	A	F1	1	15m	364 DAYS
Australian Banks					
National Australia Bank Limited	AA-	F1+	1	15m	5 YEARS
Australia and New Zealand Banking Group	AA-	F1+	1	15m	5 YEARS
Commonwealth Bank of Australia	AA-	F1+	1	15m	5 YEARS
Macquarie Bank Limited	A	F1	3	15m	364 DAYS
Westpac Banking Corporation	AA-	F1+	1	15m	5 YEARS
Canadian Banks					
Canadian Imperial Bank of Commerce	A+	F1	1	15m	364 DAYS

Bank of Montreal	A+	F1	1	15m	364 DAYS
Bank of Nova Scotia	A+	F1	1	15m	364 DAYS
Royal Bank of Canada	AA-	F1+	1	15m	5 YEARS
Toronto-Dominion Bank	AA-	F1+	1	15m	5 YEARS
Finnish Banks					
Nordea Bank Finland	AA-	F1+	1	15m	5 YEARS
Pohjola Bank	A+	F1	1	15m	364 DAYS
German Banks					
Deutsche Bank AG	A	F1	1	15m	364 DAYS
Landwirtschaftliche Rentenbank	AAA	F1+	1	15m	5 YEARS
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	1	15m	364 DAYS
KfW	AAA	F1+	1	15m	5 YEARS
Luxembourg Banks					
BGL BNP Paribas SA	A	F1	1	15m	364 DAYS
Norwegian Banks					
DnB NOR Bank	A+	F1	1	15m	364 DAYS
Singaporean Banks					
DBS Bank Ltd.	AA-	F1+	1	15m	5 YEARS
Oversea-Chinese Banking Corp	AA-	F1+	1	15m	5 YEARS
United Overseas Bank Limited	AA-	F1+	1	15m	5 YEARS
Swedish Banks					
Svenska Handelsbanken	AA-	F1+	1	15m	5 YEARS
Swedbank AB	A+	F1	1	15m	364 DAYS
Skandinaviska Enskilda Banken	A+	F1	1	15m	364 DAYS
Swiss Banks					
UBS AG	A	F1	1	15m	364 DAYS
Credit Suisse AG	A	F1	1	15m	364 DAYS

*Fitch equivalent ratings have been used for comparative purposes
Banks highlighted in red are not currently active in the market.

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 & Scrutiny 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.

ANNEXURE 4

Environment Overview Committee/Cabinet

Dorset County Council

Date of Meeting	Environment Overview Committee: 23 January 2014 Cabinet: 3 February 2014
Cabinet Member(s) Hilary Cox – Cabinet Member for Environment Local Member(s) All (county-wide plan) Lead Director(s) Mike Harries – Interim Director for Environment	
Subject of Report	**Adoption of Bournemouth, Dorset and Poole Minerals Core Strategy**
Executive Summary	During May 2013 the submitted Bournemouth, Dorset and Poole Minerals Strategy was examined through a series of public hearings by an independently appointed planning inspector. As is common practice, the inspector was invited to include in her report any recommendations needed to make the plan sound and therefore capable of adoption. These modifications were prepared by the Mineral Planning Authority in response to the examination process and in July 2013 consultation on the modifications took place. Responses to these representations were forwarded to the inspector for her deliberation in preparing the report. The Inspector's report has now been issued to the Mineral Planning Authorities and the examination has, as a consequence, concluded. The report confirms that although there are a large number of modifications, they do not significantly alter the thrust of the overall strategy. The Inspector concludes that, subject to the inclusion of the modifications, the plan is legally compliant and sound. Under the provisions of the Planning and Compulsory Purchase Act 2004 (as amended), it is the responsibility of the Mineral Planning Authorities to adopt the Minerals Strategy. To adopt the plan it must include the modifications needed to make it sound.

	As the Plan covers the administrative areas of Bournemouth, Dorset and Poole it will need to be adopted by the Councils of all three authorities. It is anticipated that the last meeting date needed to achieve this will be 4 March. There will follow a 6-week legal challenge period from the date of adoption (during which interested parties have the right to challenge the plan on legal/procedural matters under the provisions of the Planning and Compulsory Purchase Act 2004).
Impact Assessment	Equalities Impact Assessment: The Minerals Core Strategy has been the subject of an Equalities Impact Assessment (including EqIA screening) and issues identified in the assessment have been taken into consideration in preparing the plan.
	Use of Evidence: A substantial evidence base has been created for the minerals development plan documents being prepared. This will be submitted with the plan along with the representations to the publication plan. This included various statutory consultation stages, engagement with the minerals industry and expert advice. The plan itself has been the subject of an examination by an independently appointed inspector into its legal compliance and soundness.
	Budget: The Minerals and Waste Development Scheme is the subject of a Service Level Agreement between Bournemouth, Dorset and Poole which includes a fixed cost element for the day-to-day provision of the service by minerals and waste planners at the County Council. The principal budget risk is that associated with unknown costs outside of the fixed element. The outstanding and most significant unknown cost is the Planning Inspectorate fee. This has been estimated to be in the region of £92,000 (to be shared between the three authorities) although this is uncertain until the invoice is received. It is expected that this will be invoiced early in the new year and arrangements are in place to meet Dorset County Council’s share from the contingency budget. Adoption of the plan would involve relatively modest document printing costs, although this will not be incurred until the 6-week legal challenge period has expired, next financial year. In the event that the Council opts not to adopt the plan, it would expose the Mineral Planning Authority to on-going significant costs in dealing with planning appeals and having to commission extra evidence to justify its decisions on minerals applications. This is because there would not be an up-to-date development plan and so the presumption in favour of sustainable development would prevail, with decisions having to be judged directly against the National Planning Policy Framework.

	Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk of adopting the plan has been identified as: Current Risk: LOW Residual Risk LOW
	Other Implications: The plan was the subject of a Sustainability Appraisal (incorporating Strategic Environmental Assessment) and a Habitats Regulations Assessment. It has also involved all relevant service providers within Dorset County Council. Any issues regarding sustainability or corporate interests have been taken into account in preparing the plan.
Recommendation	That Cabinet recommends to the County Council that: 1. it resolves to adopt the Bournemouth, Dorset and Poole Minerals Strategy, subject to its inclusion of the main modifications set out in the Inspector's Report; 2. subject to the above, it confirms that the date of adoption will be either 18 March or two weeks after the date of the last of the three Council meetings for Bournemouth, Dorset and Poole councils, whichever is the later; 3. it authorises officers to make those additional (non-material) modifications to the Plan which were the subject of consultation, together with any other additional modifications which benefit the clarity of the Plan; 4. it notes that the plan will require a resolution to adopt it by all three Councils before it is formally adopted.
Reason for Recommendation	To secure an up-to-date Minerals Strategy in accordance with the local development scheme, which will contribute to Corporate Aim 4: Safeguard and enhance Dorset's unique environment and support our local economy.
Appendices	None
Background Papers	1. Summary of representations to the main modifications consultation 2. Minerals Strategy Inspector's Report and Schedule of Main Modifications 3. Minerals Strategy, incorporating main and additional modifications (copy in Members' Room)
Officer Contact	Name: Michael Garrity Tel: 01305 221826 Email: m.garrity@dorsetcc.gov.uk

1. Overview

1.1 The Minerals Strategy sets out a spatial policy framework for minerals development in Bournemouth, Dorset and Poole. This is a strategic document and is not site-specific. It indicates the range, type, quantity and broad location of minerals extraction over the plan period up to 2028.

1.2 In January 2013 the plan entered a formal period of Examination following its submission to the Secretary of State. In May 2013, an independently appointed inspector held a series of hearings to consider the soundness and legal compliance of the plan. The inspector was invited to include in her report any recommendations needed to make the Plan sound in the event that this was considered necessary. During the examination process, the Mineral Planning Authorities (MPAs) proposed a series of modifications designed to achieve soundness which were debated at the hearings under the guidance of the Inspector.

1.3 Consultation on the proposed modifications took place during the summer of 2013 and representations to these were received from 13 separate representors. A summary of the representations is available in the Members' Room. It is important to note that representations to the modifications are a matter for the Inspector to consider as the plan had already been submitted and was still under examination. After considering these, the Inspector confirmed that she would not be calling any further hearings and that all written representations would be taken into account in writing the report.

2. The Inspector's Report

2.1 The Inspector's report (available in the Members' Room and online) has now been issued to the MPAs and this concludes the examination. It contains a schedule of main modifications. These are modifications which are considered material to the Plan and for this reason it was necessary to consult on them before they could be attached to the Inspector's report. Alongside the consultation on the main modifications the MPAs also consulted on various additional modifications. These are non–material changes which do not alter the strategy or policies (or their interpretation) and thus do not need to be included in the Inspector's report; the MPAs are at liberty to incorporate additional modifications at their discretion.

2.2 The Inspector can only recommend main modifications put before her by the MPAs if invited to do so by the MPAs. It follows that the modifications attached to the report are precisely those which were prepared by the MPAs (having regard to the views of interested parties and under the guidance of the Inspector). Consequently, they should, by implication, be considered acceptable to the MPAs.

2.3 The report confirms that although there are a large number of modifications, they do not significantly alter the thrust of the overall strategy. The Inspector concludes that, subject to the inclusion of the modifications, the plan is legally compliant and sound.

3 Adoption of the Plan

3.1 Under the provisions of Section 23(5) of the Planning and Compulsory Purchase Act 2004 (as amended), it is the responsibility of the MPAs to adopt the Minerals Strategy. The plan can only be adopted if found sound by an inspector. In our case, the Plan was found sound subject to inclusion of the main modifications and so the plan can only be adopted if these are included. For this reason it is recommended that the plan be adopted with the inclusion of the main modifications. A copy of the plan as modified (including both the main modifications and additional modifications) is available in the Members' Room and online (Dorsetforyou.com).

3.2 As the Plan covers the administrative areas of Bournemouth, Dorset and Poole it will need to be adopted by the Councils of all three authorities. It is anticipated that the last meeting date needed to achieve this will be 4 March (subject to confimation). In the case of Dorset County Council, as this involves the adoption of a statutory development plan, it is being considered by the Environment Overview Committee and the Cabinet before final consideration by the County Council.

3.3 To allow for all three MPAs (Bournemouth, Dorset and Poole) to adopt the plan, it is recommended that each resolves to adopt it on a set date after the last of the committees. This is anticipated to be 4 March, so to allow for the necessary procedures, it is recommended that the three Councils resolve to adopt the plan on 18 March or two weeks after the final committee in the event that this slips from the anticipated programme.

3.4 Once the plan is adopted, there will follow a 6-week legal challenge period from the date of adoption. During this period interested parties have the right to challenge the plan on legal/procedural matters under the provisions of the Planning and Compulsory Purchase Act 2004.

4 Concluding Comment

4.1 The adoption of the Minerals Strategy will represent the culmination of a substantial amount of work which has involved extensive liaison with the minerals industry, local residents and other interested parties. This has been essential to striking the right balance between securing a continued supply of minerals, the amenities of residents and the unique environment within which those minerals are found.

4.2 It is also worth noting that many authorities across the country have been struggling with the requirements of the new planning system, particularly in relation to the duty to co-operate on cross-boundary planning matters, and a number of plans are either failing at examination or being withdrawn due to concerns from the Planning Inspectorate. It is a testament to the amount of work that has gone in to ensure that the plan is compliant with the National Planning Policy Framework and the Localism Act that the Minerals Strategy has been found sound. Furthermore, as the Inspector herself acknowledged, the main modifications do not significantly alter the plan's strategy which the MPAs are keen to pursue. For these reasons I have no hesitation in commending the Minerals Strategy to you for adoption by Dorset County Council.

Mike Harries
Interim Director for Environment
January 2014